

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2020

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: 001-38907

**Sonim Technologies, Inc.**

(Exact Name of Registrant as Specified in its Charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

94-3336783  
(I.R.S. Employer  
Identification No.)

6836 Bee Cave Road, Bldg. 1, S#279  
Austin, TX 78746

(Address of principal executive offices and zip code)  
Registrant's telephone number, including area code: (650) 378-8100

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

| Title of each class                      | Trading<br>Symbol(s) | Name of each exchange on which registered |
|--|----------------------|---|
| Common Stock par value \$0.001 per share | SONM                 | The Nasdaq Stock Market LLC               |

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

|                         |                                     |                           |                                     |
|-------------------------|-------------------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/>            | Accelerated filer         | <input type="checkbox"/>            |
| Non-accelerated filer   | <input checked="" type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
| Emerging growth company | <input checked="" type="checkbox"/> |                           |                                     |

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

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

As of July 31, 2020, the registrant had 65,930,191 shares of common stock, \$0.001 par value per share, outstanding.

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**SONIM TECHNOLOGIES, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**JUNE 30, 2020 and DECEMBER 31, 2019 (UNAUDITED)**  
**(IN THOUSANDS OF U.S. DOLLARS EXCEPT SHARE AND**  
**PER SHARE AMOUNTS)**

|   | <u>June 30, 2020</u> | <u>December 31, 2019</u> |
|---|----------------------|--------------------------|
| <b>Assets</b>   |                      |                          |
| Cash and cash equivalents   | \$ 38,062            | \$ 11,298                |
| Accounts receivable, net  | 5,268                | 10,082                   |
| Inventory   | 15,225               | 19,531                   |
| Prepaid expenses and other current assets   | 6,342                | 6,430                    |
| Total current assets  | 64,897               | 47,341                   |
| Property and equipment, net   | 1,291                | 1,442                    |
| Other assets  | 5,264                | 6,676                    |
| Total assets  | <u>\$ 71,452</u>     | <u>\$ 55,459</u>         |
| <b>Liabilities and stockholders' equity</b>   |                      |                          |
| <b>Current portion of long-term debt</b>  |                      |                          |
| Accounts payable  | \$ 147               | \$ 9,821                 |
| Accrued expenses  | 11,344               | 7,234                    |
| Deferred revenue  | 16,895               | 10,265                   |
| Total current liabilities   | 346                  | 291                      |
| Income tax payable  | 28,732               | 27,611                   |
| Long-term debt, less current portion  | 2,140                | 1,961                    |
| Total liabilities   | 325                  | 362                      |
| Commitments and contingencies (Note 10)   | 31,197               | 29,934                   |
| <b>Stockholders' equity</b>   |                      |                          |
| Common stock, \$0.001 par value per share; 100,000,000 shares authorized: and 65,927,316 and 20,437,235 shares issued and outstanding at June 30, 2020 and December 31, 2019, respectively. | 66                   | 20                       |
| Preferred stock, \$0.001 par value per share, 5,000,000 shares authorized   | —                    | —                        |
| Additional paid-in capital  | 223,495              | 191,751                  |
| Accumulated deficit   | (183,306)            | (166,246)                |
| Total stockholders' equity  | 40,255               | 25,525                   |
| Total liabilities and stockholders' equity  | <u>\$ 71,452</u>     | <u>\$ 55,459</u>         |

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

**SONIM TECHNOLOGIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**THREE AND SIX MONTHS ENDED JUNE 30, 2020 and 2019(UNAUDITED)**  
**(IN THOUSANDS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE AMOUNTS)**

|   | <u>Three Months Ended</u> |             | <u>Six Months Ended</u> |             |
|---|---------------------------|-------------|-------------------------|-------------|
|   | <u>June 30</u>            |             | <u>June 30</u>          |             |
|   | <u>2020</u>               | <u>2019</u> | <u>2020</u>             | <u>2019</u> |
| Net revenues  | \$ 21,058                 | \$ 43,747   | \$ 33,764               | \$ 70,231   |
| Cost of revenues  | 16,140                    | 29,302      | 26,681                  | 46,765      |
| Gross profit  | 4,918                     | 14,445      | 7,083                   | 23,466      |
| Operating expenses:   |                           |             |                         |             |
| Research and development  | 3,256                     | 7,384       | 7,192                   | 14,345      |
| Sales and marketing   | 2,596                     | 4,218       | 5,727                   | 7,944       |
| General and administrative  | 5,686                     | 7,424       | 8,758                   | 9,900       |
| Restructuring costs   | —                         | —           | 1,087                   | —           |
| Total operating expenses  | 11,538                    | 19,026      | 22,764                  | 32,189      |
| Loss from operations  | (6,620)                   | (4,581)     | (15,681)                | (8,723)     |
| Interest expense  | (302)                     | (555)       | (621)                   | (977)       |
| Other income (expense), net   | 6                         | (6)         | (395)                   | (271)       |
| Loss before income taxes  | (6,916)                   | (5,142)     | (16,697)                | (9,971)     |
| Income tax expense  | (180)                     | (457)       | (363)                   | (752)       |
| Net loss  | \$ (7,096)                | \$ (5,599)  | \$ (17,060)             | \$ (10,723) |
| Net loss per share, basic and diluted   | \$ (0.22)                 | \$ (0.31)   | \$ (0.65)               | \$ (0.63)   |
| Weighted-average shares used in computing net loss per Share, basic and diluted | 31,638,250                | 18,120,143  | 26,126,037              | 16,950,375  |

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

**SONIM TECHNOLOGIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**THREE AND SIX MONTHS ENDED JUNE 30, 2020 AND 2019 (UNAUDITED)**  
**(IN THOUSANDS EXCEPT SHARE AMOUNTS)**

|  | Common Stock      |              | Additional Paid-in<br>Capital | Accumulated<br>Deficit | Stockholders'<br>Equity |
|--|-------------------|--------------|-------------------------------|------------------------|-------------------------|
|  | Shares            | Amount       |                               |                        |                         |
| <b>For the Three Months Ended June 30, 2020</b>          |                   |              |                               |                        |                         |
| <b>Balance at March 31, 2020</b>                         | 20,677,360        | \$ 21        | \$ 192,183                    | \$ (176,210)           | \$ 15,994               |
| Issuance of common stock, net of issuance costs          | 36,800,000        | 37           | 24,955                        | —                      | 24,992                  |
| Issuance of common stock, debt repayment                 | 8,226,834         | 8            | 5,993                         | —                      | 6,001                   |
| Issuance of common stock upon exercise of stock options  | 119,942           | —            | 93                            | —                      | 93                      |
| Issuance of common stock upon exercise of ESPP           | 68,110            | —            | 42                            | —                      | 42                      |
| Net settlement of common stock upon release of RSU       | 35,070            | —            | (6)                           | —                      | (6)                     |
| Employee and nonemployee stock-based compensation        | —                 | —            | 235                           | —                      | 235                     |
| Net loss   | —                 | —            | —                             | (7,096)                | (7,096)                 |
| <b>Balance at June 30, 2020</b>                          | <b>65,927,316</b> | <b>\$ 66</b> | <b>\$ 223,495</b>             | <b>\$ (183,306)</b>    | <b>\$ 40,255</b>        |
| <b>For the Six Months Ended June 30, 2020</b>            |                   |              |                               |                        |                         |
| <b>Balance at January 1, 2020</b>                        | 20,437,235        | \$ 20        | \$ 191,751                    | \$ (166,246)           | \$ 25,525               |
| Issuance of common stock, net of issuance costs          | 36,800,000        | 37           | 24,955                        | —                      | 24,992                  |
| Issuance of common stock, debt repayment                 | 8,226,834         | 8            | 5,993                         | —                      | 6,001                   |
| Issuance of common stock upon exercise of stock options  | 363,857           | 1            | 302                           | —                      | 303                     |
| Issuance of common stock upon exercise of ESPP           | 64,320            | —            | 42                            | —                      | 42                      |
| Net settlement of common stock upon release of RSU       | 35,070            | —            | (6)                           | —                      | (6)                     |
| Employee and nonemployee stock-based compensation        | —                 | —            | 458                           | —                      | 458                     |
| Net loss   | —                 | —            | —                             | (17,060)               | (17,060)                |
| <b>Balance at June 30, 2020</b>                          | <b>65,927,316</b> | <b>\$ 66</b> | <b>\$ 223,495</b>             | <b>\$ (183,306)</b>    | <b>\$ 40,255</b>        |
| <b>For the Three Months Ended June 30, 2019</b>          |                   |              |                               |                        |                         |
| <b>Balance at March 31, 2019</b>                         | 15,873,705        | \$ 16        | \$ 150,322                    | \$ (145,536)           | \$ 4,812                |
| Issuance of common stock upon IPO, net of issuance costs | 4,077,143         | 4            | 36,845                        | —                      | 36,849                  |
| Net issuance of restricted stock award (RSA)             | 220,758           | —            | —                             | —                      | —                       |
| Exercise of stock options                                | 17,314            | —            | 14                            | —                      | 14                      |
| Exercise of warrants                                     | 155,338           | —            | 23                            | —                      | 23                      |
| Taxes paid on RSA  | —                 | —            | (1,897)                       | —                      | (1,897)                 |
| Employee and nonemployee stock-based compensation        | —                 | —            | 5,557                         | —                      | 5,557                   |
| Net loss   | —                 | —            | —                             | (5,599)                | (5,599)                 |
| <b>Balance at June 30, 2019</b>                          | <b>20,344,258</b> | <b>\$ 20</b> | <b>\$ 190,874</b>             | <b>\$ (151,135)</b>    | <b>\$ 39,759</b>        |
| <b>For the Six Months Ended June 30, 2019</b>            |                   |              |                               |                        |                         |
| <b>Balance at January 1, 2019</b>                        | 15,591,357        | \$ 15        | \$ 148,641                    | \$ (143,527)           | \$ 5,129                |
| Beginning balance adjustment – impact of ASC 606         | —                 | —            | —                             | 3,115                  | 3,115                   |
| Issuance of common stock, net of issuance costs          | 227,628           | 1            | 1,603                         | —                      | 1,604                   |
| Issuance of common stock upon IPO, net of issuance costs | 4,297,901         | 4            | 36,845                        | —                      | 36,849                  |
| Exercise of stock options                                | 72,034            | —            | 55                            | —                      | 55                      |
| Exercise of warrants                                     | 155,338           | —            | 23                            | —                      | 23                      |
| Taxes paid on RSA  | —                 | —            | (1,897)                       | —                      | (1,897)                 |
| Employee and nonemployee stock-based compensation        | —                 | —            | 5,604                         | —                      | 5,604                   |
| Net loss   | —                 | —            | —                             | (10,723)               | (10,723)                |
| <b>Balance at June 30, 2019</b>                          | <b>20,344,258</b> | <b>\$ 20</b> | <b>\$ 190,874</b>             | <b>\$ (151,135)</b>    | <b>\$ 39,759</b>        |

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

**SONIM TECHNOLOGIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**(UNAUDITED)**  
**(IN THOUSANDS OF U.S. DOLLARS)**

|   | Six Months Ended<br>June 30 |                  |
|---|-----------------------------|------------------|
|   | 2020                        | 2019             |
| Cash flows from operating activities:   |                             |                  |
| Net loss  | \$ (17,060)                 | \$ (10,723)      |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |                             |                  |
| Depreciation and amortization   | 1,647                       | 1,798            |
| Stock-based compensation  | 458                         | 5,604            |
| Inventory write-downs   | 407                         | —                |
| Trade-in guarantee  | —                           | (268)            |
| Non-cash interest expense   | 166                         | 50               |
| Accretion of debt discount  | 159                         | 60               |
| Deferred income taxes   | 30                          | (11)             |
| Bad debt expense  | 289                         | —                |
| Changes in operating assets and liabilities:  |                             |                  |
| Accounts receivable   | 4,814                       | (12,420)         |
| Inventory   | 3,899                       | (4,664)          |
| Prepaid expenses and other current assets   | (150)                       | 627              |
| Other assets  | 138                         | (2,360)          |
| Accounts payable  | 4,000                       | (9,928)          |
| Accrued expenses  | 6,631                       | 937              |
| Deferred revenue  | 55                          | (3,649)          |
| Income tax payable  | 179                         | 163              |
| Net cash provided by (used in) operating activities                                       | <u>5,662</u>                | <u>(34,784)</u>  |
| Cash flows from investing activities:   |                             |                  |
| Purchase of property and equipment  | (193)                       | (247)            |
| Development of tooling and purchased software licenses                                    | —                           | (244)            |
| Net cash used in investing activities   | <u>(193)</u>                | <u>(491)</u>     |
| Cash flows from financing activities:   |                             |                  |
| Repayment on long-term debt   | (4,037)                     | —                |
| Proceeds on line of credit  | —                           | 5,614            |
| Repayment on line of credit   | —                           | (5,878)          |
| Proceeds from PPP Loan  | 2,289                       | —                |
| Repayment of PPP Loan   | (2,289)                     | —                |
| Proceeds from issuance of common stock, net of costs                                      | 24,992                      | 1,604            |
| Proceeds from issuance of common stock upon IPO, net of costs                             | —                           | 38,399           |
| Taxes paid on net issuance of restricted stock award and restricted stock units           | (6)                         | (1,897)          |
| Proceeds from exercise of warrants  | —                           | 23               |
| Proceeds from ESPP purchase of stock  | 43                          | —                |
| Proceeds from exercise of stock options   | 303                         | 55               |
| Net cash provided by financing activities   | <u>21,295</u>               | <u>37,920</u>    |
| Net increase in cash and cash equivalents   | 26,764                      | 2,645            |
| Cash and cash equivalents at beginning of period  | 11,298                      | 13,049           |
| Cash and cash equivalents at end of period  | <u>\$ 38,062</u>            | <u>\$ 15,694</u> |
| Supplemental disclosure of cash flow information:   |                             |                  |
| Cash paid for interest  | \$ 260                      | \$ 1,055         |
| Cash paid for income taxes  | 77                          | 352              |
| Non-cash investing and financing activities:  |                             |                  |
| Other assets included in accounts payable   | 110                         | 1                |
| IPO issuance costs included in accounts payable   | —                           | 1,550            |
| Settlement of long-term debt with issuance of common stock                                | 6,001                       | —                |

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

**SONIM TECHNOLOGIES, INC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**(In thousands of U.S. dollars, except share and per share amounts or as otherwise disclosed)**

**NOTE 1 —The Company and its significant accounting policies**

**Description of Business** —Sonim Technologies, Inc. was incorporated in the state of Delaware on August 5, 1999 and is headquartered in Austin, Texas. The Company is a leading U.S. provider of ultra-rugged mobile phones and accessories designed specifically for task workers physically engaged in their work environments, often in mission-critical roles. We currently sell our ruggedized mobility solutions to several of the largest wireless carriers in the United States— including AT&T, T-Mobile and Verizon—as well as the three largest wireless carriers in Canada—Bell, Rogers and Telus Mobility. Due to the acquisition of sprint by T-Mobile, our current generation of products sold to T-Mobile will be phased out. We are actively working to develop a new series of products for T-Mobile. Our phones and accessories connect workers with voice, data and workflow applications in two end markets: industrial enterprise and public sector.

We are closely monitoring the impact of the COVID-19 global outbreak and its resulting impact on our manufacturing operations and supply chain, with our top priority being the health and safety of our employees, customers, partners, and communities.

We believe our sales partners have ample inventory to continue meeting customer needs in the near term. However, demand for our solutions may be reduced as a result of the COVID-19 outbreak and resulting market uncertainty. It also remains possible that our results could be negatively impacted by interruptions in the global supply chain due to the unpredictable spread of this pandemic. The magnitude of any potential impact is unknown, as it is unclear how long it will take for the overall supply chain to return to normal. We are working closely with our partners and suppliers to manage this process.

**Liquidity** — Our condensed consolidated financial statements account for the continuation of our business without a going concern designation due primarily to approximately \$25 million in net proceeds from our public offering of common stock that closed June 2020 and redemption of approximately \$10 million of note payable in June 2020. This capital raise will allow us to continue operations for at least the next twelve months.

Our principal sources of liquidity as of June 30, 2020 consist of existing cash and cash equivalents totaling \$38.1 million, which includes approximately \$25 million in net proceeds from our June 2020 public offering of common stock. Although we remain subject to the risks and uncertainties associated with the development and release of new products, among other, we believe our operations have been streamlined to enable us to conduct business more effectively and efficiently despite near term economic uncertainty.

On April 13, 2020, the Company received approximately \$2.3 million in loan proceeds from the Payroll Protections Program (the “PPP”) administered by the Small Business Administrations (the “SBA”) of the United States Government. The program was established under the Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”). Following further guidance from the SBA on April 23, 2020 and further deliberation by the Board of Directors, the Company repaid the PPP Loan on April 29, 2020.

We may seek to raise additional capital from the sale of equity securities or the incurrence of indebtedness to allow us to continue operations. There can be no assurance that additional financing will be available to us on acceptable terms, or at all. Additionally, if we issue additional equity securities to raise funds, whether to existing investors or others, the ownership percentage of our existing stockholders would be reduced. New investors may demand rights, preferences, or privileges senior to those of existing holders of common stock. Additionally, we may be limited as to the amount of funds we can raise pursuant to SEC rules and the continued listing requirements of Nasdaq. In addition, global financial crises and economic downturns, including those caused by widespread public health crises such as the COVID-19 pandemic, may cause extreme volatility and disruptions in capital and credit markets, and may impact our ability to raise additional capital when needed on acceptable terms, if at all. If we cannot grow our revenue run-rate or raise needed funds, we might be forced to make substantial reductions in our operating expenses, which could adversely affect our ability to implement our business plan and ultimately our viability as a Company.

**SONIM TECHNOLOGIES, INC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(In thousands of U.S. dollars, except share and per share amounts or as otherwise disclosed)**

**Financial Statement Presentation**—The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (“U.S. GAAP”) and pursuant to the rules and regulations of the SEC for interim financial information. The unaudited interim condensed consolidated financial statements, which reflect all adjustments (consisting of normal recurring items or items discussed herein) that management believes necessary to fairly state results of interim operations, should be read in conjunction with the Notes to Consolidated Financial Statements (including the Significant Accounting Policies and Recent Accounting Pronouncements) included in the Company’s audited consolidated financial statements for the year ended December 31, 2019. Results of operations for interim periods are not necessarily indicative of annual results of operations. The unaudited condensed consolidated balance sheet at December 31, 2019 was extracted from the audited annual consolidated financial statements and does not include all disclosures required by U.S. GAAP for annual financial statements

**Principles of Consolidation** — The accompanying condensed consolidated financial statements include the accounts of Sonim Technologies, Inc. and its wholly owned foreign subsidiaries, Sonim Technologies Spain SL, Sonim Technologies India Private Limited, Sonim Technologies (Shenzhen) Limited, Sonim Technologies (Hong Kong) Limited, Sonim Technologies (Canada), Inc and Sonim Communications India Private Limited (collectively, the “Company”). All significant intercompany transactions and balances have been eliminated in consolidation.

**Estimates** —The preparation of condensed consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These estimates include, but are not limited to, estimates related to revenue recognition; valuation assumptions regarding the determination of the fair value of common stock, the useful lives of our long-lived assets; product warranties; loss contingencies; and the recognition and measurement of income tax assets and liabilities, including uncertain tax positions. The Company bases its estimates on historical experience and on various other assumptions that the Company believes to be reasonable under the circumstances. Notwithstanding the foregoing, the worldwide spread of the COVID-19 pandemic is expected to result in a global slowdown of economic activity which is likely to decrease demand for a broad variety of goods and services, including from the Company’s customers, while also disrupting sales channels and marketing activities for an unknown period of time until the disease is contained. The Company expects this to have a negative impact on its ability to make estimates. These estimates may change, as new events occur and additional information is obtained, and are recognized in the condensed consolidated financial statements as soon as they become known. Actual results could differ from those estimates and any such differences may be material to the Company’s financial statements.

**Significant accounting policies** — There have been no material changes in the accounting policies from those disclosed in the audited 2019 consolidated financial statements.

**Revenue Recognition** — The Company adopted the requirements of Accounting Standards Codification (“ASC”) 2014-09, *Revenue from Contracts with Customers* (Topic 606), effective January 1, 2019, using the modified retrospective method. Under the modified retrospective method, this guidance is applied to those contracts which were not completed as of January 1, 2019. Refer to New Accounting Pronouncements, Pronouncements adopted in 2019, for a discussion of the effect of the adoption of Topic 606.

The Company recognizes revenue primarily from the sale of products, including our mobile phones and accessories. The Company also recognizes revenue from other contractual arrangements that may include a combination of products and Non-Recurring Engineering (“NRE”) services or from the provision of solely NRE services.

Revenue recognition incorporates discounts, price protection and customer incentives. In addition to cooperative marketing and other incentive programs, the Company has arrangements with some distributors, which allow for price protection and limited rights of return, generally through stock rotation programs. Under the price protection programs, the Company gives distributors credits for the difference between the original price paid and the Company’s then current price. Under the stock rotation programs, certain distributors are able to exchange certain products based on the number of qualified purchases made during the period.

The Company’s handsets typically require a technical approval process. This process entails design and configuration activities required to conform the Company’s devices to a wireless carrier customer’s specific network requirement. Each wireless carrier defines its own specific functional requirements and certification process in order for the product to be ready for manufacture. While the technical approval process does involve some level of customization, in addition to design and configuration, the Company does not charge separately and is not reimbursed for these activities to the extent that they do not involve significant customization and does not incur these costs in advance of entering into binding agreements with its wireless carrier customers. Such technical approval is obtained prior to shipment.



**SONIM TECHNOLOGIES, INC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(In thousands of U.S. dollars, except share and per share amounts or as otherwise disclosed)**

Under Topic 606, revenue is recognized when control of promised goods or services is transferred to a customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To determine revenue recognition for its arrangements, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. See Note 2, Revenue Recognition, for additional information.

**The 2020 Offering (“PO”)**—On June 9, 2020, the Company completed an underwritten public offering (“PO”) in which the Company sold 36,800,000 shares of its common stock, at a price to the public of \$0.75 per share. The offer and sale of the shares in the IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-238869), which was declared effective by the SEC on June 4, 2020. The Company raised approximately \$24,992 in net proceeds, after deducting underwriting discounts and commissions of \$1,656 and offering expenses of approximately \$952. Offering costs, which consist of direct incremental legal, consulting, banking and accounting fees relating to the Company’s PO, are offset against proceeds from the PO within stockholders’ equity.

**Initial Public Offering (“IPO”)**—On May 14, 2019, the Company completed an initial public offering (“IPO”) in which the Company sold 3,571,429 shares of its common stock, at a price to the public of \$11.00 per share. The offer and sale of the shares in the IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-230887), which was declared effective by the SEC on May 9, 2019 and our common stock began trading on The Nasdaq Stock Market LLC (“Nasdaq”) on May 10, 2019. On May 22, 2019, the Company sold an additional 505,714 shares of common stock, and our Chief Executive Officer sold 30,000 shares of common stock, at a price to the public of \$11.00 per share pursuant to the exercise of the underwriters’ option to purchase additional shares. The Company raised approximately \$36,849 in net proceeds, after deducting underwriting discounts and commissions of \$3,139 and offering expenses paid by us of approximately \$4,861. Offering costs, which consist of direct incremental legal, consulting, banking and accounting fees relating to the Company’s IPO, are offset against proceeds from the IPO within stockholders’ equity. As of December 31, 2018, there was \$63 of deferred offering costs within other non-current assets on the condensed consolidated balance sheets. During the six months ended June 30, 2019, \$4,861 in deferred offering costs were incurred, and charged to additional paid in capital. \$1,550 issuance cost was unpaid and charged to accounts payable/acrued expenses as of June 30, 2019.

