
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 November 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 September 30, 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: November 9, 2017

Exhibit Index

- 99.1 Management's Discussion and Analysis of Financial Condition and Results of Operations - Three and Nine Months Ended September 30, 2017.
- 99.2 Condensed Consolidated Financial Statements (unaudited) of Sphere 3D Corp. - Three and Nine Months Ended September 30, 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.



**Third Quarter Report
Three and Nine Months Ended September 30, 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 and nine months ended September 30, 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 maintain compliance with the requirements of the NASDAQ Capital Market and/or inability to maintain listing with the NASDAQ Capital Market; the limited operating history of Sphere 3D; the 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. All share and per share amounts herein have been adjusted to give effect to the July 11, 2017 1-for-25 share consolidation (also known as a reverse stock split).

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 technologies, professional services and engineering talent, and HVE’s products, 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 HVE’s product revenue with our disk systems products. The business activities of UCX and HVE 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 August 2017, the Company entered into a securities purchase agreement with certain investors pursuant to which the Company issued (i) 600,000 common shares, of which 395,000 common shares were issued to related parties, and (ii) warrants for the purchase of up to 600,000 common shares, of which 395,000 warrants were issued to related parties, in a private placement in exchange for a cash payment of \$3.0 million. The purchase price was \$5.00 per common share and warrant to purchase one common share, and the exercise price of the warrants is \$5.25 per warrant share. The warrants are subject to certain anti-dilution adjustments through December 2017.

In July 2017, the Company entered into amended and restated warrant agreements with certain holders of warrants previously issued in March 2016 (the “Amended March 2016 Warrant”) and between December 2016 and March 2017 (the “Amended March 2017 Warrants” and together with the Amended March 2016 Warrant, the “Amended and Restated Warrants”). Pursuant to the amended and restated warrant agreements, the Company issued an aggregate of 1,617,917 common shares, of which 1,315,385 common shares were issued to related parties, in exchange for the cancellation of such warrants. Immediately after the exchange, the amended and restated warrant agreements became null and void.

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, 818,181 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 818,181 common shares. Each warrant had an exercise price of \$7.50 per warrant share. The warrants are exercisable for 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 \$7.50, 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 181,818 common shares and warrants to purchase 181,818 shares. In August 2017, the Company issued additional common shares, which triggered a price adjustment for the March 2017 warrants from \$7.50 to \$5.00 and the Company issued, in the aggregate, additional warrants exercisable to purchase up to 433,638 common shares, of which MF Ventures, LLC received 90,909 warrants exercisable to purchase common shares.

Between December 30, 2016 and March 16, 2017, the Company completed a private placement and issued a total of 725,599 "Units" at a purchase price of \$7.50 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 725,599 common shares in the aggregate, and the second series of warrants is exercisable for 725,599 common shares in the aggregate. MF Ventures, LLC participated in the private placements by acquiring 333,333 common shares and warrants to purchase 666,666 common shares. Lynn Factor and Sheldon Inwentash, a married couple and related party to the Company, participated in the private placements by acquiring 213,000 common shares and warrants to purchase 426,000 common shares. An additional 28,000 common shares and warrants to purchase 56,000 common 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 third quarter of 2017, compared with \$18.5 million for the third quarter of 2016. We reported a net loss of \$3.5 million, or \$0.59 per share, for the third quarter of 2017 compared with a net loss of \$43.3 million, or \$21.10 per share, for the third quarter of 2016. We reported net revenue of \$62.9 million for the first nine months of 2017, compared with \$57.7 million for the first nine months of 2016. We reported a net loss of \$18.8 million, or \$4.28 per share, for the first nine months of 2017 compared with a net loss of \$61.0 million, or \$31.22 per share, for the first nine months of 2016.

Recent Developments

- In September 2017, the Company and Opus Bank entered into an Amendment Number Seven to Credit Agreement, Waiver and Reaffirmation (“Amendment Number Seven”). Under the terms of Amendment Number Seven; (a) the maturity date for the revolving and term loan credit facilities were amended to the earliest of (i) the maturity of the convertible note held by FBC Holdings, (ii) March 31, 2018; or (iii) such earlier date upon which the obligations may be accelerated in accordance with terms of the Credit Agreement, and (b) in the event of a failure by the Company to comply with certain covenants and milestones set forth in Amendment Number Seven, all amounts under the Opus Credit Agreement may be accelerated and become immediately payable.
- In August 2017, the Company entered into a securities purchase agreement with certain investors pursuant to which the Company issued (i) 600,000 common shares, of which 395,000 common shares were issued to related parties, and (ii) warrants for the purchase of up to 600,000 common shares, of which 395,000 warrants were issued to related parties, in a private placement in exchange for a cash payment of \$3.0 million. The purchase price was \$5.00 per common share and warrant to purchase one common share, and the exercise price of the warrants is \$5.25 per warrant share. The warrants are subject to certain anti-dilution adjustments. The Company entered into a registration rights agreement with the investors, pursuant to which the Company has agreed to file a registration statement with the U.S. Securities and Exchange Commission to register the resale of the common shares and the warrant shares.
- On July 26, 2017, the Company received a letter from NASDAQ Stock Market LLC notifying the Company that it has regained compliance with the requirement of NASDAQ Listing Rule 5450(a)(1) for continued listing on the NASDAQ Capital Market.
- On July 11, 2017, the Company amended and restated certain warrants. Pursuant to the amended and restated warrant agreements, the Company issued an aggregate of 1,617,917 common shares, of which 1,315,385 common shares were issued to related parties, in exchange for the cancellation of such warrants. Immediately after the exchange, the amended and restated warrant agreements became null and void.
- On July 5, 2017, the Board of Directors of the Company authorized a share consolidation (also known as a reverse stock split) of the Company’s issued and outstanding common shares at a ratio of 1-for-25, which became effective on July 11, 2017. All share and per share amounts in the accompanying condensed consolidated financial statements and the notes thereto have been restated for all periods to reflect the share consolidation.

