UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2019

☐ 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: **001-36532**

Sphere 3D Corp.

(Exact name of Registrant as specified in its charter)

Ontario, Canada	**98-1220792**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*

895 Don Mills Road, Bldg. 2, Suite 900

Toronto, Ontario, Canada, M3C 1W3

(Address of principal executive offices)

(408) 283-4754

(Registrant's Telephone Number, Including Area Code)

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 x No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ☐

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

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

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. x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐

As of August 8, 2019, there were 2,543,428 shares of the registrant's common stock outstanding.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

Sphere 3D Corp.

Condensed Consolidated Statements of Operations
(in thousands of U.S. dollars, except share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
Revenue	$ 963	$ 2,698	$ 3,093	$ 5,071
Cost of revenue	718	2,225	2,153	4,155
Gross profit	245	473	940	916
Operating expenses:				
Sales and marketing	491	740	944	1,521
Research and development	516	899	1,213	2,010
General and administrative	761	1,691	2,013	4,691
	1,768	3,330	4,170	8,222
Loss from operations	(1,523)	(2,857)	(3,230)	(7,306)
Other income (expense):				
Interest expense, related party	(144)	(1,212)	(286)	(1,770)
Interest expense	(12)	—	(15)	—
Other income (expense), net	14	41	22	(85)
Net loss from continuing operations	(1,665)	(4,028)	(3,509)	(9,161)
Net loss from discontinued operations	—	(1,974)	—	(3,664)
Net loss	$ (1,665)	$ (6,002)	$ (3,509)	$ (12,825)
Net loss per share:				
Continuing operations	$ (0.72)	$ (2.36)	$ (1.55)	$ (6.86)
Discontinued operations	$ —	$ (1.16)	—	(2.75)
Net loss per share basic and diluted	$ (0.72)	$ (3.52)	$ (1.55)	$ (9.61)
Shares used in computing net loss per share:				
Basic and diluted	2,300,469	1,706,289	2,268,706	1,335,104

See accompanying notes to condensed consolidated financial statements.

Sphere 3D Corp.

Condensed Consolidated Statements of Comprehensive Loss
(in thousands of U.S. dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
Net loss	$ (1,665)	$ (6,002)	$ (3,509)	$ (12,825)
Other comprehensive income (loss):				
Foreign currency translation adjustment	2	(407)	42	234
Total other comprehensive income (loss)	2	(407)	42	234
Comprehensive loss	$ (1,663)	$ (6,409)	$ (3,467)	$ (12,591)

See accompanying notes to condensed consolidated financial statements.

Sphere 3D Corp.

Condensed Consolidated Balance Sheets
(in thousands of U.S. dollars, except shares)

	June 30, 2019	December 31, 2018
Assets	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 151	$ 341
Accounts receivable, net	500	1,142
Inventories	1,170	1,230
Other current assets	703	784
Total current assets	2,524	3,497
Investment in affiliate	2,100	2,100
Property and equipment, net	5	6
Intangible assets, net	2,873	3,348
Goodwill	1,385	1,385
Other assets	1,025	950
Total assets	$ 9,912	$ 11,286
Liabilities and Shareholders' Deficit		
Current liabilities:		
Accounts payable	$ 5,305	$ 4,600
Accrued liabilities	1,761	1,711
Accrued payroll and employee compensation	1,714	1,717
Deferred revenue	721	988
Debt, related party	500	500
Line of credit	389	100
Other current liabilities	103	23
Total current liabilities	10,493	9,639
Series A redeemable preferred shares	6,832	6,571
Deferred revenue, long-term	679	667
Long-term debt, related party	523	—
Other non-current liabilities	113	16
Total liabilities	18,640	16,893
Commitments and contingencies (Note 14)		
Shareholders' deficit:		
Common shares, no par value; 2,303,088 and 2,219,141 shares issued and outstanding as of June 30, 2019 and December 31, 2018, respectively	183,870	183,524
Accumulated other comprehensive loss	(1,774)	(1,816)
Accumulated deficit	(190,824)	(187,315)
Total shareholders' deficit	(8,728)	(5,607)
Total liabilities and shareholders' deficit	$ 9,912	$ 11,286

See accompanying notes to condensed consolidated financial statements.

Sphere 3D Corp.

Condensed Consolidated Statements of Cash Flows
(in thousands of U.S. dollars)

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Operating activities:	(Unaudited)	
Net loss	$ (3,509)	$ (12,825)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	520	2,410
Share-based compensation	240	1,265
Preferred shares interest expense, related party	261	—
Amortization of debt issuance costs	—	1,532
Fair value adjustment of warrants	—	(259)
Payment in-kind interest expense, related party	—	129
Changes in operating assets and liabilities:		
Accounts receivable	641	2,549
Inventories	61	990
Accounts payable and accrued liabilities	672	2,064
Accrued payroll and employee compensation	182	(263)
Deferred revenue	(256)	(721)
Other assets and liabilities, net	186	(343)
Net cash used in operating activities	(1,002)	(3,472)
Investing activities:		
Purchase of property and equipment	—	(31)
Net cash used in investing activities	—	(31)
Financing activities:		
Proceeds from debt - related party	523	—
Proceeds from line of credit, net	289	—
Proceeds from issuance of common shares and warrants	—	2,310
Payment for issuance costs	—	(359)
Payments on debt, related party	—	(192)
Net cash provided by financing activities	812	1,759
Effect of exchange rate changes on cash	—	4
Net decrease in cash and cash equivalents	(190)	(1,740)
Cash and cash equivalents, beginning of period	341	4,598
Cash and cash equivalents, end of period	151	2,858
Less: Cash and cash equivalents, discontinued operations	—	2,574
Cash and cash equivalents of continuing operations, end of period	$ 151	$ 284
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 19	$ 633
Supplemental disclosures of non-cash financing activities:		
Issuance of common shares for settlement of related party liabilities	$ —	$ 1,393
Issuance of common shares for settlement of liabilities	$ 105	$ 1,162
Costs accrued for issuance of common shares	$ —	$ 191

See accompanying notes to condensed consolidated financial statements.

Sphere 3D Corp.

Consolidated Statements of Shareholders' Equity (Deficit)
(in thousands of U.S. dollars, except shares)

	Common Shares		Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Deficit
	Shares	Amount			
Balance at January 1, 2019	2,219,141	$ 183,524	$ (1,816)	$ (187,315)	$ (5,607)
Issuance of common shares pursuant to the vesting of restricted stock units	38,930	—	—	—	—
Issuance of restricted stock awards	42,000	105	—	—	105
Share-based compensation	—	124	—	—	124
Other comprehensive income	—	—	40	—	40
Net loss	—	—	—	(1,844)	(1,844)
Balance at March 31, 2019	2,300,071	183,753	(1,776)	(189,159)	(7,182)
Issuance of common shares pursuant to the vesting of restricted stock units	3,017	—	—	—	—
Share-based compensation	—	117	—	—	117
Other comprehensive income	—	—	2	—	2
Net loss	—	—	—	(1,665)	(1,665)
Balance at June 30, 2019	2,303,088	$ 183,870	$ (1,774)	$ (190,824)	$ (8,728)

	Common Shares		Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount			
Balance at January 1, 2018	889,461	$ 173,871	$ (1,981)	$ (161,427)	$ 10,463
Adoption of accounting standards	—	—	—	320	320
Issuance of common shares for warrant exchange	178,875	1,364	—	—	1,364
Issuance of common shares for settlement of related party interest expense	43,120	483	—	—	483
Issuance of common shares pursuant to the vesting of restricted stock units	26,353	—	—	—	—
Issuance of restricted stock awards	40,654	787	—	—	787
Share-based compensation	—	821	—	—	821
Other comprehensive income	—	—	641	—	641
Net loss	—	—	—	(6,823)	(6,823)
Balance at March 31, 2018	1,178,463	177,326	(1,340)	(167,930)	8,056
Issuance of common shares and warrants for cash, net	492,600	2,067	—	—	2,067
Issuance of common shares for settlement of related party interest expense	176,250	910	—	—	910
Issuance of common shares pursuant to the vesting of restricted stock units	22,246	—	—	—	—
Issuance of restricted stock awards	36,665	119	—	—	119
Share-based compensation	—	444	—	—	444
Other comprehensive loss	—	—	(407)	—	(407)
Net loss	—	—	—	(6,002)	(6,002)
Balance at June 30, 2018	1,906,224	$ 180,866	$ (1,747)	$ (173,932)	$ 5,187

See accompanying notes to condensed consolidated financial statements.

1. Organization and Business

Sphere 3D Corp. (the "Company") was incorporated under the *Business Corporations Act (Ontario)* on May 2, 2007 as T.B. Mining Ventures Inc. On March 24, 2015, the Company completed a short-form amalgamation with a wholly-owned subsidiary. In connection with the short-form amalgamation, the Company changed its name to "Sphere 3D Corp."

The Company delivers data management, and desktop and application virtualization solutions through hybrid cloud, cloud and on premise implementations by its global reseller network. The Company achieves this through a combination of containerized applications, virtual desktops, virtual storage and physical hyper-converged platforms. The Company's products allow organizations to deploy a combination of public, private or hybrid cloud strategies while backing them up with the latest storage solutions. The Company has a portfolio of brands including SnapCLOUD®, SnapServer®, SnapSync®, HVE, and V3®.

In November 2018, the Company completed the sale of its outstanding shares of capital stock of Overland Storage, Inc. ("Overland"). In connection with the closing of the Purchase Agreement, the Company filed an amendment to its articles of amalgamation setting forth the rights, privileges, restrictions and conditions of a new series of non-voting preferred shares of the Company (the "Series A Preferred Shares"). The Company entered into a Conversion Agreement between the Company and FBC Holdings S.a r.l. ("FBC Holdings"), pursuant to which $6.5 million of the Company's then outstanding debt was converted into 6,500,000 Series A Preferred Shares (the "Preferred Shares").

Management has projected that cash on hand will not be sufficient to allow the Company to continue operations beyond August 31, 2019 if we are unable to raise additional funding for operations. We expect our working capital needs to increase in the future as we continue to expand and enhance our operations. Our ability to raise additional funds through equity or debt financings or other sources may depend on the financial success of our current business and successful implementation of our key strategic initiatives, financial, economic and market conditions and other factors, some of which are beyond our control. No assurance can be given that we will be successful in raising the required capital at reasonable cost and at the required times, or at all. Further equity financings may have a dilutive effect on shareholders and any debt financing, if available, may require restrictions to be placed on our future financing and operating activities. If we require additional capital and are unsuccessful in raising that capital, we may not be able to continue our business operations and advance our growth initiatives, which could adversely impact our business, financial condition and results of operations.

