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

FORM 6-K

**REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934**

For the Month of May, 2017

Commission File Number: **001-36532**

Sphere 3D Corp.

240 Matheson Blvd. East
Mississauga, Ontario, Canada, L4Z 1X1
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F. x Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934. Yes No x

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

The information contained in this Form 6-K is incorporated by reference into, or as additional exhibits to, as applicable, the registrant's outstanding registration statements.

DOCUMENTS FILED AS PART OF THIS FORM 6-K

In connection with its announcement of financial results for the quarter ended March 31, 2017, Sphere 3D Corp. is filing the following documents:

- Management's discussion and analysis;
- Interim unaudited consolidated financial statements; and
- Certifications of the principal executive officer and principal financial officer.

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.

By: /s/ Kurt L. Kalbfleisch
Name: Kurt L. Kalbfleisch
Title: Senior Vice President and Chief Financial Officer

Date: May 11, 2017

Exhibit Index

- 99.1 Management's Discussion and Analysis of Financial Condition and Results of Operations - Three Months Ended March 31, 2017.
- 99.2 Condensed Consolidated Financial Statements (unaudited) of Sphere 3D Corp. - Three Months Ended March 31, 2017 and 2016.
- 99.3 Rule 13a-14(a)/15d-14(a) Certification of principal executive officer of Sphere 3D Corp.
- 99.4 Rule 13a-14(a)/15d-14(a) Certification of principal financial officer of Sphere 3D Corp.



**First Quarter Report
Three Months Ended March 31, 2017**

**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 months ended March 31, 2017. 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: our ability to refinance our credit facilities and to raise additional debt or equity financing; the inability to gain compliance with the minimum bid price requirement of the NASDAQ Capital Market and/or inability to maintain listing with the NASDAQ Capital Market; the limited operating history of Sphere 3D; the ability of Sphere 3D to manage growth and specifically, its recent acquisition of Unified ConneXions, Inc. ("UCX") and HVE ConneXions, LLC ("HVE"); 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; currency fluctuations; 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; risks related to the business of Overland Storage, Inc. ("Overland") and other factors. 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, 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.

Overview

We are a virtualization technology and data management solutions provider with a portfolio of products that address the complete data continuum. We enable the integration of virtual applications, virtual desktops, and storage into workflow, and allow organizations to deploy a combination of public, private or hybrid cloud strategies. We achieve this through the sale of solutions that are derived from our primary product groups: disk systems, virtualization, and data management and storage.

Through our design of a proprietary virtualization software, we created our own platform, Glassware 2.0™ (“Glassware”), for the delivery of applications from a server-based computing architecture. This is accomplished through a number of unique approaches to virtualization utilized by Glassware including the use of software “containers” and “microvisors.” A container refers to software that takes an application and all the components required to run that application and encapsulates them with software. By doing so, users can run numerous applications from a single server and on a single copy of the operating system. A microvisor refers to the technology that allows non-Windows® based applications to run on the same servers as Windows software through the use of a lightweight emulator. Glassware software sales are not material.

In January 2017, we completed our acquisition of all of the outstanding equity interests of UCX and HVE (the “January 2017 acquisition”). UCX and HVE provide information technology consulting services and hardware solutions around cloud computing, data storage and server virtualization to corporate, government, and educational institutions primarily in the southern central United States. By adding UCX’s products, technologies, professional services and engineering talent, and HVE’s engineering and virtualization expertise, we intend to expand our virtualization offerings as well as enhance our ability to accelerate the delivery of hybrid cloud solutions to customers.

At this time, we have included UCX’s revenue with our disk systems products. The business activities of UCX may result in individual transactions that are more significant than those that normally result from our legacy business lines. Those significant transactions may involve multiple elements and may involve circumstances where, based on customer requests, equipment may be delivered either to the end customer location or to a third-party location specified by the customer.

Related Party Transactions

In March 2017, the Company entered into a securities purchase agreement with certain investors party thereto, pursuant to which the Company issued to the investors, in the aggregate, 20,454,546 of the Company’s common shares for gross proceeds of \$4.5 million. The securities purchase agreement also provided for the concurrent private placement of warrants exercisable to purchase up to 20,454,546 common shares. Each warrant has an initial exercise price of \$0.30 per warrant share. The warrants are exercisable for cash immediately or on a cashless basis commencing on a date which is the earlier of (i) six months from the date of the effective date of the offering or (ii) the date on which we fail to fulfill our obligations to register the common shares underlying the warrants under the registration rights agreements and expiring on a date which is no more than five years from the date of the effective date of the offering. If at any time while the warrants are outstanding, we sell or grant options to purchase, reprice or otherwise issue any common shares or securities convertible into common shares at a price less than \$0.30, then the exercise price for the warrants will be reduced to such price, provided that the exercise price will not be reduced to below \$0.10, and the number of common shares issuable under the warrants will be increased such that, after taking into account the decrease in the exercise price, the aggregate exercise price under the warrants will remain the same. MF Ventures, LLC, a related party, participated in the offering by acquiring 4,545,454 common shares and warrants to purchase 4,545,454 shares.

Between December 30, 2016 and March 16, 2017, the Company completed a private placement and issued a total of 18,139,998 “Units” at a purchase price of \$0.30 per Unit. Each Unit consisted of one common share and one warrant from each of two series of warrants. The Company received gross proceeds of \$5.4 million in connection with the sale of the Units. The first series of warrants is exercisable to purchase 18,139,998 common shares in the aggregate. The second series of warrants is exercisable for 18,139,998 common shares in the aggregate. MF Ventures, LLC participated in the private placements by acquiring 8,333,333 common shares and warrants to purchase 16,666,666 shares. Lynn Factor and Sheldon Inwentash, a married couple and related party to the Company, participated in the private placements by acquiring 5,325,000 common shares and warrants to purchase 10,650,000 shares. An additional 700,000 common shares and warrants to purchase 1,400,000 shares were acquired by ThreeD Capital Inc. Mr. Inwentash is the Chief Executive Officer of ThreeD Capital Inc.

Generation of revenue

We generate the majority of our revenue from sales of our disk systems, data management and storage products. The balance of our revenue is provided by selling maintenance contracts and rendering related services. The majority of our sales are generated from sales of our branded products through a worldwide channel, which includes systems integrators and value-added resellers. From time to time, customers may purchase products but be unable to accept shipment. In those circumstances the customer may request products be delivered to, and stored at, an alternate location, which may be on our premises.

We reported net revenue of \$21.7 million for the first quarter of 2017, compared with \$19.6 million for the first quarter of 2016. We reported a net loss of \$7.8 million, or \$0.10 per share, for the first quarter of 2017 compared with a net loss of \$8.1 million, or \$0.18 per share, for the first quarter of 2016.