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		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenue	68.9	72.0	69.8	70.7
Gross profit	31.1	28.0	30.2	29.3
Operating expenses:				
Sales and marketing	21.2	28.5	22.4	30.5
Research and development	8.3	12.0	8.7	12.0
General and administrative	22.3	31.8	23.5	28.6
Impairment of goodwill and acquired intangible assets	—	186.3	—	59.6
	51.8	258.6	54.6	130.7
Loss from operations	(20.7)	(230.6)	(24.4)	(101.4)
Interest expense	(5.2)	(4.8)	(7.4)	(5.5)
Other income (expense), net	12.2	(0.6)	3.5	1.1
Loss before income taxes	(13.7)	(236.0)	(28.3)	(105.8)
Provision for (benefit from) income taxes	2.3	(1.6)	1.6	(0.1)
Net loss	(16.0)%	(234.4)%	(29.9)%	(105.7)%

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Disk systems	65.2%	60.3%	64.6%	60.9%
Tape automation systems	11.5	13.1	11.6	13.5
Tape drives and media	13.8	15.6	13.2	14.4
Service	9.5	11.0	10.6	11.2
	100.0%	100.0%	100.0%	100.0%

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

Net Revenue. Net revenue increased to \$21.7 million during the third quarter of 2017 from \$18.5 million during the third quarter of 2016, an increase of \$3.2 million. The increase in net revenue is primarily a result of an increase in product revenue of \$3.2 million. Original equipment manufacturer (“OEM”) net revenue accounted for 18.0% and 17.4% of net revenues in the third quarter of 2017 and 2016, respectively.

Product Revenue

Net product revenue was \$19.6 million during the third quarter of 2017 compared to \$16.4 million during the third quarter of 2016. The increase of approximately \$3.2 million is related to increases in disk systems revenue of \$1.3 million primarily related to higher sales volumes in our RDX® product line, and additions of \$1.7 million of disk systems revenue from our January 2017 acquisition.

Service Revenue

Net service revenue increased slightly to \$2.1 million during the third quarter of 2017 compared to \$2.0 million during the third 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 tape automation product sales.

Gross Profit

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

	Three Months Ended		
	September 30,		
	2017	2016	Change
Gross profit	\$ 6,733	\$ 5,170	30.2 %
Gross margin	31.1%	28.0%	3.1 pt
Gross profit - product	\$ 5,994	\$ 3,962	51.3 %
Gross margin - product	30.5%	24.1%	6.4 pt
Gross profit - service	\$ 739	\$ 1,208	(38.8)%
Gross margin - service	36.0%	59.3%	(23.3)pt

In the third quarter of 2017, gross profit and gross margin for product increased due to higher sales volume in our disk system revenues primarily related to higher sales volumes in our RDX[®] product line as well as product revenue from the HVE products we acquired in our January 2017 acquisition. Gross profit and gross margin for service decreased due to the costs incurred for service revenue generated by our January 2017 acquisition which included a \$0.3 million reclassification of costs previously included in product costs.

Sales and Marketing Expense. Sales and marketing expense in the third quarter of 2017 decreased to \$4.6 million from \$5.3 million during the third quarter of 2016. The decrease of \$0.7 million was primarily due to a \$0.4 million decrease in employee and related expenses associated with a decrease in average headcount and a \$0.2 million decrease in strategic marketing and outside contractors' fees.

Research and Development Expense. Research and development expense in the third quarter of 2017 decreased to \$1.8 million from \$2.2 million during the third quarter of 2016. The decrease of \$0.4 million was primarily due to a \$0.3 million decrease in employee and related expenses.

General and Administrative Expense. General and administrative expense in the third quarter of 2017 decreased to \$4.8 million from \$5.9 million during the third quarter of 2016. The decrease of \$1.1 million was primarily due to a \$0.6 million decrease in share-based compensation expense and a \$0.5 million decrease in legal and advisory expenses primarily due to a decrease in legal costs.

Impairment of Goodwill and Acquired Intangible Assets. Impairment of goodwill and acquired intangible assets was zero and \$34.4 million during the third quarter of 2017 and 2016, respectively. During the third quarter of 2016, we concluded that our declining market capitalization could be an indicator of impairment and, therefore, had a third party impairment analysis performed. As a result of the analysis, we recorded an impairment of \$33.2 million related to goodwill from our December 2014 acquisition of Overland and an impairment of \$1.2 million related to indefinite-lived trade names.

Interest Expense. Interest expense in the third quarter of 2017 increased to \$1.1 million from \$0.9 million during the third quarter of 2016. The increase in interest expense was primarily related to an interest rate increase on our Opus Credit Agreement and our related party term loan which we entered into in September 2016.

Other Income (Expense), Net. Other income (expense), net, in the third quarter of 2017 was \$2.6 million of income, net, compared to \$0.1 million of expense, net, in the third quarter of 2016. The net income in the third quarter of 2017 was primarily related to a \$2.3 million gain on revaluation of warrants and approximately \$0.4 million in realized foreign currency gains. Our net expense in the third quarter of 2016 was primarily related to realized foreign currency losses.

The First Nine Months of 2017 compared with the First Nine Months of 2016

Net Revenue. Net revenue increased to \$62.9 million during the first nine months of 2017 from \$57.7 million during the first nine months of 2016, an increase of \$5.2 million. The increase in net revenue is the result of an increase in product revenue of \$5.0 million and \$0.2 million increase in service revenue. OEM net revenue accounted for 16.9% and 18.7% of net revenues in the first nine months of 2017 and 2016, respectively.

Product Revenue

Net product revenue increased to \$56.2 million during the first nine months of 2017 compared to \$51.2 million during the first nine months of 2016. The increase of approximately \$5.0 million included \$5.2 million of product revenue due to our January 2017 acquisition and a \$0.3 million increase in disk systems primarily related to higher sales volume in our RDX[®] product line, offset by a \$0.5 million decrease in tape automation systems primarily due to lower sales volumes in our NEO[®] product line.