Significant changes from the Company's current forecasts, including but not limited to: (i) failure to comply with the terms and financial covenants in its debt facilities; (ii) shortfalls from projected sales levels; (iii) unexpected increases in product costs; (iv) increases in operating costs; (v) changes in the historical timing of collecting accounts receivable; and (vi) inability to maintain compliance with the requirements of the NASDAQ Capital Market and/or inability to maintain listing with the NASDAQ Capital Market could have a material adverse impact on the Company's ability to access the level of funding necessary to continue its operations at current levels. If any of these events occurs or the Company is unable to generate sufficient cash from operations or financing sources, the Company may be forced to liquidate assets where possible and/or curtail, suspend or cease planned programs or operations generally or seek bankruptcy protection or be subject to an involuntary bankruptcy petition, any of, which would have a material adverse effect on the Company's business, results of operations, financial position and liquidity.

The Company incurred losses from operations and negative cash flows from operating activities for the six months ended June 30, 2019, and such losses may continue for the foreseeable future. Based upon the Company's current expectations and projections for the next year, the Company believes that it will not have sufficient liquidity necessary to sustain operations beyond August 31, 2019. These factors, among others, raise substantial doubt that the Company will be able to continue as a going concern. The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

2. Significant Accounting Policies

Principles of Consolidation

The condensed consolidated financial statements of the Company have been prepared by management in accordance with accounting principles generally accepted in the United States of America ("GAAP"), applied on a basis consistent for all periods. These condensed consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on March 29, 2019. These condensed consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All intercompany balances and transactions have been appropriately eliminated in consolidation.

In November 2018, the Company closed the Purchase Agreement related to its divestiture of Overland. The 2018 financial results of Overland have been reflected in the Company's condensed consolidated statements of operations as discontinued operations. The Company's 2018 statement of cash flows is presented on a combined basis, including continuing and discontinued operations. Unless it is otherwise disclosed, all other disclosures in the consolidated financial statements are related to continuing operations.

Use of Estimates

The preparation of the condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the condensed consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of provisions for impairment assessments of goodwill, other indefinite-lived intangible assets; revenue; allowance for doubtful receivables; inventory valuation; warranty provisions; and litigation claims. Actual results could differ from these estimates.

Foreign Currency Translation

The financial statements of foreign subsidiaries, for which the functional currency is the local currency, are translated into U.S. dollars using the exchange rate at the consolidated balance sheet date for assets and liabilities and a weighted-average exchange rate during the year for revenue, expenses, gains and losses. Translation adjustments are recorded as other comprehensive income (loss) within shareholders' deficit. Gains or losses from foreign currency transactions are recognized in the condensed consolidated statements of operations. Such transactions resulted in a gain of $14,000 and $40,000 in the three months ended June 30, 2019 and 2018, respectively, and a loss of $8,000 and $345,000 in the six months ended June 30, 2019 and 2018, respectively.

Cash Equivalents

Highly liquid investments with insignificant interest rate risk and original maturities of three months or less, when purchased, are classified as cash equivalents. Cash equivalents are composed of money market funds. The carrying amounts approximate fair value due to the short maturities of these instruments.

Accounts Receivable

Accounts receivable is recorded at the invoiced amount and is non-interest bearing. We estimate our allowance for doubtful accounts based on an assessment of the collectability of specific accounts and the overall condition of the accounts receivable portfolio. When evaluating the adequacy of the allowance for doubtful accounts, we analyze specific trade and other receivables, historical bad debts, customer credits, customer concentrations, customer credit-worthiness, current economic trends and changes in customers' payment terms and/or patterns. We review the allowance for doubtful accounts on a quarterly basis and record adjustments as considered necessary. Customer accounts are written-off against the allowance for doubtful accounts when an account is considered uncollectable.

Inventories

Inventories are stated at the lower of cost and net realizable value using the first-in-first-out method. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. We assess the value of inventories periodically based upon numerous factors including, among others, expected product or material demand, current market conditions, technological obsolescence, current cost, and net realizable value. If necessary, we write down our inventory for obsolete or unmarketable inventory by an amount equal to the difference between the cost of the inventory and the net realizable value.

Investment in Affiliate

The Company holds an investment in equity securities of a nonpublic company for business and strategic purposes. The equity securities do not have a readily determinable fair value and are carried at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The Company reviews its investment on a regular basis to determine if the investment is impaired. For purposes of this assessment, the Company considers the investee's cash position, earnings and revenue outlook, liquidity and management ownership, among other factors, in its review. If management's assessment indicates that an impairment exists, the Company estimates the fair value of the equity investment and recognizes in current earnings an impairment loss that is equal to the difference between the fair value of the equity investment and its carrying amount.

Goodwill and Intangible Assets

Goodwill represents the excess of consideration paid over the value assigned to the net tangible and identifiable intangible assets acquired. For intangible assets purchased in a business combination, the estimated fair values of the assets received are used to establish their recorded values. For intangible assets acquired in a non-monetary exchange, the estimated fair values of the assets transferred (or the estimated fair values of the assets received, if more clearly evident) are used to establish their recorded values. Valuation techniques consistent with the market approach, income approach and/or cost approach are used to measure fair value.

Purchased intangible assets are amortized on a straight-line basis over their economic lives of six to 25 years for channel partner relationships, three to nine years for developed technology, three to eight years for capitalized development costs, and two to 25 years for customer relationships as this method most closely reflects the pattern in which the economic benefits of the assets will be consumed.

Impairment of Goodwill and Intangible Assets

Goodwill and intangible assets are tested for impairment on an annual basis at December 31, or more frequently if there are indicators of impairment. Triggering events for impairment reviews may be indicators such as adverse industry or economic trends, restructuring actions, lower projections of profitability, or a sustained decline in our market capitalization. Intangible assets are quantitatively assessed for impairment, if necessary, by comparing their estimated fair values to their carrying values. If the carrying value exceeds the fair value, the difference is recorded as an impairment.

Revenue Recognition

The Company generates revenue primarily from: (i) solutions for standalone storage and integrated hyper-converged storage; (ii) professional services; and (iii) warranty and customer services. The Company recognizes revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. To determine revenue recognition for contracts with customers the Company performs the following five steps: (i) identify the promised goods or services in the contract; (ii) identify the performance obligations in the contract, including whether they are distinct in the context of the contract; (iii) determine the transaction price, including the constraint on variable consideration; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies the performance obligations.

Approximately 70% of the Company's revenue is recognized when performance obligations under the terms of a contract with a customer are satisfied at a point in time. These contracts are generally comprised of a single performance obligation to transfer products. Accordingly, the Company recognizes revenue when change of control has been transferred to the customer, generally at the time of shipment of products. The Company sells its products both directly to customers and through distributors generally under agreements with payment terms typically less than 45 days. Revenue on direct product sales, excluding sales to distributors, are not entitled to any specific right of return or price protection, except for any defective product that may be returned under our standard product warranty. Product sales to distribution customers that are subject to certain rights of return, stock rotation privileges and price protections, contain a component of "variable consideration." Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring products and is generally based upon a negotiated fixed price and is net of estimates for variable considerations.

For performance obligations related to warranty and customer services, such as extended product warranties, the Company transfers control and recognizes revenue on a time-elapsed basis. The performance obligations are satisfied as services are rendered typically on a stand-ready basis over the contract term, which is generally 12 months.

In limited circumstances where a customer is unable to accept shipment and requests products be delivered to, and stored on, the Company's premises, also known as a "bill-and-hold" arrangement, revenue is recognized when: (i) the customer has requested delayed delivery and storage of the products, (ii) the goods are segregated from the inventory, (iii) the product is complete, ready for shipment and physical transfer to the customer, and (iv) the Company does not have the ability to use the product or direct it to another customer.

The Company also enters into revenue arrangements that may consist of multiple performance obligations of its product and service offerings such as for sales of hardware devices and extended warranty services. The Company allocates contract fees to the performance obligations on a relative stand-alone selling price basis. The Company determines the stand-alone selling price based on its normal pricing and discounting practices for the specific product and/or service when sold separately. When the Company is unable to establish the individual stand-alone price for all elements in an arrangement by reference to sold separately instances, the Company may estimate the stand-alone selling price of each performance obligation using a cost plus a margin approach, by reference to third party evidence of selling price, based on the Company's actual historical selling prices of similar items, or based on a combination of the aforementioned methodologies; whichever management believes provides the most reliable estimate of stand-alone selling price.

Warranty and Extended Warranty

The Company records a provision for standard warranties provided with all products. If future actual costs to repair were to differ significantly from estimates, the impact of these unforeseen costs or cost reductions would be recorded in subsequent periods.

Separately priced extended on-site warranties and service contracts are offered for sale to customers on all product lines. The Company contracts with third party service providers to provide service relating to on-site warranties and service contracts. Extended warranty and service contract revenue and amounts paid in advance to outside service organizations are deferred and recognized as service revenue and cost of service, respectively, over the period of the service agreement. The Company will typically apply the practical expedient to agreements wherein the period between transfer of any good or service in the contract and when the customer pays for that good or service is one year or less. Advanced payments for long-term maintenance and warranty contracts do not give rise to a significant financing component. Rather, such payments are required by the Company primarily for reasons other than the provision of finance to the entity.

Research and Development Costs

Research and development expenses include payroll, employee benefits, share-based compensation expense, and other headcount-related expenses associated with product development. Research and development expenses also include third-party development and programming costs, localization costs incurred to translate software for international markets, and the amortization of capitalized internally developed software costs.

Comprehensive Loss

Comprehensive loss and its components encompass all changes in equity other than those arising from transactions with shareholders, including net loss and foreign currency translation adjustments, and is disclosed in a separate condensed consolidated statement of comprehensive loss.

Share-based Compensation

We account for share-based awards, and similar equity instruments, granted to employees, non-employee directors, and consultants under the fair value method. Share-based compensation award types include stock options and restricted stock. We use the Black-Scholes option pricing model to estimate the fair value of option awards on the measurement date, which generally is the date of grant. The expense is recognized over the requisite service period (usually the vesting period) for the estimated number of instruments for which service is expected to be rendered. The fair value of restricted stock units (“RSUs”) is estimated based on the market value of the Company’s common shares on the date of grant. The fair value of options granted to non-employees is estimated at the measurement date using the Black-Scholes option pricing model.

Share-based compensation expense for options with graded vesting is recognized pursuant to an accelerated method. Share-based compensation expense for RSUs is recognized over the vesting period using the straight-line method. Share-based compensation expense for an award with performance conditions is recognized when the achievement of such performance conditions are determined to be probable. If the outcome of such performance condition is not determined to be probable or is not met, no compensation expense is recognized and any previously recognized compensation expense is reversed. Forfeitures are recognized in share-based compensation expense as they occur.