Recent Developments

On March 12, 2017, the Company and Opus Bank entered into an Amendment Number Two to Credit Agreement, Amendment Number One to Amendment Number 1, Waiver and Reaffirmation (the "Second Amendment"). On March 22, 2017, the Company and Opus Bank entered into an Amendment Number Three to Credit Agreement, further amending the Second Amendment. On April 28, 2017, the Borrowers and Lender entered into an Amendment Number Four to Credit Agreement and Reaffirmation. Under the terms of the Second Amendment, as modified by the Third Amendment, (i) the maturity date for the revolving and term loan credit facilities were amended to be the earlier of (a) the maturity date in the Debenture or (b) June 30, 2017 if the Maturity Extension Trigger Date occurs on or before March 31, 2017, (ii) the Lender granted a waiver of specified defaults under the Credit Agreement relating to obligations to deliver to the Lender an executed letter of intent with respect to refinancing the credit facility, and (iii) certain other terms of the Credit Agreement were amended, including but not limited to terms related to collateral coverage, milestone deliverables, and financial covenants. The Company met the requirements of the Maturity Extension Trigger Date on March 29, 2017. In the event of certain specified events of default, including failure to meet certain monthly revenue and EBITDA targets or retain a financial advisor by June 10, 2017 with respect to a sale of a significant portion of the Company's assets, all amounts under the Credit Agreement may be accelerated and become immediately payable.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with GAAP requires us to make judgments, assumptions and estimates that affect the amounts reported in our condensed consolidated financial statements and accompanying notes. We base our estimates on historical experience and various other assumptions we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates and such differences may be material.

We believe our critical accounting policies and estimates are those related to other indefinite-lived intangible assets and long-lived assets, goodwill and intangible assets, research and development costs, revenue recognition, inventory valuation, warranty costs, legal and other contingencies. We consider these policies critical because they are both important to the portrayal of our financial condition and operating results, and they require us to make judgments and estimates about inherently uncertain matters. Our Company's critical accounting policies and estimates used in the preparation of our consolidated financial statements are reviewed regularly by management. See Note 2 to our condensed consolidated financial statements for updates to our revenue recognition policy related to our January 2017 acquisition.

Results of Operations

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

	Three Months Ended March 31,	
	2017	2016
Net revenue	100.0 %	100.0 %
Cost of revenue	68.6	69.6
Gross profit	31.4	30.4
Operating expenses:		
Sales and marketing	22.1	30.9
Research and development	8.1	12.4
General and administrative	23.0	27.1
	53.2	70.4
Loss from operations	(21.8)	(40.0)
Interest expense	(8.5)	(5.3)
Other (expense) income, net	(4.3)	4.9
Loss before income taxes	(34.6)	(40.4)
Provision for income taxes	1.4	0.7
Net loss	(36.0)%	(41.1)%

A summary of our sales mix as a percentage of net revenue:

	Three Months Ended March 31,	
	2017	2016
Disk systems	68.8%	62.2%
Tape automation systems	11.0	13.7
Tape drives and media	9.6	12.5
Service	10.6	11.6
	100.0%	100.0%

The First Quarter of 2017 compared with the First Quarter of 2016

Net Revenue. Net revenue increased to \$21.7 million during the first quarter of 2017 from \$19.6 million during the first quarter of 2016, an increase of \$2.1 million. The increase in net revenue is a result of an increase in disk systems revenue of \$2.8 million primarily due to our January 2017 acquisition, offset by a decrease in tape automation systems primarily due to lower sales volumes in our NEO[®] product line. Original equipment manufacturer (“OEM”) net revenue accounted for 15.5% and 20.0% of net revenues in the first quarter of 2017 and 2016, respectively.

Product Revenue

Net product revenue increased to \$19.4 million during the first quarter of 2017 compared to \$17.3 million during the first quarter of 2016. The increase of approximately \$2.1 million primarily related to additions of \$2.3 million of disk systems revenue from our January 2017 acquisition, partially offset by decreases in tape automation systems primarily due to lower sales volumes in our NEO® product line.

Service Revenue

Net service revenue was constant at \$2.3 million during the first quarter of 2017 and the first quarter of 2016. There was an addition of \$0.5 million in service revenue from our January 2017 acquisition, offset by a decrease in extended service contracts related to lower tape automation product sales.

Gross Profit

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

	Three Months Ended		
	March 31,		
	2017	2016	Change
Gross profit	\$ 6,831	\$ 5,956	14.7%
Gross margin	31.4%	30.4%	1.0 pt
Gross profit - product	\$ 5,360	\$ 4,741	13.1%
Gross margin - product	27.6%	27.3%	0.3 pt
Gross profit - service	\$ 1,471	\$ 1,215	21.1%
Gross margin - service	64.2%	53.3%	10.9 pt

In the first quarter of 2017, gross profit for product and service revenue increased due to our January 2017 acquisition. In addition, gross margin for service revenue increased due to the minimal costs incurred for service revenue generated by our January 2017 acquisition.

Sales and Marketing Expense. Sales and marketing expense in the first quarter of 2017 decreased to \$4.8 million from \$6.1 million during the first quarter of 2016. The decrease of \$1.3 million was primarily due to a \$0.5 million decrease in employee and related expenses associated with a decrease in average headcount, a \$0.5 million decrease in strategic marketing and outside contractors fees, and a \$0.2 million decrease in share-based compensation expense.

Research and Development Expense. Research and development expense in the first quarter of 2017 decreased to \$1.8 million from \$2.4 million during the first quarter of 2016. The decrease of \$0.6 million was primarily due to a \$0.4 million decrease in employee and related expenses associated with a decrease in average headcount.

General and Administrative Expense. General and administrative expense in the first quarter of 2017 decreased to \$5.0 million from \$5.3 million during the first quarter of 2016. The decrease of \$0.3 million was due to a decrease in legal and advisory expenses primarily due to a decrease in general corporate legal costs.

Interest Expense. Interest expense in the first quarter of 2017 increased to \$1.8 million from \$1.0 million during the first quarter of 2016. The increase in interest expense is related to a \$9.1 million increase in our outstanding debt primarily due to our term loan and credit facility with Opus Bank entered into in April 2016. Related party interest expense decreased by \$0.3 million primarily due to the payoff of our related party credit facility in April 2016.

Other Income (Expense), Net. Other income (expense), net, in the first quarter of 2017 was \$0.9 million of expense, net, compared to \$1.0 million of income, net, in the first quarter of 2016. The net expense in the first quarter of 2017 was primarily related to a \$1.1 million loss from the revaluation of our investment in connection with our January 2017 acquisition, which was

offset by a gain on the revaluation of warrants of \$0.2 million. Our income in the first quarter of 2016 was primarily related to realized foreign currency gains of \$0.6 million and a gain on revaluation of warrants of \$0.3 million.

Liquidity and Capital Resources

At March 31, 2017, we had cash of \$6.9 million compared to cash of \$5.1 million at December 31, 2016. In the first three months of 2017, we incurred a net loss of \$7.8 million. At March 31, 2017, we had \$44.0 million recorded as current debt, of which \$17.9 million is due in June 2017. Cash management and preservation, and the restructuring of our credit facilities continue to be top priorities. We expect to incur negative operating cash flows as we continue to increase our sales volume, and improve operational efficiencies.

As of March 31, 2017, we had a working capital deficit of \$35.7 million, reflecting a decrease in current assets of \$3.2 million and an increase in current liabilities of \$26.2 million compared to December 31, 2016.

In March 2017, we entered into a securities purchase agreement with certain investors party thereto, pursuant to which we issued to the investors, in the aggregate, 20,454,546 of our common shares for gross proceeds of \$4.5 million. The purchase price for one common share was \$0.22. The securities purchase agreement also provided for the concurrent private placement of warrants exercisable to purchase up to 20,454,546 common shares. Each warrant has an initial exercise price of \$0.30 per warrant share. The warrants are exercisable for cash immediately or on a cashless basis commencing on a date which is the earlier of (i) six months from the date of the effective date of the offering or (ii) the date on which we fail to fulfill our obligations to register the common shares underlying the warrants under the registration rights agreements and expiring on a date which is no more than five years from the date of the effective date of the offering. If at any time while the warrants are outstanding, we sell or grant options to purchase, reprice or otherwise issue any common shares or securities convertible into common shares at a price less than \$0.30, then the exercise price for the warrants will be reduced to such price, provided that the exercise price will not be reduced to below \$0.10, and the number of common shares issuable under the warrants will be increased such that, after taking into account the decrease in the exercise price, the aggregate exercise price under the warrants will remain the same.