Service Revenue

Net service revenue increased to \$6.7 million during the first nine months of 2017 compared to \$6.4 million during the first nine months of 2016. The increase of approximately \$0.3 million is a result of an additional \$1.6 million in service revenue from our January 2017 acquisition, offset by a decrease in extended service contracts related to tape automation product sales.

Gross Profit

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

	Nine Months Ended		Change
	September 30,		
	2017	2016	
Gross profit	\$ 18,951	\$ 16,924	12.0%
Gross margin	30.2%	29.3%	0.9 pt
Gross profit - product	\$ 15,145	\$ 13,375	13.2%
Gross margin - product	27.0%	26.1%	0.9 pt
Gross profit - service	\$ 3,806	\$ 3,549	7.2%
Gross margin - service	56.9%	55.1%	1.8 pt

In the first nine months of 2017, gross profit for product increased due to higher sales volume in our disk system revenues primarily related to higher sales volumes in our RDX[®] product line as well as product revenue from the HVE products we acquired in our January 2017 acquisition. Gross profit and gross margin for service increased due to the service revenue acquired January 2017.

Sales and Marketing Expense. Sales and marketing expense in the first nine months of 2017 decreased to \$14.1 million from \$17.6 million during the first nine months of 2016. The decrease of \$3.5 million was primarily due to a \$1.9 million decrease in employee and related expenses associated with a decrease in average headcount, a \$0.9 million decrease in strategic marketing and outside contractors' fees, and a \$0.6 million decrease in share-based compensation expense.

Research and Development Expense. Research and development expense in the first nine months of 2017 decreased to \$5.5 million from \$6.9 million during the first nine months of 2016. The decrease of \$1.4 million was primarily due to a \$1.1 million decrease in employee and related expenses, and a \$0.3 million decrease in share-based compensation expense.

General and Administrative Expense. General and administrative expense in the first nine months of 2017 decreased to \$14.7 million from \$16.5 million during the first nine months of 2016. The decrease of \$1.8 million was primarily due to a \$0.9 million decrease in share-based compensation expense, a \$0.7 million decrease in bad debt expense, a \$0.6 million decrease in legal and advisory expenses primarily due to a decrease in litigation and general corporate legal costs, and a \$0.3 million decrease in outside contractors. These decreases were offset by a \$0.5 million increase in employee and related expenses primarily associated with management retention and incentive compensation and a \$0.2 million increase in amortization expense related to intangible assets.

Impairment of Goodwill and Acquired Intangible Assets. Impairment of goodwill and acquired intangible assets was zero and \$34.4 million during the first nine months of 2017 and 2016, respectively. During the first nine months of 2016, we concluded that our declining market capitalization could be an indicator of impairment and, therefore, had a third party impairment analysis performed. As a result of the analysis, we recorded an impairment of \$33.2 million related to goodwill from our December 2014 acquisition of Overland and an impairment of \$1.2 million related to indefinite-lived trade names.

Interest Expense. Interest expense in the first nine months of 2017 increased to \$4.7 million from \$3.2 million during the first nine months of 2016. The increase of \$1.5 million was primarily related to an increase in amortization of debt costs of \$1.0 million, interest expense of \$0.3 million on our related party term loan which we entered into in September 2016, and an interest rate increase on our Opus Credit Agreement.

Other Income (Expense), Net. Other income (expense), net, in the first nine months of 2017 was \$2.2 million of income, net, compared to \$0.6 million of income, net, in the first nine months of 2016. The net income in the first nine months of 2017 was primarily related to a gain on the revaluation of warrants of \$2.5 million and realized foreign currency gains of \$0.8 million, which was offset by a \$1.1 million loss from the revaluation of our investment in connection with our January 2017 acquisition. Our income in the first nine months of 2016 was primarily related to a gain on revaluation of warrants of \$0.3 million and realized foreign currency gains of \$0.2 million.

Liquidity and Capital Resources

At September 30, 2017, we had cash of \$3.9 million compared to cash of \$5.1 million at December 31, 2016. In the first nine months of 2017, we incurred a net loss of \$18.8 million. Cash management and preservation, the restructuring of our credit facilities, our seeking of additional equity financing and other potential strategic transactions continue to be top priorities. We expect to incur negative operating cash flows as we continue to maintain and increase our sales volume, and maintain operational efficiencies.

As of September 30, 2017, we had a working capital deficit of \$40.2 million, reflecting a decrease in current assets of \$3.0 million and an increase in current liabilities of \$24.6 million compared to December 31, 2016.

Management has projected that cash on hand will not be sufficient to allow the Company to continue operations beyond March 31, 2018 if we are unable to amend or refinance our debt and credit facilities. 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, we have engaged a financial advisor to review a broad range of strategic options. Significant changes from our current forecasts, including but not limited to: (i) failure to comply with the financial covenants in our credit facilities (ii) shortfalls from projected sales levels; (iii) unexpected increases in product costs; (iv) increases in operating costs; (v) changes in the historical timing of collecting accounts receivable could have a material adverse impact on our ability to access the level of funding necessary to continue our operations at current levels; and (vi) inability to maintain compliance with the requirements of the NASDAQ Capital Market and/or inability to maintain listing with the NASDAQ Capital Market could have a material adverse impact on 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 September 30, 2017, our outstanding debt balance was as follows (in thousands, unless otherwise noted):

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount Outstanding</u>
Convertible note - related party, net of unamortized debt cost of \$0.1 million	3/31/2018	8.0%	\$ 24,384
Term loan, net of unamortized debt cost	3/31/2018	Higher of Prime + 2.75% or 8.25%	\$ 9,984
Revolving loan	3/31/2018	Higher of Prime + 2.75% or 8.25%	\$ 8,195
Term loan - related party	1/31/2018	20.0%	\$ 765

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.

