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

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 2, 2023

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

For the transition period from to

Commission file number: 001-38618

ARLO TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**38-4061754**
(State or other jurisdiction of incorporation or organization)	***(I.R.S. Employer Identification Number)***
2200 Faraday Ave., Suite #150	
Carlsbad, California	**92008**
(Address of principal executive offices)	***(Zip Code)***

(408) 890-3900

(Registrant's telephone number, including area code)

N/A

(*Former name, former address and former fiscal year, if changed since last report*)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.001 per share	ARLO	New York Stock Exchange

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

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

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

Large Accelerated filer	☐	Accelerated filer	☒
Non-Accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☒

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

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

The number of outstanding shares of the registrant's Common Stock, $0.001 par value, was 94,054,943 as of August 4, 2023.

Arlo Technologies, Inc.
Form 10-Q
For the Quarterly Period Ended July 2, 2023

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PART I: FINANCIAL INFORMATION

Item 1. ***Financial Statements***

ARLO TECHNOLOGIES, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	As of	
	July 2, 2023	December 31, 2022
	(In thousands, except share and per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 61,951	$ 84,024
Short-term investments	61,724	29,700
Accounts receivable, net	57,327	65,960
Inventories	39,429	46,554
Prepaid expenses and other current assets	12,318	6,544
Total current assets	232,749	232,782
Property and equipment, net	6,421	7,336
Operating lease right-of-use assets, net	11,089	12,809
Goodwill	11,038	11,038
Restricted cash	4,035	4,155
Other non-current assets	3,689	4,081
Total assets	$ 269,021	$ 272,201
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$ 61,221	$ 52,132
Deferred revenue	17,639	11,291
Accrued liabilities	88,217	98,855
Total current liabilities	167,077	162,278
Non-current operating lease liabilities	17,141	19,279
Other non-current liabilities	3,047	2,949
Total liabilities	187,265	184,506
Commitments and contingencies (Note 8)		
Stockholders’ Equity:		
Preferred stock: $0.001 par value; 50,000,000 shares authorized; none issued or outstanding	—	—
Common stock: $0.001 par value; 500,000,000 shares authorized; shares issued and outstanding: 93,653,934 at July 2, 2023 and 88,887,139 at December 31, 2022	94	89
Additional paid-in capital	448,543	433,138
Accumulated other comprehensive income (loss)	152	(107)
Accumulated deficit	(367,033)	(345,425)
Total stockholders’ equity	81,756	87,695
Total liabilities and stockholders’ equity	$ 269,021	$ 272,201

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

ARLO TECHNOLOGIES, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three Months Ended		Six Months Ended	
	July 2, 2023	July 3, 2022	July 2, 2023	July 3, 2022
	(In thousands, except per share data)			
Revenue:				
Products	$ 64,749	$ 86,191	$ 131,809	$ 181,016
Services	50,327	32,788	94,271	62,714
Total revenue	115,076	118,979	226,080	243,730
Cost of revenue:				
Products	60,446	73,829	124,487	154,606
Services	12,772	11,410	24,518	21,809
Total cost of revenue	73,218	85,239	149,005	176,415
Gross profit	41,858	33,740	77,075	67,315
Operating expenses:				
Research and development	17,618	17,402	35,368	33,781
Sales and marketing	16,921	14,506	32,274	27,674
General and administrative	15,007	13,149	30,629	25,770
Others	341	25	973	104
Total operating expenses	49,887	45,082	99,244	87,329
Loss from operations	(8,029)	(11,342)	(22,169)	(20,014)
Interest income, net	835	129	1,561	124
Other income (expense), net	52	(116)	13	295
Loss before income taxes	(7,142)	(11,329)	(20,595)	(19,595)
Provision for income taxes	221	228	1,013	441
Net loss	$ (7,363)	$ (11,557)	$ (21,608)	$ (20,036)
Net loss per share:				
Basic and diluted	$ (0.08)	$ (0.13)	$ (0.24)	$ (0.23)
Weighted average shares used to compute net loss per share:				
Basic and diluted	92,337	86,868	90,984	85,966
Comprehensive loss:				
Net loss	$ (7,363)	$ (11,557)	$ (21,608)	$ (20,036)
Other comprehensive income (loss), net of tax	131	(122)	259	(168)
Total comprehensive loss	$ (7,232)	$ (11,679)	$ (21,349)	$ (20,204)