Between December 2016 and March 2017, we completed a private placement and issued a total of 18,139,998 "Units" at a purchase price of \$0.30 per Unit. Each Unit consisted of one common share and one warrant from each of two series of warrants, as described below. We received gross proceeds of \$5.4 million in connection with the sale of the Units. The first series of warrants is exercisable to purchase 18,139,998 common shares in the aggregate and has an exercise price of \$0.40 per share, a one-year term, and is exercisable in whole or in part at any time prior to expiration. The second series of warrants is exercisable for 18,139,998 common shares in the aggregate and has an exercise price of \$0.55 per share, a five-year term, and is exercisable in whole or in part at any time prior to expiration.

Management has projected that cash on hand will not be sufficient to allow the Company to continue operations beyond June 30, 2017 if we are unable to amend or refinance our credit facilities with Opus Bank. As a result, we expect to need to refinance the short term portions of our existing debt and/or continue to raise additional debt, equity or equity-linked financing in the near future, but such financing may not be available on favorable terms on a timely basis or at all. In addition, significant changes from our current forecasts, including but not limited to: (i) failure to comply with the financial covenants in our credit facility; (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 gain compliance with the minimum bid price requirement of the NASDAQ Capital Market and/or inability to maintain listing with the NASDAQ Capital Market could have a material adverse impact on our ability to access the level of funding necessary to continue our operations at current levels. If any of these events occurs or we are unable to generate sufficient cash from operations or financing sources, we may be forced to make further reductions in spending, extend payment terms with suppliers, liquidate assets where possible and/or curtail, suspend or cease planned programs or operations generally or possibly seek bankruptcy protection, which would have a material adverse effect on our business, results of operations, financial position and liquidity.

As of March 31, 2017, our outstanding debt balance was as follows (in thousands):

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount Outstanding</u>
Term loan, net of unamortized debt discount of \$0.3 million	6/30/2017	Higher of Prime + 2.75% or 7.25%	\$ 9,674
Revolving loan	6/30/2017	Higher of Prime + 2.75% or 7.25%	\$ 8,195
Term loan - related party	1/31/2018	20.0%	\$ 1,923
Convertible notes - related party, net of unamortized debt discount of \$0.2 million	3/31/2018	8.0%	\$ 24,268

All debt and credit facilities are denominated in U.S. dollars. Our debt and credit facilities contain standard borrowing conditions and can be recalled by the lenders if certain conditions are not met.

On March 12, 2017, the Company and Opus Bank entered into an Amendment Number Two to Credit Agreement, Amendment Number One to Amendment Number 1, Waiver and Reaffirmation (the "Second Amendment"). On March 22, 2017, the Company and Opus Bank entered into an Amendment Number Three to Credit Agreement, further amending the Second Amendment. On April 28, 2017, the Borrowers and Lender entered into an Amendment Number Four to Credit Agreement and Reaffirmation. Under the terms of the Second Amendment, as modified by the Third Amendment, (i) the maturity date for the revolving and term loan credit facilities were amended to be the earlier of (a) the maturity date in the Debenture or (b) June 30, 2017 if the Maturity Extension Trigger Date occurs on or before March 31, 2017, (ii) the Lender granted a waiver of specified defaults under the Credit Agreement relating to obligations to deliver to the Lender an executed letter of intent with respect to refinancing the credit facility, and (iii) certain other terms of the Credit Agreement were amended, including but not limited to terms related to collateral coverage, milestone deliverables, and financial covenants. The Company met the requirements of the Maturity Extension Trigger Date on March 29, 2017. In the event of certain specified events of default, including failure to meet certain monthly revenue and EBITDA targets or retain a financial advisor by June 10, 2017 with respect to a sale of a significant portion of the Company's assets, all amounts under the Credit Agreement may be accelerated and become immediately payable.

We incurred losses from operations and negative cash flows from operating activities for the 12 months ended March 31, 2017, and such losses might continue for a period of time. As a result of our recurring losses from operations and negative cash flows, the report from our independent registered public accounting firm regarding our consolidated financial statements for the year ended December 31, 2016 includes an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern.

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

	Three Months Ended	
	March 31,	
	2017	2016
Net cash used in operating activities	\$ (3,972)	\$ (5,246)
Net cash used in investing activities	\$ (1,055)	\$ (103)
Net cash provided by financing activities	\$ 6,852	\$ 2,296

The use of cash during the first three months of 2017 was primarily a result of our net loss of \$7.8 million offset by \$5.6 million in non-cash items, which were primarily share-based compensation, depreciation and amortization, loss on revaluation of investment, amortization of debt issuance costs and gain on warrant liability.

During the first three months of 2017, net cash used in investing activities was primarily related to our January 2017 acquisition, while during the first three months of 2016, additions to fixed assets totaled \$0.1 million.

During the first three months of 2017, we received \$7.4 million in net proceeds from the issuance of common shares and warrants, offset by \$0.6 million of payments on our related party debt. During the first three months of 2016, we received \$3.7 million in proceeds from exercised warrants, offset by \$1.5 million of net payments on our credit facility.

Off-Balance Sheet Arrangements

During the ordinary course of business, we provide standby letters of credit to third parties as required for certain transactions initiated by us. As of March 31, 2017, we had \$0.4 million in standby letters of credit that were not recorded on our condensed consolidated balance sheets.

Recently Issued Accounting Pronouncements

See Note 2 to our condensed consolidated financial statements for information about recent accounting pronouncements.

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.

Foreign Currency Risk. We conduct business on a global basis and a significant portion of our sales in international markets are not denominated in U.S. dollars. Export sales represent a significant portion of our sales and are expected to continue to represent a significant portion of sales. Purchase contracts are typically in U.S. dollars. In addition, our wholly-owned foreign subsidiaries incur costs that are denominated in local currencies. As exchange rates vary, these results may vary from expectations when translated into U.S. dollars, which could adversely impact overall expected results. Such transactions resulted in a minimal gain for the three months ended March 31, 2017 compared to a gain of \$0.6 million for the three months ended March 31, 2016.

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. Management has projected that cash on hand will not be sufficient to allow the Company to continue operations beyond June 30, 2017 if we are unable to amend or refinance our credit facility with Opus Bank.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Risk Factors

An investment in our company involves a high degree of risk. In addition to the risk factors and the other information included or incorporated by reference in this report, you should carefully consider each of the risk factors described in our Annual Report for the fiscal year ended December 31, 2016, 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. In that case, the trading price of our common stock could decline.

SPHERE 3D CORP.