We have not recognized, and do not expect to recognize in the near future, any tax benefit related to share-based compensation cost as a result of the full valuation allowance of our net deferred tax assets and its net operating loss carryforward.

Recently Issued Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board ("FASB") that are adopted by the Company as of the specified effective date. If not discussed, the Company believes that the impact of recently issued standards, which are not yet effective, will not have a material impact on the Company's consolidated financial statements upon adoption.

In August 2018, the FASB issued Accounting Standards Update ("ASU") No. 2018-13, *Fair Value Measurement (Topic 820).* The new guidance removes, modifies and adds to certain disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. The update is effective for annual reporting periods, including interim periods, beginning after December 15, 2019, with early adoption permitted. We do not expect the adoption of ASU 2018-13 to have a material effect on our consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"). The update simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. An entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, if applicable. The loss recognized should not exceed the total amount of goodwill allocated to the reporting unit. The same impairment test also applies to any reporting unit with a zero or negative carrying amount. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The update is effective for annual reporting periods, including interim periods, beginning after December 15, 2019, on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed after January 1, 2017. We do not expect the adoption of ASU 2017-04 to have a material effect on our consolidated financial statements and related disclosures.

Recently Adopted Accounting Pronouncements

On January 1, 2019, we adopted ASU 2016-02, *Leases (Topic 842)* ("ASU 2016-02"), as amended. The update increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and requires disclosing key information about leasing arrangements. The update is effective for reporting periods beginning after December 15, 2018. The Company elected to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Company adopted the new standard on January 1, 2019 and elected the package of practical expedients permitted under the transition guidance. The practical expedients allowed us to carry forward our historical assessment of whether existing agreements are or contain a lease and the classification of our existing lease arrangements. As a result of the adoption, the Company recorded right-of-use assets and liabilities on its condensed consolidated balance sheet, which resulted in an increase in the assets and liabilities of the condensed consolidated balance sheet of $253,000, using a discount rate of 8.0%. At June 30, 2019, the weighted-average remaining lease term of the Company's operating leases was approximately 2.0 years.

On January 1, 2019, ASU No. 2018-07, *ASU No. 2018-07, Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting* ("ASU 2018-07). The update aligns measurement and classification guidance for share-based payments to nonemployees with the guidance applicable to employees. Under the new guidance, the measurement of equity-classified nonemployee awards will be fixed at the grant date. The update is effective for annual reporting periods, including interim periods, beginning after December 15, 2018, with early adoption permitted. The adoption of the new standard on January 1, 2019 did not have an effect on our financial position, results of operations or cash flows.

3. Discontinued Operations

In November 2018, the Company transferred all the issued and outstanding shares of capital stock of Overland to Silicon Valley Technology Partners, Inc. (“SVTP”) in consideration for (i) the issuance to the Company of shares of Series A Preferred Stock of SVTP representing 19.9% of the outstanding shares of capital stock of SVTP as of the closing with a value of $2.1 million, (ii) the release of the Company from outstanding debt obligations totaling $41.7 million assumed by SVTP, and (iii) $1.0 million in cash proceeds from SVTP. In addition, the Company entered into a Conversion Agreement with FBC Holdings, pursuant to which $6.5 million of the Company’s outstanding related party secured note was converted into 6,500,000 Preferred Shares of the Company. In 2018, the Company recorded a loss on the divestiture of Overland of $4.3 million which was included in net loss of discontinued operations. At both June 30, 2019 and December 31, 2018, accrued payroll and employee compensation included $1.0 million for accrued one-time employee related costs associated with the divestiture, which was included in the 2018 loss on the disposal of discontinued operations.

The Company and SVTP entered into a transition service agreement (“TSA”) to facilitate an orderly transition process. The TSA has terms ranging up to 24 months depending on the service. Expense incurred by the Company related to the TSA was approximately $84,000 and $165,000 for the three and six months ended June 30, 2019, respectively, and was included in continuing operations.

The 2018 results of discontinued operations for Overland have been reflected as discontinued operations in the condensed consolidated statements of operations and comprehensive loss and consist of the following (in thousands):

	Three Months Ended	Six Months Ended
	June 30, 2018	
Revenue	$ 15,764	$ 32,839
Cost of revenue	10,516	22,023
Gross profit	5,248	10,816
Sales and marketing	3,275	6,884
Research and development	130	307
General and administrative	2,338	4,760
	5,743	11,951
Loss from operations of discontinued operations	(495)	(1,135)
Other expense of discontinued operations:		
Interest expense, related party	(66)	(163)
Interest expense	(1,006)	(1,459)
Other income (expense), net	82	(78)
Loss before income taxes of discontinued operations	(1,485)	(2,835)
Provision for income taxes of discontinued operations	489	829
Net loss of discontinued operations	$ (1,974)	$ (3,664)

Certain cash flows from discontinued operations consisted of the following amounts (in thousands):

	Six Months Ended June 30, 2018
Depreciation and amortization	$ 1,386
Capital expenditures	$ 31

4. Certain Balance Sheet Items

The following table summarizes inventories (in thousands):

	June 30, 2019	December 31, 2018
Raw materials	$ 218	$ 255
Work in process	286	282
Finished goods	666	693
	$ 1,170	$ 1,230

The following table summarizes other current assets (in thousands):

	June 30, 2019	December 31, 2018
Deferred cost - service contracts	$ 246	$ 385
Prepaid insurance and services	194	344
Other	263	55
	$ 703	$ 784

The following table summarizes other assets (in thousands):

	June 30, 2019	December 31, 2018
Prepaid insurance and services	$ 586	$ 653
Deferred cost – service contracts	212	270
Right-of-use asset	198	—
Other	29	27
	$ 1,025	$ 950

5. Intangible Assets

The following table summarizes intangible assets, net (in thousands):

	June 30, 2019	December 31, 2018
Developed technology	$ 13,323	$ 13,383
Channel partner relationships	730	730
Capitalized development costs(1)	3,024	2,918
Customer relationships	380	380
	17,457	17,411
Accumulated amortization:		
Developed technology	(12,422)	(12,222)
Channel partner relationships	(294)	(233)
Capitalized development costs(1)	(1,897)	(1,655)
Customer relationships	(321)	(303)
	(14,934)	(14,413)
Total finite-lived assets, net	2,523	2,998
Indefinite-lived intangible assets - trade names	350	350
Total intangible assets, net	$ 2,873	$ 3,348

(1) Includes the impact of foreign currency exchange rate fluctuations.

Amortization expense of intangible assets was $252,000 and $295,000 during the three months ended June 30, 2019 and 2018, respectively, and $518,000 and $1,141,000 during the six months ended June 30, 2019 and 2018, respectively. Estimated amortization expense for intangible assets is expected to be approximately $509,000 for the remainder of 2019 and $935,000, $511,000, $359,000, $34,000, and $12,000 in fiscal 2020, 2021, 2022, 2023 and 2024, respectively.

6. Investment in Affiliate

In November 2018, in connection with the divestiture of Overland, the Company received 1,879,699 SVTP Preferred Shares representing 19.9% of the outstanding shares of capital stock of SVTP with a fair value of $2.1 million. The fair value of this investment was estimated using discounted cash flows and consideration of the Exchange Agreement described below. The Company concluded it does not have a significant influence over the investee. There were no known identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment at June 30, 2019.

In November 2018, the Company also entered into an Exchange and Buy-Out Agreement (the “Exchange Agreement”), between the Company, FBC Holdings, SVTP, and MF Ventures LLC (“MFV”). Under the terms of the Exchange Agreement, (i) the Company granted FBC Holdings the right to exchange up to 2,500,000 of the Company’s Preferred Shares held by FBC Holdings for up to all of the SVTP Preferred Shares held by the Company (the “Exchange Right”), with such Exchange Right expiring within two years of the November 2018 closing, and (ii) MFV and SVTP have the right to purchase up to 2,500,000 Preferred Shares held by FBC Holdings (or, following exercise of the Exchange Right by FBC Holdings, the SVTP shares held by FBC Holdings) (the “Buy-out Right”), with such Buy-out Right expiring within one year of the November 2018 closing. If MFV or SVTP exercise their Buy-out Right prior to FBC Holdings exercise of its Exchange Right, then any Preferred Shares subject to the exercise of the Buy-out Right will automatically be exchanged for the same number of SVTP Preferred Shares that would have been issued to FBC Holdings had the Exchange Right been exercised prior to the buy-out.

In connection with the Exchange Agreement, the Company entered into a security and pledge agreement between the Company and FBC Holdings, pursuant to which, among other things, the Company granted a security interest to FBC Holdings in all the SVTP Preferred Shares held by the Company to secure the Company’s obligations under the Exchange Agreement.

7. Debt

Related party secured note payable

In November 2018, in connection with the divestiture of Overland, the Company entered into a $500,000 note payable held by SVTP. The note payable bears interest at a rate of 8.0% per annum. The principal amount of the note payable along with any unpaid interest was due on June 13, 2019. The obligations under the note payable are secured by the SVTP Preferred Shares held by the Company. At June 30, 2019, the note payable is in default and at risk of realization.

Related party unsecured notes payable

In January 2019, the Company entered into two unsecured notes payable, for an aggregate of $523,000 with two employees of the Company. Each of the notes payable bear interest at a rate of 2.0% per annum payable annually. The principal amount of the note payable along with any unpaid interest is due on January 10, 2021.

Related party interest expense

For the three and six months ended June 30, 2019, aggregate related party interest expense was $13,000 and $25,000, respectively. At June 30, 2019, there was $12,000 of accrued interest included in accrued liabilities for related party notes payable.

Line of credit

The Company has a line of credit agreement with a bank with a maximum borrowing limit of $400,000. Borrowings under this agreement bear interest at a rate of 6.0% per annum. The line of credit expires on December 19, 2019. The outstanding balance was $389,000 as of June 30, 2019. Borrowings under the line of credit are secured by the inventory and accounts receivable balances of the Company. Effective July 2, 2019, the maximum borrowing limit was increased to $500,000 and the interest rate changed to 6.5% per annum.

The line of credit agreement also contains customary insurance requirements, limits on cross collateralization and events of default, including, among other things, failure to make payments, insolvency or bankruptcy, business termination, merger or consolidation or acquisition without written consent, a material impairment in the perfection or priority of the Lender’s lien in the collateral or in the value of such collateral, or material adverse change to the business that would impair the loan.