**New accounting pronouncements:**

*Pronouncements adopted in 2019:*

The Company is 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 (the “JOBS Act”), and it may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies. Section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a Securities Act registration statement declared effective or do not have a class of securities registered under the Exchange Act) are required to comply with the new or revised financial accounting standards. The JOBS Act provides that an emerging growth company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such election to opt out is irrevocable. The Company has elected not to opt out of such extended transition period which means that when a standard is issued or revised and it has different application dates for public or private companies, the Company, as an emerging growth company, can adopt the new or revised standard at the time private companies adopt the new or revised standard. This may make comparison of the Company’s consolidated financial statements with another public company, which is neither an emerging growth company nor an emerging growth company that has opted out of using the extended transition period, difficult or impossible because of the potential differences in accounting standards used.

As discussed above, the Company adopted Topic 606 under the modified retrospective method effective January 1, 2019. The adoption of Topic 606 did not materially impact the Company’s timing and measurement of revenue recognition as compared to the prior Topic 605 guidance, however, resulted in a cumulative effect adjustment of \$3,115, net of the associated income tax effect of \$215, to reduce the opening accumulated deficit as of January 1, 2019 relating to the capitalization of certain non-recurring engineering costs that were incurred to fulfill contracts pursuant to Subtopic 340-40, Other Assets and Deferred Costs, which were previously expensed. In addition, the Company identified approximately \$770 of deferred revenue as contract liabilities.

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The guidance permitted two methods of adoption, the full retrospective method applying the standard to each prior reporting period presented, or the modified retrospective method with a cumulative effect of initially applying the guidance recognized at the date of initial application. The standard also allows entities to apply certain practical expedients at their discretion. We adopted the standard using the modified retrospective method with a cumulative adjustment and provided additional disclosures comparing results to previous U.S. GAAP in Note 2. We applied the new revenue standards only to contracts not completed as of the date of initial application, referred to as open contracts.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments*, which clarifies eight specific cash flow issues in an effort to reduce diversity in practice in how certain transactions are classified within the statement of cash flows. This ASU is effective for nonpublic business entities beginning after December 15, 2019 with early adoption permitted. We applied this new standard as of the effective date.

*Pronouncements not yet adopted:*

In December 2019, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes (ASU 2019-12)*, which simplifies the accounting for income taxes. The amendments in this ASU simplify the accounting for income taxes by removing certain exceptions to the general principles of ASC 740 in order to reduce cost and complexity of its application. The ASU removes the exception related to the incremental approach for intra-period tax allocation as well as two exceptions related to account for outside basis differences of equity method investments and foreign subsidiaries. This guidance is effective for fiscal years beginning after December 31, 2021 with early adoption permitted. The Company is currently evaluating the potential impact of the new standard on its condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820)—Changes to the Disclosure Requirements for Fair Value Measurement*. The ASU eliminates certain disclosure requirements for fair value measurements for all entities and modifies some disclosure requirements. This ASU is effective for nonpublic entities beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating this new standard and the impact it will have on its presentation of the condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, as amended, which requires lessees to recognize a liability associated with obligations to make payments under the terms of the arrangement in addition to a right-of-use asset representing the lessee's right to use, or control the use of the given asset assumed under the lease. The standard will be effective for nonpublic business entities for annual reporting periods beginning after December 15, 2021. The Company is currently evaluating this new standard and the impact it will have on its condensed consolidated financial statements, information technology systems, process, and internal controls.

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**NOTE 2 —Revenue recognition**

The following reflect the changes in account balances as a result of adoption of ASC 606:

**Three months ended, June 30, 2019 (unaudited)**

|   | As Reported | Balances<br>Without<br>Adoption<br>of Topic<br>606 | Effect of<br>Change<br>Higher/(Lower) |
|---|-------------|--|---------------------------------------|
| Net revenues  | \$ 43,747   | \$ 43,747  | \$ -                                  |
| Cost of revenues  | 29,302      | 28,937   | 365                                   |
| Gross profit  | 14,445      | 14,810   | (365)                                 |
| Operating expenses:   |             |  |                                       |
| Research and development  | 7,384       | 8,233  | (849)                                 |
| Sales and marketing   | 4,218       | 4,218  | —                                     |
| General and administrative  | 7,424       | 7,424  | —                                     |
| Total operating expenses  | 19,026      | 19,875   | (849)                                 |
| Loss from operations  | (4,581)     | (5,065)  | 484                                   |
| Interest expense  | (555)       | (555)  | —                                     |
| Other expense, net  | (6)         | (6)  | —                                     |
| Loss before income taxes  | (5,142)     | (5,626)  | 484                                   |
| Income tax expense  | (457)       | (457)  | —                                     |
| Net loss  | \$ (5,599)  | \$ (6,083)   | \$ 484                                |
| Net loss per share, basic and diluted   | \$ (0.31)   | \$ (0.34)  | \$ 0.03                               |
| Weighted-average shares used in computing net loss per share, basic and diluted | 18,120,143  | 18,120,143   |                                       |

**Six months ended, June 30, 2019 (unaudited)**

|   | As Reported | Balances<br>Without<br>Adoption<br>of Topic<br>606 | Effect of<br>Change<br>Higher/(Lower) |
|---|-------------|--|---------------------------------------|
| Net revenues  | \$ 70,231   | \$ 70,231  | \$ -                                  |
| Cost of revenues  | 46,765      | 46,042   | 723                                   |
| Gross profit  | 23,466      | 24,189   | (723)                                 |
| Operating expenses:   |             |  |                                       |
| Research and development  | 14,345      | 16,634   | (2,289)                               |
| Sales and marketing   | 7,944       | 7,944  | —                                     |
| General and administrative  | 9,900       | 9,900  | —                                     |
| Total operating expenses  | 32,189      | 34,478   | (2,289)                               |
| Loss from operations  | (8,723)     | (10,289)   | 1,566                                 |
| Interest expense  | (977)       | (977)  | —                                     |
| Other expense, net  | (271)       | (271)  | —                                     |
| Loss before income taxes  | (9,971)     | (11,537)   | 1,566                                 |
| Income tax expense  | (752)       | (752)  | —                                     |
| Net loss  | \$ (10,723) | \$ (12,289)  | \$ 1,566                              |
| Net loss per share, basic and diluted   | \$ (0.63)   | \$ (0.73)  | \$ 0.10                               |
| Weighted-average shares used in computing net loss per share, basic and diluted | 16,950,375  | 16,950,375   |                                       |

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The Company recognizes revenue primarily from the sale of products, including our mobile phones and accessories, and the majority of the Company's contracts include only one performance obligation, namely the delivery of product. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is defined as the unit of account for revenue recognition under ASC 606. The Company also recognizes revenue from other contracts that may include a combination of products and NRE services or from the provision of solely NRE services. Where there is a combination of products and NRE services, the Company accounts for the promises as individual performance obligations if they are concluded as distinct. Performance obligations are considered distinct if they are both capable of being distinct and distinct within the context of the contract. In determining whether performance obligations meet the criteria for being distinct, the Company considers a number of factors, such as the degree of interrelation and interdependence between obligations, and whether or not the good or service significantly modifies or transforms another good or service in the contract. During the three and six months ended June 30, 2020 and 2019, the Company did not have any contracts in which the products and NRE services were concluded to be a single performance obligation. In certain cases, the Company may offer tiered pricing based on volumes purchased for specific model phones. To date, all tiered pricing provisions have fallen into observable ranges of pricing to existing customers, thus, not resulting in any material right which could be concluded as its own performance obligation. In addition, the Company does not offer material post-contract support services to its customers.

Net revenue for an individual contract is recognized at the related transaction price, which is the amount the Company expects to be entitled to in exchange for transferring the goods and/or services. The transaction price for product sales is calculated as the product selling price net of variable consideration which may include estimates for marketing development funds, sales incentives, and price protection and stock rotation rights. The Company generally does not offer a right of return to its customers. Typically, variable consideration does not need to be constrained as estimates are based on specific contract terms. However, the Company continues to assess variable consideration estimates such that it is probable that a significant reversal of revenue will not occur. The transaction price for a contract with multiple performance obligations is allocated to the separate performance obligations on a relative standalone selling price basis. Standalone selling prices for products are determined based on the prices charged to customers, which are directly observable. Standalone selling price of the professional services are mostly based on time and materials. We determine our estimates of variable consideration based on historical collection experience with similar payor classes, aged accounts receivable by payor class, terms of payment agreements, correspondence from payors related to revenue audits or reviews, our historical settlement activity of audited and reviewed claims and current economic conditions using the portfolio approach. Revenue is recognized only to the extent that it is probable that a significant reversal of the cumulative amount recognized will not occur in future periods.

Revenue is then recognized for each distinct performance obligation as control is transferred to the customer. Revenue attributable to hardware is recognized at the time control of the product transfers to the customer. Revenue attributable to professional services is recognized as the Company performs the professional services to the customer.

*Disaggregation of revenue*

The following table presents our net revenue disaggregated by product category:

|                   | Three Months Ended |           | Six Months Ended |           |
|-------------------|--------------------|-----------|------------------|-----------|
|                   | June 30            |           | June 30          |           |
|                   | 2020               | 2019      | 2020             | 2019      |
| Smartphones       | \$ 6,138           | \$ 19,457 | \$ 12,356        | \$ 33,869 |
| Feature Phones    | 13,835             | 23,068    | 19,736           | 33,399    |
| Accessories/Other | 1,085              | 1,122     | 1,672            | 2,963     |
|                   | \$ 21,058          | \$ 43,747 | \$ 33,764        | \$ 70,231 |

*Shipping and handling costs*

The Company has elected to account for shipping and handling activities related to contracts with customers as costs to fulfill the promise to transfer the associated products.

*Contract costs*

Applying the practical expedient, the Company recognizes the incremental costs of obtaining contracts as an expense when incurred when the amortization period of the assets that otherwise would have been recognized is one year or less. These costs are included in sales and marketing and general and administrative expenses.

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The costs associated with design and development non-recurring engineering activities for technical approval represent costs to fulfill a contract pursuant to ASC 340-40. Accordingly, the Company capitalizes these non-recurring engineering costs and amortizes such costs over the estimated period of time over which they are expected to be recovered, which is typically, the estimated life of a particular model phone.

As of December 31, 2019, the total costs to fulfill a contract which were deferred and capitalized upon adoption of ASC 606 totaled \$4,525 and were recorded in Other Assets. The total capitalized costs to fulfill a contract is primarily associated with Company's introduction of the XP8 model phone. As of June 30, 2020, the total costs to fulfill a contract were \$3,707.

*Contract balances*

The Company records accounts receivable when it has an unconditional right to consideration. As of June 30, 2020, the Company does not have a contract receivable balance. Contract liabilities are recorded when cash payments are received or due in advance of performance. Contract liabilities consist of advance payments and deferred revenue, where the Company has unsatisfied performance obligations. Contract liabilities are presented as a component of deferred revenue on the consolidated balance sheets. As of December 31, 2019, and June 30, 2020, the contract liabilities were \$291 and \$346, respectively, with the contract liabilities as of June 30, 2020 expected to be recognized into revenue in FY 2020.

The following table is a rollforward of contract balances as of June 30, 2020:

|                            | <b>Contractual<br/>Liability</b> |
|----------------------------|----------------------------------|
| Balance at January 1, 2020 | \$ 291                           |
| Recognition of revenue     | (4 )                             |
| Addition of revenue        | 59                               |
| Balance at June 30, 2020   | \$ 346                           |

**NOTE 3 —Fair value measurement**

The fair value measurements standard establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the standard are described below:

Level 1—Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2—Inputs to the valuation methodology include:

- Quoted market prices for similar assets or liabilities in activemarkets;
- Quoted prices for identical or similar assets or liabilities in inactivemarkets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3—Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2020 and 2019, and December 31, 2019.

Money market funds are classified within level 1 of the fair value hierarchy because they are valued using quoted market prices.

Trade-in guarantee liability is classified within level 3 of the fair value hierarchy because the fair value measurement is based on inputs that are not observable in the market, including the probability and timing of a customer upgrading to a new device and the value of the upgraded device.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables sets forth by level, within the fair value hierarchy, the Company's assets and liabilities at fair value:

|                          | June 30, 2020 |         |         |           |
|--------------------------|---------------|---------|---------|-----------|
|                          | Level 1       | Level 2 | Level 3 | Total     |
| <b>Assets:</b>           |               |         |         |           |
| Money market funds *     | \$ 34,400     | \$ —    | \$ —    | \$ 34,400 |
| <b>December 31, 2019</b> |               |         |         |           |
|                          | Level 1       | Level 2 | Level 3 | Total     |
| <b>Assets:</b>           |               |         |         |           |
| Money market funds *     | \$ 9,250      | \$ —    | \$ —    | \$ 9,250  |

\* Included in cash and cash equivalents on the condensed consolidated balance sheets.

The table below sets forth a summary of changes in the fair value of the Company's level 3 liabilities for the six months ended June 30, 2020 and 2019:

|                                 | Trade-In<br>Guarantee |
|---------------------------------|-----------------------|
| Balance at January 1, 2020      | \$ —                  |
| Recognition of revenue          | —                     |
| <b>Balance at June 30, 2020</b> | <b>\$ —</b>           |
| Balance at January 1, 2019      | \$ 268                |
| Recognition of revenue          | (268)                 |
| <b>Balance at June 30, 2019</b> | <b>\$ —</b>           |

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**NOTE 4 —Inventory**

Inventory consisted of approximately the following:

|                 | June 30,<br>2020 | December 31,<br>2019 |
|-----------------|------------------|----------------------|
| Finished goods  | \$ 8,598         | \$ 13,559            |
| Work in process | 403              | —                    |
| Raw materials   | 4,729            | 4,522                |
| Accessories     | 1,495            | 1,450                |
|                 | <u>\$ 15,225</u> | <u>\$ 19,531</u>     |

**NOTE 5 —Warranty Liability**

The table below sets forth the activity in the warranty liability, which is included in accrued expenses on the condensed consolidated balance sheet, for the six months ended June 30, 2020 and 2019:

|                          |                 |
|--------------------------|-----------------|
| Balance, January 1, 2020 | \$ 1,154        |
| Additions                | 882             |
| Cost of warranty claims  | (647)           |
| Balance, June 30, 2020   | <u>\$ 1,389</u> |
| Balance, January 1, 2019 | \$ 1,103        |
| Additions                | 874             |
| Cost of warranty claims  | (552)           |
| Balance, June 30, 2019   | <u>\$ 1,425</u> |

**NOTE 6 —Borrowings**

**Senior Credit Agreement**

In prior years, the Company maintained a loan and security agreement with East West Bank No borrowings were made under this facility in 2019 and the facility was cancelled in June 2020. The Company does not have any borrowing arrangements with East West Bank in place as of June 30, 2020.

**Long-Term Debt**

**Riley Loan**— The Company had a Subordinated Term Loan and Security agreement, as amended, (the “B. Riley Loan Agreement”) with B. Riley Principal Investments, LLC (“BRPI”), an affiliate of B. Riley Financial, Inc., a shareholder of the Company. Under the amended B. Riley Loan Agreement, the Company could borrow principal up to \$12,000 via a subordinated secured convertible promissory note, with an optional conversion feature.

The amended B. Riley Loan Agreement included repayment penalties if any repayment reduces the principal amount outstanding below \$10,000. The prepayment penalty was 1% for 2019 through maturity. The borrowings under the B. Riley Loan Agreement, as amended would have matured on September 1, 2022 and carried a stated interest rate of 10% and provided that the first year of interest commencing on October 26, 2018 was compounded into the principal, with interest-only payments beginning thereafter.

On June 1, 2020, the Company entered into a Note Amendment and Debt Cancellation Agreement with BRPI (the “Note Amendment”), which provided that, contingent upon the closing of the PO, the Company would repay \$4 million of the outstanding indebtedness to BRPI in cash (the “B. Riley Repayment”) and the remaining principal amounts, accrued interest and other amounts outstanding under the B. Riley Loan Agreement, after giving effect to the B. Riley Repayment, would be redeemed for cash and shares of common stock to be issued to BRPI or its affiliates at the public offering price of shares of our common stock in the PO.

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Pursuant to the Note Amendment, as amended, the Company made the B. Riley Repayment on June 9, 2020 and the remaining principal amount, accrued interest and other amounts outstanding under the B. Riley Loan Agreement, after giving effect to the B. Riley Repayment, in the amount of \$6,170, was redeemed into 8,226,834 shares of the Company's common stock issued to BRPI and BRC Opportunity Fund L.P., an affiliate of BRPI, (the "Redemption Shares"). Following the B. Riley Repayment and the issuance of the Redemption Shares, the Company has no outstanding indebtedness under the B. Riley Loan Agreement. Also on June 11, 2020, the Company entered into a registration rights agreement with BRPI and BRC Partners Opportunity Fund, L.P. pursuant to which the Company agreed to file a registration statement covering the resale of the Redemption Shares and to use its best efforts to cause such registration statement to become effective upon the time frames set forth in the registration rights agreement. A registration statement on Form S-3 (File No. 333-239664) registering the Redemption Shares for resale by BRPI and BRC Partners Opportunity Fund, LP was declared effective by the SEC on July 13, 2020.

As of June 30, 2020, and December 31, 2019, the total outstanding principal and interest under the B. Riley Loan Agreement, as amended, was zero and \$10,003, respectively. In July 2019, the Company repaid \$3,250, or 25% of the principal amount under the B. Riley Loan Agreement and incurred a 2% fee on the amount below the \$10,000 threshold as a result of the prepayment. During the six months of 2020, the compounded interest, which was added to the outstanding principal totaled \$166.

As of December 31, 2019, the Company had classified the debt as a current liability based on the occurrence of a material adverse change in our business. Upon the occurrence and during the continuance of an event of default under the B. Riley Loan Agreement, BRPI had the option, among other things, to accelerate the debt and foreclose upon the assets pledged as collateral. In addition, we were unable to borrow under the EWB facility during the continuance of an event of default thereunder or under the B. Riley Loan Agreement.

**Promissory Notes Payable**—In 2014 and 2017, the Company entered into agreements with one of its suppliers, whereby certain of its trade payables for royalties and royalty up-front payments were converted to payment plans. In December 2018, the Company amended its accounts payable financing agreements, effective January 1, 2019, which provides for the \$736 outstanding balance to be paid in twenty equal quarterly installments. The amounts due under these agreements would be paid in quarterly installments over periods from two to four years, with interest ranging up to 8%. Remaining balances are \$472 and \$508 at June 30, 2020 and December 31, 2019, respectively.

**PPP Loan**—On April 13, 2020, the Company received approximately \$2.3 million in loan proceeds from the Payroll Protections Program (the "PPP") administered by the Small Business Administrations (the "SBA") of the United States Government. The program was established under the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"). Follow additional guidance issued by the SBA on April 23, 2020 that cast doubt on the ability of public companies to qualify for loans under the PPP, the Company repaid the PPP Loan on April 29, 2020.

**Other Financing Arrangements**—In 2017, the Company entered into three financing arrangements totaling approximately \$472 with remaining maturity dates of June 2020 and August 2020. During the quarter ended September 30, 2019, the Company repaid the remaining outstanding balance.

Future aggregate annual principal payment on all long-term debt, are as follows for the next 5 years as of June 30, 2020:

| <u>Year Ending December 31,</u> |           |            |
|---------------------------------|-----------|------------|
| 2020                            | \$        | 107        |
| 2021                            |           | 144        |
| 2022                            |           | 144        |
| 2023                            |           | 78         |
|                                 | <u>\$</u> | <u>472</u> |



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**NOTE 7 —Warrants**

During the six months ended June 30, 2020 and year ended December 31, 2019, there was no activity related to the Company’s warrants. The following table discloses warrants issued and outstanding as of June 30, 2020 and December 31, 2019:

| Issuance date         | June 30, 2020  |                          |                    | December 31, 2019 |                          |                    |
|-----------------------|----------------|--------------------------|--------------------|-------------------|--------------------------|--------------------|
|                       | Exercise price | Number of warrant shares | Year of expiration | Exercise price    | Number of warrant shares | Year of expiration |
| Common                |                |                          |                    |                   |                          |                    |
| November 2012         | \$ 6.00        | 7                        | 2028               | \$ 6.00           | 7                        | 2028               |
| November 2012         | \$ 6.00        | —                        | 2020               | \$ 6.00           | 927                      | 2020               |
| November 2012         | \$ 14.50       | 22                       | 2028               | \$ 14.50          | 22                       | 2028               |
| <b>Total warrants</b> |                | <b>29</b>                |                    |                   | <b>956</b>               |                    |

**NOTE 8 —Stock-based Compensation**

As of June 30, 2020, the Company had the 2012 Equity Incentive Plan (the “2012 Option Plan”) and 2019 Equity Incentive Plan (the “2019 Option Plan”) in place.

As of June 30, 2020, the number of shares available to be issued under the 2019 Option Plan were 356,072. In May 2020, the Company’s board of directors approved an increase in the number of shares of common stock reserved for future issuance the 2019 Option Plan by 3,000,000 shares, subject to approval by the Company’s stockholders. As of June 30, 2020, the number of shares available to be issued under the 2019 Employee Stock Purchase Plan were 408,453.

The Option Plans provides for the grant of incentive and non-statutory stock options (“Options”), stock appreciation rights (“SAR”), restricted stock awards (“RSA”), and restricted stock unit awards (“RSU”) to employees, nonemployee directors, and consultants of the Company. Option awards granted under the Option Plan generally become exercisable ratably over a two-year or four-year period following the date of grant and expire ten years from the date of grant. At the discretion of the Company’s Board of Directors, certain awards may be exercisable immediately at the date of grant but are subject to a repurchase right, under which the Company may buy back any unvested shares at their original exercise price in the event of an employee’s termination prior to full vesting. All other awards are exercisable only to the extent vested. At June 30, 2020 and December 31, 2019, there were no shares that had been early exercised that were subject to the Company’s repurchase right at that date. The exercise price or strike price for Options and SARs granted under the Option Plan must generally be at least equal to 100% of the fair value of the Company’s common stock at the date of grant, as determined by the Board of Directors. The exercise price of incentive stock options granted under the Option Plan to ten percent or greater stockholders must be at least equal to 110% of the fair value of the Company’s common stock at the date of grant, as determined by the Board of Directors, and are not exercisable after five years from the date of grant.