In September 2017, the Company and Opus Bank entered into an Amendment Number Seven to Credit Agreement, Waiver and Reaffirmation. Under the terms of Amendment Number Seven; (a) the maturity date for the revolving and term loan credit facilities were amended to the earliest of (i) the maturity of the convertible note held by FBC Holdings, (ii) March 31, 2018; or (iii) such earlier date upon which the obligations may be accelerated in accordance with terms of the Credit Agreement, and (b) in the event of a failure by the Company to comply with certain covenants and milestones set forth in Amendment Number Seven, all amounts under the Opus Credit Agreement may be accelerated and become immediately payable.

In June 2017, the Company and Opus Bank entered into Amendment Number Six. Under the terms of Amendment Number Six, (i) the interest rates were defined as the higher of prime rate plus 2.75% or 8.25%; and (ii) in the event of a failure by the Company to comply with certain covenants and milestones set forth in the Amendment Number Six, 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 nine months ended September 30, 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):

	Nine Months Ended	
	September 30,	
	2017	2016
Net cash used in operating activities	\$ (8,633)	\$ (15,581)
Net cash used in investing activities	\$ (1,166)	\$ (207)
Net cash provided by financing activities	\$ 8,476	\$ 12,046

The use of cash during the first nine months of 2017 was primarily a result of our net loss of \$18.8 million offset by \$10.8 million in non-cash items, which were share-based compensation, depreciation and amortization, loss on revaluation of investment, amortization of debt issuance costs and gain on warrant liability.

During the first nine months of 2017, net cash used in investing activities was primarily related to our January 2017 acquisition, while during the first nine months of 2016, additions to fixed assets totaled \$0.2 million.

During the first nine months of 2017, we received \$10.2 million in net proceeds from the issuance of common shares and warrants, offset by \$1.7 million of principal payments on our related party debt. During the first nine months of 2016, we received \$20.7 million in proceeds from debt and \$3.7 million in proceeds from exercised warrants, offset by \$7.4 million of payments on debt and \$5.0 million of net payments on our related party 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 September 30, 2017, we had \$0.1 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 gain of \$0.4 million compared to a loss of \$0.1 million for the three months ended September 30, 2017 and 2016, respectively, and a gain of \$0.8 million and \$0.2 million for the nine months ended September 30, 2017 and 2016, respectively.

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 March 31, 2018 if we are unable to amend or refinance our debt and credit facilities.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended September 30, 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 below and 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.

The terms of our March 2017 private placements may materially and adversely impact our ability to obtain additional financing in the future.

We are subject to certain restrictions and obligations in connection with our private placement of warrants that was consummated in March 2017 which may materially and adversely affect our ability to obtain additional financing in the future including participation rights whereby certain investors are entitled to purchase up to 50% in the aggregate of the securities sold in any subsequent issuance for 15 months following the closing of the private placement.

Our Opus Bank debt facilities mature on the earlier of the maturity date in the 8% Senior Secured Convertible Debenture, dated December 1, 2014, issued to FBC Holdings S.a.r.l., or March 31, 2018. If we are unable to refinance or amend our credit facility before its maturity date, we may be forced to liquidate assets and/or curtail or cease operations.

We have obtained external funding for our business through a credit agreement with Opus Bank. Pursuant to the terms of Amendment Number Seven, the debt facilities mature on the earliest of (a) the maturity date in the Debenture, (b) March 31, 2018 or (c) such earlier date upon which the obligations may be accelerated in accordance with terms of the credit agreement. We will need to raise additional funds and/or amend or refinance our credit facility in order to satisfy our obligations under our credit agreement with Opus Bank. In addition, upon the occurrence of certain events of default under our current credit facility, including failure to meet certain monthly revenue and EBITDA targets, our lender may elect to declare all amounts outstanding to be immediately due and payable and terminate all commitments to extend further credit. In addition, a default under the agreement could result in default and cross-acceleration under other indebtedness. There can be no guarantee that we will be able to raise additional funds or amend or refinance our credit facility on favorable terms or at all. If we are unable to, 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.

Future sales of our securities under certain circumstances may trigger price-protection provisions in outstanding warrants, which would dilute your investment and could result in a decline in the trading price of our common shares.

In connection with our registered direct offering in December 2015, we issued a warrant exercisable to purchase up to 60,000 common shares that contains certain price protection provisions. If we, at any time while these warrants are outstanding, effect certain variable rate transactions and the issue price, conversion price or exercise price per share applicable thereto is less than the exercise price then in effect for the warrants, then the exercise price of the warrants will be reduced to equal such price. In addition, in connection with our private placement offering in March 2017, we issued warrants that contain certain price protection provisions. 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 \$7.50, then the exercise price for the warrants will be reduced to such price, provided that the exercise price will not be lower than \$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. The Company's reverse share consolidation, which became effective on July 11, 2017, did not adjust the minimum exercise price of the warrants. Additionally, in connection with our private placement offering in August 2017, we issued warrants that also contain certain price protection provisions. Until December 31, 2017, 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 \$5.00, subject to certain exempted issuances, then the exercise price for these warrants will be adjusted to a price that is equal to 105% of such lower price. The triggering of these price protection provisions, together with the exercise of these warrants, could cause additional dilution to our shareholders.

If we fail to maintain compliance with the terms of certain registration rights agreements, we may have to pay liquidated damages to our investors, which will increase our negative cash flows.

Under the terms of our registration rights agreements entered into with certain investors in connection with private placements of our securities in March 2017 and August 2017, if we fail to comply with certain provisions set forth in these agreements, including covenants requiring that we maintain the effectiveness of the registration statements registering these securities, then we will be required to pay liquidated damages to our investors. There can be no assurance that the registration statements will remain effective for the time periods necessary to avoid payment of liquidated damages. If we are required to pay our investors liquidated damages, this could materially harm our business and future prospects.

If our common shares are delisted from the NASDAQ Capital Market, our business, financial condition, results of operations and share price could be adversely affected, and the liquidity of our common shares and our ability to obtain financing could be impaired.