8. Preferred Shares

Series A Redeemable Preferred Shares

In 2018, the Company filed an amendment to its articles of amalgamation setting forth the rights, privileges, restrictions and conditions of a new series of non-voting preferred shares of the Company. On November 13, 2018, in connection with the disposition of Overland, the Company entered into a Conversion Agreement with FBC Holdings and $6.5 million of the outstanding principal amount of its secured note held by FBC Holdings was converted into 6,500,000 Preferred Shares. The Preferred Shares (i) are convertible into the Company's common shares, subject to prior shareholder approval, at a conversion rate equal to $1.00 per share, plus accrued and unpaid dividends, divided by an amount equal to 0.85 multiplied by a 15-day volume weighted average price per common share prior to the date the conversion notice is provided (the "Conversion Rate"), (ii) carry a cumulative preferred dividend at a rate of 8.0% of the subscription price per preferred share, (iii) are subject to mandatory redemption for cash at the option of the holders thereof after a two-year period, and (iv) carry a liquidation preference equal to the subscription price per preferred share plus any accrued and unpaid dividends. At June 30, 2019, there was $332,000 of accrued preferred dividends included in Series A redeemable preferred shares, and the three and six months ended June 30, 2019, included related party interest expense of $131,000 and $261,000, respectively.

The common shares issuable upon the conversion of the Preferred Shares may constitute more than 20% of the common shares of the Company currently outstanding and may result in a change of control of the Company, and therefore the Company will seek shareholder approval for the issuance of all common shares issuable upon conversion of the Preferred Shares; provided, however, that the Company shall not seek shareholder approval unless such approval would occur after the six-month anniversary of the initial issue date of the Preferred Shares. In the event shareholder approval is not obtained, FBC Holdings and its affiliates will not be entitled to convert such Preferred Shares into common shares, but any unaffiliated transferee may convert all or any part of the Preferred Shares held by such transferee into the number of fully paid and non-assessable common shares that is equal to the number of Preferred Shares to be converted multiplied by the Conversion Rate in effect on the date of conversion; provided that, (x) after such conversion, the common shares issuable upon such conversion, together with all Common Shares held by such third party transferee that are or would be deemed to be aggregated under the rules of the Nasdaq Stock Market, in the aggregate would not exceed 19.9% of the total number of common shares of the Company then outstanding and (y) such conversion and issuance would not otherwise violate or cause the Company to violate the Company's obligations under the rules or regulations of the Nasdaq Stock Market.

9. Fair Value Measurements

The authoritative guidance for fair value measurements establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

Our financial instruments include cash equivalents, accounts receivable, accounts payable, accrued expenses, debt, related party debt and preferred shares. Fair value estimates of these instruments are made at a specific point in time, based on relevant market information. These estimates may be subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. The carrying amount of cash equivalents, accounts receivable, prepaid expenses, accounts payable and accrued expenses are generally considered to be representative of their respective fair values because of the short-term nature of those instruments. The carrying value of debt and related party debt approximates its fair value as the borrowing rates are substantially comparable to rates available for loans with similar terms. The Company estimates the fair value of the preferred shares utilizing Level 2 inputs, including market yields for similar instruments.

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

The Company's non-financial assets such as investment in affiliate, goodwill, intangible assets and property and equipment are recorded at fair value when an impairment is recognized or at the time acquired in a business combination.

10. Share Capital

In July 2019, the Company completed a private placement and issued 240,000 common shares of the Company at a purchase price of $2.00 per share for gross proceeds of $480,000. The transaction closed on July 29, 2019. The Company intends to use the proceeds from the offering for general corporate and working capital purposes.

In April 2018, the Company closed an underwritten public offering and issued 412,500 common shares and warrants to purchase up to an aggregate of 123,750 common shares at an aggregate purchase price of $5.60 per common share and accompanying warrant, as well as a concurrent closing of warrants to purchase an additional 14,063 common shares pursuant to the partial exercise of the over-allotment option granted to the underwriter. Gross proceeds, before underwriting discounts and commissions and other offering expenses, were approximately $2.3 million.

In May 2018, the Company issued 80,100 common shares to satisfy payment obligations incurred by the Company in the aggregate amount of $0.3 million. The obligations were related to the Share Purchase Agreement entered into in February 2018.

Reverse Stock Split

On October 24, 2018, subject to the approval by the Company’s shareholders (which approval was obtained at the special shareholder meeting held on October 31, 2018), the Board of Directors of the Company authorized a share consolidation (also known as a reverse stock split) of the Company’s issued and outstanding common shares at a ratio of one-for-eight, which became effective on November 5, 2018. All share and per share amounts have been restated for all periods presented to reflect the share consolidation.

Warrants

At June 30, 2019, the Company had the following outstanding warrants to purchase common shares:

Date issued	Contractual life (years)	Exercise price	Number outstanding		Expiration
May 2015	5	$800.00	4,200		May 31, 2020
October 2015	5	$466.00	2,010		October 14, 2020
December 2015	5	$500.00	5,138		December 15, 2020
December 2015	5	$216.00	7,500	(1)	December 4, 2020
March 2016	5	$500.00	150		March 4, 2021
November 2016	3	$400.00	125		November 8, 2019
August 2017	5	$42.00	37,500		August 11, 2022
August 2017	5	$42.00	11,876		August 16, 2022
August 2017	5	$42.00	25,625		August 22, 2022
April 2018	5	$5.60	111,563		April 17, 2023
			205,687	(2)	

(1) If the Company or any subsidiary thereof, at any time while this warrant is outstanding, enters into a Variable Rate Transaction ("VRT") (as defined in the purchase agreement) and the issue price, conversion price or exercise price per share applicable thereto is less than the warrant exercise price then in effect, the exercise price shall be reduced to equal the VRT price.

(2) Includes warrants to purchase up to 40,000 common shares, in the aggregate, outstanding to related parties at June 30, 2019.

Related Party Share Capital Transactions

In March 2018, the Company entered into warrant exchange agreements, in a privately negotiated exchange under Section 4(a)(2) of the Securities Act of 1933, as amended, pursuant to which the Company issued 178,875 common shares in exchange for the surrender and cancellation of the Company's then outstanding March 24, 2017 warrants (the "Exchange"). Immediately after the Exchange, the previously issued warrants became null and void. A related party participated in the Exchange by acquiring 37,500 common shares in exchange for the cancellation of a warrant to purchase 34,091 common shares.

11. Equity Incentive Plans

During the six months ended June 30, 2019 and 2018, the Company granted awards of restricted stock units of 100,000 and 50, respectively, of which the 100,000 granted in 2019 were outside of the 2015 Performance Incentive Plan. The restricted stock units were recorded at fair value on the date of grant. The restricted stock units typically vest over a period of approximately three years. The restricted stock units granted outside of the 2015 Performance Incentive Plan vest over a period of 18 months.

Restricted Stock Awards

During the six months ended June 30, 2019 and 2018, the Company granted restricted stock awards ("RSA") in lieu of cash payment for services performed. The estimated fair value of the RSAs was based on the market value of the Company's common shares on the date of grant. During the six months ended June 30, 2019 and 2018, the Company granted RSAs of 42,000 and 77,319, respectively, with a fair value of $105,000 and $906,000, respectively.

Share-Based Compensation Expense

The Company recorded the following compensation expense related to its share-based compensation awards, which 2018 includes amounts related to discontinued operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Cost of sales	$ (487)	$ 10,461	$ 205	$ 42,544
Sales and marketing	69,004	93,572	79,317	277,347
Research and development	18,150	57,692	36,621	153,992
General and administrative	29,491	282,401	124,056	791,026
Total share-based compensation expense	$ 116,158	$ 444,126	$ 240,199	$ 1,264,909

As of June 30, 2019, there was a total of $405,000 of unrecognized compensation expense related to unvested equity-based compensation awards. The expense associated with non-vested restricted stock units and option awards granted as of June 30, 2019 is expected to be recognized over a weighted-average period of 1.0 years.

12. Net Loss per Share

Basic net loss per share is computed by dividing net loss applicable to common shareholders by the weighted-average number of common shares outstanding during the period. For all periods presented, there is no difference in the number of shares used to calculate basic and diluted shares outstanding due to the Company's net loss position.

Anti-dilutive common share equivalents excluded from the computation of diluted net loss per share were as follows:

	Six Months Ended June 30,	
	2019	2018
Common share purchase warrants	205,687	248,087
Restricted stock not yet vested or released	110,993	76,838
Options outstanding	6,838	20,991
Convertible notes	—	40,833

13. Related Party Transactions

In November 2018, the Company entered into a transition service agreement to facilitate an orderly transition process for the divestiture of Overland. The transition service agreement has terms ranging from up to 24 months depending on the service. Net expense incurred by the Company related to such agreement was approximately $84,000 and $165,000 during the three and six months ended June 30, 2019, respectively, and was included in continuing operations.

As of June 30, 2019 and December 31, 2018, accounts payable and accrued liabilities included $721,000 and $229,000, respectively, due to related parties.

14. Commitments and Contingencies

Letters of credit

During the ordinary course of business, the Company provides standby letters of credit to third parties as required for certain transactions initiated by the Company. As of June 30, 2019, the Company had no outstanding standby letters of credit.

Warranty and Extended Warranty

The Company had $0.5 million and $0.7 million in deferred costs included in other current and non-current assets related to deferred service revenue at June 30, 2019 and December 31, 2018, respectively. Changes in the liability for product warranty and deferred revenue associated with extended warranties and service contracts were as follows (in thousands):

	Product Warranty	Deferred Revenue
Liability at January 1, 2019	$ 22	$ 1,471
Settlements made during the period	—	(564)
Change in liability for warranties issued during the period	—	312
Change in liability for pre-existing warranties	(22)	—
Liability at June 30, 2019	$ —	$ 1,219
Current liability	$ —	$ 541
Non-current liability	—	678
Liability at June 30, 2019	$ —	$ 1,219

Litigation

The Company is, from time to time, subject to claims and suits arising in the ordinary course of business. In the opinion of management, the ultimate resolution of such pending proceedings will not have a material effect on the Company's results of operations, financial position or cash flows.

Other

In January 2018, Mr. Vito Lupis filed a statement of claim in the Ontario Court of Justice alleging, among other things, breach of contracts, deceit and negligence against Mr. Giovanni J. Morelli, a former officer of the Company, and vicarious liability against the Company, in connection with stock purchase agreements and other related agreements that would have been entered into between Mr. Lupis and the Company in 2012. In March 2019, the Company and Mr. Lupis entered into a settlement agreement pursuant to which the Company has agreed to pay Mr. Lupis certain consideration, which is included in general and administrative expense, in exchange for a dismissal of the action.