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

ARLO TECHNOLOGIES, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Three Months Ended		Six Months Ended	
	July 2, 2023	July 3, 2022	July 2, 2023	July 3, 2022
	(In thousands)			
Total stockholders' equity, beginning balances	$ 86,251	$ 112,004	$ 87,695	$ 112,652
Common stock:				
Beginning balances	$ 91	$ 86	$ 89	$ 84
Issuance of common stock under stock-based compensation plans	4	2	7	5
Issuance of common stock under Employee Stock Purchase Plan	—	1	—	1
Restricted stock unit withholdings	(1)	(1)	(2)	(2)
Ending balances	$ 94	$ 88	$ 94	$ 88
Additional paid-in capital:				
Beginning balances	$ 445,809	$ 409,242	$ 433,138	$ 401,367
Stock-based compensation expense	9,997	7,093	20,622	15,276
Settlement of liability classified restricted stock units	—	95	6,739	5,061
Issuance of common stock under stock-based compensation plans	2,986	34	2,986	1,419
Issuance of common stock under Employee Stock Purchase Plan	1,617	1,746	1,617	1,746
Restricted stock unit withholdings	(11,866)	(6,894)	(16,559)	(13,553)
Ending balances	$ 448,543	$ 411,316	$ 448,543	$ 411,316
Accumulated deficit:				
Beginning balances	$ (359,670)	$ (297,278)	$ (345,425)	$ (288,799)
Net loss	(7,363)	(11,557)	(21,608)	(20,036)
Ending balances	$ (367,033)	$ (308,835)	$ (367,033)	$ (308,835)
Accumulated other comprehensive income (loss):				
Beginning balances	$ 21	$ (46)	$ (107)	$ —
Other comprehensive income (loss), net of tax	131	(122)	259	(168)
Ending balances	$ 152	$ (168)	$ 152	$ (168)
Total stockholders' equity, ending balances	$ 81,756	$ 102,401	$ 81,756	$ 102,401
Common stock shares:				
Beginning balances	90,785	85,835	88,887	84,453
Issuance of common stock under stock-based compensation plans	3,976	2,294	7,141	4,421
Issuance of common stock under Employee Stock Purchase Plan	460	304	460	304
Restricted stock unit withholdings	(1,567)	(903)	(2,834)	(1,648)
Ending balances	93,654	87,530	93,654	87,530

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

ARLO TECHNOLOGIES, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended	
	July 2, 2023	July 3, 2022
	(In thousands)	
Cash flows from operating activities:		
Net loss	$ (21,608)	$ (20,036)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Stock-based compensation expense	27,564	21,834
Depreciation and amortization	2,353	2,523
Allowance for credit losses and inventory reserves	613	(120)
Deferred income taxes	243	133
Others	(567)	89
Changes in assets and liabilities:		
Accounts receivable, net	8,734	5,498
Inventories	6,411	(628)
Prepaid expenses and other assets	(5,624)	767
Accounts payable	9,836	(6,565)
Deferred revenue	6,198	(16,763)
Accrued and other liabilities	(11,245)	(16,113)
Net cash provided by (used in) operating activities	22,908	(29,381)
Cash flows from investing activities:		
Purchases of property and equipment	(1,954)	(451)
Purchases of short-term investments	(61,152)	(59,490)
Proceeds from maturities of short-term investments	29,956	9,512
Net cash used in investing activities	(33,150)	(50,429)
Cash flows from financing activities:		
Proceeds related to employee benefit plans	4,611	3,171
Restricted stock unit withholdings	(16,562)	(13,555)
Net cash used in financing activities	(11,951)	(10,384)
Net decrease in cash, cash equivalents, and restricted cash	(22,193)	(90,194)
Cash, cash equivalents, and restricted cash, at beginning of period	88,179	179,856
Cash, cash equivalents, and restricted cash, at end of period	$ 65,986	$ 89,662
Reconciliation of cash, cash equivalents, and restricted cash to Unaudited Condensed Consolidated Balance Sheets		
Cash and cash equivalents	$ 61,951	$ 85,537
Restricted cash	4,035	4,125
Total cash, cash equivalents, and restricted cash	$ 65,986	$ 89,662
Supplemental cash flow information:		
Non-cash investing activities:		
Purchases of property and equipment included in accounts payable and accrued liabilities	$ 433	$ 333