We have in the past and may in the future fail to comply with the minimum \$1.00 per share closing bid price requirement for continued listing on the NASDAQ Capital Market. After receiving notice of non-compliance from NASDAQ in August 2016, we regained compliance with this requirement in July 2017 by effecting a 1-for-25 reverse stock split on July 11, 2017.

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

SPHERE 3D CORP.

Condensed Consolidated Financial Statements (Unaudited)
Three and Nine Months Ended September 30, 2017 and 2016
(Expressed in U.S. dollars)

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
	(Unaudited)		(Unaudited)	
Net revenue:				
Product revenue	\$ 19,628	\$ 16,423	\$ 56,168	\$ 51,227
Service revenue	2,051	2,036	6,687	6,443
	21,679	18,459	62,855	57,670
Cost of product revenue	13,634	12,461	41,023	37,852
Cost of service revenue	1,312	828	2,881	2,894
Gross profit	6,733	5,170	18,951	16,924
Operating expenses:				
Sales and marketing	4,586	5,259	14,090	17,582
Research and development	1,793	2,222	5,460	6,930
General and administrative	4,840	5,874	14,743	16,474
Impairment of goodwill and acquired intangible assets	—	34,398	—	34,398
	11,219	47,753	34,293	75,384
Loss from operations	(4,486)	(42,583)	(15,342)	(58,460)
Other income (expense):				
Interest expense	(519)	(322)	(2,770)	(770)
Interest expense - related party	(614)	(572)	(1,912)	(2,425)
Other income (expense), net	2,642	(104)	2,223	626
Net loss before income taxes	(2,977)	(43,581)	(17,801)	(61,029)
Provision for (benefit from) income taxes	504	(289)	1,002	(53)
Net loss	\$ (3,481)	\$ (43,292)	\$ (18,803)	\$ (60,976)
Net loss per share:				
Basic and diluted	\$ (0.59)	\$ (21.10)	\$ (4.28)	\$ (31.22)
Shares used in computing net loss per share:				
Basic and diluted	5,901	2,052	4,396	1,953

See accompanying notes to condensed consolidated financial statements.

SPHERE 3D CORP.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
	(Unaudited)		(Unaudited)	
Net loss	\$ (3,481)	\$ (43,292)	\$ (18,803)	\$ (60,976)
Other comprehensive loss:				
Foreign currency translation adjustments	(273)	72	(396)	(94)
Total other comprehensive (loss) income	(273)	72	(396)	(94)
Comprehensive loss	<u>\$ (3,754)</u>	<u>\$ (43,220)</u>	<u>\$ (19,199)</u>	<u>\$ (61,070)</u>

See accompanying notes to condensed consolidated financial statements.

SPHERE 3D CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	September 30, 2017	December 31, 2016
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,866	\$ 5,056
Accounts receivable, net of allowance for doubtful accounts of \$1,648 for each period	13,063	11,591
Inventories	8,605	10,002
Investment	—	1,500
Other current assets	1,707	2,121
Total current assets	27,241	30,270
Property and equipment, net	2,854	3,058
Intangible assets, net	45,340	47,728
Goodwill	11,590	11,068
Other assets	807	432
Total assets	\$ 87,832	\$ 92,556
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 9,506	\$ 10,561
Accrued liabilities	4,671	3,619
Accrued payroll and employee compensation	2,575	2,227
Deferred revenue	5,440	5,338
Debt — related party, net	25,149	2,294
Debt, net	18,179	17,300
Other current liabilities	1,932	1,515
Total current liabilities	67,452	42,854
Deferred revenue, long-term	1,352	1,051
Long-term debt — related party, net	—	24,401
Long-term deferred tax liabilities	3,188	3,100
Other long-term liabilities	2,167	704
Total liabilities	74,159	72,110
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Common stock, no par value, unlimited shares authorized; 6,651 and 2,663 shares issued and outstanding as of September 30, 2017 and December 31, 2016, respectively	169,680	157,254
Accumulated other comprehensive loss	(1,961)	(1,565)
Accumulated deficit	(154,046)	(135,243)
Total shareholders' equity	13,673	20,446
Total liabilities and shareholders' equity	\$ 87,832	\$ 92,556

See accompanying notes to condensed consolidated financial statements.

SPHERE 3D CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Nine Months Ended	
	September 30,	
	2017	2016
	(Unaudited)	
Operating activities:		
Net loss	\$ (18,803)	\$ (60,976)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,574	4,694
Share-based compensation	5,647	7,436
Loss on revaluation of investment	1,145	—
Amortization of debt issuance costs	1,935	964
Gain on warrant liability	(2,518)	(348)
Impairment of goodwill and acquired intangible assets	—	34,398
Provision for losses on accounts receivable	—	666
Deferred tax provision	—	(326)
Changes in operating assets and liabilities (net of effects of acquisition):		
Accounts receivable	(284)	407
Inventories	1,788	711
Accounts payable and accrued liabilities	642	(1,061)
Accrued payroll and employee compensation	124	(484)
Deferred revenue	(329)	(1,177)
Other assets and liabilities, net	(2,554)	(485)
Net cash used in operating activities	<u>(8,633)</u>	<u>(15,581)</u>
Investing activities:		
Acquisition, net of cash acquired	(1,051)	—
Purchase of fixed assets	(115)	(207)
Net cash used in investing activities	<u>(1,166)</u>	<u>(207)</u>
Financing activities:		
Proceeds from issuance of common shares	10,862	60
Cost of issuance of common shares	(655)	—
Repayment of principal on related party debt	(1,731)	(5,000)
Proceeds from issuance of debt	—	18,195
Payments for credit facility, net	—	(7,391)
Proceeds from exercised warrants	—	3,691
Proceeds from borrowings - related party	—	2,500
Payment for restricted stock tax liability on net settlement	—	(9)
Net cash provided by financing activities	<u>8,476</u>	<u>12,046</u>
Effect of exchange rate changes on cash	133	90
Net decrease in cash and cash equivalents	(1,190)	(3,652)
Cash and cash equivalents, beginning of period	5,056	8,661
Cash and cash equivalents, end of period	<u>\$ 3,866</u>	<u>\$ 5,009</u>