In April 2015, we filed a proof of claim in connection with bankruptcy proceedings of V3 Systems, Inc. ("V3") based on breaches by V3 of the Asset Purchase Agreement entered into between V3 and the Company dated February 11, 2014 (the "APA"). On October 6, 2015, UD Dissolution Liquidating Trust ("UD Trust"), post-confirmation liquidating trust established by V3's plan of liquidation, filed a complaint against us and certain of our current and former directors in the U.S. Bankruptcy Court for the District of Utah Central Division objecting to our proof of claim and asserting claims for affirmative relief against us and our directors. This complaint alleges, among other things, that Sphere 3D breached the APA and engaged in certain other actions and/or omissions that caused V3 to be unable to timely sell the Sphere 3D common shares received by V3 pursuant to the APA. The UD Trust seeks, among other things, monetary damages for the loss of the potential earn-out consideration, the value of the common shares held back by us pursuant to the APA and costs and fees. We believe the lawsuit to be without merit and intend to vigorously defend against the action.

On December 23, 2015, we filed a motion seeking to dismiss the majority of the claims asserted by the UD Trust. On January 13, 2016, we filed a counterclaim against the UD Trust in which we allege that V3 breached numerous provisions of the APA. On July 22, 2016, we filed a motion seeking to transfer venue of this action to the United States District Court for the District of Delaware. The Bankruptcy Court granted our motion to transfer venue on August 30, 2016, and the case was formally transferred to the Delaware District Court on October 11, 2016. On November 13, 2018, the Delaware District Court referred the case to the Delaware Bankruptcy Court. The Delaware Bankruptcy Court has not yet set a hearing on our motion to dismiss.

In March 2018, UD Trust filed a complaint in U.S. District Court for the Northern District of California ("California Complaint") asserting that two transactions involving the Company constitute fraudulent transfers under federal and state law. First, UD Trust alleges that the consolidation of the Company's and its subsidiaries' indebtedness to the Cyrus Group into a debenture between FBC Holdings and the Company in December 2014 constitutes a fraudulent transfer. Second, UD Trust alleges that the Share Purchase Agreement constitutes a fraudulent transfer, and seeks to require that the proceeds of the transaction be placed in escrow until the V3 litigation is resolved. The California Complaint also asserts a claim against the Company's former CEO for breach of fiduciary duty, and a claim against the Cyrus Group for aiding and abetting breach of fiduciary duty. We believe the lawsuit to be without merit and intend to vigorously defend against the action. On July 25, 2018, we filed a motion seeking to dismiss all of the claims asserted against the Company and its former CEO. On the same day, the Cyrus Group filed a motion seeking to dismiss all claims asserted against the Cyrus Group.

15. Subsequent Events

Series B Preferred Shares

On July 8, 2019, the directors of the Company passed a resolution authorizing the filing of articles of amendment to create a second series of Preferred Shares, being, an unlimited number of series B preferred shares (the "Series B Preferred Shares") and to provide for the rights, privileges, restrictions and conditions attaching thereto. The rights, privileges, restrictions and conditions attaching to the Series B Preferred Shares are substantially the same as the series A preferred shares (the "Series A Preferred Shares") of the Company, save and except that the requirement for the Company to redeem all of the issued and outstanding Series A Preferred Shares on or before November 13, 2020 has been amended to provide that the Company shall only be required to redeem 1,000,000 Series B Preferred Shares on or before November 13, 2020 and any other outstanding Series B Preferred Shares may be redeemed at any time and from time to time after December 19, 2019 at the option of the Company. On July 12, 2019, the Company filed Articles of Amendment to create the Series B Preferred Shares.

Share Exchange Agreement

On July 12, 2019, following the filing of the Articles of Amendment to create the Series B Preferred Shares, the Company entered into a share exchange agreement (the "Share Exchange Agreement") with FBC Holdings to exchange the 6,500,000 Series A Preferred Shares held by FBC Holdings for 6,500,000 Series B Preferred Shares.

On July 12, 2019, in connection with the Share Exchange Agreement, the Company entered into an amendment to the Exchange and Buy-Out Agreement by and among the Company, FBC Holdings, SVTP and MFV such that the rights and obligations under the Exchange and Buy-Out Agreement would apply to the Series B Preferred Shares in respect of which the Series A Preferred Shares were exchanged under the Share Exchange Agreement.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following quarterly management's discussion and analysis ("MD&A") should be read in conjunction with our unaudited condensed consolidated financial statements and the accompanying notes of Sphere 3D Corp. (the "Company") for the three and six months ended June 30, 2019. The condensed consolidated financial statements have been presented in United States ("U.S.") dollars and have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Unless the context otherwise requires, any reference to the "Company," "Sphere 3D," "we," "our," "us" or similar terms refers to Sphere 3D Corp. and its subsidiaries. Unless otherwise indicated, all references to "$" and "dollars" in this discussion and analysis mean U.S. dollars.

This MD&A includes forward-looking statements that involve risks, uncertainties and assumptions that are difficult to predict. Words and expressions reflecting optimism, satisfaction or disappointment with current prospects, as well as words such as "believes," "hopes," "intends," "estimates," "expects," "projects," "plans," "anticipates" and variations thereof, or the use of future tense, identify forward-looking statements, but their absence does not mean that a statement is not forward-looking. Forward-looking statements are based on information currently available to us and on estimates and assumptions made by us regarding, among other things, general economic conditions, in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate and reasonable in the circumstances, but there can be no assurance that such estimates and assumptions will prove to be correct. Many factors could cause actual results, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, but not limited to: the inability to maintain compliance with the requirements of the NASDAQ Capital Market and/or inability to maintain listing with the NASDAQ Capital Market; the limited operating history of Sphere 3D; the impact of competition; the investment in technological innovation; any defects in components or design of Sphere 3D's products; the retention or maintenance of key personnel; the possibility of significant fluctuations in operating results; the ability of Sphere 3D to maintain business relationships; financial, political or economic conditions; financing risks; future acquisitions; the ability of Sphere 3D to protect its intellectual property; third party intellectual property rights; volatility in the market price for the common shares of the Company; compliance by Sphere 3D with financial reporting and other requirements as a public company; conflicts of interests; future sales of common shares by Sphere 3D's directors, officers and other shareholders; dilution and future sales of common shares. For more information on these risks, you should refer to the Company's filings with the securities regulatory authorities, including the Company's most recently filed Annual Report on Form 10-K, which is available on SEDAR at www.sedar.com and EDGAR at www.sec.gov. In evaluating such statements, we urge you to specifically consider various factors identified in this report, any of which could cause actual results to differ materially from those indicated by such forward-looking statements. Forward-looking statements speak only as of the date of this report and we undertake no obligation to publicly update any forward-looking statements to reflect new information, events or circumstances after the date of this report. Actual events or results may differ materially from such statements. All share and per share amounts herein have been adjusted to give effect to the November 5, 2018 1-for-8 reverse stock split.

Overview

Sphere 3D provides solutions for stand-alone storage and technologies that converge the traditional silos of compute, storage and network into one integrated hyper-converged or converged solution. We provide enterprise storage management solutions, and the ability to connect to public cloud services such as Microsoft Azure for additional delivery options and hybrid cloud capabilities. Our integrated solutions include a patented portfolio for operating systems for storage, proprietary virtual desktop orchestration software, and proprietary application container software. Our software, combined with commodity x86 servers, or purpose-built appliances, deliver solutions designed to provide application mobility, security, data integrity and simplified management. These solutions can be deployed through a public, private or hybrid cloud and are delivered through a global reseller network and professional services organization. We have a portfolio of brands including SnapServer®, HVE ConneXions and UCX ConneXions, dedicated to helping customers achieve their IT goals. In November 2018, we divested ourselves of Overland Storage, Inc. and its subsidiaries ("Overland") and associated product portfolio for long term archive as well as the RDX® removable disk product portfolio. We undertook this divestiture in order to facilitate the significant reduction of secured debt and to allow us to focus greater resources to our converged and hyper-converged product portfolio.

Discontinued Operations

In November 2018, the Company transferred all the issued and outstanding shares of capital stock of Overland to Silicon Valley Technology Partners, Inc. ("SVTP") in consideration for (i) the issuance to the Company of shares of Series A Preferred Stock of SVTP representing 19.9% of the outstanding shares of capital stock of SVTP as of the closing with a value of $2.1 million, (ii) the release of the Company from outstanding debt obligations totaling $41.7 million assumed by SVTP, and (iii) $1.0 million in cash proceeds from SVTP. In addition, the Company entered into a Conversion Agreement with FBC Holdings S.a r.l. ("FBC Holdings"), pursuant to which $6.5 million of the Company's outstanding related party secured note was converted into 6,500,000 Preferred Shares of the Company. See *Notes to Condensed Consolidated Financial Statements - Note 3 - Discontinued Operations* for additional details.

We undertook this divestiture in order to facilitate the elimination of secured debt and to allow us to focus greater resources to our converged and hyper-converged product portfolio. The financial results of Overland are presented as discontinued operations in our condensed consolidated statements of operations for the three and six months ended June 30, 2018.

Nasdaq Listing

On November 12, 2018, we received a letter from the Nasdaq Listing Qualifications department of The Nasdaq Stock Market LLC notifying us that we were not in compliance with the requirement of Nasdaq Marketplace Rule 5550(b)(1) for continued inclusion on the NASDAQ Capital Market because the Company's stockholders' equity of $707,000 reported in the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2018, is below the required minimum of $2.5 million. The Company submitted a plan to regain compliance, which was accepted by Nasdaq on January 11, 2019.

On May 14, 2019, we received written notification from The NASDAQ Stock Market, LLC notifying us that we had not regained compliance with the minimum value of the Company's stockholders' equity of $2.5 million as set forth in Nasdaq Marketplace Rule 5550(b)(1) for continued inclusion on the NASDAQ Capital Market. The Staff had determined that the Company's common stock would be delisted from Nasdaq unless the Company timely requests a hearing before a Nasdaq Hearings Panel (the "Panel"). Accordingly, we requested a hearing before the Panel, which was held on July 11, 2019, and which was the basis for the Panel's decision.

On July 22, 2019, the Panel issued a decision granting the request of the Company for continued listing of our common stock on The Nasdaq Capital Market pursuant to an extension through September 30, 2019 to demonstrate compliance with the $2.5 million stockholders' equity requirement for continued listing. Pursuant to the Panel's decision, the Company is required to report to the Panel by August 15, 2019 that it has completed certain components of its compliance plan. While the Company is making every effort to regain compliance as promptly as possible, there can be no assurance that the Company will be able to regain compliance by the Panel's deadline or that the Panel would be willing to extend the deadline, if the Company made such a request. If the Company's common stock ceases to be listed for trading on Nasdaq, the Company expects that its common stock would be traded on the over-the-counter market.