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

ARLO TECHNOLOGIES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Description of Business and Basis of Presentation

Description of Business

Arlo Technologies, Inc. (“Arlo”) combines an intelligent cloud infrastructure and mobile app with a variety of smart connected devices that transform the way people experience the connected lifestyle. Our deep expertise in product design, wireless connectivity, cloud infrastructure and cutting-edge AI capabilities focuses on delivering a seamless, smart home experience for Arlo users that is easy to setup and interact with every day. Our cloud-based platform provides users with visibility, insight and a powerful means to help protect and connect in real-time with the people and things that matter most, from any location with a Wi-Fi or a cellular connection.

We conduct business across three geographic regions—(i) the Americas; (ii) Europe, Middle-East and Africa (“EMEA”); and (iii) Asia Pacific (“APAC”)—and primarily generate revenue by selling devices through retail channels, wholesale distribution, wireless carrier channels, security solution providers, and Arlo’s direct to consumer store and paid subscription services.

Our corporate headquarters is located in Carlsbad, California, with other satellite offices across North America and various other global locations.

Basis of Presentation

We prepare our unaudited condensed consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles (“U.S. GAAP”) and pursuant to the regulations of the U.S. Securities and Exchange Commission (“SEC”). The unaudited condensed consolidated financial statements include the accounts of Arlo and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated.

These unaudited condensed consolidated financial statements should be read in conjunction with the notes to the audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. In the opinion of management, these unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, which are necessary for fair statement of the unaudited condensed consolidated financial statements for interim periods.

Fiscal periods

Our fiscal year begins on January 1 of the year stated and ends on December 31 of the same year. We report the results on a fiscal quarter basis rather than on a calendar quarter basis. Under the fiscal quarter basis, each of the first three fiscal quarters ends on the Sunday closest to the calendar quarter end, with the fourth quarter ending on December 31.

Reclassification

Certain prior periods amounts have been reclassified to conform to the current period’s presentation. None of these reclassifications had a material impact to the unaudited condensed consolidated financial statements.

Use of estimates

The preparation of these unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Management bases its estimates on various assumptions believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ materially from those estimates and operating results for the six months ended July 2, 2023 and are not necessarily indicative of the results that may be expected for the year ending December 31, 2023 or any future period.

Note 2. Significant Accounting Policies and Recent Accounting Pronouncements

Our significant accounting policies are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022. There have been no significant changes to such policies during the six months ended July 2, 2023.

Emerging Growth Company Status

As an emerging growth company ("EGC"), we may, under the Jumpstart Our Business Startups Act, delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies, unless we otherwise irrevocably elect not to avail ourselves of this exemption. We did not make such an irrevocable election and have not delayed the adoption of any applicable accounting standards. We will no longer qualify as an EGC on December 31, 2023. Accordingly, our Annual Report on Form 10-K for the year ending December 31, 2023 will include an attestation report of our independent registered public accounting firm pursuant to Section 404 of the Sarbanes-Oxley Act of 2002.

Accounting Pronouncements Recently Adopted

There were no accounting pronouncements adopted during the six months ended July 2, 2023.

Accounting Pronouncements Not Yet Effective

We have considered all recent accounting pronouncements issued, but not yet effective, and do not expect any to have a material effect on our financial statements and related disclosures.

Note 3. Revenue

Performance Obligations

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied and partially unsatisfied as of July 2, 2023:

	1 year	2 years	Greater than 2 years	Total
	(In thousands)			
Performance obligations	$ 18,320	$ 58	$ 6	$ 18,384

The performance obligation classified as greater than one year pertains to revenue deferral from prepaid services.

For the six months ended July 2, 2023 and July 3, 2022, $87.6 million and $53.4 million of revenue was deferred due to unsatisfied performance obligations, primarily relating to over time service revenue, and $81.4 million and $70.1 million of revenue was recognized for the satisfaction of performance obligations over time, respectively. Approximately $9.8 million and $11.9 million of this recognized revenue was included in the contract liability balance at the beginning of the periods. There were no significant changes in estimates during the period that would affect the contract balances.