The Company’s board of directors adopted, and its stockholders approved, the 2019 Employee Stock Purchase Plan and the 2019 Equity Incentive Plan in March 2019 and April 2019, respectively, each of which became effective in connection with the IPO. There are 541,379 shares of common stock reserved for issuance under the 2019 Employee Stock Purchase Plan. Additionally, the number of shares of common stock reserved for issuance under the 2019 Employee Stock Purchase Plan will automatically increase on January 1 of each calendar year for 10 years, starting January 1, 2020, and ending on, and including, January 1, 2029, in an amount equal to the lesser of 1% of the total number of shares of capital stock outstanding on December 31<sup>st</sup> of the prior calendar year, and (ii) 500,000 shares, unless the board of directors or compensation committee determines prior to such date that there will be a lesser increase, or no increase. The increase under the 2019 Employee Stock Purchase Plan for 2020 was 204,372 shares. 2,906,900 shares of common stock are reserved for future issuance under the 2019 Equity Incentive Plan, plus the number of shares subject to outstanding stock options or other stock awards that were granted under the 2012 Option Plan that are forfeited, terminated, expire or are otherwise not issued. Additionally, the number of shares of common stock reserved for issuance under the 2019 Equity Incentive Plan will automatically increase on January 1 of each calendar year for 10 years, starting January 1, 2020 and ending on and including January 1, 2029, in an amount equal to 5% of the total number of shares of capital stock outstanding on December 31 of the prior calendar year, unless the board of directors or compensation committee determines prior to the date of increase that there will be a lesser increase, or no increase. The increase under the 2019 Equity Incentive Plan for 2020 was 1,021,861 shares. In addition, in May 2020, the Company’s board of directors approved an increase in the number of shares of common stock reserved for future issuance the 2019 Option Plan by 3,000,000 shares, subject to approval by the Company’s stockholders.

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On May 15, 2020, 64,320 shares of common stock were issued under the 2019 Employee Stock Purchase Plan.

Stock-based compensation expense for the three and six months ended June 30, 2020 and 2019 is as follows:

|                            | Three Months Ended |          | Six Months Ended |          |
|----------------------------|--------------------|----------|------------------|----------|
|                            | June 30            |          | June 30          |          |
|                            | 2020               | 2019     | 2020             | 2019     |
| Research and development   | \$ 71              | \$ 172   | \$ 131           | \$ 175   |
| Sales and marketing        | 49                 | 467      | 106              | 478      |
| General and administrative | 102                | 4,899    | 198              | 4,931    |
| Cost of revenues           | 13                 | 19       | 23               | 20       |
|                            | \$ 235             | \$ 5,557 | \$ 458           | \$ 5,604 |

**Stock Options:**

Stock option activity for the six months ended June 30, 2020 is as follows:

|  | Options          | Weighted average<br>exercise price<br>per share | Weighted average<br>remaining<br>contractual life<br>(in years) | Aggregate<br>Intrinsic<br>Value |
|--|------------------|---|---|---------------------------------|
| <b>Outstanding at January 1, 2020</b>        | <b>2,645,714</b> | <b>\$ 3.50</b>                                  | <b>8.51</b>   | <b>\$ 4,184</b>                 |
| Options granted                              | 20,000           | \$ 0.85   |   |                                 |
| Options exercised                            | (363,857)        | \$ 0.83   |   |                                 |
| Options forfeited                            | (416,357)        | \$ 4.91   |   |                                 |
| Options expired                              | (79,007)         | \$ 6.32   |   |                                 |
| <b>Outstanding at June 30, 2020</b>          | <b>1,806,493</b> | <b>\$ 3.56</b>                                  | <b>7.31</b>   | <b>\$ 108</b>                   |
| Vested and expected to vest at June 30, 2020 | 1,806,493        | \$ 3.56   | 7.31  | \$ 108                          |
| Exercisable at June 30, 2020                 | 700,399          | \$ 4.12   | 4.08  | \$ 107                          |

As of June 30, 2020, there was approximately \$3,545 of unamortized stock-based compensation cost related to unvested stock options, which is expected to be recognized over a weighted average period of three years.

**Restricted Stock Units:**

The following table summarized the outstanding RSUs as of June 30, 2020:

|                                       | RSUs             |
|---------------------------------------|------------------|
| <b>Outstanding at January 1, 2020</b> | <b>249,500</b>   |
| Granted                               | 2,015,500        |
| Released                              | (41,750)         |
| Forfeited                             | (73,250)         |
| <b>Outstanding at June 30, 2020</b>   | <b>2,150,000</b> |
| Vested at June 30, 2020               | —                |

As of June 30, 2020, unvested restricted stock units totaled 2,150,000 shares. There were 2,015,500 RSUs issued for the three and six months ended June 30, 2020. There were no RSUs issued for the three and six months ended June 30, 2019.

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**NOTE 9—Income Taxes**

In determining quarterly provisions for income taxes, the Company uses the annual estimated effective tax rate applied to the actual year-to-date profit or loss, adjusted for discrete items arising in that quarter. The Company's annual estimated effective tax rate differs from the U.S. federal statutory rate primarily as a result of state taxes, foreign taxes, and changes in the Company's valuation allowance against its deferred tax assets. For the three months ended June 30, 2020 and 2019, the Company recorded provisions for income taxes of \$180, and \$457, respectively. For the six months ended June 30, 2020 and 2019, the Company recorded provisions for income taxes of \$363, and \$752, respectively.

On March 27, 2020, the President signed into law the CARES Act, an economic stimulus package in response to the COVID-19 global pandemic. The CARES Act contains several corporate income tax provisions of which only the acceleration of timing of tax refunds for minimum tax credits apply to the Company. As a result of the CARES Act, the Company reclassified \$68 of minimum tax credits from a non-current asset to a current asset as of March 31, 2020.

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act (the Tax Act), which significantly changes existing U.S. tax laws, including a reduction in the corporate tax rate from 35% to 21%, a move from a worldwide tax system to a territorial system, as well as other changes. Beginning in 2018, the Company became subject to the global intangible low-taxed income (GILTI) provisions of the Tax Act on the income of the Company's foreign subsidiary. The Company's foreign subsidiaries are profitable during the three and six months ended June 30, 2020 and forecast profits for all of 2020. The GILTI subjects the income of the foreign subsidiaries to U.S. taxation. The Company's accounting policy related to the GILTI is to treat GILTI related book/tax differences as period costs and to use the incremental cash tax savings approach in evaluating the Company's U.S. net operating loss valuation allowance assessment.

The Company's income tax returns are subject to examinations by the Internal Revenue Service and other tax authorities in various jurisdictions. In accordance with the guidance on the accounting for uncertainty in income taxes, the Company regularly assesses the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of its provision for income taxes. These assessments can require considerable estimates and judgments. As of June 30, 2020, the gross amount of unrecognized tax benefits was approximately \$7,000. If the Company's estimate of income tax liabilities proves to be less than the ultimate assessment, then a further charge to expense would be required. If events occur and the payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when the Company determines the liabilities are no longer necessary. The Company does not anticipate any material changes to its uncertain tax positions during the next twelve months.

Sonim Technologies (Shenzhen) Limited was notified of a tax inquiry by the Shenzhen Tax Bureau Bao'an Branch of the State Administration of Taxation on June 18, 2020 for both the 2017 and 2019 tax years. We have met with the Shenzhen Tax Bureau Bao'an Branch of the State Administration of Taxation and are cooperating with the audit. The Company has been recording an uncertain tax position long-term tax liability plus interest for such a potential claim by Shenzhen Bao'an Branch of the State Administration of Taxation and, as such, will not record an adjustment to the uncertain tax position liability related to this inquiry as of June 30, 2020.

**NOTE 10—Commitments and Contingencies**

**Royalty payments**—The Company is required to pay per unit royalties to wireless essential patent holders and other providers of integrated technologies on mobile devices delivered, which, in aggregate, amount to less than 5% of net revenues associated with each unit and expire in 2021 and 2023. Royalty expense for the three months ended June 30, 2020 and 2019 was \$843 and \$1,247, respectively. Royalty expense for the six months ended June 30, 2020 and 2019 was \$1,194 and \$1,698, respectively, which are included in cost of revenues on the condensed consolidated statements of operations.

**Securities litigation**—On September 20, 2019, a purported Sonim stockholder who allegedly purchased stock registered in Sonim's initial public offering ("IPO") filed a putative class action complaint in the Superior Court of the State of California, County of San Mateo, captioned Pearson v. Sonim Technologies, Inc., et al., Case No. 19CIV05564, on behalf of himself and others who purchased shares of Sonim registered in the IPO (the "Pearson Action"). On October 4 and 16, 2019, two additional purported class action complaints substantially similar to the Pearson Action were filed on behalf of different plaintiffs yet the same putative class of Sonim stockholders, in the same court as the Pearson Action. On October 7, 2019, a substantially similar putative class action lawsuit was filed in the United States District Court for the Northern District of California. All four complaints allege violations of the Securities Act of 1933 by Sonim and certain of its current and former officers and directors for, among other things, alleged false or misleading statements and omissions in the registration statement issued in connection with the IPO, relating primarily to an alleged failure to

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disclose software defects in Sonim's phones and alleged misstatements about performance characteristics of Sonim's phones. In July 2020, the Company entered into an agreement with the Lead Plaintiff in the federal court action to that case on a class wide basis for the amount of \$2,000. This settlement is subject to definitive documentation and court approvals, as well as stockholders' opportunity to object and opt-out as provided by the federal court. As a result, the Company recorded a \$2,000 accrual on June 30, 2020 in general administration expense.

**Securities and Exchange Commission Formal Order of Private Investigation:** In March 2020, we received a voluntary document request from the Securities and Exchange Commission's ("SEC") San Francisco Regional office, and in August 2020, the Company was informed that the SEC Staff was conducting a formal investigation. The SEC's investigation is ongoing. The Company has been cooperating with the SEC in the matter. The Company is unable to predict the likely outcome of the investigation or determine its potential impact, if any, on the Company.

**General litigation**—The Company is involved in various other legal proceedings arising in the normal course of business. The Company does not believe that the ultimate resolution of these other matters will have a material adverse effect on its condensed consolidated financial position, results of operations, or cash flows.

The results of any future litigation cannot be predicted with certainty and, regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management time and resources and other factors.

**Indemnification**—Under the terms of its agreements with wireless carriers and other partners, the Company has agreed to provide indemnification for intellectual property infringement claims related to Company's product sold by them to their end customers. From time to time, the Company receives notices from these wireless carriers and other partners of a claim for infringement of intellectual property rights potentially related to their products. These infringement claims have been settled, dismissed, have not been further pursued by the customers, or are pending for further action by the Company.

**Contingent severance obligations**—The Company has agreements in place with certain key employees (Executive Severance Arrangement) guaranteeing severance payments under certain circumstances. Generally, in the event of termination by the Company without cause, termination due to death or disability, or resignation for good reason, the Company is obligated to pay the employees: (i) any time before a Change in Control, amounts up to \$1,754 or (ii) if at any time within 12 months of a Change in Control, amounts up to \$2,345. As of June 30, 2020, and December 31, 2019, no accrual has been recorded.

On December 11, 2019, the Board of Directors of Sonim Technologies, Inc. (the "Company") approved the Sonim Technologies Inc. Transaction Bonus Plan (the "Plan") that is intended to incentivize Company employees who are in a position to significantly impact the value received by the Company's stockholders in a change of control transaction. Pursuant to the Plan, upon consummation of a change of control transaction, 10% of the consideration payable to Company stockholders, after deducting transaction expenses, will be distributed to Plan participants, including the Company's named executive officers. The Plan has a three-year term and may be extended by the administrator of the Plan. Subject to the terms of the Plan, participants must be continuously providing services to the Company through the date of the closing of a change in control transaction to be eligible to receive a bonus thereunder, and payment is contingent upon delivery and non-revocation of a general release of claims. In connection with the adoption of the Plan, the Company's Board of Directors allocated a 50% interest in the Plan to Tom Wilkinson, the Company's Chief Executive Officer, and a 10% interest in the Plan to Robert Tirva, the Company's Chief Financial Officer and 25% to 6 other key employees and consultants.

**NOTE 11—Related Party Transactions**

**Management Services Agreement**—In October 2017, the Company entered into a management services agreement with B. Riley Principal Investments, an investor, pursuant to which B. Riley Investments agreed to provide advisory and consulting services to the Company. The Company incurred approximately \$53 in related consulting fees for the six months ended June 30, 2019. At the closing of the Company's IPO in May 2019, the management services agreement was terminated in accordance with its terms.

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**NOTE 12 —Net Loss Per Share Attributable to Common Stockholders**

The following table sets forth the computation of the Company's basic and diluted net loss per share attributable to common stockholders for the three and six months ended:

|   | Three Months Ended |            | Six Months Ended |             |
|---|--------------------|------------|------------------|-------------|
|   | June 30            |            | June 30          |             |
|   | 2020               | 2019       | 2020             | 2019        |
| <b>Numerator:</b>   |                    |            |                  |             |
| Net loss allocable to common stockholders                                       | \$ (7,096)         | \$ (5,599) | \$ (17,060)      | \$ (10,723) |
| <b>Denominator:</b>   |                    |            |                  |             |
| Weighted-average shares used in computing net loss per share, basic and diluted | 31,638,250         | 18,120,143 | 26,126,037       | 16,950,375  |
| Net loss per share, basic and diluted   | \$ (0.22)          | \$ (0.31)  | \$ (0.65)        | \$ (0.63)   |

The dilutive common shares that were excluded from the calculation of diluted net loss per share because their effect would have been antidilutive for the three and six months ended June 30, 2020 and 2019, are presented as follows:

|   | Three Months Ended |           | Six Months Ended |           |
|---|--------------------|-----------|------------------|-----------|
|   | June 30            |           | June 30          |           |
|   | 2020               | 2019      | 2020             | 2019      |
| Shares subject to options to purchase common stock                | 1,806,493          | 1,819,292 | 1,806,493        | 1,819,292 |
| Unvested restricted stock units                                   | 2,150,000          | 128,000   | 2,150,000        | 128,000   |
| Shares subject to warrants to purchase common stock               | 29                 | 956       | 29               | 956       |
| Shares subject to term debt optional conversion into common stock | —                  | 1,099,278 | —                | 1,099,278 |
| Total   | 3,956,522          | 3,047,526 | 3,956,522        | 3,047,526 |

**NOTE 13 —Entity Level Information**

**Segment Information**—The Company operates in one reporting segment. Operating segments are defined as components of an enterprise about which separate financial information is evaluated regularly by the chief operating decision maker, who is the chief executive officer, in deciding how to allocate resources and assessing performance. The Company's chief operating decision maker allocates resources and assesses performance based upon discrete financial information at the consolidated level.

The following table summarizes the revenue by region based on ship-to destinations for the three and six months ended June 30, 2020 and 2019:

|                          | Three Months Ended |           | Six Months Ended |           |
|--------------------------|--------------------|-----------|------------------|-----------|
|                          | June 30            |           | June 30          |           |
|                          | 2020               | 2019      | 2020             | 2019      |
| U.S                      | \$ 17,478          | \$ 35,125 | \$ 25,696        | \$ 55,232 |
| Canada and Latin America | 2,579              | 5,662     | 6,658            | 9,290     |
| Europe and Middle East   | 446                | 2,210     | 794              | 4,010     |
| Asia Pacific             | 555                | 750       | 616              | 1,699     |
| Total revenues           | \$ 21,058          | \$ 43,747 | \$ 33,764        | \$ 70,231 |

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Long-lived assets located in the United States and Asia Pacific region were \$5,394 and \$1,161 and \$6,626 and \$1,492 as of June 30, 2020 and December 31, 2019, respectively.

The composition of revenues for the three months ended June 30, 2020 and 2019 is follows:

|                       | Three Months Ended |                  | Six Months Ended |                  |
|-----------------------|--------------------|------------------|------------------|------------------|
|                       | June 30            |                  | June 30          |                  |
|                       | 2020               | 2019             | 2020             | 2019             |
| Product Sales         | \$ 21,042          | \$ 43,609        | \$ 33,737        | \$ 69,941        |
| Services              | 16                 | 138              | 27               | 290              |
| <b>Total revenues</b> | <b>\$ 21,058</b>   | <b>\$ 43,747</b> | <b>\$ 33,764</b> | <b>\$ 70,231</b> |

**Concentrations of Credit Risk**—The Company’s product revenues are concentrated in the technology industry, which is highly competitive and rapidly changing. Significant technological changes in the industry or customer requirements, or the emergence of competitive products with new capabilities or technologies, could adversely affect the Company’s consolidated operating results. Financial instruments that potentially subject the Company to credit risk consist primarily of cash and cash equivalents and accounts receivable. Cash and cash equivalents are deposited with high-quality, federally insured commercial banks in the United States and cash balances are in excess of federal insurance limits at June 30, 2020 and December 31, 2019. The Company generally does not require collateral or other security in support of accounts receivable. To reduce credit risk, management performs ongoing credit evaluations of its customers’ financial condition. The Company analyzes the need for reserves for potential credit losses and records allowances for doubtful accounts when necessary. The Company had allowances for such losses totaling approximately \$52 at both June 30, 2020 and December 31, 2019.

Receivables from two customers approximated 43% and 12% of total accounts receivable at June 30, 2020 and two customers approximated 40%, and 28% of total accounts receivable at December 31, 2019.

Revenue from customers with concentration greater than 10% in the three and six months ended June 30, 2020 and 2019 accounted for approximately the following percentage of total revenues:

|            | Three Months Ended June 30, |      | Six Months Ended June 30, |      |
|------------|-----------------------------|------|---------------------------|------|
|            | 2020                        | 2019 | 2020                      | 2019 |
| Customer A | *                           | 32%  | *                         | 34%  |
| Customer B | 58%                         | *    | 46%                       | *    |
| Customer C | *                           | 25%  | *                         | 20%  |
| Customer D | *                           | *    | 12%                       | *    |
| Customer E | *                           | 10%  | *                         | *    |

\* Customer revenue did not exceed 10% in the respective periods.

**NOTE 14 —Restructuring Costs**

Since November 2019, we have reduced our global headcount from approximately 700 employees at year-end 2018 to approximately 500 employees and contractors as of December 31, 2019. We executed an additional reduction in force of approximately 10% of our U.S. employees in February 2020, as well as in certain of our non-U.S. locations. Our total head count as of June 30, 2020 was 341 worldwide. We have also relocated our headquarters from San Mateo, California to Austin, Texas, a lower cost location.

The table below sets forth the activity in the restructuring costs, which is included in accrued expenses on the condensed consolidated balance sheet, as of June 30, 2020:

|                           |               |
|---------------------------|---------------|
| Balance, January 1, 2020  | \$ 511        |
| Additions: expensed costs | 1,204         |
| Expenses paid out         | (1,535)       |
| Balance, June 30, 2020    | <u>\$ 180</u> |

Total restructuring costs of approximately \$1,204 were broken out between operating expenses of \$1,104 and cost of revenues of \$100 for the six months ended June 30, 2020.

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**NOTE 15—Covid-19 Uncertainty**

The Company is closely monitoring the impact of the COVID-19 global outbreak and its resulting impact on our manufacturing operations and supply chain, with our top priority being the health and safety of our employees, customers, partners, and communities.

The Company believes our sales partners have ample inventory to continue meeting customer needs in the near term. However, demand for our solutions may be reduced as a result of the COVID-19 outbreak and resulting market uncertainty. It also remains possible that our results could be negatively impacted by interruptions in the global supply chain due to the unpredictable spread of this pandemic. The magnitude of any potential impact is unknown, as it is unclear how long it will take for the overall supply chain to return to normal. We are working closely with our partners and suppliers to manage this process.

## **Item 2. 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 unaudited Condensed Consolidated Financial Statements and related notes and other financial information included elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2019. In addition to historical consolidated financial information, the following discussion contains forward-looking statements based on our plans, estimates, and beliefs. Our actual results may differ materially from those anticipated in these forward-looking statements. You should review Part II, Item 1A, “Risk Factors” for a discussion of factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis and elsewhere in this Quarterly Report on Form 10-Q and Annual Report on Form 10-K.*

### **Company Overview**

We are a leading U.S. provider of ultra-rugged mobile phones and accessories designed specifically for task workers physically engaged in their work environments, often in mission-critical roles. We currently sell our ruggedized mobile phones and accessories to several of the largest wireless carriers in the United States— including AT&T, Sprint now part of T-Mobile and referred to collectively as Sprint and Verizon—as well as the three largest wireless carriers in Canada—Bell, Rogers and Telus Mobility. Our phones and accessories connect workers with voice, data and workflow applications in two end markets: industrial enterprise and public sector.

### **Impacts of COVID-19**

We are closely monitoring the impact of the COVID-19 global outbreak and its resulting impact on our manufacturing operations and supply chain, with our top priority being the health and safety of our employees, customers, partners, and communities.

Our devices are well-equipped to support the deployment of mobile COVID-19 testing centers and temporary healthcare centers, due to the ability to enable critical communications and serve as a rugged hotspot that can quickly provide connectivity for the devices needed in these testing and healthcare centers. As both a phone and a hotspot, our devices support the Band 14 public safety network, ensuring customers can leverage the priority and preemption if necessary. In addition, cleaning and disinfecting chemicals can be applied directly to our devices, which can be aggressively scrubbed and then wiped down to ensure the device is fully sanitized. It is unclear whether these capabilities will result in an increase in our business and results of operations.

The extent of the impact of COVID-19 on our future operational and financial performance will depend on various future developments, including the duration and spread of the outbreak, impact on our employees, impact on our customers, effect on our sales cycles or costs, and effect on our supply chain and vendors, all of which are uncertain and cannot be predicted, but which could have a material adverse effect on our business, results of operations or financial condition. Further information relating to the risks and uncertainties related to the ongoing COVID-19 pandemic may be found in Part II, Item 1A “Risk Factors” of this Form 10-Q, that could be heightened due to duration and spread, among other impacts of the pandemic.

### **Restructuring**

Since November 2019, we have reduced our global headcount from approximately 700 employees at year-end 2018 to approximately 500 employees and contractors as of December 31, 2019. We executed an additional reduction in force of approximately 10% of our U.S. employees in February 2020, as well as in certain of our non-U.S. locations. We have also relocated our headquarters from San Mateo, California to Austin, Texas, a lower cost location.

### **Public Offering/Initial Public Offering**

In June 2020, we completed an underwritten public offering of 36,800,000 shares our common stock at a public offering price of \$.0.75 per share. The net proceeds from this offering were approximately \$25 million, after deduction underwriting discount and other estimated offering expenses.

On May 9, 2019, our registration statement on Form S-1 (File No. 333-230887) related to our initial public offering (“IPO”) was declared effective by the SEC, and our common stock began trading on The Nasdaq Stock Market LLC (“Nasdaq”) on May 10, 2019. Our IPO closed on May 14, 2019.



## Factors Affecting Our Results of Operations

We believe that the growth and future success of our business depend on many factors. While these factors present significant opportunities for our business, they also pose important challenges that we must successfully address in order to sustain our growth and improve our results of operations.

### Research and Development

We believe that our performance is significantly dependent on the investments we make in research and development and that we must continue to develop and introduce innovative and high quality, new products on a two to three-year cycle. While the hardware design of our devices is generally the same for all wireless carriers, each device must be configured to conform to the requirements of each wireless carrier's network, resulting in higher development expenses as the number of wireless carriers we sell through increases. In addition to the design and configuration costs, each device must undergo a multi-month technical approval process at each carrier before it can be certified to be stocked at each carrier. The approval process for each device for each carrier has historically cost between \$1-2 million. Prior to commencement of development of a product for certification, we generally do not receive any purchase orders or commitments. Following a carrier's review of product concepts, we may receive a product award letter from that carrier to move forward with the development and certification process, at which time we may begin receiving advance purchase orders or commitments. Since the timing of when we seek technical approval with our wireless carriers tends to be cyclical in nature, quarter-over-quarter expenditures may vary significantly depending on the number of approvals in process during the quarter. If we fail to innovate and enhance our product offerings, our brand, market position and revenues may be adversely affected. If our research and development efforts are not successful, we will not recover these investments that we make.