Second Quarter of 2019 and Recent Key Events Include:

- On July 29, 2019, the Company completed a private placement and issued 240,000 common shares of the Company at a purchase price of $2.00 per share for gross proceeds of $480,000. The Company intends to use the proceeds from the offering for general corporate and working capital purposes.
- On July 12, 2019, following the filing of the Articles of Amendment to create the Series B Preferred Shares, the Company entered into a share exchange agreement (the "Share Exchange Agreement") with FBC Holdings to exchange the 6,500,000 Series A Preferred Shares held by FBC Holdings for 6,500,000 Series B Preferred Shares.

- On July 12, 2019, in connection with the Share Exchange Agreement, the Company entered into an amendment to the Exchange and Buy-Out Agreement by and among the Company, FBC Holdings, SVTP and MF Ventures LLC ("MFV") such that the rights and obligations under the Exchange and Buy-Out Agreement would apply to the Series B Preferred Shares in respect of which the Series A Preferred Shares were exchanged under the Share Exchange Agreement.
- On July 8, 2019, the directors of the Company passed a resolution authorizing the filing of articles of amendment to create a second series of Preferred Shares, being, an unlimited number of series B preferred shares (the "Series B Preferred Shares") and to provide for the rights, privileges, restrictions and conditions attaching thereto. The rights, privileges, restrictions and conditions attaching to the Series B Preferred Shares are substantially the same as the series A preferred shares (the "Series A Preferred Shares") of the Company, save and except that the requirement for the Company to redeem all of the issued and outstanding Series A Preferred Shares on or before November 13, 2020 has been amended to provide that the Company shall only be required to redeem 1,000,000 Series B Preferred Shares on or before November 13, 2020 and any other outstanding Series B Preferred Shares may be redeemed at any time and from time to time after December 19, 2019 at the option of the Company. On July 12, 2019, the Company filed Articles of Amendment to create the Series B Preferred Shares.

Results of Operations

The following table sets forth certain financial data as a percentage of revenue:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenue	74.6	82.5	69.6	81.9
Gross profit	25.4	17.5	30.4	18.1
Operating expenses:				
Sales and marketing	51.0	27.4	30.5	30.0
Research and development	53.6	33.3	39.2	39.6
General and administrative	79.0	62.7	65.1	92.5
	183.6	123.4	134.8	162.1
Loss from operations	(158.2)	(105.9)	(104.4)	(144.0)
Interest expense	(16.2)	(44.9)	(9.7)	(34.9)
Other income (expense), net	1.5	1.5	0.7	(1.7)
Net loss from continuing operations	(172.9)	(149.3)	(113.4)	(180.6)
Net loss from discontinued operations	—	(73.2)	—	(72.3)
Net loss	(172.9)%	(222.5)%	(113.4)%	(252.9)%

The Second Quarter of 2019 Compared with the Second Quarter of 2018

Revenue

We had revenue of $1.0 million during the second quarter of 2019 compared to $2.7 million during the second quarter of 2018. The decrease in revenue of $1.7 million was primarily due to lower revenues from HVE converged and hyper-converged products. The decrease in revenue is primarily due to the inability to acquire, on a timely basis, adequate supply of product to meet customer demand within the quarter.

Gross Profit

Gross profit and margin were as follows (in thousands, unless otherwise noted):

	Three Months Ended June 30,		
	2019	**2018**	**Change**
Gross profit	245	473	(48.2)%
Gross margin	25.4%	17.5%	7.9 pt

In the second quarter of 2019, gross profit decreased due to overall lower sales volume and margin increased primarily due to the shift in focus to the SnapServer® family of products which have higher profit margins.

Operating Expenses

Sales and Marketing Expense

Sales and marketing expenses were $0.5 million and $0.7 million for the second quarter of 2019 and 2018, respectively. The decrease of $0.2 million was primarily due to a decrease in employee and related expenses associated with a lower average headcount.

Research and Development Expense

Research and development expenses were $0.5 million and $0.9 million for the second quarter of 2019 and 2018, respectively. The decrease of $0.4 million was primarily due to a decrease of $0.2 million in employee and related expenses associated with a lower average headcount and a decrease of $0.1 million in amortization of intangible assets.

General and Administrative Expense

General and administrative expenses were $0.8 million and $1.7 million for the second quarter of 2019 and 2018, respectively. The decrease of $0.9 million was primarily due to a decrease of $0.7 million in legal and transaction costs primarily related to the share purchase agreement entered into in February 2018 and a decrease of $0.2 million in amortization of intangible assets.

Non-Operating Expenses

Interest Expense

Interest expense was $0.2 million and $1.2 million for the second quarter of 2019 and 2018, respectively. The decrease of $1.0 million was primarily related to the release of the Company from its outstanding FBC Holdings secured note obligation of $18.0 million assumed by SVTP in the November 2018 Overland divestiture.

Discontinued Operations

On November 13, 2018, we closed our divestiture of Overland under the Purchase Agreement. The financial results of Overland for the three months ended June 30, 2018 have been reflected in our consolidated statements of operations as discontinued operations. The Company's 2018 statement of cash flows are presented on a combined basis, including continuing and discontinued operations.

The First Six Months of 2019 Compared with the First Six Months of 2018

Revenue

We had revenue of $3.1 million during the first six months of 2019 compared to $5.1 million during the six months of 2018. The decrease in revenue is primarily a result of a decrease of sales units for disk systems from our HVE and RDX product lines. The decrease in revenue is primarily due to the inability to acquire, on a timely basis, adequate supply of product to meet customer demand within the quarter.

Gross Profit

Gross profit and margin were as follows (in thousands, unless otherwise noted):

	Six Months Ended June 30,		
	2019	**2018**	**Change**
Gross profit	940	916	2.6%
Gross margin	30.4%	18.1%	12.3pt

In the first six months of 2019, gross margin increased primarily due to sales volume of our SnapServer® family of products which have higher profit margins.

Operating Expenses

Sales and Marketing Expense

Sales and marketing expenses were $0.9 million and $1.5 million for the first six months of 2019 and 2018, respectively. The decrease of $0.6 million was primarily due to a decrease of $0.4 million in employee and related expenses associated with a lower average headcount, and a $0.2 million decrease in strategic marketing and outside contractor fees.

Research and Development Expense

Research and development expenses were $1.2 million and $2.0 million for the first six months of 2019 and 2018, respectively. The decrease of $0.8 million was primarily due to a decrease of $0.5 million in employee and related expenses associated with a lower average headcount, and a $0.2 million decrease in amortization of intangible assets.

General and Administrative Expense

General and administrative expenses were $2.0 million and $4.7 million for the first six months of 2019 and 2018, respectively. The decrease of $2.7 million was primarily due to a decrease of $2.0 million in legal and transaction costs primarily related to the share purchase agreement entered into in February 2018, a decrease of $0.4 million in amortization of intangible assets, and a decrease of $0.2 million in auditor and tax related fees.

Non-Operating Expenses

Interest Expense

Interest expense was $0.3 million and $1.8 million for the first six months of 2019 and 2018, respectively. The decrease of $1.5 million was primarily related to the release of the Company from its outstanding FBC Holdings secured note obligation of $18.0 million assumed by SVTP in the November 2018 Overland divestiture.

Discontinued Operations

On November 13, 2018, we closed our divestiture of Overland under the Purchase Agreement. The financial results of Overland for the six months ended June 30, 2018 have been reflected in our consolidated statements of operations as discontinued operations. The Company’s 2018 statement of cash flows are presented on a combined basis, including continuing and discontinued operations.

Liquidity and Capital Resources

We have recurring losses from operations and a net working capital deficiency. Our primary source of cash flow is generated from sales of our disk automation systems. We have financed our operations through gross proceeds from private sales of equity securities and with borrowings under our credit facilities. At June 30, 2019, we had cash of $151,000 compared to cash of $341,000 at December 31, 2018. As of June 30, 2019, we had a working capital deficit of $8.0 million, reflecting a decrease in current assets of $1.0 million and an increase in current liabilities of $0.9 million compared to December 31, 2018. Cash management and preservation continue to be a top priority. We expect to incur negative operating cash flows as we work to maintain and increase our sales volume, and maintain operational efficiencies.

In July 2019, the Company completed a private placement and issued 240,000 common shares of the Company at a purchase price of $2.00 per share for gross proceeds of $480,000. The Company intends to use the proceeds from the offering for general corporate and working capital purposes.

Management has projected that cash on hand will not be sufficient to allow the Company to continue operations beyond August 31, 2019 if we are unable to raise additional funding for operations. We expect our working capital needs to increase in the future as we continue to expand and enhance our operations. Our ability to raise additional funds through equity or debt financings or other sources may depend on the financial success of our current business and successful implementation of our key strategic initiatives, financial, economic and market conditions and other factors, some of which are beyond our control. No assurance can be given that we will be successful in raising the required capital at reasonable cost and at the required times, or at all. Further equity financings may have a dilutive effect on shareholders and any debt financing, if available, may require restrictions to be placed on our future financing and operating activities. If we require additional capital and are unsuccessful in raising that capital, we may not be able to continue our business operations and advance our growth initiatives, which could adversely impact our business, financial condition and results of operations.

Significant changes from the Company's current forecasts, including but not limited to: (i) failure to comply with the terms and financial covenants in its debt facilities; (ii) shortfalls from projected sales levels; (iii) unexpected increases in product costs; (iv) increases in operating costs; (v) changes in the historical timing of collecting accounts receivable; and (vi) inability to maintain compliance with the requirements of the NASDAQ Capital Market and/or inability to maintain listing with the NASDAQ Capital Market could have a material adverse impact on the Company's ability to access the level of funding necessary to continue its operations at current levels. If any of these events occurs or the Company is unable to generate sufficient cash from operations or financing sources, the Company may be forced to liquidate assets where possible and/or curtail, suspend or cease planned programs or operations generally or seek bankruptcy protection or be subject to an involuntary bankruptcy petition, any of, which would have a material adverse effect on the Company's business, results of operations, financial position and liquidity.

As of June 30, 2019, our outstanding debt balance was as follows (in thousands):

	Maturity Date	Interest Rate	Amount Outstanding
Series A redeemable preferred shares	11/13/2020	8.0%	$ 6,832
Secured debt - related party	6/13/2019	8.0%	$ 500
Unsecured debt - related party	1/10/2021	2.0%	$ 523
Line of credit	12/19/2019	6.0%	$ 389

All debt and credit facilities are denominated in U.S. dollars. Our secured debt and credit facility contain standard borrowing conditions and can be recalled by the lenders if certain conditions are not met. At June 30, 2019, the Company's unsecured debt - related party with an outstanding amount of $523,000 was in default and at risk of realization.