During the five-year period that commenced on January 1, 2020, Verisure Sàrl (“Verisure”) has an aggregate purchase commitment of $500.0 million. As of July 2, 2023, $403.1 million of the purchase commitment has been fulfilled. Based on the Supply Agreement with Verisure, a purchase obligation is not deemed to exist until we receive and accept Verisure’s purchase order. As of July 2, 2023, we had a backlog of $38.7 million which represents performance obligations that will be recognized as revenue once fulfilled, which is expected to occur over the next six months.

Disaggregation of Revenue

We disaggregate our revenue into three geographic regions: the Americas, EMEA, and APAC, where we conduct our business. The following table presents revenue disaggregated by geographic regions.

	Three Months Ended		Six Months Ended	
	July 2, 2023	July 3, 2022	July 2, 2023	July 3, 2022
	(In thousands)			
Americas	$ 78,136	$ 60,345	$ 134,768	$ 128,811
EMEA	30,958	54,483	79,430	104,458
APAC	5,982	4,151	11,882	10,461
Total	$ 115,076	$ 118,979	$ 226,080	$ 243,730

Note 4. Balance Sheet Components

Short-term investments

	As of July 2, 2023				As of December 31, 2022			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
	(In thousands)							
U.S. Treasuries	$ 61,572	$ 176	$ (24)	$ 61,724	$ 29,849	$ —	$ (149)	$ 29,700

Accounts receivable, net

	As of	
	July 2, 2023	December 31, 2022
	(In thousands)	
Gross accounts receivable	$ 57,649	$ 66,383
Allowance for credit losses	(322)	(423)
Total	$ 57,327	$ 65,960

ARLO TECHNOLOGIES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following table provides a roll-forward of the allowance for credit losses that is deducted from the amortized cost basis of accounts receivable to present the net amount expected to be collected.

	Three Months Ended		Six Months Ended	
	July 2, 2023	July 3, 2022	July 2, 2023	July 3, 2022
	(In thousands)			
Balance at the beginning of the period	$ 329	$ 339	$ 423	$ 337
Provision for (release of) expected credit losses	(7)	66	(101)	68
Balance at the end of the period	$ 322	$ 405	$ 322	$ 405

Property and equipment, net

The components of property and equipment are as follows:

	As of	
	July 2, 2023	December 31, 2022
	(In thousands)	
Machinery and equipment	$ 13,791	$ 12,696
Software	15,818	15,606
Computer equipment	3,853	3,992
Leasehold improvements	4,661	4,657
Furniture and fixtures	2,546	2,554
Total property and equipment, gross	40,669	39,505
Accumulated depreciation	(34,248)	(32,169)
Total property and equipment, net [1]	$ 6,421	$ 7,336

[1] $1.4 million and $1.7 million property and equipment, net, was included in the sublease arrangement for the San Jose office building as of July 2, 2023 and December 31, 2022, respectively.

Depreciation expense pertaining to property and equipment was $1.2 million and $2.4 million for the three and six months ended July 2, 2023, and $1.2 million and $2.5 million for the three and six months ended July 3, 2022.

Goodwill

We have determined that no event occurred or circumstances changed during the three and six months ended July 2, 2023 that would more likely than not reduce the fair value of goodwill below the carrying amount. No goodwill impairment was recognized in the three and six months ended July 2, 2023 and July 3, 2022.

ARLO TECHNOLOGIES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Other non-current assets

	As of	
	July 2, 2023	December 31, 2022
	(In thousands)	
Deferred income taxes	$ 1,141	$ 1,384
Sublease initial direct cost and adjustments	896	777
Other	1,652	1,920
Total	$ 3,689	$ 4,081

Accrued liabilities

	As of	
	July 2, 2023	December 31, 2022
	(In thousands)	
Sales incentives	$ 31,281	$ 36,271
Sales returns	14,757	18,656
Compensation	16,155	15,556
Cloud and other costs	7,657	11,154
Operating lease liabilities	3,818	4,190
Professional services	2,496	3,703
Warranty obligations	1,093	1,174
Freight cost	1,921	1,050
Service cost	1,084	806
Restructuring charges	628	1,265
Other	7,327	5,030
Total	$ 88,217	$ 98,855