### New Customer Acquisitions

We are focused on continuing to acquire new customers, both in North America and overseas, to support our long-term growth. Historically, we have been dependent on a small number of wireless carriers distributing our products. We have invested, and expect to continue to invest, in our sales and marketing efforts to drive new customer acquisition. In particular, a key part of our strategy is to further expand the use of our solutions over dedicated LTE networks in the public safety market. We will also continue to invest in international expansion. As a result, we expect our sales and marketing costs to increase as we seek to acquire new customers. Sales and marketing investments will often occur in advance of any sales benefits from these activities, and it may be difficult for us to determine if we are efficiently allocating our sales and marketing resources.

### Seasonality and New Product Introduction

We have historically experienced lower net revenue in our first quarter compared to other quarters in our fiscal year due to seasonal demand associated with the introduction of new products to our lead customers. New product introductions can significantly impact net revenue, gross profit and operating expenses. The timing of product introductions can also impact our net revenue as our wireless carrier customers prepare for a new product launch, and channel inventory of an older product often declines as the launch of a newer product approaches. Net revenue can also be affected when consumers and distributors anticipate a new product introduction. However, neither historical seasonal patterns nor historical patterns of product or service introductions should be considered reliable indicators of our future pattern of product or service introductions, future net sales or financial performance.

## Results of Operations

The following tables present key components of our results of operations for the three and six months ended June 30, 2020, compared to results for the same period in 2019:

|                                 | Three Months Ended June 30 |            |                        |      | Six Months Ended June 30 |             |                        |      |
|---------------------------------|----------------------------|------------|------------------------|------|--------------------------|-------------|------------------------|------|
|                                 | 2020                       | 2019       | Increase<br>(Decrease) | %    | 2020                     | 2019        | Increase<br>(Decrease) | %    |
| Net revenues                    | \$ 21,058                  | \$ 43,747  | \$ (22,689)            | -52% | \$ 33,764                | \$ 70,231   | \$ (36,647)            | -52% |
| Cost of revenues                | 16,140                     | 29,302     | (13,162)               | -45% | 26,681                   | 46,765      | (20,084)               | -43% |
| Gross profit                    | 4,918                      | 14,445     | (9,527)                | -66% | 7,083                    | 23,466      | (16,383)               | -70% |
| Total operating expenses        | 11,538                     | 19,026     | (7,488)                | -39% | 22,764                   | 32,189      | (9,425)                | -29% |
| Loss from operations            | (6,620)                    | (4,581)    | (2,039)                | 45%  | (15,681)                 | (8,723)     | (6,958)                | 80%  |
| Interest and other expense, net | (296)                      | (561)      | 265                    | -47% | (1,016)                  | (1,248)     | 232                    | -19% |
| Loss before income taxes        | (6,916)                    | (5,142)    | (1,774)                | 35%  | (16,697)                 | (9,971)     | (6,726)                | 67%  |
| Income tax expense              | (180)                      | (457)      | 277                    | -61% | (363)                    | (752)       | 389                    | -52% |
| Net loss                        | \$ (7,096)                 | \$ (5,599) | \$ (1,497)             | 27%  | \$ (17,060)              | \$ (10,723) | \$ (6,337)             | 59%  |

### *Net Revenues*

For the three months ended June 30, 2020, net revenues decreased to \$21.1 million, a 52% decrease compared to \$43.7 million in net revenues for the three months ended June 30, 2019. Approximately 95% of net revenues for the second quarter of 2020 was attributable to North America, and Canada compared to approximately 93% in the second quarter of 2019. Our top five customers accounted for 82% of net revenues in the second quarter of 2020, compared to 74% for the same period in 2019. The decrease resulted primarily from a 32% decrease in unit shipments of our feature phones and smart phones.

For the six months ended June 30, 2020, net revenue decreased to \$33.8 million, a 52% decrease compared to \$70.2 million in net revenue for the six months ended June 30, 2019. Approximately 96% of net revenue for the first half of 2020 was attributable to North America and Canada compared to approximately 92% in the first half of 2019. Our top five customers accounted for 79% of net revenue in the first half of 2020, compared to 76% for the same period in 2019. The decrease resulted primarily from a 33% decrease in unit shipments of our feature phones and smart phones as a result of the expiration of a firm purchase volume commitment from a key channel partner and slower than anticipated sales to other key channel partners.

The decline for the three months ended June 30, 2020 was primarily driven by lower sales to three major customers which translated to lower unit sales of the XP8 and the XP5s. For the three months ended June 30, 2020, approximately 90% of our revenues came from wireless carrier customers and 82% came from our top five customers. For the three months ended June 30, 2020, our smartphones accounted for approximately 12% of our units sold and our feature phones accounted for approximately 88% of our units sold, as compared to approximately 23% and 77% respectively for the period ended June 30, 2019.

The decrease in net revenues for the first six months of 2020 was primarily due to decrease in unit sales of both the XP8 and XP5S.

The completion of the recent merger between Sprint and T-Mobile has created a re-evaluation of the supply chain of this combined carrier. While we have no significant business with T-Mobile, our revenue from Sprint has been material over the past year. We were recently informed that several of our products, specifically the XP5s, XP8 and XP3, would reach end of life at Sprint sooner than expected which could have an impact on our business going forward. We currently expect this end of life will occur during the fourth quarter of 2020, though we are in discussions to extend that timing. In addition, sales of our devices will be limited to upgrades and line additions to existing Sonim customers beginning in August of 2020. Upgrades and line additions currently make up approximately 50% of our sales to Sprint.

Our customer agreements with channel partners set forth the terms pursuant to which our channel partners purchase our products for distribution on a purchase order basis. While these arrangements are typically long term, they generally do not contain any firm purchase volume commitments. As a result, our channel partners are not currently contractually obligated to purchase from us any minimum number of products. The lack of firm purchase volume commitments makes it difficult for us to forecast customer demand. For example, an agreement with a key channel partner previously provided for a firm purchase volume commitment that extended through fiscal year 2018 into the first half of 2019. Following fulfillment of the firm purchase commitment, purchases from this key channel partner decreased due to sufficient inventory levels and it also became more difficult to forecast business with this channel partner. While our channel partners provide us with demand forecasts under these sales arrangements, we are generally required to satisfy any and all purchase orders delivered to us within specified delivery windows, with limited exceptions (such as orders significantly in excess of forecasts). Our sales arrangements also generally include technical performance standards for our mobile phones and accessories sold, which vary by channel partner. If a technical issue with any of our covered products exceeds certain preset failure thresholds for the relevant performance standard or standards, the channel partner typically has the right to cease selling the product, cancel open purchase orders and levy certain monetary penalties. In addition, our channel partners retain sole discretion in which of their stocked products to offer their customers.

### *Gross Profit*

Our gross profit for the three months ended June 30, 2020 decreased by \$9.5 million compared to the three months ended June 30, 2019. The decrease was driven primarily by a decrease in net revenues of 52%. There was an increase in handset allowances which were 11% of gross handset revenue for the three months ended June 30, 2020 as compared to 2% for the three months ended June 30, 2019.

Our gross profit for the six months ended June 30, 2020 decreased by \$16.4 million compared to the six months ended June 30, 2019. The decrease was driven primarily by a decrease in net revenues of 52%. The decrease in gross profit was primarily attributable to expenses incurred to temporarily shut down of our manufacturing facility in Shenzhen in the first quarter of 2020, a one-time event which artificially increased cost of goods in the quarter as well as increased handset allowances which were 9% of gross handset revenue for the six months ended June 30, 2020 as compared to 3% for the six months ended June 30, 2019.

### Operating Expenses and Net Operating Loss

Our net operating loss for the three and six months ended June 30, 2020 compared to the three and six months ended June 30, 2019 increased by \$1.5 million and \$6.9 million, respectively, driven primarily by the decrease in revenues and, the decrease in gross profit which were partially offset by the decrease in operating expenses of \$7.5 million and \$9.4 million, respectively. Operating expenses are summarized as follows:

|                                    | Three Months Ended June 30, |                  |                   |          | Six Months Ended June 30, |                  |                   |          |
|------------------------------------|-----------------------------|------------------|-------------------|----------|---------------------------|------------------|-------------------|----------|
|                                    | 2020                        | 2019             | Change            | % Change | 2020                      | 2019             | Change            | % Change |
|                                    | (in thousands, except %)    |                  |                   |          | (in thousands, except %)  |                  |                   |          |
| Research and development expense   | \$ 3,256                    | \$ 7,384         | \$ (4,128)        | -56%     | \$ 7,192                  | \$ 14,345        | \$ (7,153)        | -50%     |
| Sales and marketing expense        | 2,596                       | 4,218            | (1,622)           | -38%     | 5,727                     | 7,944            | (2,217)           | -28%     |
| General and administrative expense | 5,686                       | 7,424            | (1,738)           | -23%     | 8,758                     | 9,900            | (1,142)           | -12%     |
| Restructuring costs                | —                           | —                | —                 | —        | 1,087                     | —                | 1,087             | 100%     |
| Total Operating Expenses           | <u>\$ 11,538</u>            | <u>\$ 19,026</u> | <u>\$ (7,488)</u> | -39%     | <u>\$ 22,764</u>          | <u>\$ 32,189</u> | <u>\$ (9,425)</u> | -29%     |

#### Research and Development.

Research and development expenses decreased by \$4.1 million, or 56% to \$3.3 million for the three months ended June 30, 2020 from \$7.4 million for the three months ended June 30, 2019. These expenses decreased primarily due to a \$2.9 million reduction in product development costs, lower consulting fees costs of \$0.9 million, lower operating costs in our Beijing location of \$0.5 million associated with lower headcount, a \$0.5 million decrease as a result of reassignment of the product design department to sales and marketing as the team is now more closely aligned with planning for features and customer roadmaps than actual engineering as compared to prior periods, and lower IDC costs of \$0.3 million associated with lower headcount.

Research and development expense for the six months ended June 30, 2020 decreased by \$7.2 million, or 50% to \$7.2 million from \$14.4 million for the six months ended June 30, 2019. These expenses decreased primarily due to a \$3.8 million reduction in product development costs, a decrease in consulting fees of \$1.3 million, a decrease of \$1.2 million as a result of reassignment of the product design department to sales and marketing, lower operating costs in our Beijing location of \$0.5 million associated with lower headcount, and lower IDC costs of \$0.3 million associated with lower headcount.

#### Sales and Marketing.

Sales and marketing expenses decreased by \$1.6 million, or 38% to \$2.6 million for the three months ended June 30, 2020 from \$4.2 million for the three months ended June 30, 2019. These expenses decreased primarily due to \$0.9 million in lower headcount related costs, a decrease in commission expense of \$0.4 million, a decrease in travel related expenses of \$0.3 million, lower demo costs of \$0.2 million and other expenses of \$0.3 million, offset by an increase in expenses related to the reassignment of the product design department of \$0.5 million.

Sales and marketing expenses for the six months ended June 30, 2020 decreased by \$2.2 million, or 28% to \$5.7 million from \$7.9 million for the six months ended June 30, 2019. These expenses decreased primarily due to \$2.2 million in lower headcount related costs, a decrease in commission expense of \$0.5 million, a decrease in travel related expenses of \$0.4 million, a decrease in consulting related expenses of \$0.3 million, offset by the increase in expenses related to the reassignment of the product design department of \$1.2 million.

#### General and Administrative.

General and administrative expenses decreased by \$1.7 million, or 23% to \$5.7 million for the three months ended June 30, 2020 from \$7.4 million for the three months ended June 30, 2019. These expenses decreased by \$4.8 million related to a stock grants issued to executives in May 2019 and a decrease in headcount and consulting expenses of \$0.6 million, offset by an increase of \$2.0 million in legal expenses and accrued settlements associated with the shareholder litigation, an increase in other legal expenses of \$0.9 million, an increase in director and officer insurance premiums of \$0.5 million and an increase in bad debt expenses of \$0.3 million related to other receivables. The \$2.0 million settlement and its associated legal fees are considered non-recurring in nature.

General and administrative expenses decreased by \$1.1 million, or 12% to \$8.7 million for the six months ended June 30, 2020 from \$9.9 million for the six months ended June 30, 2019. These expenses decreased by \$4.8 million related to stock grants issued to executives in May 2019 and a decrease in headcount and consulting related costs of \$0.3 million, offset by an increase of \$2.0 million in legal expenses and accrued settlements associated with the shareholder litigation, an increase in legal expenses of \$1.3 million, an increase of \$0.5 million related to increased premiums for director and officer insurance coverage and an increase of \$0.3 million in in bad debt expense related to other receivables.

Restructuring costs.

In September 2019, our Board of Directors approved, and our management commenced and completed, a restructuring plan to reduce operating costs and better align our workforce with the needs of our business. During the three months ended June 30, 2020, we record any costs related to restructuring. During the six months ended June 30, 2020, we recorded costs related to restructuring totaling \$1.2 million, of which \$0.1 million is included in cost of revenues. Our total head count as of June 30, 2020 was 341 worldwide.

#### *Interest and Other Expense, net*

We recorded \$0.3 million in net interest expense for the three months ended June 30, 2020, as compared to \$0.6 million in net interest expense for the three months ended June 30, 2019.

We recorded \$0.4 million in foreign exchange loss and \$0.6 million in net interest expense for the six months ended June 30, 2020, whereas we recorded \$0.3 million in foreign exchange loss and \$0.9 million in net interest expense for the six months ended June 30, 2019.

#### *Income Tax Expense*

We recognized income tax expense of \$0.2 million for the three months ended June 30, 2020. Tax expense for the three months ended June 30, 2019 was \$0.5 million.

We recognized income tax expense of \$0.4 million for the six months ended June 30, 2020. Tax expense for the six months ended June 30, 2019 was \$0.8 million

#### **Liquidity and Capital Resources**

Historically, we have funded operations from a combination of public and private equity financings, convertible loans from existing investors and borrowings under loan agreements. As of June 30, 2020, the Company did not have any convertible loans or any other borrowing structures in place.

In prior years, the Company maintained a loan and security agreement with East West Bank No borrowings were made under this facility in 2019 and the facility was cancelled in June 2020. The Company does not have any borrowing arrangements with East West Bank in place as of June 30, 2020.

In October 2017, we entered into a Subordinated Term Loan and Security agreement, or the “B. Riley Loan Agreement” with B. Riley Principal Investments, LLC, or “BRPI”, an affiliate of B. Riley Financial, Inc., a shareholder of ours under which we could borrow principal up to \$12,000 via a subordinated secured convertible promissory note, or the “B. Riley Convertible Note”. Borrowings under the B. Riley Loan Agreement, as amended, carried a stated interest rate of 10% and provided that the first year of interest commencing on October 26, 2018 be compounded into the principal, with interest-only payments beginning thereafter.

As of June 30, 2020, and December 31, 2019, the total outstanding principal and interest under the B. Riley Loan Agreement, as amended, was \$0 and \$10,003, respectively. In July 2019, we repaid \$3,250, or 25% of the principal amount under the B. Riley Loan Agreement and incurred a 2% fee on the amount below the \$10,000 threshold as a result of the prepayment. During the first six months of 2020, the compounded interest, which was added to the outstanding principal totaled \$419.

On June 1, 2020, we entered into a Note Amendment and Debt Cancellation Agreement with BRPI, or the “Note Amendment”, which provided that, contingent upon the closing of the PO, we would repay \$4 million of the outstanding indebtedness to BRPI in cash, or the “B. Riley Repayment”, and the remaining principal amount, accrued interest and other amounts outstanding under the B. Riley Convertible Note, after giving effect to the B. Riley Repayment, would convert into shares of common stock to be issued to BRPI or its affiliates at the public offering price of shares of our common stock in the PO.

Pursuant to the Note Amendment, as amended, we made the B. Riley Repayment in June 2020 and the remaining principal amount, accrued interest and other amounts outstanding under the B. Riley Convertible Note, after giving effect to the B. Riley Repayment, in an amount of \$6,170,125.51, converted into an aggregate of 8,226,834 shares of our common stock issued to BRPI and BRC Opportunity Fund, L.P., an affiliate of BRPI, or the “Conversion Shares”. Following the B. Riley Repayment and the issuance of the Conversion Shares, we have no outstanding indebtedness under the B. Riley Convertible Note.

Cash and cash equivalents as of June 30, 2020 was \$38.1 million, or \$26.8 million higher than net cash of \$11.3 million at December 31, 2019. The increase was driven primarily by net proceeds from our public offering of \$25 million after deducting underwriting discount costs and other offering expenses paid by us.

The following table summarizes our sources and uses of cash for the period presented:

| (in thousands)                                      | Six Months ended June 30, |             |
|---|---------------------------|-------------|
|   | 2020                      | 2019        |
| Net cash provided by (used in) operating activities | \$ 5,662                  | \$ (34,784) |
| Net cash used in investing activities               | (193)                     | (491)       |
| Net cash provided by financing activities           | 21,295                    | 37,920      |
| Net increase in cash and cash equivalents           | 26,764                    | 2,645       |

*Cash flows from operating activities*

For the six months ended June 30, 2020, cash provided in operating activities was \$5.7 million, primarily attributable to net loss of \$17.1 million, partially offset by a net change in our net operating assets and liabilities of \$19.6 million, and non-cash charges of \$3.2 million. Non-cash charges primarily consisted of \$1.6 million in depreciation and amortization, \$0.5 million in stock compensation expense, \$0.4 million in inventory write-downs, \$0.3 million in bad debt expense, \$0.2 million in non-cash interest expense and \$0.2 million in accretion of debt discount. The change in our net operating assets and liabilities was primarily due to a \$4.8 million decrease in accounts receivables, a \$3.9 million decrease in inventory, and an increase of \$10.4 million net increase in accounts payable and accrued expenses.

For the six months ended June 30, 2019, cash used in operating activities was \$34.8 million, primarily attributable to net loss of \$10.7 million, partially offset by a net change in our net operating assets and liabilities of \$31.3 million and non-cash charges of \$7.2 million. Non-cash charges primarily consisted of \$1.8 million in depreciation and amortization and stock-based compensation of \$5.6 million, partially offset by non-cash revenue of \$0.3 million under our trade-in guarantee program. The change in our net operating assets and liabilities was primarily due to a \$12.4 million increase in accounts receivables, a \$4.7 million increase in inventory, \$9.9 million decrease in accounts payable, and a \$3.6 million decrease in deferred revenue, partially offset by a \$0.9 million increase in accrued expenses and a \$0.6 million decrease in prepaid expenses and other current assets.

*Cash flows from investing activities*

For the six months ended June 30, 2020, cash used in investing activities was \$0.2 million attributable to purchases of property and equipment.

For the six months ended June 30, 2019, cash used in investing activities was \$0.5 million, attributable to tooling development and purchases of software licenses of \$0.2 million and purchases of property and equipment \$0.3 million.

*Cash flows from financing activities*

For the six months ended June 30, 2020, cash provided by financing activities was \$21.3 million, primarily derived from the net proceeds of our public offering of \$25.0 million, or the June 2020 public offering proceeds from the exercise of stock options of \$0.3 million, partially offset by \$4.0 million for the B. Riley Repayment.

For the six months ended June 30, 2019, cash provided by financing activities was \$37.9 million, primarily derived from the net proceeds of our initial public offering of \$38.4 million upon an IPO which does not include IPO issuance cost of \$1.6 million recorded in accounts payable, and a private equity financing of shares of common stock that closed in January 2019 for an aggregate of \$1.6 million, partially offset by the payment of income taxes of \$1.9 million in connection with the restricted stock awards issued to our former Chief Executive Officer, and net borrowing and repayment on the line of credit of \$0.3 million.

Our condensed consolidated financial statements account for the continuation of our business without a going concern designation due primarily to the \$25 million in net proceeds from our June 2020 public offering and redemption of long-term debt of \$10.2 million of which \$4.0 million was paid in cash and \$6.2 million in shares of common stock, in June 2020. This capital raise will allow the Company to continue operations for at least the next twelve months.

Our principal sources of liquidity as of June 30, 2020 consist of existing cash and cash equivalents totaling \$38.1 million, which includes the impact of approximately \$25 million in net proceeds from our June 2020 public offering. Although we remain subject to the risks and uncertainties associated with the development and release of new products, among others, we believe our operations have been streamlined to enable us to conduct business more effectively and efficiently despite near term economic uncertainty. However, our liquidity may be negatively impacted if sales decline significantly for an extended period due to the impact of the COVID-19 pandemic. Further, the extent to which the COVID-19 pandemic and our precautionary measures in response thereto impact our business and liquidity will depend on future developments, which are highly uncertain and cannot be precisely predicted at this time.

### **Off-Balance Sheet Arrangements**

As of June 30, 2020, we had not entered into any off-balance sheet arrangements and did not have any holdings in variable interest entities.

### ***Item 3. Quantitative and Qualitative Disclosures About Market Risk***

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information under this item.

### **Item 4. Controls and Procedures.**

#### **(a) Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our chief executive officer and our chief financial officer, has evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, prior to filing this Quarterly Report on Form 10-Q. Based on the evaluation of our disclosure controls and procedures, our chief executive officer and chief financial officer concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective at the reasonable assurance level.

As a public company, we are required to maintain internal control over financial reporting and to report any material weaknesses in those internal controls. With respect to the year ended December 31, 2019, we identified two material weaknesses in our internal controls over financial reporting related to the design and implementation of our IT general controls including elevated (administrator) access to financial reporting systems and subsystems and accounting for fulfillment costs in connection with the adoption of ASU 2014-09, Revenue from Contracts with Customers (Topic 606). Although we are making efforts to remediate these issues, these efforts may not be sufficient to avoid similar material weaknesses in the future.

#### **(b) Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting despite the fact that most of our employees are working remotely due to the COVID-19 pandemic. We are continually monitoring and assessing the impact of the COVID-19 pandemic on our internal controls to minimize the impact on their design and operating effectiveness.

#### **(c) Inherent Limitations on Effectiveness of Controls**

In designing and evaluating disclosure controls and procedures, our management recognizes that any system of controls, however well designed and operated, can provide only reasonable assurance, and not absolute assurance, that the desired control objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals in all future circumstances. Accordingly, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met and, as set forth above, our chief executive officer and our chief financial officer have concluded, based on their evaluation as of the end of the period covered by this quarterly report, that our disclosure controls and procedures were effective to provide reasonable assurance that the objectives of our disclosure control system were met.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings.

On September 20, 2019, a purported Sonim stockholder who allegedly purchased stock registered in Sonim’s initial public offering (“IPO”) filed a putative class action complaint in the Superior Court of the State of California, County of San Mateo, captioned Pearson v. Sonim Technologies, Inc., et al., Case No. 19CIV05564, on behalf of himself and others who purchased shares of Sonim registered in the IPO (the “Pearson Action”). On October 4 and 16, 2019, two additional purported class action complaints substantially similar to the Pearson Action were filed on behalf of different plaintiffs yet the same putative class of Sonim stockholders, in the same court as the Pearson Action. On October 7, 2019, a substantially similar putative class action lawsuit was filed in the United States District Court for the Northern District of California. All four complaints allege violations of the Securities Act of 1933 by Sonim and certain of its current and former officers and directors for, among other things, alleged false or misleading statements and omissions in the registration statement issued in connection with the IPO, relating primarily to an alleged failure to disclose software defects in Sonim’s phones and alleged misstatements about performance characteristics of Sonim’s phones. In July 2020, the Company entered into an agreement with the Lead Plaintiff in the federal court action to settle that case on a class wide basis for the amount of \$2.0 million. This settlement is subject to definitive documentation and court approval, as well as stockholders’ opportunity to object and opt-out as provided by the federal court. As a result, the Company has recorded a \$2.0 million accrual as of June 30, 2020.