The following table shows a summary of our cash flows (used in) provided by operating activities, investing activities and financing activities (in thousands):

	Six Months Ended June 30,	
	2019	2018
Net cash used in operating activities	$ (1,002)	$ (3,472)
Net cash used in investing activities	$ —	$ (31)
Net cash provided by financing activities	$ 812	$ 1,759

The use of cash during the first six months of 2019 was primarily a result of our net loss of $3.5 million, offset by $1.0 million in non-cash items, which included depreciation and amortization, share-based compensation and preferred shares interest expense.

During the first six months of 2019, we received $0.8 million in proceeds from related party debt and our line of credit. During the six months of 2018, we received $2.0 in net proceeds for the issuance of common shares and warrants, offset by $0.2 million of payments on our related party debt.

Off-Balance Sheet Information

During the ordinary course of business, we may provide standby letters of credit to third parties as required for certain transactions initiated by us. As of June 30, 2019, we had no standby letters of credit outstanding.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial position and results of operations is based on our unaudited consolidated interim financial statements included elsewhere in this Form 10-Q, which have been prepared in accordance with accounting principles generally accepted in the United States. We believe certain of our accounting policies are critical to understanding our financial position and results of operations. There have been no significant changes to our critical accounting judgments, policies and estimates as described in our Annual Report on Form 10-K for the year ended December 31, 2018.

Recent Accounting Pronouncements

See *Note 2 - Significant Accounting Policies* to our condensed consolidated financial statements for information about recent accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the risk of loss that may impact our financial position, results of operations, or cash flows due to adverse changes in financial and commodity market prices and rates. We are exposed to market risk from changes in foreign currency exchange rates as measured against the U.S. dollar. These exposures are directly related to our normal operating and funding activities. Historically, we have not used derivative instruments or engaged in hedging activities.

Credit Risk. Credit risk is the risk that the counterparty to a financial instrument fails to meet its contractual obligations, resulting in a financial loss to us. We sell to a diverse customer base over a global geographic area. We evaluate collectability of specific customer receivables based on a variety of factors including currency risk, geopolitical risk, payment history, customer stability and other economic factors. Collectability of receivables is reviewed on an ongoing basis by management and the allowance for doubtful receivables is adjusted as required. Account balances are charged against the allowance for doubtful receivables when we determine that it is probable that the receivable will not be recovered. We believe that the geographic diversity of the customer base, combined with our established credit approval practices and ongoing monitoring of customer balances, mitigates this counterparty risk.

Liquidity Risk. Liquidity risk is the risk that we will not be able to meet our financial obligations as they come due. We continually monitor our actual and projected cash flows and believe that our internally generated cash flows will not provide us with sufficient funding to meet all working capital and financing needs for at least the next 12 months.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) or 15d-15(e) under the Exchange Act. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective to give reasonable assurance that information required to be publicly disclosed is recorded, processed, summarized and reported on a timely basis as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended June 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

The Company is, from time to time, subject to claims and suits arising in the ordinary course of business. In the opinion of management, the ultimate resolution of such pending proceedings will not have a material effect on the Company's results of operations, financial position or cash flows.

Other

In January 2018, Mr. Vito Lupis filed a statement of claim in the Ontario Court of Justice alleging, among other things, breach of contracts, deceit and negligence against Mr. Giovanni J. Morelli, a former officer of the Company, and vicarious liability against the Company, in connection with stock purchase agreements and other related agreements that would have been entered into between Mr. Lupis and the Company in 2012. In March 2019, the Company and Mr. Lupis entered into a settlement agreement pursuant to which the Company has agreed to pay Mr. Lupis certain consideration, which is included in general and administrative expense, in exchange for a dismissal of the action.

In April 2015, we filed a proof of claim in connection with bankruptcy proceedings of V3 Systems, Inc. ("V3") based on breaches by V3 of the Asset Purchase Agreement entered into between V3 and the Company dated February 11, 2014 (the "APA"). On October 6, 2015, UD Dissolution Liquidating Trust ("UD Trust"), post-confirmation liquidating trust established by V3's plan of liquidation, filed a complaint against us and certain of our current and former directors in the U.S. Bankruptcy Court for the District of Utah Central Division objecting to our proof of claim and asserting claims for affirmative relief against us and our directors. This complaint alleges, among other things, that Sphere 3D breached the APA and engaged in certain other actions and/or omissions that caused V3 to be unable to timely sell the Sphere 3D common shares received by V3 pursuant to the APA. The UD Trust seeks, among other things, monetary damages for the loss of the potential earn-out consideration, the value of the common shares held back by us pursuant to the APA and costs and fees. We believe the lawsuit to be without merit and intend to vigorously defend against the action.

On December 23, 2015, we filed a motion seeking to dismiss the majority of the claims asserted by the UD Trust. On January 13, 2016, we filed a counterclaim against the UD Trust in which we allege that V3 breached numerous provisions of the APA. On July 22, 2016, we filed a motion seeking to transfer venue of this action to the United States District Court for the District of Delaware. The Bankruptcy Court granted our motion to transfer venue on August 30, 2016, and the case was formally transferred to the Delaware District Court on October 11, 2016. On November 13, 2018, the Delaware District Court referred the case to the Delaware Bankruptcy Court. The Delaware Bankruptcy Court has not yet set a hearing on our motion to dismiss.

In March 2018, UD Trust filed a complaint in U.S. District Court for the Northern District of California ("California Complaint") asserting that two transactions involving the Company constitute fraudulent transfers under federal and state law. First, UD Trust alleges that the consolidation of the Company's and its subsidiaries' indebtedness to the Cyrus Group into a debenture between FBC Holdings and the Company in December 2014 constitutes a fraudulent transfer. Second, UD Trust alleges that the Share Purchase Agreement constitutes a fraudulent transfer, and seeks to require that the proceeds of the transaction be placed in escrow until the V3 litigation is resolved. The California Complaint also asserts a claim against the Company's former CEO for breach of fiduciary duty, and a claim against the Cyrus Group for aiding and abetting breach of fiduciary duty. We believe the lawsuit to be without merit and intend to vigorously defend against the action. On July 25, 2018, we filed a motion seeking to dismiss all of the claims asserted against the Company and its former CEO. On the same day, the Cyrus Group filed a motion seeking to dismiss all claims asserted against the Cyrus Group.

Item 1A. Risk Factors.

An investment in our Company involves a high degree of risk. In addition to the risk factors and other information included or incorporated by reference to this report, you should carefully consider each of the risk factors described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, which is available on SEDAR at www.sedar.com and EDGAR at www.sec.gov. These risks and uncertainties are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impair our business operations. If any of the risks actually occur, our business and financial results could be harmed and the trading price of our common shares could decline.

Risks Related to our Debt and Credit Facilities and our Liquidity

Our cash and other sources of liquidity will not be sufficient to fund our operations beyond August 31, 2019. If we raise additional funding through sales of equity or equity-based securities, your shares will be diluted. If we need additional funding for operations and we are unable to raise it, we may be forced to liquidate assets and/or curtail or cease operations or seek bankruptcy protection or be subject to an involuntary bankruptcy petition.

Management has projected that cash on hand will not be sufficient to allow the Company to continue operations beyond August 31, 2019 if we are unable to raise additional funding for operations. We expect our working capital needs to increase in the future as we continue to expand and enhance our operations. Our ability to raise additional funds through equity or debt financings or other sources may depend on the financial success of our current business and successful implementation of our key strategic initiatives, financial, economic and market conditions and other factors, some of which are beyond our control. No assurance can be given that we will be successful in raising the required capital at reasonable cost and at the required times, or at all. Further equity financings may have a dilutive effect on shareholders and any debt financing, if available, may require restrictions to be placed on our future financing and operating activities. If we require additional capital and are unsuccessful in raising that capital, we may not be able to continue our business operations and advance our growth initiatives, which could adversely impact our business, financial condition and results of operations.

If we raise additional funds by selling additional shares of our capital stock, or securities convertible into shares of our capital stock, the ownership interest of our existing shareholders will be diluted. The amount of dilution could be increased by the issuance of warrants or securities with other dilutive characteristics, such as anti-dilution clauses or price resets.

We urge you to review the additional information about our liquidity and capital resources in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section of this report. If our business ceases to continue as a going concern due to lack of available capital or otherwise, it could have a material adverse effect on our business, results of operations, financial position, and liquidity.

Risks Related to Our Public Company Status and Our Common Shares

We have received notification from NASDAQ that we do not meet the NASDAQ Capital Market’s continued listing requirement for the minimum market value of publicly held shares. If our common shares are delisted from the NASDAQ Capital Market, our business, financial condition, results of operations and share price could be adversely affected, and the liquidity of our common shares and our ability to obtain financing could be impaired.

We have in the past failed to comply with the minimum $1.00 per share closing bid price requirement for continued listing on the NASDAQ Capital Market. Maintaining the listing of our common shares on the NASDAQ Capital Market requires that we comply with the closing bid price requirement, amongst other certain listing requirements. If our common shares cease to be listed for trading on NASDAQ for any reason, it may harm our share price, increase the volatility of our share price, decrease the level of trading activity and make it more difficult for investors to buy or sell shares of our common shares. Our failure to maintain a listing on NASDAQ may constitute an event of default under our outstanding indebtedness as well as any future indebtedness, which would accelerate the maturity date of such debt or trigger other obligations. In addition, certain institutional investors that are not permitted to own securities of non-listed companies may be required to sell their shares, which would adversely affect the trading price of our common shares. If we are not listed on NASDAQ, we will be limited in our ability to raise additional capital we may need.

On November 12, 2018, we received a letter from the Nasdaq Listing Qualifications department of The Nasdaq Stock Market LLC notifying us that we were not in compliance with the requirement of Nasdaq Marketplace Rule 5550(b)(1) for continued inclusion on the NASDAQ Capital Market because the Company's stockholders' equity of $707,000 reported in the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2018, is below the required minimum of $2.5 million. The Company submitted a plan to regain compliance, which was accepted by Nasdaq on January 11, 2019.

On May 14, 2019, we received written notification from The NASDAQ Stock Market, LLC notifying us that we had not regained compliance with the minimum value of the Company's stockholders' equity of $2.5 million as set forth in Nasdaq Marketplace Rule 5550(b)(1) for continued inclusion on the NASDAQ Capital Market. The Staff had determined that the Company's common stock would be delisted from Nasdaq unless the Company timely requests a hearing before a Nasdaq Hearings Panel (the "Panel"). On May 14, 2019, we received written notification from the Nasdaq Staff that we had not regained compliance with the Stockholders' Equity Requirement, as required. Accordingly, we requested a hearing before the Panel, which was held on July 11, 2019, and which was the basis for the Panel's decision.