Other non-current liabilities

	As of	
	July 2, 2023	December 31, 2022
	(In thousands)	
Non-current service cost	$ 1,202	$ 1,259
Non-current compensation	872	616
Non-current deferred revenue	63	212
Non-current income taxes payable	77	77
Other	833	785
Total	$ 3,047	$ 2,949

Note 5. Fair Value Measurements

The following table summarizes assets measured at fair value on a recurring basis:

	As of	
	July 2, 2023	December 31, 2022
	(In thousands)	
Cash equivalents: money-market funds (<90 days)	$ 1,888	$ 12,614
Cash equivalents: U.S. Treasuries (<90 days)	471	20,274
Available-for-sale securities: U.S. Treasuries (1)	61,724	29,700
Total	$ 64,083	$ 62,588

(1) Included in short-term investments on our unaudited condensed consolidated balance sheets.

Our investments in cash equivalents and available-for-sale securities are classified within Level 1 of the fair value hierarchy because they are valued based on quoted market prices in active markets.

As of July 2, 2023 and December 31, 2022, assets and liabilities measured as Level 2 fair value were not material and there were no Level 3 fair value assets or liabilities measured on a recurring basis.

Note 6. Restructuring

In November 2022, we initiated a restructuring plan to reduce our cost structure to better align the operational needs of the business to current economic conditions while continuing to support our long-term strategy. This restructuring includes the reduction of headcount as well as the abandonment of certain lease contracts and the cancellation of contractual services arrangements with certain suppliers. As of July 2, 2023, we have substantially incurred all costs pertaining to restructuring activities, with related cash outflows extending until the fourth quarter of 2024.

The restructuring liabilities are included in accrued liabilities in our unaudited condensed consolidated balance sheets. Restructuring activities for the six months ended July 2, 2023 are as follows:

	Total	Severance Expense	Office Exit Expense	Other Exit Expense
	(In thousands)			
Balance as of December 31, 2022	$ 1,265	$ 219	$ 991	$ 55
Restructuring charges	400	278	117	5
Cash payments	(1,011)	(464)	(521)	(26)
Non-cash and other adjustments	(26)	—	(21)	(5)
Balance as of July 2, 2023	$ 628	$ 33	$ 566	$ 29
Total costs incurred inception to date	$ 2,454	$ 1,323	$ 1,052	$ 79

Note 7. Revolving Credit Facility

On October 27, 2021, we entered into a Loan and Security Agreement (the “Credit Agreement”) with Bank of America, N.A., a national banking association, as lender (the “Lender”).

The Credit Agreement provides for a three-year revolving credit facility (the “Credit Facility”) that matures on October 27, 2024. Borrowings under the Credit Facility are limited to the lesser of (x) $40.0 million, and (y) an amount equal to the borrowing base. The borrowing base will be the sum of (i) 90% of investment grade eligible receivables and (ii) 85% of non-investment grade eligible accounts, less applicable reserves established by the Lender. The Credit Agreement also includes a $5.0 million sublimit for the issuance by the Lender of letters of credit. In addition, the Credit Agreement includes an uncommitted accordion feature that allows us to request, from time to time, that the Lender increase the aggregate revolving loan commitments by up to an additional $25.0 million in the aggregate, subject to the satisfaction of certain conditions, including obtaining the Lender’s agreement to participate in each increase. The proceeds of the borrowings under the Credit Facility may be used for working capital and general corporate purposes. Based on certain terms and conditions including eligible accounts receivable as of July 2, 2023, we had unused borrowing capacity of $13.8 million.

Our obligations under the Credit Agreement are secured by substantially all of our domestic working capital assets, including accounts receivable, cash and cash equivalents, inventory, and other assets to the extent related to such working capital assets.

At our option, borrowings under the Credit Agreement will bear interest at a floating rate equal to: (i) the Bloomberg Short-Term Bank Yield Index rate plus the applicable rate of 2.0% to 2.5% determined based on our average daily availability for the prior fiscal quarter, or (ii) the base rate plus the applicable rate of 1.0% to 1.5% based on our average daily availability for the prior fiscal quarter. Among other fees, we are required to pay a monthly unused fee of 0.2% per annum on the amount by which the Lender’s aggregate commitment under the Credit Facility exceeds the average daily revolver usage during such month.