Condensed Consolidated Financial Statements (Unaudited)
Three Months Ended March 31, 2017 and 2016
(Expressed in U.S. dollars)

SPHERE 3D CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands of U.S. dollars, except per share amounts)

	Three Months Ended	
	March 31,	
	2017	2016
	(Unaudited)	
Net revenue:		
Product revenue	\$ 19,445	\$ 17,339
Service revenue	2,293	2,280
	21,738	19,619
Cost of product revenue	14,085	12,598
Cost of service revenue	822	1,065
Gross profit	6,831	5,956
Operating expenses:		
Sales and marketing	4,797	6,053
Research and development	1,771	2,442
General and administrative	4,989	5,311
	11,557	13,806
Loss from operations	(4,726)	(7,850)
Other income (expense):		
Interest expense	(1,190)	(112)
Interest expense - related party	(660)	(928)
Other (expense) income, net	(927)	959
Net loss before income taxes	(7,503)	(7,931)
Provision for taxes	306	138
Net loss	\$ (7,809)	\$ (8,069)
Net loss per share:		
Basic and diluted	\$ (0.10)	\$ (0.18)
Shares used in computing net loss per share:		
Basic and diluted	77,942	45,748

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	
	March 31,	
	2017	2016
	(Unaudited)	
Net loss	\$ (7,809)	\$ (8,069)
Other comprehensive loss:		
Foreign currency translation adjustments	(9)	(200)
Total other comprehensive loss	(9)	(200)
Comprehensive loss	\$ (7,818)	\$ (8,269)

See accompanying notes to condensed consolidated financial statements.

SPHERE 3D CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands of U.S. dollars)

	March 31, 2017	December 31, 2016
(Unaudited)		
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,904	\$ 5,056
Accounts receivable, net of allowance for doubtful accounts of \$1,648 for each period	13,013	11,591
Inventories	10,728	10,002
Investment	—	1,500
Other current assets	2,780	2,121
Total current assets	33,425	30,270
Property and equipment, net	2,893	3,058
Intangible assets, net	47,723	47,728
Goodwill	11,590	11,068
Other assets	671	432
Total assets	\$ 96,302	\$ 92,556
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 11,216	\$ 10,561
Accrued liabilities	4,431	3,619
Accrued payroll and employee compensation	1,997	2,227
Deferred revenue	5,965	5,338
Debt, related party	26,180	2,294
Debt	17,869	17,300
Other current liabilities	1,424	1,515
Total current liabilities	69,082	42,854
Deferred revenue, long-term	1,092	1,051
Long-term debt — related party, net	—	24,401
Long-term deferred tax liabilities	3,110	3,100
Other long-term liabilities	3,539	704
Total liabilities	76,823	72,110
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Common stock, no par value, unlimited shares authorized; 102,708 and 66,565 shares issued and outstanding as of March 31, 2017 and December 31, 2016, respectively	164,105	157,254
Accumulated other comprehensive loss	(1,574)	(1,565)
Accumulated deficit	(143,052)	(135,243)
Total shareholders' equity	19,479	20,446
Total liabilities and shareholders' equity	\$ 96,302	\$ 92,556

See accompanying notes to condensed consolidated financial statements.

SPHERE 3D CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of U.S. dollars)

	Three Months Ended	
	March 31,	
	2017	2016
	(Unaudited)	
Operating activities:		
Net loss	\$ (7,809)	\$ (8,069)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,526	1,576
Share-based compensation	2,169	2,562
Loss on revaluation of investment	1,145	—
Amortization of debt issuance costs	951	340
Gain on warrant liability	(187)	(326)
Changes in operating assets and liabilities (net of effects of acquisition):		
Accounts receivable	(756)	(739)
Inventories	(496)	(1)
Accounts payable and accrued liabilities	1,298	1,152
Accrued payroll and employee compensation	(414)	(388)
Deferred revenue	124	(327)
Other assets and liabilities, net	(1,523)	(1,026)
Net cash used in operating activities	<u>(3,972)</u>	<u>(5,246)</u>
Investing activities:		
Acquisition, net of cash acquired	(1,051)	—
Purchase of fixed assets	(4)	(103)
Net cash used in investing activities	<u>(1,055)</u>	<u>(103)</u>
Financing activities:		
Proceeds from issuance of common shares	7,862	60
Cost of issuance of common shares	(433)	—
Repayment of principal on related party debt	(577)	—
Proceeds from exercised warrants	—	3,703
Payments for credit facility, net	—	(1,467)
Net cash provided by financing activities	<u>6,852</u>	<u>2,296</u>
Effect of exchange rate changes on cash	23	71
Net increase (decrease) in cash and cash equivalents	1,848	(2,982)
Cash and cash equivalents, beginning of period	5,056	8,661
Cash and cash equivalents, end of period	<u>\$ 6,904</u>	<u>\$ 5,679</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 404</u>	<u>\$ 95</u>
Non-cash investing and financing activities:		
Issuance of common shares in relation to acquisition	<u>\$ (346)</u>	<u>\$ —</u>
Issuance of warrants in relation to issuance of common shares	<u>\$ 3,411</u>	<u>\$ —</u>
Liabilities not paid related to issuance of common shares	<u>\$ 250</u>	<u>\$ —</u>
Issuance of common shares in relation to settlement of liabilities	<u>\$ (52)</u>	<u>\$ —</u>
Issuance of warrants in relation to related party convertible note	<u>\$ —</u>	<u>\$ 485</u>
Issuance of warrants in relation to settlement of liabilities	<u>\$ —</u>	<u>\$ 350</u>

See accompanying notes to condensed consolidated financial statements.

SPHERE 3D CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 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 via hybrid Cloud, Cloud and on-premise implementations through 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 Glassware 2.0™, NEO®, RDX®, SnapCLOUD™, SnapServer®, SnapSync™ and V3®.

These consolidated statements include the financial statements of the Company, and its wholly-owned subsidiaries, which are listed in the Company’s Annual Report for the fiscal year ended December 31, 2016, which is available on SEDAR at www.sedar.com and EDGAR at www.sec.gov.

The Company has projected that cash on hand will not be sufficient to allow the Company to continue operations beyond June 30, 2017 if the Company is unable to amend or refinance its credit facilities with Opus Bank. As a result, the Company expects to need to refinance the short term portions of its existing debt and/or continue to raise additional debt, equity or equity-linked financing in the near future, but such financing may not be available on favorable terms on a timely basis or at all. In addition, significant changes from the Company’s current forecasts, including but not limited to: (i) failure to comply with the financial covenants in our credit facility; (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 gain compliance with the minimum bid price requirement 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 make further reductions in spending, extend payment terms with suppliers, liquidate assets where possible and/or curtail, suspend or cease planned programs or operations generally or possibly seek bankruptcy protection, 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 three months ended March 31, 2017, and such losses might continue for a period of time. Based upon the Company’s current expectations and projections for the next year, the Company believes that it may not have sufficient liquidity necessary to sustain operations beyond June 30, 2017 due to the maturity dates of the existing Opus Bank debt facilities. These factors, among others, raise doubt that the Company will be able to continue as a going concern.

NOTE 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. They do not include all the disclosures required by GAAP for annual financial statements and should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2016, which have been prepared in accordance with GAAP. 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 upon consolidation.

Reclassifications

Certain reclassifications have been made to prior periods’ amounts to conform to the current period’s presentation.

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 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 litigation claims; deferred revenue; allowance for doubtful receivables; inventory valuation; warranty provisions; deferred income taxes; and impairment assessments of goodwill, other indefinite-lived intangible assets and long-lived assets. 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 condensed 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’ equity. Gains or losses from foreign currency transactions are recognized in the condensed consolidated statements of operations. Such transactions resulted in a minimal gain for the three months ended March 31, 2017 compared to a gain of \$0.6 million for the three months ended March 31, 2016.