In March 2020, we received a voluntary document request from the Securities and Exchange Commission’s (“SEC”) San Francisco Regional office, and in August 2020, the Company was informed that the SEC staff was conducting a formal investigation. The SEC’s investigation is ongoing. The Company has been cooperating with the SEC in this matter. The Company is unable to predict the likely outcome of the investigation or determine its potential impact, if any, on the Company.

The Company is involved in various other legal proceedings arising in the normal course of business. The Company does not believe that the ultimate resolution of these other matters will have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

The results of any future litigation cannot be predicted with certainty and, regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management time and resources and other factors.

### Item 1A. Risk Factors.

*Our business is subject to various risks and uncertainties that may have a material adverse effect on our business, financial condition or results of operations. You should carefully consider the risks and uncertainties described below, together with all of the other information included in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K as amended for the year ended December 31, 2019, or the Form 10-K. Our business faces significant risks and uncertainties, and those described below may not be the only risks and uncertainties we face. Additional risks and uncertainties not presently known to us or that we currently believe are immaterial may also significantly impair our business, financial condition, or results of operations. If any of these risks or uncertainties occur, our business, financial condition or results of operations could suffer, the market price of our common stock could decline, and you could lose all or part of your investment in our common stock. We have marked with an asterisk (\*) those risks described below that reflect substantive changes from, or additions to, the risks described under Part I, Item 1A, “Risk Factors” included in the Form 10-K*

### Risks Related to Our Business

*\*The effects of the coronavirus pandemic could have a material adverse effect on our business, financial results, and results of operations.*

In December 2019, a strain of the coronavirus surfaced in Wuhan, China, and over the course of the first quarter 2020, the World Health Organization escalated its assessment of the coronavirus threat, finally characterizing it as a pandemic on March 11, 2020. The situation relating to the coronavirus pandemic is complex and rapidly evolving, with a broad number of governmental and commercial efforts to contain the spread of the virus globally. The duration and extent of the impact of the coronavirus pandemic on our business, operations and financial results depends on factors that cannot be accurately predicted at this time, such as the severity and transmission rate of the virus, the extent and effectiveness of containment actions, and the impact of these and other factors on our employees, customers, industry partners, suppliers and third party dealers, distributors, and resellers.

The federal, state, and local governments as well as foreign governments have imposed several protocols and regulations restricting the physical movement of individuals in an effort to limit the spread of the coronavirus. Our US and India workforce are currently working from home and are conducting business remotely. We were required to close our manufacturing facility in Shenzhen China beginning on February 1, 2020 and then leave for approximately three weeks. The factory resumed partial operations with a reduced staff during the week of February 24, 2020 and resumed full operations on March 2, 2020. We believe our channel partners generally have sufficient inventory to continue meeting customer needs in the near term, however we have experienced shortages of certain parts such as camera modules and batteries. However, demand for our solutions may be reduced as a result of the COVID-19 outbreak and resulting market uncertainty. We are closely monitoring the impact of the COVID-19 global outbreak and its resulting impact on the sale of our solutions, our manufacturing operations and supply chain, with our top priority being the health and safety of our employees, customers, partners, and communities. We have implemented a number of measures in an effort to protect our employees' health and well-being, including having office workers work remotely, suspending employee travel, and withdrawing from certain industry events. The potential negative effects to our operations, including reductions in production levels, research and development activities, and increased costs resulting from our efforts to mitigate the impact of the coronavirus, may adversely affect our ability to provide our services and solutions.

Similarly, many of our suppliers, customers, distributors, and resellers have temporarily suspended or modified their business operations as a result of the coronavirus pandemic. We may experience disruptions to our supply chain, which could decrease our sales, earnings and liquidity or otherwise adversely affect our business and result in increased costs. In addition, our customers, distributors, and resellers may be limited in their abilities to make timely payments or they may seek to suspend or terminate existing agreements. A decrease in demand or pricing for our products could materially adversely affect our business, financial condition, and results of operations. In addition, the continued spread of the coronavirus has led to disruption and volatility in the worldwide credit and financial markets, which could limit our ability to obtain external financing and result in a higher rate of losses on our accounts receivables due to credit defaults, adversely affecting our liquidity.

If the coronavirus becomes more prevalent in the locations where our customers, suppliers, or we conduct business, we may experience more pronounced disruptions in our operations. If we are not able to respond to and manage the impact of such events effectively, our business and results of operations in future periods may be adversely affected. Moreover, the impacts of the coronavirus pandemic may exacerbate other pre-existing risks, such as global economic conditions, political, regulatory, social, financial, operational and cybersecurity, any of which could have a material adverse effect on our business.

***\*We have not been profitable in recent years and may not achieve or maintain profitability in the future.***

We have incurred significant net losses since 2013 and have an accumulated deficit of \$183.3 million as of June 30, 2020. We are not certain whether or when we will obtain a high enough volume of sales of our products to sustain or increase our growth or achieve or maintain profitability in the future. We also expect our costs to increase in future periods, which would negatively impact our future operating results if our revenues do not increase. In particular, we expect to continue to expend substantial financial and other resources on:

- research and development related to our solutions, including investments in our engineering and technical teams;
- expansion of our sales and marketing efforts;
- general and administrative expenses, including legal and accounting expenses related to being a public company; and
- continued expansion of our business.

These investments may not result in increased revenues or growth in our business. Additionally, we have recently and may continue to encounter unforeseen operating expenses, difficulties, complications, delays and other unknown factors that may result in losses in future periods. If we are unable to increase our revenues at a rate sufficient to offset the expected increase in our costs, our business, operating results and financial position may be harmed, and we may not be able to achieve or maintain profitability over the long term or continue as a going concern. Our consolidated financial statements account for the continuation of our business as a going concern. We are subject to the risks and uncertainties associated with the development and release of new products. Our principal sources of liquidity as of June 30, 2020 consist of existing cash and cash equivalents totaling \$38.1 million, which includes the impact of approximately \$25 million in proceeds from the public offering common stock that closed in June 2020 and \$36.8 million in proceeds from our initial public offering of common stock that closed in May 2019. During the six months ended June 30, 2020, approximately \$4.6 million of cash was provided from operating activities. Due to these conditions, along with reductions in our current revenue run-rate, substantial doubt exists as to our ability to continue as a going concern. Our audited consolidated financial statements have been prepared assuming we will continue as a going concern and do not include any adjustments that might be necessary should we be unable to continue as a going concern. If necessary, we will seek to raise additional capital from the sale of equity securities or the incurrence of indebtedness to allow us to continue operations. There can be no assurance that additional financing will be available to us on acceptable terms, or at all. Additionally, if we issue additional equity securities to raise funds,



whether to existing investors or others, the ownership percentage of our existing stockholders would be reduced. New investors may demand rights, preferences or privileges senior to those of existing holders of common stock. Additionally, we may be limited as to the amount of funds we can raise pursuant to SEC rules and the continued listing requirements of Nasdaq. If we cannot grow our revenue run-rate or raise needed funds, we might be forced to make additional reductions in our operating expenses, which could adversely affect our ability to implement our business plan and ultimately our viability as a Company.

***\*We rely on our channel partners to generate a substantial majority of our revenues. If these channel partners fail to perform or if we cannot enter into agreements with channel partners on favorable terms, our operating results could be significantly harmed.***

A substantial majority of our revenues are generated through sales by our channel partners, which are primarily wireless carriers who sell our phones through their sales channels. To the extent our channel partners are unsuccessful in selling or do not promote our products, or we are unable to obtain and retain a sufficient number of high-quality channel partners, our business and operating results could be significantly harmed.

We enter into master sales arrangements with the majority of our channel partners (including channel partners contributing over 90% of our total revenues for the years ended December 31, 2019 and 2018) under which our partners purchase our products for distribution on a purchase order basis. While these arrangements are typically long term, they generally do not contain any firm purchase volume commitments, although a prior agreement with a key channel partner provided for a firm purchase volume commitment that extended through fiscal year 2018 into the first quarter of 2019. Following fulfillment of the firm purchase commitment, purchases from this key channel partner decreased due to sufficient inventory levels and it became more difficult to forecast business with this channel partner. As a result, unlike in those prior periods, our channel partners are not contractually obligated to purchase from us any minimum quantity of products. While our channel partners provide us with demand forecasts under these sales arrangements, we are generally required to satisfy any and all purchase orders delivered to us within specified delivery windows, with limited exceptions (such as orders significantly in excess of forecasts). If we are unable to efficiently manage our supply and satisfy purchase orders on a timely basis to our channel partners, we may be in breach of our sales arrangements and lose potential sales. Our sales arrangements also generally include technical performance standards for our mobile phones and accessories sold, which vary by channel partner. If a technical issue with any of our covered products exceeds certain preset failure thresholds for the relevant performance standard or standards, the channel partner typically has the right to cease selling the product, cancel open purchase orders and levy certain monetary penalties. If our products suffer technical issues or failures following sales to our channel partners, we may be subject to significant monetary impact and our channel partners may cease making purchase orders, which would significantly harm our business and results of operations. In addition, our channel partners retain sole discretion in which of their stocked products to offer their customers. While we may offer limited customer incentives, we generally have limited to no control over which products our channel partners decide to offer or promote, which directly impacts the number of products that our partners will purchase from us.

Our channel partners may be unsuccessful in marketing, selling and supporting our solutions. They may also market, sell and support solutions that are competitive with ours, and may devote more resources to the marketing, sales and support of such products. They may have incentives to promote our competitors' products in lieu of our products, particularly for competitors who do a large volume business with the channel partner. For example, during the summer of 2019, we expected, based on input from our US wireless carrier channel partners, for such channel partners to subsidize our new products following launch, to place new releases in retail locations and to sign up push-to-talk customers to our new generation phones. In each of these cases, there were significant delays and changes in the rollout of these efforts, which negatively impacted demand for our products and thus our profitability. In the event there is not sufficient demand for our products, our channel partners may stop selling our products completely. While we employ a small direct sales force, our channel partners have significantly larger sales teams who are not contractually obligated to promote any of our devices and often have multiple competing devices in stock to offer their customers. In addition, downstream sales by our channel partners often succeed due to attractive device prices and monthly rate plans, which we do not control. In certain cases, we may promote our own devices through customer incentives, typically in exchange for retail price reductions or contributions of funds for marketing purposes; however, there can be no assurance that any such incentives would contribute to increased purchases of our products. Further, given the impact of attractive pricing on ultimate sales, we generally must offer increased promotional funding or price reductions for our more expensive products. This promotional funding or price reductions operate to reduce our margins and significantly impact our profitability.

New sales channel partners, as well as sales of new products being sold by existing channel partners, may take several months or more to achieve significant sales. Our channel partner sales structure could subject us to lawsuits, potential liability and reputational harm if, for example, any of our channel partners misrepresents the functionality of our products or services to their customers or violate laws or our corporate policies. Additionally, some of our master agreements with our wireless carrier customers contain most “favored nation” clauses. These clauses typically provide that if we enter into an agreement with another wireless carrier or customer on more favorable terms, we must offer some of those terms to our existing wireless carrier customers. These provisions may obligate us to provide different, more favorable, terms to our existing wireless carrier customers, which could, if applied, result in lower revenues or otherwise adversely impact our business, financial condition and results of operations.

If we fail to effectively manage our existing or future sales channel partners, our channel partners fail to promote our products effectively, we are unable to meet our obligations under our sales arrangements or enter into future agreements with wireless carrier customers that have terms that are more favorable to the customer, our business and results of operations would be harmed.

***\*In the three and six months ended June 30, 2020 and 2019, approximately 82% and 82% and 79% and 76% respectively, of our revenues, were derived from our top five customers. We expect our revenues to continue to be heavily concentrated among our top customers, and the loss of, or significant reduction in orders from, any of these customers could significantly reduce our revenues and adversely impact our operating results.***

In 2018, three of the four largest U.S. wireless carriers, and the three largest Canadian wireless carriers, began stocking our entire next generation product portfolio following their certification of our products, resulting in significant revenue concentration among these carriers. In addition to the certification and stocking of our products by these wireless carriers, revenue increased among such wireless carriers as a result of increases in awareness of our brand among end users and end customers over the past several years, new product launches and an increased focus by carriers such as AT&T and Verizon on dedicated public safety networks, including FirstNet. We expect our revenues to remain heavily concentrated among these top wireless carriers, and we will be substantially dependent on these wireless carriers continuing to purchase and promote our products to their sales channels as well as customer demand for devices and services from these wireless carriers (factors over which we do not have any control). For example, we anticipate future sales to Sprint will cease at the end of the fourth quarter 2020 as a result of the restructuring of Sprint following its acquisition by T-Mobile. As a result, our customer concentration has increased and may increase more in the future. The loss of one or more additional significant customers, or reduced demand or purchases from our current significant customers, would result in significant harm to our revenues and results of operations, and our growth could be limited.

***Our business is difficult to evaluate because we have a limited operating history in our markets.***

We have a limited operating history based on which you can evaluate our present business and future prospects. Because of this limited operating history, we face challenges in predicting our business and evaluating its prospects which creates uncertainty in our ability to implement our business plan successfully. For example, in the summer of 2019, we experienced reduced forecasts for our newly introduced products from our US wireless carrier channel partners and, post-launch, delays in the rollout of our products, which had a negative impact on our business. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by newly public companies that have recently launched new products into a new market. If we are unsuccessful in addressing these risks and uncertainties, our business, results of operations and financial condition will be significantly harmed.

***We may not fully realize the expected benefits of our cost-saving initiatives.***

Maintaining a low corporate cost structure is a key element of our current business strategy. Since November 2019, our management team has endeavored to reorganize the company into a leaner, lower cost organization focused on a path to growth and profitability. For example, we have taken steps to reduce our global headcount and have relocated our headquarters from San Mateo, California to Austin, Texas, a lower cost location. Our strategic restructuring may not result in anticipated savings or other economic benefits, could result in total costs and expenses that are greater than expected, could make it more difficult to attract and retain qualified personnel and may disrupt our operations, each of which could have a material adverse effect on our business. In addition, if we experience unanticipated inefficiencies caused by our reduced headcount, we may be unable to fully execute our new strategy.

***We are materially dependent on the adoption of our solutions by both the industrial enterprise and public sector markets, and if end customers in those markets do not purchase our solutions, our revenues will be adversely impacted, and we may not be able to expand into other markets.***

Our revenues have historically been in the industrial enterprise market, and we are materially dependent on the adoption of our solutions by both the industrial enterprise and public sector markets. End customers in the public sector market may remain, for reasons outside our control, tied to Land Mobile Radio ("LMR") solutions or other competitive alternatives to our phones. Sales of our products to these buyers may also be delayed or limited by these competitive conditions. If our products are not widely accepted by buyers in those markets, we may not be able to expand sales of our products into new markets, and our business, results of operations and financial condition may be adversely impacted.

***We participate in a competitive industry, which may become more competitive. Competitors with greater resources and significant experience in high-volume product manufacturing may be able to respond more quickly and cost-effectively than we can to new or emerging technologies and changes in customer requirements.***

We face significant competition in developing and selling our solutions. Our primary competitors in the non-rugged mobile device market include Apple Inc. and Samsung Electronics Co. Ltd. Our primary competitors in the rugged mobile device market include Bullitt Mobile Ltd., and Kyocera Corporation. We also face competition from large system integrators and manufacturers of private and public wireless network equipment and devices. Competitors in this space include Harris Corporation, JVC KENWOOD Corporation, Motorola Solutions, Inc., or MSI, and Tait International Limited. For the Data Capture and RFID portion of our product offerings, competitors include companies that provide a broad portfolio of barcode scanning products that are suitable for the majority of global market applications, such as Datalogic USA, Inc., Honeywell International Inc., Panasonic Corporation and Zebra Technologies Corporation.

We cannot assure we will be able to compete successfully against current or future competitors. Increased competition in mobile computing platforms, data capture products, or related accessories and software developments may result in price reductions, lower gross profit margins, and loss of market share, and could require increased spending on research and development, sales and marketing, and customer support. Some competitors may make strategic acquisitions or establish cooperative relationships with suppliers or companies that produce complementary products, which may create additional pressures on our competitive position in the marketplace.

Most of our competitors have longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical, sales, marketing and other resources and experience than we do. In addition, because of the higher volume of components that many of our competitors purchase from their suppliers, they are able to keep their supply costs relatively low and, as a result, may be able to recognize higher margins on their product sales than we do. Many of our competitors may also have existing relationships with the channel partners who we use to sell our products, or with our potential customers. This competition may result in reduced prices, reduced margins and longer sales cycles for our products. Our competitors may also be able to respond to new or emerging technologies and changes more quickly and cost-effectively in customer requirements. The combination of brand strength, extensive distribution channels and financial resources of the larger vendors could cause us to lose market share and could reduce our margins on our products. If any of our larger competitors were to commit greater technical, sales, marketing and other resources to our markets, our ability to compete would be adversely impacted. If we are unable to successfully compete with our competitors, our sales would suffer and as a result our financial condition will be adversely impacted.

***Defects in our products could reduce demand for our products and result in a loss of sales, delay in market acceptance and injury to our reputation, which would adversely impact our business.***

Complex software, components and assemblies used in our products may contain undetected defects that are subsequently discovered at any point in the life of the product. For example, in 2018, we recalled one batch of our XP8 devices from two wireless carriers due to manufacturing defects. In addition, in the summer of 2019, we experienced technical challenges related to our XP8 smartphone and other general non-systemic, accessory-related issues in our feature phones, which cumulatively resulted in lost sales momentum and diverted resources away from launching new carrier customers. Defects in our products may result in a loss of sales, delay in market acceptance and injury to our reputation and increased warranty costs.

Additionally, our software may contain undetected errors, defects or bugs. We have recently detected software bugs, which impacted overall sales, commencing in the third quarter of 2019. It is possible that additional errors, defects or bugs will be found in our existing or future software products and related services with the potential for delays in, or loss of market acceptance of, our products and services, diversion of our resources, injury to our reputation, increased service and warranty expenses, and payment of damages.

Further, errors, defects or bugs in our solutions could be exploited by hackers or could otherwise result in an actual or perceived breach of our information systems. Alleviating any of these problems could require significant expense and could cause interruptions, delays or cessation of our product licensing, which would reduce demand for our products and result in a loss of sales, delay in market acceptance and injure our reputation and could adversely impact our business, results of operations and financial condition.

***If our business does not grow as we expect, or if we fail to manage our growth effectively or if our cost cutting measures are not sufficient our operating results and business would suffer.***

Our ability to successfully grow our business depends on a number of factors including our ability to:

- implement cost-saving initiatives;
- operate efficiently with a reduced workforce;
- accelerate the adoption of our solutions by new end customers;
- expand into new vertical markets;
- develop and deliver new products and services;
- increase awareness of the benefits that our solutions offer;
- expand our international footprint, and
- become more cost effective and scalable utilizing contract manufacturing.

As usage of our solutions grows, we will need to continue to make investments to develop and implement new or updated solutions, technologies, security features and cloud-based infrastructure operations. In addition, we will need to appropriately scale our internal business systems and our services organization, including the suppliers of our detection equipment and customer support services, to serve our growing customer base. Any failure of, or delay in, these efforts could impair the performance of our solutions and reduce customer satisfaction.

Further, our growth could increase quickly and place a strain on our managerial, operational, financial and other resources, and our future operating results depend to a large extent on our ability to successfully manage our anticipated expansion and growth. To manage our growth successfully, we will need to continue to invest in sales and marketing, research and development, and general and administrative functions and other areas. We are likely to recognize the costs associated with these investments earlier than receiving some of the anticipated benefits, and the return on these investments may be lower, or may develop more slowly, than we expect, which could adversely impact our operating results.

If we are unable to manage our growth effectively, we may not be able to take advantage of market opportunities or develop new solutions or upgrades to our existing solutions, satisfy customer requirements, maintain the quality and security of our solutions or execute on our business plan, any of which could harm our business, operating results and financial condition.

***We are required to undergo a lengthy customization and certification process for each wireless carrier customer, which increases our operating expenses, and failure to obtain such certification would adversely impact our results of operations and financial condition.***

Each wireless carrier requires each of our devices to complete a thorough technical acceptance process before it can be stocked and sold. Such acceptance processes impose rigorous and complex requirements on our devices, which result in a lengthy testing and certification process, during which we incur substantial operating expenses related to the wireless carrier's technical acceptance of our devices. The acceptance processes and related costs to us vary across carrier customers depending on carrier size and level of customization required. Generally, the certification process commences within one to three months of product concept development. During this development stage, certain carriers provide a technology roadmap and target demographics, allowing us to define product specifications to meet carrier goals, while other carriers provide defined specifications and preferred price points. Once we receive approval of a product concept by the carrier, we and the carrier advance the product to the development stage. When the product is close to becoming a functioning model, we commence internal quality assurance processes and field testing, which may include third -party lab testing, in-market field testing and interoperability testing. Finally, as the last step in the testing phase, the wireless carrier typically conducts testing itself, following which the product may be certified and stocked. The entire process can last from six to 18 months depending on the particular wireless carrier and type of device. Any delay in the acceptance process or failure to satisfy the device certification requirements would affect our ability to bring products to market and adversely impacts our results of operations and financial condition.

***\*If we fail to adequately forecast demand for our inventory and supply needs, we could incur additional costs or experience manufacturing delays, which could reduce our gross margin or cause us to delay or even lose sales.***

Because our production volumes are generally based on a forecast of channel partner demand rather than firm purchase commitments from our major customers, with the exception of one key channel partner through fiscal year 2018 into the first quarter of 2019, our forecasts have been, and there is a risk that our forecasts could be in the future, inaccurate and there is a risk that we will be unable to sell our products at the volumes and prices we expect, which may result in excess inventory. In addition, our forecast for 2020, do not initially include the impact of the COVID-19 pandemic on our channel partners' business or the demand impact the pandemic may have on their customers' demand. We provide, and will continue to provide, forecasts of our demand to our third-party suppliers prior to the scheduled delivery of products to our channel partners. While we have provided updated forecasts that incorporate our estimates regarding the impact of the COVID-19 pandemic, the dynamic nature of the virus spread and containment efforts make it difficult to reasonably estimate the impact of COVID-19 on the company's business operations, including the duration and impact on overall customer demand at this time. If we overestimate our requirements, our contract manufacturers may have excess component inventory, which could increase our costs. If we underestimate our requirements, our contract manufacturers may have inadequate component inventory, which could interrupt the manufacturing of our products and result in delays in shipments and revenues, lost sales, or we could incur unplanned overtime costs to meet our requirements, resulting in significant cost increases. For example, certain materials and components used to manufacture our products may reach end of life during any of our product's life cycles, following which suppliers no longer provide such expired materials and components. This would require us to either source and qualify an alternative component, which could require a re-certification of the device by the wireless carriers and/or regulatory agencies, or forecast product demand for a final purchase of such materials and components that may reach end of life to ensure that we have sufficient product inventory through a product's life cycle. If we overestimate forecasted demand, we will hold excess end-of-life materials and components resulting in increased costs. If we underestimate forecasted demand, we could experience delays in shipments and loss of revenues.