The Credit Agreement contains events of default, representations and warranties, and affirmative and negative covenants customary for credit facilities of this type. The Credit Agreement also contains financial covenants that require us to (a) until we achieve a fixed charge coverage ratio of at least 1.00 to 1.00 for two consecutive quarters, maintain minimum liquidity of not less than $20.0 million at all times and (b) thereafter, if the Financial Covenant Trigger Period (as defined in the Credit Agreement) is in effect, maintain a fixed charge coverage ratio, tested quarterly on a trailing twelve month basis, of at least 1.00 to 1.00 at any time. As of July 2, 2023, we were in compliance with all the covenants of the Credit Agreement.

If an event of default under the Credit Agreement occurs, then the Lender may cease making advances under the Credit Agreement and declare any outstanding obligations under the Credit Agreement to be immediately due and payable. In addition, if we file a bankruptcy petition, a bankruptcy petition is filed against us and is not dismissed or stayed within thirty days or we make a general assignment for the benefit of creditors, then any outstanding obligations under the Credit Agreement will automatically and without notice or demand become immediately due and payable.

No amounts had been drawn under the Credit Facility as of July 2, 2023.

Note 8. Commitments and Contingencies

Operating Leases

Our operating lease obligations mostly include offices, equipment, data centers and distribution centers, with various expiration dates through June 2029. Certain lease agreements include options to renew or terminate the lease, which are not reasonably certain to be exercised and therefore are not factored into our determination of lease payments. The terms of certain leases provide for rental payments on a graduated scale. Gross lease expense was $1.5 million and $3.0 million for the three and six months ended July 2, 2023, respectively, and $1.8 million and $3.6 million for the three and six months ended July 3, 2022, respectively. We recorded sublease income as reduction of lease expense, in the amount of $0.5 million and $1.0 million for the three and six months ended July 2, 2023 and July 3, 2022.

Supplemental cash flow information related to operating leases was as follows:

	Six Months Ended	
	July 2, 2023	July 3, 2022
	(In thousands)	
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 3,799	$ 3,618
Right-of-use assets obtained in exchange for lease liabilities		
Operating leases	$ —	$ 2,670

Weighted average remaining lease term and weighted average discount rate related to operating leases were as follows:

	As of	
	July 2, 2023	December 31, 2022
Weighted average remaining lease term	5.5 years	5.1 years
Weighted average discount rate	5.69 %	5.69 %

ARLO TECHNOLOGIES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The future minimum undiscounted lease payments under operating leases and future non-cancelable rent payments from our subtenants for each of the next five years and thereafter as of July 2, 2023 were as follows:

	Operating Lease Payments	Sublease Payments	Net
		(In thousands)	
2023 (Remaining six months)	$ 1,988	$ (1,034)	$ 954
2024	5,398	(1,947)	3,451
2025	3,904	(2,006)	1,898
2026	4,011	(2,066)	1,945
2027	3,986	(2,322)	1,664
Thereafter	5,130	(3,620)	1,510
Total future lease payments	24,417	$ (12,995)	$ 11,422
Less: interest	(3,458)		
Present value of future minimum lease payments	$ 20,959		
Accrued liabilities	$ 3,818		
Non-current operating lease liabilities	17,141		
Total lease liabilities	$ 20,959		

Letters of Credit

In connection with the lease agreement for our office space located in San Jose, California, we executed a letter of credit with the landlord as the beneficiary. As of July 2, 2023, we had approximately $3.6 million of unused letters of credit outstanding, of which $3.1 million pertains to the lease arrangement in San Jose, California.

Purchase Obligations

We have entered into various inventory-related purchase agreements with suppliers. Generally, under these agreements, 50% of orders are cancelable by giving notice 46 to 60 days prior to the expected shipment date and 25% of orders are cancelable by giving notice 31 to 45 days prior to the expected shipment date. Orders are non-cancelable within 30 days prior to the expected shipment date. As of July 2, 2023, we had approximately $50.1 million in non-cancelable purchase commitments with suppliers.

As of July 2, 2023, an additional $24.9 million of purchase orders beyond contractual termination periods have been issued to supply chain partners in anticipation of demand requirements. Consequently, we may incur expenses for the materials and components, such as chipsets already purchased by the supplier to fulfill our orders if the purchase order is cancelled. Expenses incurred have historically not been significant relative to the original order value. As of July 2, 2023, the loss liability from committed purchases was not material.