Inventories

Inventories are stated at the lower of cost or market using the first-in-first-out method. 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 its inventory for obsolete or unmarketable inventory by an amount equal to the difference between the cost of the inventory and the estimated market value.

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, Other Indefinite-Lived Intangible Assets and Long-Lived Assets

Goodwill and other indefinite-lived 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. Other indefinite-lived 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.

Long-lived assets, such as property and equipment and intangible assets subject to amortization, are reviewed for recoverability whenever events or changes in circumstances indicate the carrying value may not be recoverable. Our consideration includes, but is not limited to: (i) significant under-performance relative to historical or projected future operating results; (ii) significant changes in the manner of use of the assets or the strategy for the Company's overall business; (iii) significant decrease in the market value of the assets; and (iv) significant negative industry or economic trends. When the carrying value is not considered recoverable, an impairment loss for the amount by which the carrying value of a long-lived asset exceeds its fair value is recognized, with an offsetting reduction in the carrying value of the related asset.

Revenue Recognition

Revenue from sales of products is recognized when persuasive evidence of an arrangement exists, the price is fixed or determinable, collectability is reasonably assured and delivery has occurred. Under this policy, revenue on direct product sales, excluding sales to distributors, is recognized upon shipment of products to customers. These customers 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. Revenue from services, such as extended product warranties, are deferred and recognized over the period of the service agreement.

Depending on delivery terms, title and risk of loss transfer to the customer when the product leaves the Company's dock, or when the product arrives at the customer's location. Product sales to distribution customers are subject to certain rights of return, stock rotation privileges and price protection. Because we are unable to estimate its exposure for returned product or price adjustments, revenue from shipments to these customers is not recognized until the related products are in turn shipped to the ultimate customer by the distributor. For products for which software is more than an incidental component, we recognize revenue in accordance with current authoritative guidance for software revenue recognition.

In circumstances where a customer is unable to accept shipment and requests products be delivered to, and stored on, the Company's premises, revenue is recognized when: (i) the customer has accepted risk of loss and acknowledged passage of title to the goods (ii) the customer has made a fixed commitment to purchase the products, (iii) the customer has requested delayed delivery and storage of the products, (iv) there is an agreed schedule for shipment of products to the customer within a reasonable period of time, (v) the Company has no specific performance obligation such that the earnings process for the products, as a unit of accounting, is not complete, (vi) the goods are segregated from the inventory and not available to fill other orders, (vii) the product is complete, ready for shipment and accepted by the customer, and (viii) all other criteria above for revenue recognition have been met.

The Company enters into revenue arrangements that may consist of multiple deliverables of its product and service offerings, such as for sales of hardware devices and extended warranty services. The Company allocates revenue to deliverables in multiple element arrangements based on relative selling prices. The Company determines its vendor-specific objective evidence ("VSOE") based on its normal pricing and discounting practices for the specific product or service when sold separately. When the Company is not able to establish VSOE for all deliverables in an arrangement with multiple elements, the Company attempts to determine the selling price of each element based on third party evidence of selling price, or based on the Company's actual historical selling prices of similar items, whichever management believes provides the most reliable estimate of expected selling prices.

Warranty and Extended Warranty

We record 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. We contract 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.

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 purchased software code and services content. Such costs related to software development are included in research and development expense until the point that technological feasibility is reached, which for our software products, is generally shortly before the products are released to manufacturing. Once technological feasibility is reached, such costs are capitalized and amortized to cost of revenue over the estimated lives of the products.

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 and the unvested options remeasured at each reporting date, with changes in fair value recognized in expense in the condensed consolidated statement of operations.

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 condensed consolidated financial statements upon adoption.

In January 2017, the FASB issued Accounting Standards Update (“ASU”) No. 2017-04, *Intangibles - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment* (“ASU 2017-04”). ASU 2017-04 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. ASU 2017-04 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 financial position, results of operations or cash flows.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (“ASU 2016-15”). ASU 2016-15 addresses eight cash flow classification issues and how they should be reported in the statement of cash flows. ASU 2016-15 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted for all companies in any interim or annual period. We are currently evaluating the effect that the updated standard will have on our consolidated financial position, results of operations or cash flows.

In April 2016, the FASB issued ASU No. 2016-10, *Revenue From Contracts With Customers (Topic 606): Identifying Performance Obligations and Licensing* (“ASU 2016-10”). ASU 2016-10 clarifies the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. The effective date of ASU 2016-10 will coincide with ASU 2014-09 and, as described below, ASU 2014-09 will be effective for annual reporting periods beginning after December 15, 2017. The impact on our consolidated financial position, results of operations or cash flows as a result of the adoption of ASU 2016-10 has not yet been determined.

In March 2016, the FASB issued ASU No. 2016-08, *Revenue From Contracts With Customers (Topic 606): Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)* (“ASU 2016-08”). ASU 2016-08 amends the principal-versus-agent implementation guidance in ASU 2014-09. ASU 2016-08 clarifies the principal-versus-agent guidance in Topic 606 and requires an entity to determine whether the nature of its promise to provide goods or services to a customer is performed in a principal or agent capacity and to recognize revenue in a gross or net manner based on its principal/agent designation. The effective date of ASU 2016-08 will coincide with ASU 2014-09 and, as described below, ASU 2014-09 will be effective for annual reporting periods beginning after December 15, 2017. The impact on our consolidated financial position, results of operations or cash flows as a result of the adoption of ASU 2016-08 has not yet been determined.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (“ASU 2016-02”). ASU 2016-02 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. ASU 2016-02 is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. An entity will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. We are evaluating any potential impact of the adoption of ASU 2016-02 may have on our consolidated financial position, results of operations or cash flows.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (“ASU 2014-09”). ASU 2014-09 outlines a single comprehensive model for accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. ASU 2014-09 requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 as amended is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. We have not yet selected a transition method and the impact on our consolidated financial position, results of operations or cash flows as a result of the adoption of ASU 2014-09 has not yet been determined.

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation (Topic 718)* (“ASU 2016-09”). ASU 2016-09 simplifies the accounting for several aspects of the accounting for share-based payment transactions including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company adopted ASU 2016-09 effective January 1, 2017. The impact on our consolidated financial position, results of operations or cash flows was not material.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory* (“ASU 2015-11”). ASU 2015-11 requires that for entities that measure inventory using the first-in, first-out method, inventory should be measured at the lower of cost and net realizable value. *Topic 330, Inventory*, currently requires an entity to measure inventory at the lower of cost or market. Market could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The amendments should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company adopted ASU 2015-11 effective January 1, 2017. There was no material impact on our consolidated financial position, results of operations or cash flows.

NOTE 3 — BUSINESS COMBINATION

UCX and HVE Acquisition

On December 30, 2016, the Company acquired 19.9% of the outstanding equity interests of Unified ConneXions, Inc. (“UCX”) and HVE ConneXions, LLC (“HVE”) for the purchase price of \$1.5 million. The Company issued 3,947,368 shares of its common shares in satisfaction of payment. On January 27, 2017, the Company completed its acquisition of all of the remaining outstanding equity interests of UCX and HVE, for \$1.1 million in cash and issued 2,205,883 common shares with an approximate value of \$0.3 million. In addition, the Company recognized a \$1.1 million loss, included in other expense, as a result of the remeasurement to fair value the equity interest held immediately before the business combination. The valuation was based on the Company’s private placement completed as of January 26, 2017.