In addition, if we underestimate our requirements and the applicable supplier becomes insolvent or is no longer able to timely supply our needs in a cost-efficient manner or at all, we may be required to acquire components, which may need to be customized for our products, from alternative suppliers, including at significantly higher costs. For example, in 2018, one of our suppliers became insolvent and ceased all production, requiring us to seek alternative supply of complex components in a very short time frame. If we cannot source alternative suppliers and/or alternative components, we may suffer delays in shipments or lost sales. Similarly, credit constraints at our suppliers could require us to accelerate payment of our accounts payable, impacting our cash flow. Further, lead times for materials and components that we order vary significantly and depend on factors such as the specific supplier, contract terms, customization needed for any particular component and demand for each component at a given time. Any such failure to accurately forecast demand and manufacturing and supply requirements, and any need to obtain alternative supply sources, could materially harm our business, results of operations and financial condition.

***\*We may not be able to continue to develop solutions to address user needs effectively in an industry characterized by ongoing change and rapid technological advances.***

To be successful, we must adapt to rapidly changing technological and application needs by continually improving our products, as well as introducing new products and services, to address user demands.

Our industry is characterized by:

- evolving industry standards;
- frequent new product and service introductions;
- evolving distribution channels;
- increasing demand for customized product and software solutions;
- rapid competitive developments; and
- changing customer demands.

Future success will depend on our ability to adapt in this evolving environment effectively and economically. We could incur substantial costs as we modify our business to adapt to these changes and may even be unable to adapt to these changes. For example, we intend to develop a rugged platform based on next generation micro-processors and enabled for 5G voice and data communications. Our inability to develop devices that are compliant with these evolving standards and capabilities, on a cost-efficient basis or at all, may decrease customer demand for our products and could have a negative impact on our business, financial condition and results of operations.

***The markets for our devices and related accessories may not develop as quickly as we expect or may not develop at all.***

Our future success is substantially dependent upon continued adoption of devices and related accessories in the industrial enterprise and public sector markets, including the transition from Land Mobile Radio (“LMR”) and Push to Talk (“PTT”), to smartphone and Long-Term Evolution (“LTE”) networks. These market developments and transitions may take longer than we expect or may not occur at all and may not be as widespread as we expect. If the market does not develop as we expect, our business, operating results and financial condition would be significantly harmed.

***Our dependence on third-party suppliers for key components of our products could delay shipment of our products and reduce our sales.***

We depend on certain suppliers for the delivery of components used in the assembly of our products, including machined parts, injection molded plastic parts, printed circuit boards and other miscellaneous custom parts for our products. Our reliance on third-party suppliers creates risks related to our potential inability to obtain an adequate supply of components and reduced control over pricing and timing of delivery of components. In particular, we have little to no control over the prices at which our suppliers sell materials and components to us. Certain supplies of our components are available only from a single source or limited sources and we may not be able to diversify suppliers in a timely manner. We have experienced shortages in the past that have negatively impacted our results of operations and may experience such shortages in the future. For example, in 2018, we experienced a shortage in supply of a camera part from one of our suppliers for our XP8 phone, which resulted in delays in delivery of completed XP8 phones to certain of our channel partners.

We also do not have long-term supply agreements with any of our suppliers. Our current contracts with certain suppliers may be canceled or not extended by such suppliers and, therefore, do not afford us with sufficient protection against a reduction or interruption in supplies. Moreover, in the event any of these suppliers breach their contracts with us, our legal remedies associated with such a breach may be insufficient to compensate us for any damages we may suffer.

Any interruption of supply for any material components of our products for any reason, including but not limited to a global or local health crises, or inability to obtain required components from our third-party suppliers, could significantly delay the production and shipment of our products and harm our revenues, profitability and financial condition.

***Our future success is dependent on our ability to create independent brand awareness for our company and products with end customers, and our inability to achieve such brand awareness could limit our prospects.***

We depend on a small number of wireless carriers to distribute our products. While we intend to accelerate direct marketing and end-customer brand awareness initiatives in the future, our sales and marketing efforts have historically been predominantly focused on channel partners. As such, our operating expenses related to end-customer marketing efforts have historically been very small, representing less than 1.0% of our total sales and marketing expenses during years ended December 31, 2019 and 2018. To increase end-customer brand awareness, we intend to develop sales tools for key verticals within are target markets, increase usage of social media and expand product training efforts, among other things. As a result, we expect our sales and marketing expenses to increase in the future, primarily from increased sales personnel expenses, which will require us to cost-efficiently ramp up our sales and marketing capabilities and effectively target end customers. However, there can be no assurance that we will successfully increase our brand awareness or do so in a cost-efficient manner while maintaining market share within our existing sales channels. Our failure to establish stand-alone brand awareness with end customers of our products would leave us vulnerable to competitors and have an adverse impact on our prospects. If we are unable to significantly increase the awareness of our brand and solutions with end customers in a cost-efficient manner, we will remain significantly dependent on our channel partners for sales of our products and would adversely impact our ability to grow our business.

***We are dependent on the continued services and performance of a concentrated group of senior management and other key personnel, the loss of any of whom could adversely impact our business.***

Our future success depends in large part on the continued contributions of a concentrated group of senior management and other key personnel. In particular, the leadership of key management personnel is critical to the successful management of our company, the development of our solutions and our strategic direction. We also depend on the contributions of key technical personnel.

In the second half of 2019, and the first quarter of 2020, we implemented significant senior management changes resulting in a newly appointed CEO, CFO, CMO and Executive VP of Sales. During this period of transition, there may be operational inefficiencies as the new members of the senior management team become familiar with our business and operations, and there can be no guarantee that the transition of operational responsibilities will be successful. Leadership transitions can be difficult to manage and may cause uncertainty, a disruption to our business or increase the likelihood of turnover in key officers and employees. Competition for qualified personnel remains intense. Also, the uncertainty inherent in our senior management transitions could lead to concerns from current and potential customers, suppliers and other third parties with whom the company does business, any of which could have a material adverse impact on our operations.

***We compete in a rapidly evolving market, and the failure to respond quickly and effectively to changing market requirements could cause our business and operating results to decline.***

The mobile device market is characterized by rapidly changing technology, changing customer needs, evolving industry standards and frequent introductions of new products and services. In order to deliver a competitive mobile device, our solutions must be capable of operating in an increasingly complex network environment. As new wireless phones are introduced and standards in the mobile device market evolve, we may be required to modify our phones and services to make them compatible with these new products and standards. Likewise, if our competitors introduce new devices and services that compete with ours, we may be required to reposition our solutions or introduce new phones and solutions in response to such competitive pressure. We may not be successful in modifying our current phones or introducing new ones in a timely or appropriately responsive manner, or at all. If we fail to address these changes successfully, our business and operating results could be significantly harmed.

***If dedicated public safety LTE networks are not deployed at the rate we anticipate or at all, demand for our solutions may not grow as expected.***

A key part of our strategy is to further expand the use of our solutions over dedicated LTE networks in the public safety market. If the deployment of dedicated LTE networks is delayed or such networks are not adopted at the rate we anticipate, demand for our solutions may not develop as we anticipate, which would have a negative effect on our revenues.

***If we are unable to sell our solutions into new markets, our revenues may not grow.***

Any new market into which we attempt to sell our solutions may not be receptive. Our ability to penetrate new markets depends on the quality of our solutions, the continued adoption of our public safety solution by first responders, the perceived value of our solutions as a risk management tool and our ability to design our solutions to meet the demands of our customers. If the markets for our solutions do not develop as we expect, or if these markets are not funded at the levels, we currently expect them to be, our revenues may not grow.

Our ability to successfully face these challenges depends on several factors, including increasing the awareness of our solutions and their benefits, the effectiveness of our marketing programs, the costs of our solutions, our ability to attract, retain and effectively train sales and marketing personnel, and our ability to develop relationships with wireless carriers and other partners. If we are unsuccessful in developing and marketing our solutions into new markets, new markets for our solutions might not develop or might develop more slowly than we expect, either of which would harm our revenues and growth prospects.

***We have recently reduced the size of our organization and we may encounter difficulties in managing our business as a result of this reduction, or the attrition that may occur following this reduction, which could disrupt our operations. In addition, we may not achieve anticipated benefits and savings from the reduction.***

Since November 2019, we have reduced our global headcount from approximately 700 employees at year-end 2018 to approximately 500 employees as of December 31, 2019. In addition, we executed an additional reduction in force of approximately 10% of our US employees in February 2020. We took these actions in an effort to reorganize the company into a leaner, lower cost organization focused on a path to growth and profitability. These reductions in force, and the attrition that may occur following these reductions, will result in the loss of institutional knowledge and expertise and the reallocation and combination of certain roles and responsibilities across the organization, all of which could adversely affect our operations. These restructuring and additional measures we might take to reduce costs could divert management attention, yield attrition beyond our intended reduction in force, reduce employee morale, or cause us to delay, limit, reduce or eliminate certain product development plans, each of which could have an adverse impact on our business, operating results and financial condition.

***If we are unable to attract, integrate and retain additional qualified personnel, including top technical talent, our business could be adversely impacted.***

Our future success depends in part on our ability to identify, attract, integrate and retain highly skilled technical, managerial, sales and other personnel. We face intense competition for qualified individuals from numerous other companies, including other software and technology companies, many of whom have greater financial and other resources than we do. Some of these companies may offer compensation and benefit packages that may be more appealing to high-quality candidates than those we have to offer. In addition, new hires often require significant training and, in many cases, take significant time before they achieve full productivity. We may incur significant costs to attract and retain qualified personnel, including significant expenditures related to salaries and benefits and compensation expenses related to equity awards, and we may lose new employees to our competitors or other companies before we realize the benefit of our investment in recruiting and training them. Moreover, new employees may not be or become as productive as we expect, as we may face challenges in adequately or appropriately integrating them into our workforce and culture. In addition, the news of our recent cost reduction action, may make it more difficult to recruit new employees or retain existing employees. If we are unable to attract, integrate and retain suitably qualified individuals who are capable of meeting our growing technical, operational and managerial requirements on a timely basis or at all, our business will be adversely impacted.

Volatility or lack of positive performance in our stock price may also affect our ability to attract and retain our key employees. Employees may be more likely to leave us if the shares they own or the shares underlying their vested options have significantly appreciated in value relative to the original purchase prices of the shares or the exercise prices of the options, or, conversely, if the exercise prices of the options that they hold are significantly above the market price of our common stock. If we are unable to appropriately incentivize and retain our employees through equity compensation, or if we need to increase our compensation expenses in order to appropriately incentivize and retain our employees, our business, operating results and financial condition would be adversely impacted.

***Our existing IT systems may not be adequate to manage our growth, and our implementation of updated IT systems could result in significant disruptions to our operations.***

Our existing IT systems may be inadequate to manage our growth, and we are planning to implement various upgrades to our enterprise resource planning, or ERP, systems, as well as other complementary IT systems, over the next several years. Implementation of these solutions and systems is highly dependent on coordination of numerous software and system providers and internal business teams. The interdependence of these solutions and systems is a significant risk to the successful completion of the initiatives and the failure of any one system could have a significant adverse impact on the implementation of our overall IT infrastructure. We may experience difficulties as we transition to these new or upgraded systems and processes, including loss or corruption of data, delayed shipments, decreases in productivity as our personnel and third-party providers implement and become familiar with new systems, increased costs and lost revenues.

In addition, transitioning to these new systems requires significant capital investments and personnel resources. Difficulties in implementing new or upgraded information systems or significant system failures could disrupt our operations and have a significant adverse impact on our capital resources, financial condition, results of operations or cash flows. Implementation of this new IT infrastructure could have a significant impact on our business processes and information systems across a significant portion of our operations. As a result, we will be undergoing significant changes in our operational processes and internal controls as our implementation progresses, which in turn will require significant change management, including recruiting and training of qualified personnel. If we are unable to successfully manage these changes as we implement these systems, including harmonizing our systems, data, processes and reporting analytics, our ability to conduct, manage and control routine business functions could be negatively affected and significant disruptions to our business could occur. In addition, we could incur material unanticipated expenses, including additional costs of implementation or costs of conducting business. These risks could result in significant business disruptions or divert management's attention from key strategic initiatives and have a significant adverse impact on our capital resources, financial condition and results of operations.

***The application development ecosystem supporting our devices and related accessories is new and evolving.***

The application development ecosystem supporting our devices and related accessories is new and evolving. Specifically, the number of application developers in the ecosystem supporting our devices and accessories is small. If the market or the application development ecosystem does not develop, timely or at all, demand for our products may be limited, and our business and results of operations will be significantly harmed.

***The impact of potential changes in customs, tariffs, and trade policies in the United States and the potential corresponding actions by other countries, including recent trade initiatives announced by the U.S. presidential administration against China, in which we do business could adversely impact our financial performance.***

The U.S. government has made proposals from time to time that are intended to address trade imbalances, which include encouraging increased production in the United States. These proposals could result in increased customs duties and tariffs, and the renegotiation of some U.S. trade agreements. We import a significant percentage of our products into the United States, and an increase in customs duties and tariffs with respect to these imports could negatively impact our financial performance. The implementation of customs duties and tariffs may cause U.S. trading partners to take actions with respect to U.S. imports or U.S. investment activities in their respective countries. Any potential changes in trade policies in the United States and the potential corresponding actions by other countries in which we do business could adversely impact our financial performance. Given the level of uncertainty over which provisions will be enacted, we cannot predict with certainty the impact of the proposals.

For example, in 2018 and 2019, the U.S. presidential administration and Chinese government imposed significant tariffs on exports between the two countries. This ongoing policy dispute between China and the United States could have significant impact on the industries in which we participate, directly and indirectly, and no assurance can be given that any individual customer or significant groups of companies or a particular industry, will not be adversely impacted by any governmental actions taken by either China or the United States. In addition, we manufacture our mobile phones at our facility in Shenzhen, China, which could result in significant additional costs to us when shipping our products to various customers in the United States. It is not possible to predict with any certainty the outcome of future trade negotiations between the United States and China, and any prolonged or increased tariffs on imports from China to the United States would adversely impact our business, results of operations and financial condition.



***Operating outside of the United States presents specific risks to our business and we have substantial operations outside of the United States.***

Most of our employee base and operations are located outside the United States, primarily in China and India. Most of our software development, third-party contract manufacturing, and product assembly operations are conducted outside the United States.

Risks associated with operations outside the United States include:

- effectively managing and overseeing operations that are distant and remote from corporate headquarters may be difficult and may impose increased operating costs;
- fluctuating foreign currency rates could restrict sales, increase costs of purchasing, and impact collection of receivables outside of the United States;
- volatility in foreign credit markets may affect the financial well-being of our customers and suppliers;
- violations of anti-corruption laws, including the Foreign Corrupt Practices Act and the U.K. Bribery Act could result in large fines and penalties;
- violations of privacy and data security laws could result in large fines and penalties;
- tax disputes with foreign taxing authorities, and any resultant taxation in foreign jurisdictions associated with operations in such jurisdictions, including with respect to transfer pricing practices associated with such operations;
- adverse changes in, or uncertainty of, local business laws or practices, including the following:
  - foreign governments may impose burdensome tariffs, quotas, taxes, trade barriers, or capital flow restrictions;
  - restrictions on the export or import of technology may reduce or eliminate the ability to sell in or purchase from certain markets;
  - political and economic instability, including deterioration of political relations between the United States and other countries, may reduce demand for our solutions or put our non-U.S. assets at risk;
  - potentially limited intellectual property protection in certain countries may limit recourse against infringing on our solutions or cause us to refrain from selling in certain geographic territories;
  - staffing may be difficult along with higher turnover at international operations;
  - a government-controlled exchange rate and limitations on the convertibility of currencies, including the Chinese yuan;
  - transportation delays and customs related delays that may affect production and distribution of our products; and
  - integration and enforcement of laws vary significantly among jurisdictions and may change significantly over time.

Our failure to manage any of these risks successfully could harm our international operations and adversely impact our business, operating results and financial condition.

***\*A security breach or other significant disruption of our IT systems or those of our partners, suppliers or manufacturers, caused by cyberattacks or other means, could have a negative impact on our operations, sales, and operating results.***

All IT systems are potentially vulnerable to damage, unauthorized access or interruption from a variety of sources, including but not limited to, cyberattacks, cyber intrusions, computer viruses, security breaches, energy blackouts, natural disasters, terrorism, sabotage, war, insider trading and telecommunication failures. A cyberattack or other significant disruption involving our IT systems or those of our outsource partners, suppliers or manufacturers could result in the unauthorized release of proprietary, confidential or sensitive information of ours or result in virus and malware installation on our devices. Such unauthorized access to, or release of, this information or other security breaches could: (i) allow others to unfairly compete with us, (ii) compromise safety or security, (iii) subject us to claims for breach of contract, tort, and other civil claims, and (iv) damage our reputation. Any or all of the foregoing could have a negative impact on our business, financial condition and results of operations.

Further, any terrorist attacks, material disruption to our information technology systems or any data security breaches, including due to cyber-attacks, could hinder or delay the development and sale or performance of our products or otherwise adversely affect us. Such significant disruptions of our, our third party vendors' and/or business partners' information technology systems or data security breaches, including in our remote work environment as a result of COVID-19, could adversely affect our business operations and/or result in the loss, misappropriation, and/or unauthorized access, use or disclosure of, or the prevention of access to, confidential information (including trade secrets or other intellectual property, proprietary business information and personal information), and could result in financial, legal, business and reputational harm to us. Any such event that leads to unauthorized access, use or disclosure of personal information, including personal information regarding our customers, could harm our reputation, compel us to comply with federal and/or state breach notification laws and foreign law equivalents, subject us to mandatory corrective action, require us to verify the correctness of database contents and otherwise subject us to liability under laws and regulations that protect the privacy and security of personal information, which could disrupt our business, result in increased costs or loss of revenue, and/or result in legal and financial exposure. In addition, security breaches and other inappropriate access can be difficult to detect, and any delay in identifying them may further harm us. Moreover, the prevalent use of mobile devices to access confidential information increases the risk of security breaches. While we have implemented security measures to protect our information technology systems and infrastructure, there can be no assurance that such measures will prevent service interruptions or security breaches that could adversely affect our business. In addition, failure to maintain effective internal accounting controls related to security breaches and cybersecurity in general could impact our ability to produce timely and accurate financial statements and subject us to regulatory scrutiny.

***We experience lengthy sales cycles for our products and the delay of an expected large order could result in a significant unexpected revenue shortfall.***

The purchase of our products is often an enterprise-wide decision for prospective customers, which requires us to engage in sales efforts over an extended period of time and provide a significant level of education to prospective customers regarding the uses and benefits of such devices. Prospective customers, especially the wireless carriers that sell our products, often undertake a prolonged evaluation process that may take from several months to several years in certain cases. Consequently, if our forecasted sales from a specific customer are not realized, we may not be able to generate revenues from alternative sources in time to compensate for the shortfall. The loss or delay of an expected large order could also result in a significant unexpected revenue shortfall. Moreover, to the extent we enter into and deliver our products pursuant to significant contracts earlier than we expected, our operating results for subsequent periods may fall below expectations. We may spend substantial time, effort and money on our sales and marketing efforts without any assurance that our efforts will produce any sales. If we are unable to succeed in closing sales with new and existing customers, our business, operating results and financial condition will be harmed.

***We may require additional capital to fund our business and support our growth, and our inability to generate and obtain such capital on acceptable terms, or at all, could harm our business, operating results, financial condition and prospects.***

We intend to continue to make substantial investments to fund our business and support our growth. In addition, we may require additional funds to respond to business challenges, including the need to develop new features or enhance our solutions, improve our operating infrastructure or acquire or develop complementary businesses and technologies. As a result, in addition to the revenues we generate from our business, we may need to engage in additional equity or debt financings to provide the funds required for these and other business endeavors. If we raise additional funds through future issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing that we may secure in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. We may not be able to obtain such additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly impaired, and our business may be adversely impacted. In addition, our inability to generate or obtain the financial resources needed may require us to delay, scale back, or eliminate some or all of our operations, which may have a significant adverse impact on our business, operating results and financial condition.

***We have a limited history of high-volume commercial production of our devices, and we may face manufacturing capacity constraints.***

We have limited history and experience in high-volume commercial production of our devices. For example, we launched our first high-volume products in March 2018. Because of this limited production history, we face challenges in predicting our business and evaluating its prospects, which may result in breakdowns of our ability to timely supply our devices to our customers. Moreover, we face manufacturing capacity constraints that present further risks to our business. If overall demand of our devices increases in the future, we will need to expand our manufacturing capacity in a cost-efficient manner. Failing to meet customer demand due to our failure to successfully address these risks and challenges could adversely impact our reputation and future sales, which would significantly harm our business, results of operations and financial condition.

Our future quarterly results of operations may fluctuate significantly due to a wide range of factors, including reliance on our carrier distribution channels, significant competition and seasonality in our business, which makes our future results difficult to predict.

Our revenues and results of operations could vary significantly from quarter to quarter as a result of various factors, many of which are outside of our control, including:

- the expansion of our customer base;
- the renewal of sales arrangements with, and expansion of coverage areas by, existing channel partners;
- the size, timing and terms of our sales to both existing and new channel partners;
- the introduction of products or services that may compete with us for the limited funds available to our customers, and changes in the cost of such products or services;
- changes in our customers' and potential customers' budgets;
- our ability to control costs, including our operating expenses;
- our ability to hire, train and maintain our direct sales force;
- the timing of satisfying revenue recognition criteria in connection with initial deployment and renewals;
- fluctuations in our effective tax rate;
- general economic and political conditions, both domestically and internationally.

Any one of these or other factors may result in fluctuations in our revenues and operating results, meaning that quarter-to-quarter comparisons of our revenues, results of operations and cash flows may not necessarily be indicative of our future performance.

In addition, we have experienced, and expect to continue to experience, first quarter seasonality due, among other things, to customer capital spending patterns and the timing of our planned expenses. Such seasonality could have a significant adverse impact on our results of operations, particularly for our quarters ending March 31.

Because of the fluctuations described above, our ability to forecast revenues is limited and we may not be able to accurately predict our future revenues or results of operations. In addition, we base our current and future expense levels on our operating plans and sales forecasts, and our operating expenses are expected to be relatively fixed in the short term. Accordingly, we may not be able to reduce our costs sufficiently to compensate for an unexpected shortfall in revenues, and even a small shortfall in revenues could disproportionately and adversely impact our financial results for that quarter. The variability and unpredictability of these and other factors could result in our failing to meet or exceed financial expectations for a given period.

***Our ability to use our net operating losses to offset future taxable income will be subject to certain limitations.***

As of December 31, 2019, we had U.S. federal and state net operating loss carryforwards, or NOLs, of \$42.4 million and \$11.5 million, respectively, due to prior period losses, a portion of which expire in various years beginning in 2035 and 2032, respectively, if not utilized. In general, under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its NOLs to offset future taxable income. Future changes in our stock ownership, some of which are outside of our control, could result in an ownership change. There is also a risk that due to regulatory changes, such as suspensions on the use of NOLs, or other unforeseen reasons, our existing NOLs could expire or otherwise be unavailable to offset future income tax liabilities. Under the Tax Cuts and Jobs Act, or the Tax Act, the amount of post 2017 NOLs that we are permitted to deduct from U.S. federal income taxes in any taxable year is limited to 80% of our taxable income in such year, where taxable income is determined without regard to the NOL deduction itself. The Tax Act generally eliminates the ability to carry back any NOL to prior taxable years, while allowing post 2017 unused NOLs to be carried forward indefinitely without expiration. Additionally, state NOLs generated in one state cannot be used to offset income generated in another state. For these reasons, we may not be able to realize a tax benefit from the use of our NOLs, whether or not we attain profitability.