Warranty Obligations

Changes in warranty obligations, which are included in accrued liabilities in the unaudited condensed consolidated balance sheets, were as follows:

	Three Months Ended		Six Months Ended	
	July 2, 2023	July 3, 2022	July 2, 2023	July 3, 2022
	(In thousands)			
Balance at the beginning of the period	$ 1,119	$ 1,330	$ 1,174	$ 1,330
Provision for warranty obligations	40	34	55	113
Settlements	(66)	(79)	(136)	(158)
Balance at the end of the period	$ 1,093	$ 1,285	$ 1,093	$ 1,285

Litigation and Other Legal Matters

We are involved in disputes, litigation, and other legal actions, including, but not limited to, the matters described below. In all cases, at each reporting period, we evaluate whether or not a potential loss amount or a potential range of loss is probable and reasonably estimable under the provisions of the authoritative guidance that addresses accounting for contingencies. In such cases, we accrue for the amount or, if a range, we accrue the low end of the range, only if there is not a better estimate than any other amount within the range, as a component of legal expense within general and administrative expenses. We monitor developments in these legal matters that could affect the estimate we had previously accrued. In relation to such matters, we currently believe that there are no existing claims or proceedings that are likely to have a material adverse effect on our financial position within the next 12 months, or the outcome of these matters is currently not determinable. There are many uncertainties associated with any litigation, and these actions or other third-party claims against us may cause us to incur costly litigation and/or substantial settlement charges. In addition, the resolution of any intellectual property litigation may require us to make royalty payments, which could have an adverse effect in future periods. If any of those events were to occur, our business, financial condition, results of operations, and cash flows could be adversely affected. The actual liability in any such matters may be materially different from our estimates, which could result in the need to adjust the liability and record additional expenses.

Securities Class Action Lawsuits and Derivative Suit

On December 11, 2018, purported stockholders of Arlo filed six putative securities class action complaints in the Superior Court of California, County of Santa Clara (the "State Action"), and one complaint in the U.S. District Court for the Northern District of California (the "Federal Action") against us and certain of our executives and directors. The plaintiffs in the State Action allege that we failed to adequately disclose quality control problems and adverse sales trends ahead of our initial public offering (the "IPO"), violating the Securities Act of 1933, as amended (the "Securities Act"). The complaint seeks unspecified monetary damages and other relief on behalf of investors who purchased Company common stock issued pursuant and/or traceable to the IPO. In the Federal Action, the court appointed a shareholder named Matis Nayman as lead plaintiff. Lead plaintiff alleged violations of the Securities Act and the Securities Exchange Act of 1934, as amended, based on alleged materially false and misleading statements about our sales trends and products. In the amended complaint, lead plaintiff sought to represent a class of persons who purchased or otherwise acquired our common stock (i) during the period between August 3, 2018 through December 3, 2018 and/or (ii) pursuant to or traceable to the IPO. Lead plaintiff sought class certification, an award of unspecified damages, an award of costs and expenses, including attorneys' fees, and other further relief as the court may deem just and proper.

On August 6, 2019, defendants filed a motion to dismiss. The federal court granted that motion, and lead plaintiff filed an amended complaint. On June 12, 2020, lead plaintiff filed an unopposed motion for preliminary approval of a class action settlement for $1.25 million, which was also the amount that we had accrued for loss contingency. In October 2020, we made a $1.25 million payment to an escrow account administered by the court and plaintiff's counsel (the "Settlement Fund"). The Settlement Fund was deemed to be in the custody of the court and remained subject to the jurisdiction of the court until such time as the Settlement Fund was distributed pursuant to the settlement agreement and/or further order of the court.

On February 5, 2021, lead plaintiff filed a motion for final approval of the settlement. In advance of the final approval hearing, three of the named plaintiffs in the State Action requested exclusion from the settlement. The court held a final approval hearing on March 11, 2021, and, on March 25, 2021, entered an order and final judgment approving the settlement and, among other things, dismissed with prejudice all claims of lead plaintiff and the Settlement Class (as defined in the settlement agreement). The Federal Action is now closed.