SPHERE 3D CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(in thousands)

Supplemental disclosure of cash flow information:

Cash paid for interest	\$ 1,273	\$ 530
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Non-cash investing and financing activities:

Issuance of warrants in relation to issuance of common shares	\$ 5,399	\$ —
Issuance of common shares in relation to settlement of related party liabilities	\$ (972)	\$ (871)
Issuance of common shares in relation to acquisition	\$ (346)	\$ —
Issuance of warrants in relation to settlement of liabilities	\$ (180)	\$ (350)
Costs accrued for issuance of common shares	\$ (459)	\$ —
Issuance of common shares in relation to settlement of liabilities	\$ (87)	\$ (478)
Reclassification of warrant liability instrument to equity	\$ —	\$ 1,099
Issuance of warrants in relation to related party convertible note	\$ —	\$ 485

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 March 31, 2018 if the Company is unable to amend or refinance its debt and credit facilities. 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, the Company has engaged a financial advisor to review a broad range of strategic options. Significant changes from the Company’s current forecasts, including but not limited to: (i) failure to comply with the financial covenants in our credit facilities; (ii) shortfalls from projected sales levels; (iii) unexpected increases in product costs; (iv) increases in operating costs; (v) changes in the historical timing of collecting accounts receivable could have a material adverse impact on our ability to access the level of funding necessary to continue our operations at current levels; and (vi) inability to maintain compliance with the requirements of the NASDAQ Capital Market and/or inability to maintain listing with the NASDAQ Capital Market could have a material adverse impact on the Company’s ability to access the level of funding necessary to continue its operations at current levels. If any of these events occurs or the Company is unable to generate sufficient cash from operations or financing sources, the Company may be forced to 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 nine months ended September 30, 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 March 31, 2018 due to the maturity dates of the existing debt and credit facilities. These factors, among others, raise doubt that the Company will be able to continue as a going concern.

Reverse Stock Split

On July 5, 2017, the Board of Directors of the Company authorized a share consolidation (also known as a reverse stock split) of the Company’s issued and outstanding common shares at a ratio of 1-for-25, which became effective on July 11, 2017. All share and per share amounts in the accompanying condensed consolidated financial statements and the notes thereto have been restated for all periods to reflect the share consolidation.

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 gain of \$0.4 million compared to a loss of \$0.1 million for the three months ended September 30, 2017 and 2016, respectively. Such transactions resulted in a gain of \$0.8 million and \$0.2 million for the nine months ended September 30, 2017 and 2016, respectively.

Inventories

Inventories are stated at the lower of cost and net realizable value using the first-in-first-out method. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. We assess the value of inventories periodically based upon numerous factors including, among others, expected product or material demand, current market conditions, technological obsolescence, current cost, and net realizable value. If necessary, we write down its inventory for obsolete or unmarketable inventory by an amount equal to the difference between the cost of the inventory and the net realizable 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 July 2017, the FASB issued Accounting Standards Update (“ASU”) No. 2017-11, *Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815)* (“ASU 2017-11”). The update changes the classification of certain equity-linked financial instruments (or embedded features) with down round features. The update also clarifies existing disclosure requirements for equity-classified instruments. The update is effective retrospectively for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. Early adoption is permitted for all companies in any interim or annual period. We plan to implement the new standard effective January 1, 2018. We do not expect the adoption of ASU 2017-11 to have a material effect on our consolidated financial statements and related disclosures.

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

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”). The update addresses eight cash flow classification issues and how they should be reported in the statement of cash flows. The update 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 ASU 2016-15 will have on our consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (“ASU 2016-02”). The update increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and requires disclosing key information about leasing arrangements. The update is effective for reporting periods beginning after December 15, 2018, 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 statements and related disclosures.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (“ASU 2014-09”). In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. In March, April, May and December 2016, the FASB issued additional guidance related to Topic 606. The new standard will supersede nearly all existing revenue recognition guidance. Under Topic 606, an entity is required 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. Topic 606 defines a five-step process in order to achieve this core principle, which may require the use of judgment and estimates, and also requires expanded qualitative and quantitative disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, including significant judgments and estimates used. The new standard also defines accounting for certain costs related to origination and fulfillment of contracts with customers, including whether such costs should be capitalized. The new standard permits adoption either by using (i) a full retrospective approach for all periods presented in the period of adoption or (ii) a modified retrospective approach where the new standard is applied in the financial statements starting with the year of adoption. Under both approaches, cumulative impact of the adoption is reflected as an adjustment to retained earnings (accumulated deficit) as of the earliest date presented in accordance with the new standard. We plan to adopt the new standard effective January 1, 2018 using the modified retrospective approach. We are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures. We cannot reasonably estimate quantitative information related to the impact of the new standard on our consolidated financial statements at this time.

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. The update 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 statements and related disclosures was not material.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory* (“ASU 2015-11”). The update 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. The update 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 statements and related disclosures.

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 157,894 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 88,235 common shares with an approximate value of \$0.3 million. In the first quarter of 2017, 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 technologies, professional services and engineering talent, and HVE’s products, 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 estimated fair values of the assets acquired and liabilities assumed as of the closing date were 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. 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):

	September 30, 2017	December 31, 2016
Raw materials	\$ 1,392	\$ 1,697
Work in process	2,538	2,673
Finished goods	4,675	5,632
	\$ 8,605	\$ 10,002