***\*We are involved in securities-related legal actions that are expensive and time consuming, and, if resolved adversely, could result in significant legal expenses and settlement or damage awards.***

We and certain of our current and former officers and directors are currently and may in the future become subject to claims and litigation by our stockholders alleging violations of securities laws or other related claims which could harm our business, divert management attention, and require us to incur significant costs.

On September 20, 2019, a purported Sonim stockholder who allegedly purchased stock registered in our initial public offering (“IPO”) filed a putative class action complaint in the Superior Court of the State of California, County of San Mateo, captioned Pearson v. Sonim Technologies, Inc., et al., Case No. 19CIV05564, on behalf of himself and others who purchased shares of Sonim registered in the IPO (the “Pearson Action”). On October 4 and 16, 2019, two additional purported class action complaints substantially similar to the Pearson Action were filed on behalf of different plaintiffs yet the same putative class of Sonim stockholders, in the same court as the Pearson Action. On October 7, 2019, a substantially similar putative class action lawsuit was filed in the United States District Court for the Northern District of California. All four complaints allege violations of the Securities Act of 1933 by us and certain of our current and former officers and directors for, among other things, alleged false or misleading statements and omissions in the registration statement issued in connection with our IPO, relating primarily to an alleged failure to disclose software defects in our phones and alleged misstatements about performance characteristics of our phones. In July 2020, we entered into an agreement with the Lead Plaintiff in the federal court action to settle that case on a class-wide basis for the amount of \$2.0 million. This settlement is subject to definitive documentation and court approval, as well as stockholders’ opportunity to object and opt-out as provided by the federal court. As a result, we have recorded a \$2.0 million accrual as of June 30, 2020.

We are generally required, to the extent permitted by law, to indemnify our current and former directors and officers who are named as defendants in these types of lawsuits. We also have certain contractual obligations to the underwriters regarding the pending shareholder lawsuits, and we could have such contractual indemnification obligations to underwriters in future lawsuits. While a certain amount of insurance coverage may be available for expenses or losses associated with these lawsuits, this coverage is subject to deductibles and may not otherwise prove to be sufficient. Although we plan to defend against these lawsuits vigorously, there can be no assurances that a favorable final outcome will be obtained. These lawsuits or future litigation may require significant attention from management and could result in significant legal expenses, settlement costs, or damage awards that could have a material impact on our financial position, results of operations, and cash flows.

***\*The unfavorable outcome of any future litigation, arbitration or administrative action could have a significant adverse impact on our financial condition or results of operations.***

From time to time we are a party to litigation, arbitration, or administrative actions. For example, in September and October 2019, four putative class action lawsuits were filed against us, and, in March 2020, we received a voluntary document request from the Securities and Exchange Commission with which we are complying; in August 2020, we were informed that the SEC Staff was conducting a formal investigation. Additionally, our business may bring us into conflict with third parties with whom we have contractual or other business relationships, or with our competitors or others whose interests differ from ours. If we are unable to resolve those conflicts on terms that are satisfactory to all parties, we may become involved in litigation brought by or against us. Our financial results and reputation could be negatively impacted by unfavorable outcomes to any future litigation or administrative actions, including those related to the Foreign Corrupt Practices Act, the U.K. Bribery Act, or other anti-corruption laws. Monitoring, initiating and defending against legal actions is time-consuming for our management, likely to be expensive and may detract from our ability to fully focus our internal resources on our business activities. In addition, despite the availability of insurance, we may incur substantial legal fees and costs in connection with litigation. Lawsuits are subject to inherent uncertainties, and defense and disposition costs depend upon many unknown factors. Lawsuits could result in judgments against us that require us to pay damages, enjoin us from certain activities, or otherwise negatively affect our legal or contractual rights, which could have a significant adverse effect on our business. In addition, the inherent uncertainty of such litigation could lead to increased volatility in our stock price and a decrease in the value of our stockholders’ investment in our common stock. There can be no assurances as to the favorable outcome of any litigation or administrative proceedings. In addition, it can be very costly to defend litigation or administrative proceedings and these costs could negatively impact our financial results.

***The nature of our business may result in undesirable press coverage or other negative publicity, which would adversely impact our brand identity, future sales and results of operations.***

Our solutions are used to assist law enforcement and other public safety personnel in situations involving public safety. The incidents in which our solutions are deployed may involve injury, loss of life and other negative outcomes, and such events are likely to receive negative publicity. Such negative publicity could have an adverse impact on new sales or renewals or expansions of coverage areas by existing customers, which would adversely impact our financial results and business.

***Changes in the availability of federal funding to support local public safety or other public sector efforts could impact our opportunities with public sector end customers.***

Many of our public sector end customers rely to some extent on funds from the U.S. federal government in order to purchase and pay for our solutions. Any reduction in federal funding for local public safety or other public sector efforts could result in our end customers having less access to funds required to continue, renew, expand or pay for our solutions. For example, changes in policies with respect to “sanctuary cities” may result in a reduction in federal funds available to our current or potential end customers. Additionally, the last U.S. government partial shutdown, and any future U.S. government shutdowns, could result in delayed public safety spending or re-allocation of funding into other areas of public safety. If federal funding is reduced or eliminated and our end customers cannot find alternative sources of funding to purchase our solutions, our business will be harmed.

***Economic uncertainties or downturns, or political changes, could limit the availability of funds available to our customers and potential customers, which could significantly adversely impact our business.***

Current or future economic uncertainties or downturns could adversely impact our business and operating results. Negative conditions in the general economy both in the United States and abroad, including conditions resulting from changes in gross domestic product growth, financial and credit market fluctuations, political deadlock, natural catastrophes, infectious disease outbreaks, and warfare and terrorist attacks in North America, Europe, the Asia Pacific region or elsewhere, could cause a decrease in funds available to our customers and potential customers and negatively affect the growth rate of our business.

These economic conditions may make it extremely difficult for our customers and us to forecast and plan future budgetary decisions or business activities accurately, and they could cause our customers to reevaluate their decisions to purchase our solutions, which could delay and lengthen our sales cycles or result in cancellations of planned purchases. Furthermore, during challenging economic times or as a result of political changes, our customers may tighten their budgets and face constraints in gaining timely access to sufficient funding or other credit, which could result in an impairment of their ability to make timely payments to us. In turn, we may be required to increase our allowance for doubtful accounts, which would adversely impact our financial results.

We cannot predict the timing, magnitude or duration of any economic slowdown, instability or recovery, generally or within any particular industry, or the impact of political changes. If the economic conditions of the general economy or industries in which we operate worsen from present levels, or if recent political changes result in less funding being available to purchase our solutions, our business, operating results and financial condition could be adversely impacted.

***We face risks related to health epidemics and other outbreaks, which could significantly disrupt our operations***

Our business and operating results could be adversely impacted by the effects of epidemics, including but not limited to the coronavirus that has been reported to have surfaced in Wuhan, China in December 2019 and has since spread to most other parts of the world, including the United States and Canada, our principal markets. We are closely monitoring the impact of COVID-19 global outbreak. While we believe our recent restructuring efforts will enable us to improve our supply chain and better address the global economic events related to the COVID-19 virus, there remains significant uncertainty related to the public health situation globally.

Our results of operations could be adversely affected to the extent that such coronavirus or any other epidemic generally harms the global economy. In addition, our customers and/or suppliers may be adversely impacted as a result of a health epidemic or other outbreak, which may materially and adversely affect our business, financial condition and results of operations. Further, our operation may experience disruptions, such as temporary closure of our offices and/or those of our customers or suppliers and suspension of services, which may materially and adversely affect our business, financial condition and results of operations.

***We are subject to anti-corruption, anti-bribery, anti-money laundering, economic sanctions, export control, and similar laws. Non-compliance with such laws can subject us to criminal or civil liability and harm our business, revenues, financial condition and results of operations.***

We are subject to the U.S. Foreign Corrupt Practices Act of 1977, as amended, the U.S. domestic bribery statute contained in 18 U.S.C. § 201, the U.S. Travel Act, and other anti-bribery and anti-money laundering laws in the countries in which we conduct activities. Anti-corruption and anti-bribery laws have been enforced aggressively in recent years and are interpreted broadly to generally prohibit companies and their employees and third-party intermediaries from authorizing, offering, or providing, directly or indirectly, improper payments or benefits to recipients in the public or private sector. As we increase our international presence, we may engage with distributors and third-party intermediaries to market our solutions and to obtain necessary permits, licenses, and other regulatory approvals. In addition, we or our third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities. We can be held liable for the corrupt or other illegal activities of these third-party intermediaries, our employees, representatives, contractors, partners and agents, even if we do not explicitly authorize such activities.

The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. In particular, the United States prohibits U.S. persons from engaging with individuals and entities identified as “Specially Designated Nationals,” such as terrorists and narcotics traffickers. These prohibitions are administered by the U.S. Department of the Treasury’s Office of Foreign Assets Control, or OFAC. OFAC rules prohibit U.S. persons from engaging in, or facilitating a foreign person’s engagement in, transactions with or relating to the prohibited individual, entity or country, and require the blocking of assets in which the individual, entity or country has an interest. Blocked assets (e.g., property or bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Other countries in which we operate, including Canada and the United Kingdom, also maintain economic and financial sanctions regimes.

Some of our solutions, including software updates and third-party accessories, may be subject to U.S. export control laws, including the Export Administration Regulations; however, the vast majority of our products are non-U.S.-origin items, developed and manufactured outside of the United States, and therefore not subject to these laws. For third-party accessories, we rely on manufactures to supply the appropriate export control classification numbers that determine our obligations under these laws.

We cannot assure you that our employees and agents will not take actions in violation of our policies and applicable law, for which we may be ultimately held responsible. As we increase our international presence, our risks under these laws, rules, and regulations may increase. Further, any change in the applicability or enforcement of these laws, rules, and regulations could adversely impact our business operations and financial results.

Detecting, investigating and resolving actual or alleged violations can require a significant diversion of time, resources, and attention from senior management. In addition, noncompliance with anti-corruption, anti-bribery, anti-money laundering, or economic sanctions laws, rules, and regulations could subject us to whistleblower complaints, investigations, sanctions, settlements, prosecution, other enforcement actions, disgorgement of profits, significant fines, damages, other civil and criminal penalties or injunctions, suspension and/or debarment from contracting with certain persons, the loss of export privileges, reputational harm, adverse media coverage, and other collateral consequences. If any subpoenas or investigations are launched, or governmental or other sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation, our business, revenues, financial condition, and results of operations would be significantly harmed. In addition, responding to any action will likely result in a significant diversion of management’s attention and resources and significant defense costs and other professional fees. Enforcement actions and sanctions could further harm our business, financial condition and results of operations.

***Foreign currency fluctuations may reduce our competitiveness and sales in foreign markets.***

The relative change in currency values creates fluctuations in product pricing for international customers. These changes in foreign end-customer costs may result in lost orders and reduce the competitiveness of our products in certain foreign markets. These changes may also negatively impact the financial condition of some foreign customers and reduce or eliminate their future orders of our products. In addition, a significant portion of our research and development expenditure takes place in China and India. Fluctuations in the currency values of those countries could negatively impact our operating expenses.

***We are subject to a wide range of product regulatory and safety, consumer, worker safety and environmental laws and regulations.***

Our operations and the products we manufacture and/or sell are subject to a wide range of product regulatory and safety, consumer, worker safety and environmental laws and regulations. Compliance with such existing or future laws and regulations could subject us to future costs or liabilities, impact our production capabilities, constrict our ability to sell, expand or acquire facilities, restrict what solutions we can offer and generally impact our financial performance. Our products are designed for use in potentially explosive or hazardous environments. If our product design fails for any reason in such environments, we may be subject to product liabilities and future costs. In addition, some of these laws are environmental and relate to the use, disposal, remediation, emission, discharge of and exposure to hazardous substances. These laws often impose liability and can require parties to fund remedial studies or actions regardless of fault. Environmental laws have tended to become more stringent over time and any new obligations under these laws could have a negative impact on our operations or financial performance.

Laws focused on the energy efficiency of electronic products and accessories, recycling of both electronic products and packaging, reducing or eliminating certain hazardous substances in electronic products, and the transportation of batteries continue to expand significantly. Laws pertaining to accessibility features of electronic products, standardization of connectors and power supplies, the transportation of lithium-ion batteries, and other aspects are also proliferating. There are also demanding and rapidly changing laws around the globe related to issues such as product safety, radio interference, radio frequency radiation exposure, medical related functionality, and consumer and social mandates pertaining to use of wireless or electronic equipment. These laws, and changes to these laws, could have a substantial impact on whether we can offer certain products, solutions, and services, and on what capabilities and characteristics our products or services can or must include.

These laws and regulations impact our products and could negatively impact our ability to manufacture and sell products competitively. In addition, we anticipate that we will see increased demand to meet voluntary criteria related to reduction or elimination of certain constituents from products, increasing energy efficiency and providing additional accessibility.

***Changes in laws and regulations concerning the use of telecommunication bandwidth could increase our costs and adversely impact our business.***

Our business depends on our ability to sell devices that use telecommunication bandwidth allocated to licensed and unlicensed wireless services, and that use of that bandwidth is subject to laws and regulations that are subject to change over time. Changes in the permitted uses of telecommunication bandwidth, reallocation of such bandwidth to different uses, and new or increased regulation of the capabilities, manufacture, importation, and use of devices that depend on such bandwidth could increase our costs, require costly modifications to our products before they are sold, or limit our ability to sell those products in to our target markets. In addition, we are subject to regulatory requirements for certification and testing of our products before they can be marketed or sold. Those requirements may be onerous and expensive. Changes to those requirements could result in significant additional costs and could adversely impact our ability to bring new products to market in a timely fashion.

***Failure of our suppliers, subcontractors, distributors, resellers, and representatives to use acceptable legal or ethical business practices, or to fail for any other reason, could negatively impact our business.***

We do not control the labor and other business practices of our suppliers, subcontractors, distributors, resellers and third-party sales representatives, or TPSRs, and cannot provide assurance that they will operate in compliance with applicable rules, and regulations regarding working conditions, employment practices, environmental compliance, anti-corruption, and trademark a copyright and patent licensing. If one of our suppliers, subcontractors, distributors, resellers, or TPSRs violates labor or other laws or implements labor or other business practices that are regarded as unethical, the shipment of finished products to us could be interrupted, orders could be canceled, relationships could be terminated, and our reputation could be damaged. If one of our suppliers or subcontractors fails to procure the necessary license rights to trademarks, copyrights or patents, legal action could be taken against us that could impact the sale-ability of our products and expose us to financial obligations to a third party. Any of these events could have a negative impact on our sales and results of operations.

Moreover, any failure of our suppliers, subcontractors, distributors, resellers and TPSRs, for any reason, including bankruptcy or other business disruption, could disrupt our supply or distribution efforts and could have a negative impact on our sales and results of operations.

***Natural or man-made disasters and other similar events may significantly disrupt our business, and negatively impact our operating results and financial condition.***

Any of our facilities may be harmed or rendered inoperable by natural or man-made disasters, including earthquakes, tornadoes, hurricanes, wildfires, floods, nuclear disasters, acts of terrorism or other criminal activities, infectious disease outbreaks, and power outages, which may render it difficult or impossible for us to operate our business for some period of time. For example, our corporate headquarters is located in the San Francisco Bay Area, a region known for seismic activity. Our facilities would likely be costly to repair or replace, and any such efforts would likely require substantial time. Any disruptions in our operations could negatively impact our business and operating results and harm our reputation. In addition, we may not carry business insurance or may not carry sufficient business insurance to compensate for losses that may occur. Any such losses or damages could have a significant adverse impact on our business, operating results and financial condition. In addition, the facilities of significant vendors may be harmed or rendered inoperable by such natural or man-made disasters, which may cause disruptions, difficulties or significant adverse impact on our business.

***We are subject to a wide range of privacy and data security laws, regulations and other legal obligations.***

Personal privacy and information security are significant issues in the United States and the other jurisdictions in which we operate or make our products and applications available. The legislative and regulatory framework for privacy and security issues worldwide is rapidly evolving and is likely to remain uncertain for the foreseeable future. Our handling of data is subject to a variety of laws and regulations, including regulation by various government agencies, including the U.S. Federal Trade Commission, or FTC, and various state, local and foreign agencies. We may collect personally identifiable information, or PII, and other data from our customers. We use this information to provide services to our customers and to support, expand and improve our business. We may also share customers' PII with third parties as allowed by applicable law and agreements and authorized by the customer or as described in our privacy policy.

The U.S. federal and various state and foreign governments have adopted or proposed limitations on the collection, distribution, transfer, use and storage of PII. In the United States, the FTC and many state attorneys general are applying federal and state consumer protection laws as imposing standards for the online collection, use and dissemination of data. Many foreign countries and governmental bodies, including Canada, the European Union and other relevant jurisdictions, have laws and regulations concerning the collection and use of PII obtained from their residents or by businesses operating within their jurisdiction. These laws and regulations often are more restrictive than those in the United States. Laws and regulations in these jurisdictions apply broadly to the collection, use, storage, disclosure and security of data that identifies or may be used to identify or locate an individual, such as names, email addresses and, in some jurisdictions, Internet Protocol, or IP, addresses. Within the European Union, legislators have adopted the General Data Protection Regulation, or GDPR, effective May 2018 which may impose additional obligations and risk upon our business, and which may increase substantially the penalties to which we could be subject in the event of any non-compliance. We may incur substantial expense in complying with the obligations imposed by the governments of the foreign jurisdictions in which we do business or seek to do business and we may be required to make significant changes in our business operations, all of which may adversely impact our revenues and our business overall.

Although we are working to comply with those federal, state, and foreign laws and regulations, industry standards, contractual obligations and other legal obligations that apply to us, those laws, regulations, standards and obligations are evolving and may be modified, interpreted and applied in an inconsistent manner from one jurisdiction to another, and may conflict with one another, other requirements or legal obligations, our practices or the features of our products or applications. At state level, lawmakers continue to pass new laws concerning privacy and data security. Particularly notable in this regard is the California Consumer Privacy Act, or CCPA, which became effective on January 1, 2020. The CCPA introduced significant new disclosure obligations and provides California consumers with significant new privacy rights. Any failure or perceived failure by us to comply with federal, state or foreign laws or regulations, industry standards, contractual obligations or other legal obligations, or any actual or suspected security incident, whether or not resulting in unauthorized access to, or acquisition, release or transfer of PII or other data, may result in governmental enforcement actions and prosecutions, private litigation, fines and penalties or adverse publicity and could cause our customers to lose trust in us, which could have an adverse impact on our reputation and business. Any inability to adequately address privacy and security concerns, even if unfounded, or comply with applicable laws, regulations, policies, industry standards, contractual obligations, or other legal obligations could result in additional cost and liability to us, damage our reputation, inhibit sales and adversely impact our business.

We also expect that there will continue to be new proposed laws, regulations and industry standards concerning privacy, data protection and information security in the United States, the European Union and other jurisdictions, and we cannot yet determine the impact such future laws, regulations and standards may have on our business. New laws, amendments to or re-interpretations of existing laws and regulations, industry standards, contractual obligations and other obligations may require us to incur additional costs and restrict our business operations. Such laws and regulations may require companies to implement privacy and security policies, permit users to access, correct and delete personal information stored or maintained by such companies, inform individuals of security breaches that affect their personal information, and, in some cases, obtain individuals' consent to use PII for certain purposes. In addition, a foreign government could require that any PII collected in a country not be disseminated outside of that country, and we are not currently equipped to comply with such a requirement.

***We are exposed to risks associated with strategic transactions.***

We may consider strategic acquisitions of and combinations with companies with complementary technologies or intellectual property in the future. Acquisitions hold special challenges in terms of successful integration of technologies, products, services and employees. We may not realize the anticipated benefits of these transactions or the benefits of any other acquisitions we have completed or may complete in the future, and we may not be able to incorporate any acquired services, products or technologies with our existing operations, or integrate personnel from the acquired or combined businesses, in which case our business could be harmed.

Acquisitions and other strategic transactions involve numerous risks, including:

- problems integrating and divesting the operations, technologies, personnel, services or products over geographically disparate locations;
- unanticipated costs, taxes, litigation and other contingent liabilities;
- continued liability for discontinued businesses and pre-closing activities of divested businesses or certain post-closing liabilities which we may agree to assume as part of the transaction in which a particular business is divested;
- adverse impacts on existing business relationships with suppliers and customers;
- cannibalization of revenues as customers may seek multi-product discounts;
- risks associated with entering into markets in which we have no, or limited, prior experience;
- incurrence of significant restructuring charges if acquired products or technologies are unsuccessful;
- significant diversion of management's attention from our core business and diversion of key employees' time and resources;



- licensing, indemnity or other conflicts between existing businesses and acquired businesses;
- inability to retain key customers, distributors, suppliers, vendors and other business relations of the acquired business; and
- potential loss of our key employees or the key employees of an acquired organization or as a result of discontinued businesses.

Financing for future strategic transactions may not be available on favorable terms, or at all. If we identify an appropriate acquisition or combination candidate for any of our businesses, we may not be able to negotiate the terms of the transaction successfully, finance the transaction or integrate the applicable business, products, service offerings, technologies or employees. Future strategic transactions may not be well-received by the investment community, which may cause the value of our stock to fall. We cannot ensure that we will be able to identify or complete any acquisition, divestiture or discontinued business in the future. Further, the terms of our indebtedness constrain our ability to enter into and finance certain strategic transactions.

If we acquire businesses, new products, service offerings or technologies in the future, we may incur significant acquisition-related costs. In addition, we may be required to amortize significant amounts of finite-lived intangible assets and we may record significant amounts of goodwill or indefinite-lived intangible assets that would be subject to testing for impairment. We have in the past and may in the future be required to write off all or part of the intangible assets or goodwill associated with these investments that could harm our operating results. If we consummate one or more significant future acquisitions in which the consideration consists of stock or other securities, our existing stockholders' ownership could be significantly diluted. If we were to proceed with one or more significant future acquisitions in which the consideration included cash, we could be required to use a substantial portion of our cash and investments. Acquisitions could also cause operating margins to fall depending on the businesses acquired.

Our strategic investments may involve joint development, joint marketing, or entry into new business ventures, or new technology licensing. Any joint development efforts may not result in the successful introduction of any new products or services by us or a third party, and any joint marketing efforts may not result in increased demand for our products or services. Further, any current or future strategic acquisitions and investments by us may not allow us to enter and compete effectively in new markets or enhance our business in our existing markets and we may have to impair the carrying amount of our investments.

***We could be adversely impacted by changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters.***

Generally accepted accounting principles and related accounting pronouncements, implementation guidelines, and interpretations with regard to a wide range of matters that are relevant to our businesses, including, but not limited to, revenue recognition, asset impairment, inventories, customer rebates and other customer consideration, tax matters, and litigation and other contingent liabilities are highly complex and involve many subjective assumptions, estimates and judgments. Changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments could significantly change our reported or expected financial performance or financial condition. New accounting guidance may also require systems and other changes that could increase our operating costs and/or change our financial statements. For example, implementing future accounting guidance related to revenue, accounting for leases and other areas could require us to make significant changes to our accounting systems, impact existing debt agreements and result in adverse changes to our financial statements.