UCX and HVE provide information technology consulting services and hardware solutions around cloud computing, data storage and server virtualization to corporate, government, and educational institutions primarily in the southern central United States. By adding UCX’s products, technologies, professional services and engineering talent, and HVE’s engineering and virtualization expertise, the Company intends to expand its virtualization offerings as well as enhance its ability to accelerate the delivery of hybrid cloud solutions to customers. We incurred acquisition related expenses of \$34,000 which consisted primarily of due diligence, legal and other one-time charges and are included in general and administrative expense in the condensed consolidated statements of operations.

A summary of the preliminary estimated fair values of the assets acquired and liabilities assumed as of the closing date is as follows (in thousands):

Cash	\$ 49
Accounts receivable	582
Inventory	206
Identifiable intangible assets	1,260
Other assets	45
Total identifiable assets acquired	2,142
Accounts payable and accrued liabilities	(359)
Deferred revenue	(518)
Net identifiable assets acquired	1,265
Goodwill	522
Net assets acquired	\$ 1,787

Goodwill is primarily comprised of a trained and assembled workforce. The fair value estimates for the assets acquired and liabilities assumed for the acquisition were based on estimates and analysis, including work performed by third party valuation specialists. Adjustments may be made to the estimated fair values during the measurement period as we obtain additional information. The primary areas of estimates that were not yet finalized related to the finalization of identifiable intangible assets and goodwill. The goodwill recognized upon acquisition is not deductible for tax purposes.

The results of operations related to this acquisition have been included in our condensed consolidated statements of operations from the acquisition date. Pro forma results of operations have not been presented because at this time it is impracticable to provide as the information is not available at the level of detail required.

The identified intangible assets as of the date of acquisition consisted of the following (in thousands):

	Estimated Fair Value	Weighted- Average Useful Life (years)
Channel partner relationships	\$ 730	6.0
Customer relationships	380	3.2
Developed technology	150	3.0
Total identified intangible assets	\$ 1,260	

NOTE 4 — INVENTORY

The following table summarizes inventories (in thousands):

	March 31, 2017	December 31, 2016
Raw materials	\$ 1,670	\$ 1,697
Work in process	2,631	2,673
Finished goods	6,427	5,632
	\$ 10,728	\$ 10,002

NOTE 5 — INTANGIBLE ASSETS AND GOODWILL

The following table summarizes purchased intangible assets (in thousands):

	March 31, 2017	December 31, 2016
Developed technology	\$ 23,835	\$ 23,685
Channel partner relationships ⁽¹⁾	12,011	11,989
Capitalized development costs ⁽¹⁾	2,980	2,937
Customer relationships ⁽¹⁾	2,291	1,171
	<u>41,117</u>	<u>39,782</u>
Accumulated amortization		
Developed technology	(12,267)	(11,234)
Channel partner relationships	(692)	(565)
Capitalized development costs	(1,061)	(958)
Customer relationships	(284)	(207)
	<u>(14,304)</u>	<u>(12,964)</u>
Total finite-lived assets, net	26,813	26,818
Indefinite live intangible assets - trade names	20,910	20,910
Total intangible assets, net	<u>\$ 47,723</u>	<u>\$ 47,728</u>

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

Amortization expense of intangible assets was \$1.3 million during each of the three months ended March 31, 2017 and 2016. Estimated amortization expense for intangible assets is approximately \$4.1 million for the remainder of 2017 and \$3.7 million, \$2.7 million, \$2.6 million, \$2.1 million and \$2.0 million in fiscal 2018, 2019, 2020, 2021 and 2022, respectively.

Goodwill

The changes in the carrying amount of goodwill were as follows (in thousands):

Balance as of December 31, 2016	\$ 11,068
Goodwill acquired	522
Balance as of March 31, 2017	<u>\$ 11,590</u>

NOTE 6 — DEBT

Convertible Notes - Related Party

In December 2014, in connection with the acquisition of Overland, the existing debt of Overland and the remaining debt of the Company were amended and restated into a \$19.5 million convertible note held by FBC Holdings (an affiliate of Cyrus Capital Partners). In April 2016, the Company modified its convertible note with FBC Holdings, pursuant to which the holder made an additional advance and principal amount under the convertible note amount was increased to \$24.5 million. The convertible note is scheduled to mature March 31, 2018 and bears interest at an 8% simple annual interest rate, payable semi-annually. The obligations under the convertible note are secured by substantially all assets of the Company. At March 31, 2017, the Company had \$24.3 million outstanding on the convertible note, net of unamortized debt costs of \$0.2 million.

The Company has the option to pay accrued and outstanding interest either entirely in cash or common shares. If the Company chooses to pay the interest in common shares, the calculation will be determined by dividing the amount of interest due by current market price of the common shares as defined in the convertible note agreement.

The convertible note was originally convertible into common shares at a price equal to \$7.50 per share in the case of \$10 million of the convertible note and \$8.50 per share in the case of \$9.5 million of the convertible note. In November 2015, the convertible note was modified and the conversion prices of \$7.50 per share and \$8.50 per share were adjusted to \$3.00 per share. In February 2016, in connection with the November 2015 modification and certain specified terms, the Company issued to the holder of the convertible note a warrant to purchase 500,000 common shares of the Company at a price of \$1.62.

At the option of the Company, the convertible note is convertible into common shares at the conversion price at any time that the weighted average trading price for the common shares exceeds 150% of the conversion price (i.e. exceeds \$4.50 per share), for 10 consecutive trading days on its principal stock exchange that the common shares trade.

The convertible note contains customary covenants, including covenants that limit or restrict the Company's ability to incur liens, incur indebtedness, or make certain restricted payments. Upon the occurrence of an event of default under the convertible note, the holder may declare all amounts outstanding to be immediately due and payable. The convertible note specifies a number of events of default (some of which are subject to applicable grace or cure periods), including, among other things, non-payment defaults, covenant defaults, cross-defaults to other materials indebtedness, bankruptcy and insolvency defaults, and material judgment defaults. As of March 31, 2017, the Company was not in default of any covenants of the convertible note.

For the three months ended March 31, 2017 and 2016, interest expense, including amortization of debt costs, on the convertible note was \$0.5 million and \$0.4 million, respectively. At March 31, 2017 and December 31, 2016, there were \$0.5 million and zero, respectively, in accrued liabilities related to interest expense.

Term Loan - Related Party

In September 2016, the Company entered into a \$2.5 million term loan agreement with FBC Holdings. The term loan has a maturity date of January 31, 2018 and bears interest at a 20.0% simple annual interest rate, payable monthly in arrears. Monthly payments of principal on the term loan began on January 31, 2017, in 13 equal installments. The Company has the option to pre-pay the outstanding balance of the term loan, plus any accrued interest, at any time.

The obligations of the Company and certain of its subsidiaries (collectively, the "Loan Parties") under the term loan agreement and related documents are secured by substantially all assets of the Loan Parties.

For the three months ended March 31, 2017, interest expense, including amortization of debt costs, on the term loan was \$0.1 million.