NOTE 5 — INTANGIBLE ASSETS AND GOODWILL

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

	September 30, 2017	December 31, 2016
Developed technology	\$ 23,834	\$ 23,685
Channel partner relationships ⁽¹⁾	12,902	11,989
Capitalized development costs ⁽¹⁾	3,189	2,937
Customer relationships ⁽¹⁾	1,634	1,171
	<u>41,559</u>	<u>39,782</u>
Accumulated amortization		
Developed technology	(14,344)	(11,234)
Channel partner relationships ⁽¹⁾	(1,041)	(565)
Capitalized development costs ⁽¹⁾	(1,323)	(958)
Customer relationships ⁽¹⁾	(421)	(207)
	<u>(17,129)</u>	<u>(12,964)</u>
Total finite-lived assets, net	24,430	26,818
Indefinite live intangible assets - trade names	20,910	20,910
Total intangible assets, net	<u>\$ 45,340</u>	<u>\$ 47,728</u>

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

Amortization expense of intangible assets was \$1.4 million and \$1.3 million during the three months ended September 30, 2017 and 2016, respectively, and \$4.0 million and \$3.9 million during the nine months ended September 30, 2017 and 2016, respectively. Estimated amortization expense for intangible assets is approximately \$1.4 million for the remainder of 2017 and \$3.8 million, \$2.7 million, \$2.6 million, \$2.2 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 at December 31, 2016	\$ 11,068
Goodwill acquired	522
Balance at September 30, 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 the 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 September 30, 2017, the Company had \$24.4 million outstanding on the convertible note, net of unamortized debt costs of \$0.1 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. In June 2017 and 2016, the Company issued 176,317 and 44,388 common shares, respectively, for payment of accrued interest expense.

The convertible note was originally convertible into common shares at a price equal to \$187.50 per share in the case of \$10.0 million of the convertible note and \$212.50 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 \$187.50 per share and \$212.50 per share were adjusted to \$75.00 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 20,000 common shares of the Company at a price of \$112.50.

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 \$112.50 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 September 30, 2017, the Company was not in default of any covenants of the convertible note.

Interest expense, including amortization of debt costs, on the convertible note was \$0.5 million for both the three months ended September 30, 2017 and 2016, and \$1.6 million and \$1.5 million for the nine months ended September 30, 2017 and 2016, respectively. At September 30, 2017 and December 31, 2016, there were \$0.5 million and zero, respectively, of 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.

Interest expense, including amortization of debt costs, on the term loan was \$0.1 million and \$0.3 million for the three and nine months ended September 30, 2017, respectively.

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.

In September 2017, the Company and Opus Bank entered into an Amendment Number Seven to Credit Agreement, Waiver and Reaffirmation ("Amendment Number Seven"). Under the terms of Amendment Number Seven; (a) the maturity date for the revolving and term loan credit facilities were amended to the earliest of (i) the maturity of the convertible note held by FBC Holdings, (ii) March 31, 2018; or (iii) such earlier date upon which the obligations may be accelerated in accordance with terms of the Credit Agreement, and (b) in the event of a failure by the Company to comply with certain covenants and milestones set forth in Amendment Number Seven, all amounts under the Opus Credit Agreement may be accelerated and become immediately payable.

In March 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"). As a condition of the Second Amendment, the Company issued to Opus Bank (i) a warrant, exercisable for 15,957 shares at an exercise price of \$0.25 per common share as the debt was not repaid by April 17, 2017 and (ii) a warrant, exercisable for 35,242 shares at an exercise price of \$0.25 per common share as the debt was not repaid by May 31, 2017.

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 34,483 common shares of the Company at an exercise price of \$0.25 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.

At September 30, 2017, the interest rate on the term loan and credit facility was 8.25%; the outstanding balance of the term loan was \$10.0 million and the outstanding balance of the credit facility was \$8.2 million.

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 September 30, 2017, the Company was in compliance with all covenants of the term loan and credit facility.

Interest expense, including amortization of debt costs, on the Opus facilities was \$0.5 million and \$0.3 million for the three months ended September 30, 2017 and 2016, respectively, and \$2.8 million and \$0.6 million for the nine months ended September 30, 2017 and 2016, respectively.

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):

Liability at December 31, 2016	\$	200
Additions to warrant liability		4,677
Change in fair value of warrants		(2,518)
Liability at September 30, 2017	\$	2,359

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

Reverse Stock Split

On July 5, 2017, the Board of Directors of the Company authorized a share consolidation (also known as a reverse stock split) of the Company's issued and outstanding common shares at a ratio of 1-for-25, which became effective on July 11, 2017. All share and per share amounts have been restated for all periods to reflect the share consolidation.

Issued and Outstanding

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

	<u>Shares Issued</u>
Issued for private placements	1,867
Issued for restated warrant agreements	1,618
Issued for settlement of liabilities	191
Issued on release of restricted stock units	224
Issued for acquisition	88
Shares issued during the nine months ended September 30, 2017	<u>3,988</u>

Related Party Transactions

In August 2017, the Company entered into a securities purchase agreement with certain investors pursuant to which the Company issued (i) 600,000 common shares, of which 395,000 common shares were issued to related parties, and (ii) warrants for the purchase of up to 600,000 common shares, of which 395,000 warrants were issued to related parties, in a private placement in exchange for a cash payment of \$3.0 million. The purchase price was \$5.00 per common share and warrant to purchase one common share, and the exercise price of the warrants is \$5.25 per warrant share. The warrants are subject to certain anti-dilution adjustments through December 2017.

On July 11, 2017, the Company entered into amended and restated warrant agreements with certain holders of warrants previously issued in March 2016 (the "Amended March 2016 Warrant") and between December 2016 and March 2017 (the "Amended March 2017 Warrants" and together with the Amended March 2016 Warrant, the "Amended and Restated Warrants"). Pursuant to the amended and restated warrant agreements, the Company issued an aggregate of 1,617,917 common shares, of which 1,315,385 common shares were issued to related parties, in exchange for the cancellation of such warrants. Immediately after the exchange, the amended and restated warrant agreements became null and void.

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, 818,181 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 818,181 common shares. Each warrant had an exercise price of \$7.50 per warrant share. MF Ventures, LLC, a related party, participated in the offering by acquiring 181,818 common shares and warrants to purchase 181,818 shares for gross proceeds of \$1.0 million. In August 2017, the Company issued additional common shares, which triggered a price adjustment for the March 2017 warrants from \$7.50 to \$5.00 and the Company issued, in the aggregate, additional warrants exercisable to purchase up to 433,638 common shares, of which MF Ventures, LLC received 90,909 warrants exercisable to purchase common shares.