On July 22, 2019, the Panel issued a decision granting the request of the Company for continued listing of our common stock on The Nasdaq Capital Market pursuant to an extension through September 30, 2019 to demonstrate compliance with the $2.5 million stockholders' equity requirement for continued listing. Pursuant to the Panel's decision, the Company is required to report to the Panel by August 15, 2019 that it has completed certain components of its compliance plan. While the Company is making every effort to regain compliance as promptly as possible, there can be no assurance that the Company will be able to regain compliance by the Panel's deadline or that the Panel would be willing to extend the deadline, if the Company made such a request. If the Company's common stock ceases to be listed for trading on Nasdaq, the Company expects that its common stock would be traded on the over-the-counter market.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Description	Filed Herewith	Incorporated by Reference		
			Form	File No.	Date Filed
3.1	Certificate and Articles of Amalgamation of the Company		6-K	001-36532	3/25/2015
3.2	Certificate of Amendment to the Articles of Amalgamation of the Company		6-K	001-36532	7/17/2017
3.3	Certificate of Amendment to the Articles of Amalgamation of the Company		8-K	001-36532	10/2/2018
3.4	Certificate of Amendment to the Articles of Amalgamation of the Company		8-K	001-36532	10/5/2018
3.5	Certificate of Amendment to the Articles of Amalgamation of the Company		8-K	001-36532	11/5/2018
3.6	Certificate of Amendment to the Articles of Amalgamation of the Company		8-K	001-36532	11/14/2018
3.7	Certificate of Amendment to the Articles of Amalgamation of the Company		8-K	001-36532	7/12/2019
3.8	By-Law No. 1, as Amended		6-K	001-36532	7/17/2017
3.9	By-Law No. 2		6-K	001-36532	5/12/2017
10.1	Letter Amendment to Secured Promissory Note dated May 13, 2019, by and among Sphere 3D Corp., HVE Inc., and Overland Storage, Inc.		10-Q	001-36532	5/15/2019
10.2	Share Exchange Agreement between FBC Holdings SÀRL and Sphere 3D Corp. dated July 12, 2019		8-K	001-36532	7/12/2019
10.3	Amendment to the Share Exchange and Buyout Agreement by and among Sphere 3D Corp., FBC Holdings SÀRL, Silicon Valley Technology Partners Inc. and MF Ventures LLC dated July 12, 2019		8-K	001-36532	7/12/2019
10.4	Debt Modification Agreement dated July 2, 2019 between between HVE Inc., a subsidiary of Sphere 3D Corp., and Citizens National Bank of Texas	X			
31.1	Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
31.2	Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X			
101.INS	XBRL Instance Document	X			
101.SCH	XBRL Taxonomy Extension Schema	X			
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	X			
101.DEF	XBRL Taxonomy Extension Definition Linkbase	X			

Exhibit Number	Description	Filed Herewith	Incorporated by Reference		
			Form	File No.	Date Filed
101.LAB	XBRL Taxonomy Extension Label Linkbase	X			
101.PRE	XBRL Taxonomy Presentation Linkbase	X			

SIGNATURE

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.

		Sphere 3D Corp.	
Date:	August 13, 2019	By:	/s/ Peter Tassiopoulos
			Peter Tassiopoulos **Chief Executive Officer** (Principal Executive Officer)

Exhibit 10.4

PRIOR OBLIGATION INFORMATION	**LOAN NUMBER**	**ACCT. NUMBER**	**NOTE DATE**	**CREDIT LIMIT**	**MATURITY DATE**
	120011219		12/19/18	$400,000.00	12/19/19
AMENDED OBLIGATION INFORMATION	**LOAN NUMBER**	**ACCT. NUMBER**	**MODIFICATION DATE**		**CREDIT LIMIT**
	120011219		July 2, 2019		$500,000.00
	MATURITY DATE	**INDEX (w/margin)**	**INTEREST RATE**		**INITIALS**
	12/19/19	Not Applicable	6.500%		MES
			Creditor Use Only		

DEBT MODIFICATION AGREEMENT

DATE AND PARTIES. The date of this Debt Modification Agreement (Modification) is July 2, 2019. The parties and their addresses are:

LENDER:
CITIZENS NATIONAL BANK OF TEXAS
200 North Elm, PO Box 717
Waxahachie, TX 75168
Telephone: (972) 938-4300

BORROWER: HVE INC.
a Delaware Corporation 100 EXECUTIVE CT STE 2
WAXAHACHIE TX 75165-1972

1. DEFINITIONS. In this Modification, these terms have the following meanings:

A. **Pronouns.** The pronouns "I," "me," and " my" refer to each Borrower signing this Modification and each other person or legal entity (including guarantors, endorsers, and sureties) who agrees to pay this Loan. "You" and "your" refer to the Lender, with its participants or syndicators, successors and assigns, or any person or entity that acquires an interest in the Modification or the Prior Obligation.

B. **Amended Obligation**. Amended Obligation is the resulting agreement that is created when the Modification amends the Prior Obligation. It is described above in the AMENDED OBLIGATION INFORMATION section.

C. **Credit Limit.** Credit Limit means the maximum amount of principal you will permit me to owe you under this Line of Credit, at any one time. My Credit Limit is stated at the top of this Modification.

D. **Loan.** Loan refers to this transaction generally. It includes the obligations and duties arising from the terms of all documents prepared or submitted in association with the Prior Obligation and this modification, such as applications, security agreements, disclosures, notes, agreements, and this Modification.

E. Modification. Modification refers to this Debt Modification Agreement.

F. **Prior Obligation.** Prior Obligation refers to my original agreement described above in the PRIOR OBLIGATION INFORMATION section, and any subsequent extensions, renewals, modifications or substitutions of it.

2. **BACKGROUND.** You and I have previously entered into a Prior Obligation. As of the date of this Modification, the outstanding, unpaid balance of the Prior Obligation is $389,047.44. Conditions have changed since the execution of the Prior Obligation instruments. In response, and for value received, you and I agree to modify the terms of the Prior Obligation, as provided for in this Modification.

3. **CONTINUATION OF TERMS.** I agree and understand that all other terms and provisions in the Prior Obligation survive and continue in full force and effect, except to the extent that they are specifically and expressly amended by this Modification. The express amendment of a term does not amend related or other terms - even if the related or other terms are contained in the same section or paragraph of the Prior Obligation. For illustration purposes only, a modification of the interest rate to be paid during the term of the loan would not modify the default rate of interest even though both of those terms are described in the Prior Obligation in a common section titled "Interest". The term "Prior Obligation" includes the original instrument and any modifications prior to this Modification.

4. **TERMS.** The Prior Obligation is modified as follows:

A. **Promise to Pay.** My promise to pay is modified to read:

(1) PROMISE TO PAY. For value received, I promise to pay you or your order, at your address, or at such other location as you may designate, amounts advanced from time to time under the terms of the Loan up to the maximum outstanding principal balance of $500,000.00 (Principal), plus interest from the date of disbursement, on the unpaid outstanding Principal balance until the Loan is paid in full and you have no further obligations to make advances to me under the Loan.

My Credit Limit has been increased by $100,000.00.

B. **Interest.** Our agreement for the payment of interest is modified to read:

(1) INTEREST. Interest will accrue on the unpaid Principal balance of the Loan at the rate of **6.500 percent (Interest Rate).**

C. **Payments.** The payment provision is modified to read:

(I) PAYMENT. I agree to pay all accrued interest on the balance outstanding from time to time in regular payments beginning July 19, 2019, then on the same day of each month thereafter. A final payment of the entire unpaid outstanding balance of Principal and interest will be due December 19, 2019.

Payments will be rounded to the nearest $.01. With the final payment I also agree to pay any additional fees or charges owing and the amount of any advances you have made to others on my behalf. Payments scheduled to be paid on the 29th, 30th or 31st day of a month that contains no such day will, instead, be made on the last day of such month.

D. **Fees and Charges**. As additional consideration for your consent to enter into this Modification, I agree to pay, or have paid these additional fees and charges:

(1) Late Charge. If a payment is more than **10** days late, I will be charged **5.000** percent of the Amount Of Payment. However, this charge will not be greater than **$1,500.00**. I will pay this late charge promptly but only once for each late payment.

5. **WAIVER.** I waive all claims, defenses, setoffs, or counterclaims relating to the Prior Obligation, or any document securing the Prior Obligation, that I may have. Any party to the Prior Obligation that does not sign this Modification, shall remain liable under the terms of the Prior Obligation unless released in writing by you.

THIS WRITTEN LOAN AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND, TO THE EXTENT PERMITTED BY LAW, MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

6.SIGNATURES. By signing, I agree to the terms contained in this Modification. I also acknowledge receipt of a copy of this Modification.

BORROWER:

HVE INC.

By /s/ Joseph O'Daniel
JOSEPH O'DANIEL, President

By /s/ Christopher Cunningham
CHRISTOPHER CUNNINGHAM, Senior Vice President

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Peter Tassiopoulos, Chief Executive Officer of Sphere 3D Corp. certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sphere 3D Corp.;

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 issuer as of, and for, the periods presented in this report;

4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company 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 issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer'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 issuer'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 issuer's internal control over financial reporting.

Date: August 13, 2019

/s/ Peter Tassiopoulos

Peter Tassiopoulos
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Kurt L. Kalbfleisch, Chief Financial Officer of Sphere 3D Corp. certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sphere 3D Corp.;

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 issuer as of, and for, the periods presented in this report;

4. The company’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company 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 issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the issuer’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the issuer’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer’s internal control over financial reporting; and

5. The company’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer’s auditors and the audit committee of the issuer’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 issuer’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 issuer’s internal control over financial reporting.

Date: August 13, 2019

/s/ Kurt L. Kalbfleisch

Kurt L. Kalbfleisch
Senior Vice-President and
Chief Financial Officer

Exhibit 32

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 Sphere 3D Corp. (the "Registrant") on Form 10-Q for the quarterly period ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Peter Tassiopoulos, Chief Executive Officer of the Registrant, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

Date: August 13, 2019

/s/ Peter Tassiopoulos
Peter Tassiopoulos
Chief Executive Officer

In connection with the Quarterly Report of Sphere 3D Corp. (the "Registrant") on Form 10-Q for the quarterly period ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kurt L. Kalbfleisch, Senior Vice-President and Chief Financial Officer of the Registrant, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

Date: August 13, 2019

/s/ Kurt L. Kalbfleisch
Kurt L. Kalbfleisch
Senior Vice-President and
Chief Financial Officer