Opus Bank Credit Agreement

In April 2016, the Company entered into a Credit Agreement with Opus Bank for a term loan in the amount of \$10.0 million and a credit facility in the amount of up to \$10.0 million. In December 2016, the credit facility was reduced to \$8.2 million. A portion of the proceeds were used to pay off the Company's then outstanding credit facilities with FBC Holdings and Silicon Valley Bank. The remainder of the proceeds were used for working capital and general business requirements. The obligations under the term loan and credit facility are secured by substantially all assets of the Company other than the stock of its subsidiaries organized outside of the U.S. and Canada that are pledged to secure the Company's obligations under the Company's convertible note. The term loan and credit facility are scheduled to mature on June 30, 2017. At March 31, 2017, the interest rate on the term loan and credit facility was 7.25%. At March 31, 2017, the outstanding balance of the term loan was \$9.7 million, net of unamortized debt costs of \$0.3 million, and the outstanding balance of the credit facility was \$8.2 million.

On March 12, 2017, the Company and Opus Bank entered into an Amendment Number Two to Credit Agreement, Amendment Number One to Amendment Number 1, Waiver and Reaffirmation (the "Second Amendment"). On March 22, 2017, the Company and Opus Bank entered into an Amendment Number Three to Credit Agreement, further amending the Second Amendment. On April 28, 2017, the Borrowers and Lender entered into an Amendment Number Four to Credit Agreement and Reaffirmation. Under the terms of the Second Amendment, as modified by the Third Amendment, (i) the maturity date for the revolving and term loan credit facilities were amended to be the earlier of (a) the maturity date in the Debenture or (b) June 30, 2017 if the Maturity Extension Trigger Date occurs on or before March 31, 2017, (ii) the Lender granted a waiver of specified defaults under the Credit Agreement relating to obligations to deliver to the Lender an executed letter of intent with respect to refinancing the credit facility, and (iii) certain other terms of the Credit Agreement were amended, including but not limited to terms related to collateral coverage, milestone deliverables, and financial covenants. The Company met the requirements of the Maturity Extension Trigger Date on March 29, 2017. In the event of certain specified events of default, including failure to meet certain monthly revenue and EBITDA targets or retain a financial advisor by June 10, 2017 with respect to a sale of a significant portion of the Company's assets, all amounts under the Credit Agreement may be accelerated and become immediately payable.

In March 2017, as a condition of the entry into the Second Amendment, the Company issued to Opus Bank (i) a warrant, exercisable for 398,936 shares at an exercise price of \$0.01 per common share as debt was not repaid by April 17, 2017 and (ii) a warrant, exercisable in the event that we have not repaid all outstanding amounts due under the Credit Agreement on or prior to May 31, 2017, for the purchase of the number of common shares equivalent to \$100,000 at an exercise price of \$0.01 per common share.

The term loan and credit facility contain customary covenants, including covenants that limit or restrict the Company's ability to incur liens, incur indebtedness, or make certain restricted payments. Upon the occurrence of an event of default under the term loan, the holder may declare all amounts outstanding to be immediately due and payable. The term loan and credit facility specify a number of events of default (some of which are subject to applicable grace or cure periods), including, among other things, non-payment defaults, covenant defaults, cross-defaults to other materials indebtedness, bankruptcy and insolvency defaults, and material judgment defaults. As of March 31, 2017, the Company was in compliance with all covenants of the term loan and credit facility.

In December 2016, as a condition of the extension of credit to the Company under the Credit Agreement, the Company issued to Opus Bank a warrant for the purchase of up to 862,068 common shares of the Company at an exercise price of \$0.01 per common share. The warrant is immediately exercisable and has a six-year term. The December 2016 warrant replaced the warrant that was previously issued in April 2016.

For the three months ended March 31, 2017, interest expense, including amortization of debt costs, on the Opus facilities was \$1.2 million.

NOTE 7 — 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, prepaid expenses, accounts payable, accrued expenses, credit facility, debt and related party debt. 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 amount of the credit facility borrowings approximate their fair value as the interest rate of the credit facility is substantially comparable to rates offered for similar debt instruments. The carrying value of debt approximates its fair value as the borrowing rates are substantially comparable to rates available for loans with similar terms.

The following table provides information by level for liabilities that are measured at fair value using significant unobservable inputs (Level 3) (in thousands):

Warrant liability as of December 31, 2016	\$	200
Additions to warrant liability		2,932
Change in fair value of warrants		(187)
Warrant liability as of March 31, 2017	\$	2,945

The Company determined the estimated fair value of the warrant liability using a Black-Scholes model using similar assumptions as disclosed in Note 9 - Equity Incentive Plan.

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

The Company's non-financial assets such as 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. As discussed in Note 3 - Business Combination, the Company acquired assets related to the UCX and HVE acquisition and recorded the acquired assets and liabilities, including intangible assets and goodwill at their estimated fair value. The determination of the estimated fair value of such assets required the use of significant unobservable inputs which are considered Level 3 fair value measurements.

NOTE 8 — SHARE CAPITAL

Issued and Outstanding

The Company had the following share capital issuance activity (in thousands):

	Shares Issued
Issued for private placements	31,661
Issued for acquisition	2,206
Issued on release of restricted stock units	2,113
Issued for payment of services	163
Shares issued during the period ended March 31, 2017	<u>36,143</u>

Related Party Transactions

In March 2017, the Company entered into a securities purchase agreement with certain investors party thereto, pursuant to which the Company issued to the investors, in the aggregate, 20,454,546 of the Company's common shares for gross proceeds of \$4.5 million. The securities purchase agreement also provided for the concurrent private placement of warrants exercisable to purchase up to 20,454,546 common shares. MF Ventures, LLC, a related party, participated in the offering by acquiring 4,545,454 common shares and warrants to purchase 4,545,454 shares.

Between December 30, 2016 and March 16, 2017, the Company completed a private placement and issued a total of 18,139,998 "Units" at a purchase price of \$0.30 per Unit. Each Unit consisted of one common share and one warrant from each of two series of warrants. The Company received gross proceeds of \$5.4 million in connection with the sale of the Units. The first series of warrants is exercisable to purchase 18,139,998 common shares in the aggregate. The second series of warrants is exercisable for 18,139,998 common shares in the aggregate. MF Ventures, LLC participated in the private placements by acquiring 8,333,333 common shares and warrants to purchase 16,666,666 shares. Lynn Factor and Sheldon Inwentash, a married couple and related party to the Company, participated in the private placements by acquiring 5,325,000 common shares and warrants to purchase 10,650,000 shares. An additional 700,000 common shares and warrants to purchase 1,400,000 shares were acquired by ThreeD Capital Inc. Mr. Inwentash is the Chief Executive Officer of ThreeD Capital Inc.

At March 31, 2017, the Company had the following outstanding warrants to purchase common shares (in thousands):

Date issued	Contractual life (years)	Exercise price	Number outstanding	Expiration
February 2015	3	\$4.50	100	February 20, 2018
March 2015	3	\$7.21	100	March 6, 2018
March 2015	3	\$5.02	100	March 20, 2018
May 2015	5	\$4.00	840	May 31, 2020
October 2015	5	\$2.33	402	October 14, 2020
December 2015	3	\$1.54	500	December 21, 2018
December 2015	5	\$2.50	1,028	December 15, 2020
December 2015	5	\$1.08	1,500 ⁽¹⁾	December 4, 2020
February 2016	3	\$1.62	500	February 26, 2019
March 2016	5	\$2.50	30	March 4, 2021
March 2016	5	\$1.22	4,168	March 25, 2021
November 2016	3	\$2.00	25	November 8, 2019
January 2016	3	\$2.06	88	November 30, 2018
December 2016	6	\$0.01	862	December 30, 2022
January 2017	1	\$0.40	16,907	January 24, 2018
January 2017	5	\$0.40	16,907	January 24, 2022
March 2017	1	\$0.55	1,233	March 16, 2018
March 2017	5	\$0.55	1,233	March 16, 2022
March 2017	6	\$0.01	399	April 18, 2023
March 2017	6	\$0.01	—	June 1, 2023
March 2017	5	\$0.30	21,682 ⁽²⁾	March 24, 2022
			<u>68,604</u> ⁽³⁾	

- (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) If the Company sells or grants options to purchase, reprice or otherwise issue any common shares or securities convertible into common shares at a price less than the initial exercise price of \$0.30, then the exercise price for these warrants will be reduced to such price, provided that the exercise price will not be reduced to below \$0.10, and the number of common shares issuable under the warrants will be increased such that, after taking into account the decrease in the exercise price, the aggregate exercise price under the warrants will remain the same.