Between December 30, 2016 and March 16, 2017, the Company completed a private placement and issued a total of 725,599 “Units” at a purchase price of \$7.50 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 725,599 common shares in the aggregate, and the second series of warrants is exercisable for 725,599 common shares in the aggregate. MF Ventures, LLC participated in the private placements by acquiring 333,333 common shares and warrants to purchase 666,666 common shares. Lynn Factor and Sheldon Inwentash, a married couple and related party to the Company, participated in the private placements by acquiring 213,000 common shares and warrants to purchase 426,000 common shares. An additional 28,000 common shares and warrants to purchase 56,000 common shares were acquired by ThreeD Capital Inc. Mr. Inwentash is the Chief Executive Officer of ThreeD Capital Inc.

At September 30, 2017, the Company had the following outstanding warrants to purchase common shares (in thousands):

<u>Date issued</u>	<u>Contractual life (years)</u>	<u>Exercise price</u>	<u>Number outstanding</u>	<u>Expiration</u>
February 2015	3	\$112.50	4	February 20, 2018
March 2015	3	\$180.25	4	March 6, 2018
March 2015	3	\$125.50	4	March 20, 2018
May 2015	5	\$100.00	34	May 31, 2020
October 2015	5	\$58.25	16	October 14, 2020
December 2015	3	\$38.50	20	December 21, 2018
December 2015	5	\$62.50	41	December 15, 2020
December 2015	5	\$27.00	60 ⁽¹⁾	December 4, 2020
February 2016	3	\$40.50	20	February 26, 2019
March 2016	5	\$62.50	1	March 4, 2021
November 2016	3	\$50.00	1	November 8, 2019
January 2016	3	\$51.50	4	November 30, 2018
December 2016	6	\$0.25	34	December 30, 2022
March 2017	6	\$0.25	16	April 18, 2023
March 2017	6	\$0.25	35	June 1, 2023
March 2017	5	\$5.00	1,301 ⁽²⁾	March 24, 2022
August 2017	5	\$5.25	300 ⁽³⁾	August 11, 2022
August 2017	5	\$5.25	95 ⁽³⁾	August 16, 2022
August 2017	5	\$5.25	205 ⁽³⁾	August 22, 2022
			2,195 ⁽⁴⁾	

(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) These warrants are subject to certain anti-dilution adjustments. In August 2017, the Company issued additional common shares, which triggered a price adjustment for these warrants from \$7.50 to \$5.00 and the issuance of an additional warrants to purchase 433,638 common shares.

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) These warrants are subject to certain anti-dilution adjustments through December 2017.
- (4) Includes 0.8 million of warrants to purchase common shares, in the aggregate, issued to related parties.

NOTE 9 — EQUITY INCENTIVE PLAN

During the nine months ended September 30, 2017, the Company granted awards of 541,559 restricted stock units, which 206,238 were granted outside of the 2015 Performance Incentive Plan. During the nine months ended September 30, 2016, the Company granted awards of 56,278 restricted stock units. During the nine months ended September 30, 2017 and 2016, the Company granted restricted stock awards of 14,738 and 24,532, respectively. The restricted stock awards were fair valued based on the date of grant. During the nine months ended September 30, 2017 and 2016, the Company granted awards of stock options of 86,600 and 480, 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:

	Nine Months Ended	
	September 30,	
	2017	2016
Expected volatility	120.0%	93.0%
Risk-free interest rate	2.1%	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		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Cost of product sales	\$ 104	\$ 83	\$ 271	\$ 274
Sales and marketing	551	591	1,574	2,204
Research and development	370	481	1,080	1,373
General and administrative	956	1,578	2,722	3,585
Total share-based compensation expense	<u>\$ 1,981</u>	<u>\$ 2,733</u>	<u>\$ 5,647</u>	<u>\$ 7,436</u>

As of September 30, 2017, there was total unrecognized estimated compensation cost of approximately \$3.4 million expected to be recognized over a weighted average period of approximately 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 share equivalents excluded from the computation of diluted net loss per share were as follows (in thousands):

	Three and Nine Months Ended	
	September 30,	
	2017	2016
Common stock purchase warrants	2,195	436
Convertible notes interest	666	291
Convertible notes	327	327
Restricted stock not yet vested or released	442	178
Options outstanding	190	133

NOTE 11 — RELATED PARTY

Professional services of nil and \$0.3 million were provided by affiliates of the Company for the three months ended September 30, 2017 and 2016, respectively, and nil and \$0.9 million for the nine months ended September 30, 2017 and 2016, respectively. As of September 30, 2017 and December 31, 2016, accounts payable and accrued liabilities included nil and \$17,000, respectively, due to related parties.

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

At September 30, 2017 and December 31, 2016, the Company had \$0.8 million and \$0.5 million, respectively, in deferred costs included in other current and non-current assets related to deferred service revenue. 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	(495)	(4,593)
Change in liability for warranties issued during the period ⁽¹⁾	539	4,571
Change in liability for preexisting warranties	(68)	—
Liability at September 30, 2017	<u>\$ 1,027</u>	<u>\$ 5,928</u>
Current liability	\$ 752	\$ 4,647
Non-current liability	275	1,281
Liability at September 30, 2017	<u>\$ 1,027</u>	<u>\$ 5,928</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 September 30, 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 were seeking \$6.0 million in contractual damages as well as costs and fees. On October 10, 2017, the Court entered an order granting Overland's motion for summary judgment and dismissing the Special Situations Funds' complaint in its entirety with prejudice. The Special Situations Funds have filed a notice of appeal.

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: November 9, 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: November 9, 2017

/s/ Kurt L. Kalbfleisch

Kurt L. Kalbfleisch

Senior Vice President and Chief Financial Officer