**Risks Related to Our Intellectual Property**

***If we are unable to successfully protect our intellectual property, our competitive position may be harmed.***

Our ability to compete is heavily affected by our ability to protect our intellectual property. We rely on a combination of patents, patent applications, copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect our proprietary rights. We also enter, and plan to continue to enter, into confidentiality, invention assignment or license agreements with our employees, consultants and other parties with whom we contract, and control access to and distribution of our software, documentation and other proprietary information. The steps we take to protect our intellectual property may be inadequate, and it is possible that some or all of our confidentiality agreements will not be honored, and certain contractual provisions may not be enforceable. Existing trade secret, trademark and copyright laws offer only limited protection. Unauthorized parties may attempt to copy aspects of our products or obtain and use information which we regard as proprietary. Policing unauthorized use of our products is difficult, time consuming and costly, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. We cannot assure you that our means of protecting our proprietary rights will be adequate or that our competitors will not independently develop similar technology, the effect of either of which would harm our competitive position in the market. Furthermore, disputes can arise with our strategic partners, customers or others concerning the ownership of intellectual property.

***Others may claim that we infringe on their intellectual property rights, which may result in costly and time-consuming litigation and could delay or otherwise impair the development and commercialization of our products.***

In recent years, there has been a significant increase in litigation in the United States involving patents and other intellectual property rights, and because our products are comprised of complex technology, we are often involved in or impacted by assertions, including both requests to take licenses and litigation, regarding infringement of patent and other intellectual property rights of third parties. Third parties have asserted, and in the future may assert, intellectual property infringement claims against us and against our channel partners, end customers and suppliers. Many of these assertions are brought by non-practicing entities whose principal business model is to secure patent licensing revenues from product manufacturing companies. Claims for alleged infringement and any resulting lawsuit, if successful, could subject us to significant liability for damages and invalidation of our intellectual property rights. Defending any such claims, with or without merit, including pursuant to indemnity obligations, could be time consuming, expensive, cause product shipment delays or require us to enter into a royalty or licensing agreement, any of which could delay the development and commercialization of our products or reduce our margins. If we are unable to obtain a required license, our ability to sell or use certain products may be impaired. In addition, if we fail to obtain a license, or if the terms of the license are burdensome to us, our operations could be significantly harmed.

***Our use of open source software could subject us to possible litigation or otherwise impair the development of our products.***

A portion of our technologies incorporates open source software, including open source operating systems such as Android, and we expect to continue to incorporate open source software into our platform in the future. Few of the licenses applicable to open source software have been interpreted by courts, and their application to the open source software integrated into our proprietary technology platform may be uncertain. If we fail to comply with these licenses, then pursuant to the terms of these licenses, we may be subject to certain requirements, including requirements that we make available the source code for our software that incorporates the open source software. We cannot assure you that we have not incorporated open source software in our software in a manner that is inconsistent with the terms of the applicable licenses or our current policies and procedures. If an author or other third party that distributes such open source software were to allege that we had not complied with the conditions of one or more of these licenses, we could incur significant legal expenses defending against such allegations. Litigation could be costly for us to defend, have a negative effect on our operating results and financial condition or require us to devote additional research and development resources to change our technology platform.

With respect to open source operating systems, if third parties cease continued development of such operating systems or restrict our access to such operating system, our business and financial results could be adversely impacted. We are dependent on third parties' continued development of operating systems, software application ecosystem infrastructures, and such third parties' approval of our implementations of their operating and system and associated applications. If such parties cease to continue development or support of such operating systems or restrict our access to such operating systems, we would be required to change our strategy for our devices. As a result, our financial results could be negatively impacted because a resulting shift away from the operating systems we currently use, and the associated applications ecosystem could be costly and difficult.

***Our inability to obtain and maintain any third-party license required to develop new products and product enhancements could seriously harm our business, financial condition and results of operations.***

From time to time, we are required to license technology from third parties to develop new products or product enhancements. For example, we have entered into worldwide intellectual property cross license agreements or other technology license agreements with a number of global technology companies in the mobile telecommunications market. Third-party licenses may not be available to us on commercially reasonable terms, or at all. If we fail to renew any intellectual property license agreements on commercially reasonable terms, or any such license agreements otherwise expire or terminate, we may not be able to use the patents and technologies of these third parties in our products, which are critical to our success. We cannot assure you that we will be able to effectively control the level of licensing and royalty fees paid to third parties, and significant increase in such fees could have a significant and adverse impact on our future profitability. Seeking alternative patents and technologies may be difficult and time-consuming, and we may not be successful in finding alternative technologies or incorporating them into our products. Our inability to obtain any third-party license necessary to develop new products or product enhancements could require us to obtain substitute technology of lower quality or performance standards, or at greater cost, which could seriously harm our business, financial condition and results of operations.

#### **Risks Related to Ownership of Our Common Stock**

The market price of our common stock is likely to be volatile and could fluctuate or decline, resulting in substantial loss of your investment.

The market price of our common stock could be subject to wide fluctuations in response to, among other things, the factors described in this "Risk Factors" section or otherwise, and other factors beyond our control, such as fluctuations in the valuations of companies perceived by investors to be comparable to us.

Furthermore, the stock markets have experienced price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market fluctuations, as well as general economic, systemic, political and market conditions, such as recessions, interest rate changes or international currency fluctuations, may negatively affect the market price of our common stock.

The trading price of our common stock is likely to be volatile and subject to wide price fluctuations in response to various factors, including:

- market conditions in the broader stock market in general, or in our industry in particular;
- actual or anticipated fluctuations in our quarterly financial and operating results;
- introduction of new products and services by us or our competitors;
- sales, or anticipated sales, of large blocks of our stock;
- issuance of new or changed securities analysts' reports or recommendations;
- failure of industry or securities analysts to maintain coverage of our company, changes in financial estimates by any industry or securities analysts that follow our company, or our failure to meet such estimates;
- additions or departures of key personnel;
- regulatory or political developments;
- changes in accounting principles or methodologies;
- acquisitions by us or by our competitors;
- litigation and governmental investigations;
- economic, political and geopolitical conditions or events.

These and other factors may cause the market price and demand for our common stock to fluctuate substantially, which may limit or prevent investors from readily selling their shares of common stock and may otherwise negatively affect the liquidity of our common stock. In addition, in the past, when the market price of a stock has been volatile, holders of that stock have often instituted securities class action litigation against the company that issued the stock. If additional class action litigation was instituted against us, in addition to the four class action lawsuits to which we and certain of our former officers and current and former directors are currently subject, as described in Item 1. Legal Proceedings, such matters could further divert the time and attention of our management from our business and seriously harm our business, financial condition and results of operations.

\*We may fail to continue to meet the listing standards of Nasdaq, and as a result our common stock may be delisted, which could have a material adverse effect on the liquidity of our common stock.

The listing standards of the Nasdaq Global Market provide that a company, in order to qualify for continued listing, must maintain a minimum stock price of \$1.00, or the "minimum bid requirement", and satisfy standards relative to minimum stockholders' equity, minimum market value of publicly held shares and various additional requirements. If we fail to meet the minimum bid requirement, or in the event we are unable to maintain one of the alternative continued listing standards, our common stock may be subject to delisting from the Nasdaq Stock Market.

On July 22, 2020, we received a deficiency letter from the Listing Qualifications Department of The Nasdaq Stock Market, LLC, or the "staff", notifying us that, for 30 consecutive business days, the bid price for our common stock did not meet the minimum bid requirement. In accordance with the Nasdaq Listing Rules, we have 180 calendar days to regain compliance with the minimum bid requirement. To regain compliance with the minimum bid requirement, the closing bid price of our common stock must be at least \$1.00 per share for a minimum of 10 consecutive business days during this 180-day compliance period, unless the staff exercises its discretion to extend this period pursuant to the Nasdaq Listing Rules. Our compliance period will expire on January 18, 2021. In the event that we do not regain compliance on or before January 18, 2021, we may be eligible for an additional 180 calendar day compliance period. To qualify, we would need to transfer the listing of our common stock to the Nasdaq Capital Market, provided that we meet the continued listing requirement for market value of publicly held shares and all other initial listing standards, with the exception of the minimum bid requirement. To effect such a transfer, we would also need to pay an application fee to Nasdaq and provide written notice to the staff of our intention to cure the deficiency during the second compliance period. However, if it appears to the staff that we will not be able to cure the deficiency, or if we do not meet the other listing standards, the staff could provide notice that our common stock will become subject to delisting. In the event we receive notice that our Common Stock is being

delisted, the Nasdaq Listing Rules permit us to appeal any such delisting determination by the staff to a Hearings Panel. However, there can be no assurance that if the Company appeals the delisting determination to a Hearings Panel, such appeal would be successful, or that the Company will be able to regain compliance with the minimum bid requirement or maintain compliance with the other Nasdaq listing requirements.

If we are delisted, we would expect our common stock to be traded in the over-the-counter market, which could adversely affect the liquidity of our common stock. Additionally, we could face significant material adverse consequences, including:

- a limited availability of market quotations for our common stock;
- a reduced amount of analyst coverage for us;
- a decreased ability to issue additional securities or obtain additional financing in the future;
- reduced liquidity for our stockholders;
- potential loss of confidence by collaboration partners and employees; and
- loss of institutional investor interest.

**Unless our common stock continues to be listed on a national securities exchange it will become subject to the so-called “penny stock” rules that impose restrictive sales practice requirements.**

If we are unable to maintain the listing of our common stock on Nasdaq or another national securities exchange, our common stock could become subject to the so-called “penny stock” rules if the shares have a market value of less than \$5.00 per share. The SEC has adopted regulations that define a penny stock to include any stock that has a market price of less than \$5.00 per share, subject to certain exceptions, including an exception for stock traded on a national securities exchange. The SEC regulations impose restrictive sales practice requirements on broker-dealers who sell penny stocks to persons other than established customers and accredited investors. An accredited investor generally is a person whose individual annual income exceeded \$200,000, or whose joint annual income with a spouse exceeded \$300,000 during the past two years and who expects their annual income to exceed the applicable level during the current year, or a person with net worth in excess of \$1.0 million, not including the value of the investor’s principal residence and excluding mortgage debt secured by the investor’s principal residence up to the estimated fair market value of the home, except that any mortgage debt incurred by the investor within 60 days prior to the date of the transaction shall not be excluded from the determination of the investor’s net worth unless the mortgage debt was incurred to acquire the residence. For transactions covered by this rule, the broker-dealer must make a special suitability determination for the purchaser and must have received the purchaser’s written consent to the transaction prior to sale. This means that if we are unable maintain the listing of our common stock on a national securities exchange, the ability of stockholders to sell their common stock in the secondary market could be adversely affected. If a transaction involving a penny stock is not exempt from the SEC’s rule, a broker-dealer must deliver a disclosure schedule relating to the penny stock market to each investor prior to a transaction. The broker-dealer also must disclose the commissions payable to both the broker-dealer and its registered representative, current quotations for the penny stock, and, if the broker-dealer is the sole market maker, the broker-dealer must disclose this fact and the broker-dealer’s presumed control over the market. Finally, monthly statements must be sent disclosing recent price information for the penny stock held in the customer’s account and information on the limited market in penny stocks.

**Our executive officers and directors, and their affiliated entities, along with our two other largest stockholders, own a significant percentage of our stock and are able to exert significant control over matters subject to stockholder approval.**

Our executive officers and directors, together with entities affiliated with such individuals, along with our two other largest stockholders, beneficially own a significant percentage of our common stock as of June 30, 2020. Accordingly, these stockholders may, as a practical matter, continue to be able to control the election of a majority of our directors and the determination of all corporate actions. This concentration of ownership could delay or prevent a change in control of the Company.

**Sales of a substantial number of shares of our common stock in the public market, or the perception these sales might occur, could cause our stock price to decline**

The market price of our common stock could decrease significantly as a result of sales of a large number of shares of our common stock in the public market, and the perception that these sales could occur may also depress the market price of our common stock. Certain stockholders are entitled, under our investors' rights agreement, to require us to register shares owned by them for public sale in the United States. In addition, we filed a registration statement to register shares issued under our equity compensation plans. As a result, subject to the satisfaction of applicable vesting periods, the shares issued upon exercise of outstanding stock options or upon settlement of outstanding RSU awards will be available for immediate resale in the United States in the open market. A decline in the price of shares of our common stock might impede our ability to raise capital through the issuance of additional shares of our common stock or other equity securities.

**Since we do not expect to pay any cash dividends for the foreseeable future, investors may be forced to sell their stock in order to obtain a return on their investment.**

We do not anticipate declaring or paying in the foreseeable future any cash dividends on our capital stock. Instead, we plan to retain any earnings to finance our operations and growth plans discussed elsewhere in this report. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any return on their investment. As a result, investors seeking cash dividends should not purchase our common stock.

**If securities or industry analysts do not publish research or reports about our business, or if they change their recommendations regarding our stock adversely, our stock price and trading volume could decline.**

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

**If we fail to maintain proper and effective internal controls or are unable to remediate any deficiencies or weaknesses in our internal controls, our ability to produce accurate financial statements on a timely basis could be impaired.**

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the Sarbanes Oxley Act of 2002, or the Sarbanes-Oxley Act, and the rules and regulations of Nasdaq. Section 302 of the Sarbanes-Oxley Act requires, among other things, that we report on the effectiveness of our disclosure controls and procedures in our quarterly and annual reports and, beginning with our annual report for the year ended December 31, 2020, Section 404 of the Sarbanes-Oxley Act requires that we perform system and process evaluation and testing of our internal controls over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting in our Form 10-K filing for that year. This will require that we incur substantial additional professional fees and internal costs to expand our accounting and finance functions and that we expend significant management efforts. As a newly public company, we may experience difficulty in testing our internal controls in a timely manner. We have recently implemented reductions in force which may result in changes to our internal controls over financial reporting. A changing internal control environment increases the risk that our system of internal controls is not designed effectively or that internal control activities will not occur as designed. The occurrence of or failure to remediate a significant deficiency or material weakness may adversely affect our business and the market price of shares of our common stock.

As a public company, we are required to maintain internal control over financial reporting and to report any material weaknesses in those internal controls. With respect to the year ended December 31, 2019, we identified two material weaknesses in our internal controls over financial reporting related to the design and implementation of our IT general controls including elevated (administrator) access to financial reporting systems and subsystems and accounting for fulfillment costs in connection with adoption of ASU 2014- 09, Revenue from Contracts with Customers (Topic 606). Although we are making efforts to remediate these issues, these efforts may not be sufficient to avoid similar material weaknesses in the future.

If the material weaknesses in our internal controls are not fully remediated or if additional material weaknesses are identified, those material weaknesses could cause us to fail to meet our future reporting obligations, reduce the market's confidence in our financial statements, harm our stock price and subject us to sanctions or investigations by Nasdaq, the SEC or other regulatory authorities. In addition, our common stock may not be able to remain listed on Nasdaq or any other securities exchange. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud will be detected.

**We are an “emerging growth company” and we cannot be certain whether 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 JOBS Act, and we intend to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not “emerging growth companies” including, but not limited to, 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 whether investors will find our common stock less attractive if we 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.

**The requirements of being a public company may strain our resources and distract our management, which could make it difficult to manage our business, particularly after we are no longer an “emerging growth company.”**

We are required to comply with various regulatory and reporting requirements, including those required by the SEC. Complying with these reporting and other regulatory requirements will be time-consuming and will result in increased costs to us and could have a negative effect on our results of operations, financial condition or business.

As a public company, we are subject to the reporting requirements of the Exchange Act and requirements of the Sarbanes-Oxley Act. These requirements may place a strain on our systems and resources. The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act requires that we maintain effective disclosure controls and procedures and internal controls over financial reporting. To maintain and improve the effectiveness of our disclosure controls and procedures, we will need to commit significant resources, hire additional staff and provide additional management oversight. We will be implementing additional procedures and processes for the purpose of addressing the standards and requirements applicable to public companies. Sustaining our growth also will require us to commit additional management, operational and financial resources to identify new professionals to join our firm and to maintain appropriate operational and financial systems to adequately support expansion. These activities may divert management’s attention from other business concerns, which could have a significant adverse impact on our results of operations, financial condition or business.

As an “emerging growth company” as defined in the JOBS Act, we intend to take advantage of certain temporary exemptions from various reporting requirements including, but not limited to, 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. In addition, we have elected under the JOBS Act to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. As a result, our financial statements may not be comparable to companies that comply with new or revised accounting pronouncements as of public company effective dates.

When these exemptions cease to apply, we expect to incur additional expenses and devote increased management effort toward ensuring compliance with them. We cannot predict or estimate the amount of additional costs we may incur as a result of becoming a public company or the timing of such costs.

**Some provisions of Delaware law and our certificate of incorporation and bylaws may delay or prevent a change in control and may discourage bids for our common stock at a premium over its market price.**

Our certificate of incorporation and bylaws provide for, among other things:

- the authorization of undesignated preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval;
- advance notice requirements for stockholder proposals; and
- certain limitations on convening special stockholder meetings.

These anti-takeover defenses could discourage, delay or prevent a transaction involving a change in control of our company. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing and cause us to take other corporate actions than you desire.

Additionally, we are subject to the provisions of Section 203 of the Delaware General Corporation Law, or the DGCL. These provisions prohibit large stockholders, in particular a stockholder owning 15% or more of the outstanding voting stock, from consummating a merger or combination with a corporation unless this stockholder receives board approval for the transaction or 66 2/3% of the shares of voting stock not owned by the stockholder approve the merger or transaction. These provisions of Delaware law may have the effect of delaying, deferring or preventing a change in control, and may discourage bids for our common stock at a premium over its market price.

**\*Our amended and restated certificate of incorporation designates the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, employees or agents.**

Our amended and restated certificate of incorporation provides that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will be the exclusive forum for the following types of actions or proceedings under Delaware statutory or common law: any derivative action or proceeding brought on our behalf; any action asserting a breach of a fiduciary duty; any action asserting a claim against us arising pursuant to the Delaware General Corporation Law, our amended and restated certificate of incorporation, or our amended and restated bylaws; any action as to which Delaware General Corporation Law confers jurisdiction to the Court of Chancery of the State of Delaware; and any action asserting a claim against us that is governed by the internal affairs doctrine. The provisions would not apply to suits brought to enforce a duty or liability created by the Exchange Act or any other claim for which the federal courts have exclusive jurisdiction. Furthermore, Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all such Securities Act actions. Accordingly, both state and federal courts have jurisdiction to entertain such claims. Our stockholders cannot waive compliance with the federal securities laws and the rules and regulations thereunder. Our amended and restated certificate of incorporation provides that, unless we consent in writing to the selection of an alternative forum, the federal district courts of the United States of America will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act.

These choice of forum provisions may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, or other employees. While the Delaware courts have determined that such choice of forum provisions are facially valid, a stockholder may nevertheless seek to bring a claim in a venue other than those designated in the exclusive forum provisions. In such instance, we would expect to vigorously assert the validity and enforceability of the exclusive forum provisions of our amended and restated certificate of incorporation. This may require significant additional costs associated with resolving such action in other jurisdictions, and there can be no assurance that the provisions will be enforced by a court in those other jurisdictions.

**Our amended and restated certificate of incorporation designates the U.S. federal district courts as the exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act. We will seek to enforce these provisions.**

Our amended and restated certificate of incorporation provides that, unless we consent in writing to the selection of an alternative forum, the federal district courts of the United States shall, to the fullest extent permitted by law, be the sole and exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act. Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all suits brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder. Accordingly, there is uncertainty as to whether a court would enforce such provision. The Delaware Supreme Court recently determined that the exclusive forum provision of federal district courts of the United States of America for resolving any complaint asserting a cause of action arising under the Securities Act is permissible and enforceable under Delaware law, reversing an earlier decision from the Court of Chancery of the State of Delaware that had ruled that such provisions were not enforceable. In light of the Delaware Supreme Court determination that Delaware law permits exclusive federal forum provisions, we will seek to enforce the exclusive federal forum provision in our amended and restated certificate of incorporation including in pending litigation. Enforcement of this provision could result in additional costs. If we face relevant litigation and are unable to enforce this provision, we may incur additional costs associated with resolving such matters in other jurisdictions, which could harm our business, financial condition, or results of operations.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

**Sales of Unregistered Securities**

As previously disclosed in a Form 8-K filed with the SEC on June 5, 2020, we issued 8,226,834 shares of our common stock to B. Riley Principal Investments, LLC, an affiliate of B. Riley Financial, Inc. The transaction was exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 4(a)(2) thereof.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.



**Item 6. Exhibits.**

| <b>Exhibit Number</b> | <b>Description</b>  | <b>Form</b> | <b>File No.</b> | <b>Incorporated by Exhibit Reference</b> | <b>Filing Date</b> |
|-----------------------|---|-------------|-----------------|--|--------------------|
| 3.1                   | <a href="#">Amended and Restated Certificate of Incorporation of the Registrant.</a>  | 8-K         | 001-38907       | 3.1                                      | May 17, 2019       |
| 3.2                   | <a href="#">Amended and Restated Bylaws of the Registrant.</a>  | 8-K         | 001-38907       | 3.2                                      | May 17, 2019       |
| 4.1                   | <a href="#">Form of Common Stock Certificate of the Registrant</a>  | S-1/A       | 333-230887      | 4.1                                      | April 29, 2019     |
| 31.1                  | <a href="#">Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a> |             |                 |  |                    |
| 31.2                  | <a href="#">Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a> |             |                 |  |                    |
| 32.1*                 | <a href="#">Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>  |             |                 |  |                    |
| 32.2*                 | <a href="#">Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>  |             |                 |  |                    |
| 101.INS               | XBRL Instance 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.  |             |                 |  |                    |
| 101PRE                | XBRL Taxonomy Extension Presentation Linkbase Document.   |             |                 |  |                    |

\* The certifications furnished in Exhibits 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q are deemed furnished and not filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

**SIGNATURES**

Pursuant to the requirements 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.

Company Name

Date: August 12, 2020

By: \_\_\_\_\_  
/s/ Tom Wilkinson  
**Tom Wilkinson**  
**Chief Executive Officer**

Date: August 12, 2020

By: \_\_\_\_\_  
/s/ Robert Tirva  
**Robert Tirva**  
**Chief Financial Officer**

**CERTIFICATION PURSUANT TO  
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Thomas W. Wilkinson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sonim Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) 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
  - (c) 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: August 12, 2020

By: \_\_\_\_\_ /s/ Tom Wilkinson  
**Tom Wilkinson, Chief Executive Officer**  
*(Principal Executive Officer)*

**CERTIFICATION PURSUANT TO  
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Robert Tirva, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sonim Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) 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
  - (c) 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: August 12, 2020

By: \_\_\_\_\_ /s/ Robert Tirva  
**Robert Tirva, Chief Financial Officer**  
*(Principal Financial Officer)*

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Sonim Technologies, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 12, 2020

By: \_\_\_\_\_ /s/ Tom Wilkinson  
**Tom Wilkinson**  
**Chief Executive Officer**  
*(Principal Executive Officer)*

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934 (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Sonim Technologies, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 12, 2020

By: \_\_\_\_\_  
/s/ Robert Tirva  
**Robert Tirva**  
**Chief Financial Officer**  
*(Principal Financial Officer)*

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934 (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.