While these warrants are outstanding, if the Company enters into a Fundamental Transaction, defined as a merger, consolidation or similar transaction, the Company or any successor entity will, at the option of each holder, exercisable at any time within 90 days after the consummation of the Fundamental Transaction, purchase the warrant from the holder exercising such option by paying to the holder an amount of cash equal to the Black-Scholes Value of the remaining unexercised portion of such holder’s warrant on the date of the consummation of the Fundamental Transaction.

- (3) Includes 40.0 million of warrants to purchase common shares, in the aggregate, issued to related parties.

NOTE 9 — EQUITY INCENTIVE PLAN

During the three months ended March 31, 2017, the Company granted awards of restricted stock units of 5,261,030, which 5,156,030 were granted outside of the 2015 Performance Incentive Plan. During the three months ended March 31, 2016, the Company granted awards of restricted stock units of 216,988. The restricted stock units were fair valued based on the date of grant. During the three months ended March 31, 2017 and 2016, the Company granted restricted stock awards of 163,000 and zero, respectively. During the three months ended March 31, 2017 and 2016, the Company granted awards of stock options of 20,000 and 12,000, respectively. The stock options were fair valued using the Black-Scholes option pricing model. The restricted stock units and stock options typically vest over a period of approximately 3.0 years.

The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model, which uses the weighted-average assumptions noted in the following table:

	Three Months Ended	
	March 31,	
	2017	2016
Expected volatility	93.0%	93.0%
Risk-free interest rate	1.5%	1.5%
Dividend yield	—	—
Expected term (in years)	4.7	4.7

The Company recorded the following compensation expense related to its share-based compensation awards (in thousands):

	Three Months Ended	
	March 31,	
	2017	2016
Cost of product sales	\$ 84	\$ 91
Sales and marketing	651	884
Research and development	370	475
General and administrative	1,064	1,112
Total share-based compensation expense	<u>\$ 2,169</u>	<u>\$ 2,562</u>

As of March 31, 2017, there was total unrecognized estimated compensation cost of approximately \$6.2 million expected to be recognized over a weighted average period of one year.

NOTE 10 — 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 stock equivalents excluded from the computation of diluted net loss per share were as follows (in thousands):

	Three Months Ended	
	March 31,	
	2017	2016
Common stock purchase warrants	68,604	9,974
Convertible notes interest	11,291	2,830
Convertible notes	8,167	6,500
Restricted stock not yet vested or released	6,683	5,344
Options outstanding	3,258	3,587

NOTE 11 — RELATED PARTY

Professional services of \$42,000 and \$306,000 were provided by affiliates of the Company for the three months ended March 31, 2017 and 2016, respectively. As of March 31, 2017 and December 31, 2016, accounts payable and accrued liabilities included \$15,000 and \$17,000, respectively, due to related parties.

NOTE 12 — COMMITMENTS AND CONTINGENCIES**Warranty and Extended Warranty**

The Company had \$0.5 million in deferred costs included in other current and non-current assets related to deferred service revenue at both March 31, 2017 and December 31, 2016. 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 December 31, 2016	\$ 1,051	\$ 5,432
Liabilities assumed from acquisition	—	518
Settlements made during the period	(165)	(1,519)
Change in liability for warranties issued during the period ⁽¹⁾	164	1,496
Change in liability for preexisting warranties	(27)	—
Liability at March 31, 2017	<u>\$ 1,023</u>	<u>\$ 5,927</u>
Current liability	\$ 678	\$ 4,867
Non-current liability	345	1,060
Liability at March 31, 2017	<u>\$ 1,023</u>	<u>\$ 5,927</u>

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

Litigation

From time to time, the Company may be involved in various lawsuits, legal proceedings, or claims that arise in the ordinary course of business. Management does not believe any legal proceedings or claims pending at March 31, 2017 will have, individually or in the aggregate, a material adverse effect on its business, liquidity, financial position, or results of operations. Litigation, however, is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm the Company's business.

Patent Litigation Funding Agreement

In December 2010, Overland entered into a litigation funding agreement (the "Funding Agreement") with Special Situations Fund III QP, L.P., Special Situations Private Equity Fund, L.P., Special Situations Technology Fund, L.P., and Special Situations Technology Fund II, L.P. (collectively, the "Special Situations Funds") pursuant to which the Special Situations Funds agreed to fund certain patent litigation brought by Overland. In May 2014, the Special Situations Funds filed a complaint against Overland in the Supreme Court for New York County, alleging breach of the Funding Agreement. The Special Situations Funds allege that Overland's January 2014 acquisition of Tandberg Data entitled the Special Situation Funds to a \$6.0 million payment under the Funding Agreement, and therefore Overland's refusal to make the payment constitutes a breach of the Funding Agreement by Overland. In November 2014, the Special Situations Funds amended their complaint to allege that Overland breached the Funding Agreement's implied covenant of good faith and fair dealing by settling the patent litigation with BDT in bad faith to avoid a payment obligation under the Funding Agreement. The Special Situations Funds are seeking \$6.0 million in contractual damages as well as costs and fees. On April 6, 2017, the Special Situations Funds filed a motion for an order of attachment. The parties are currently briefing the motion, and the Court has scheduled a hearing on it for May 16, 2017. We believe the lawsuit to be without merit and intend to vigorously defend against the action. The parties have briefed cross-motions for summary judgment and are awaiting a decision from the Court.

Patent Infringement

In May 2013, Safe Storage LLC ("Safe Storage"), a Delaware limited liability company, filed a complaint against Overland in the U.S. District Court for the District of Delaware alleging infringement of U.S. Patent No. 6,978,346 by our products. In February 2017, Overland and Safe Storage entered into a settlement agreement, pursuant to which the claim was dismissed.

Other

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"), the apparent successor to V3, 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 breached the APA and engaged in certain other actions and/or omissions that caused V3 to be unable to timely sell the Sphere common shares received by V3 pursuant to the APA. The plaintiff 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 Court on October 11, 2016. There is currently no hearing set on our motion to dismiss.

Certifications

I, Eric L. Kelly, certify that:

1. I have reviewed the interim financial statements and interim MD&A (together, the “report”) 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 registrant as of, and for, the periods presented in this report;
4. The issuer’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 issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 11, 2017

/s/ Eric L. Kelly

Eric L. Kelly

Chief Executive Officer

Certifications

I, Kurt L. Kalbfleisch, certify that:

1. I have reviewed the interim financial statements and interim MD&A (together, the “report”) 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 registrant as of, and for, the periods presented in this report;
4. The issuer’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 issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 11, 2017

/s/ Kurt L. Kalbfleisch

Kurt L. Kalbfleisch

Senior Vice President and Chief Financial Officer