In the State Action, on May 5, 2021, the court held a status conference and instructed plaintiffs Perros, Patel, and Pham ("Plaintiffs"), who were the only Arlo stockholders to opt out of the federal settlement, to file an amended complaint by June 4, 2021. Plaintiffs filed their amended complaint, asserting their individual Securities Act claims, but also purporting to represent a new class of Arlo stockholders who purchased Arlo shares between December 3, 2018 and February 22, 2019. On June 21, 2021, the Arlo defendants filed a motion to dismiss the State Action (for forum non conveniens) based on the federal forum provision in Arlo's certificate of incorporation. Plaintiffs opposed on July 28, 2021, and the Arlo defendants replied on August 13, 2021. On September 9, 2021, the court issued an order granting the Arlo defendants' forum non conveniens motion, and on September 17, 2021, the court issued a final judgment dismissing the State Action in its entirety. On November 16, 2021, Plaintiffs filed a Notice of Appeal. The appeal occurred before the California Court of Appeal, Sixth Appellate District. Plaintiffs-Appellants filed their opening brief on May 20, 2022. Defendants-Respondents filed their responding brief on August 18, 2022, and Plaintiffs-Appellants filed their reply brief on September 7, 2022. On April 13, 2023, the court heard oral argument on the appeal and the case was submitted. On May 5, 2023, the Court of Appeal affirmed by written order the trial court's dismissal of the State Action based on the federal forum provision in Arlo's certificate of incorporation and awarded costs to Arlo. On June 14, 2023, Plaintiffs filed a petition for review in the Supreme Court of California. Defendants-Respondents filed their answer to the petition for review on July 5, 2023, and Plaintiffs filed their reply in support of the petition for review on July 17, 2023. On July 19, 2023, the Supreme Court of California denied Plaintiffs' petition for review and closed the case.

Indemnifications

In the ordinary course of business, we may provide indemnification of varying scope and terms to customers, distributors, resellers, vendors, lessors, business partners, and other parties with respect to certain matters including, but not limited to, losses arising from breach of such agreements or from intellectual property infringement claims made by third parties. In addition, we have entered into indemnification agreements with members of our board of directors and certain of our executive officers that require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. The maximum potential amount of future payments we could be required to make under these indemnification agreements is, in many cases, unlimited. As of July 2, 2023 and December 31, 2022, we have not incurred any material costs as a result of such indemnifications and we are not currently aware of any indemnification claims.

Note 9. Employee Benefit Plans

We grant options and restricted stock units ("RSUs") under the 2018 Equity Incentive Plan (the "2018 Plan"), under which awards may be granted to all employees. We also grant performance-based and market-based restricted stock units ("PSUs") to our executive officers periodically. Award vesting periods for the 2018 Plan are generally three to four years. As of July 2, 2023, approximately 4.0 million shares were available for future grants. Options may be granted for periods of up to 10 years or such shorter term as may be provided in the agreement and at prices no less than 100% of the fair market value of Arlo's common stock on the date of grant. Options granted under the 2018 Plan generally vest over four years, the first tranche at the end of 12 months and the remaining shares underlying the option vesting monthly over the remaining three years.

ARLO TECHNOLOGIES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

On January 20, 2023, we registered an aggregate of up to 4,444,072 shares of common stock on a Registration Statement on Form S-8, including 3,555,258 shares issuable pursuant to the 2018 Plan that were automatically added to the shares authorized for issuance under the 2018 Plan and 888,814 shares issuable pursuant to the Employee Stock Purchase Plan ("ESPP") that were automatically added to the shares authorized for issuance on January 1, 2023, both pursuant to an "evergreen" provision contained in the respective plans.

The following table sets forth the available shares for grants as of July 2, 2023:

	Number of Shares
	(In thousands)
Shares available for grants as of December 31, 2022	4,213
Additional authorized shares	3,555
Granted	(7,023)
Forfeited / cancelled	377
Shares traded for taxes	2,834
Shares available for grants as of July 2, 2023	3,956

Employee Stock Purchase Plan

We sponsor the ESPP to eligible employees. As of July 2, 2023, 2.0 million shares were available for issuance under the ESPP.

Option Activity

Stock option activity during the six months ended July 2, 2023 was as follows:

	Number of Shares	Weighted Average Exercise Price Per Share
	(In thousands)	(In dollars)
Outstanding as of December 31, 2022	2,082	$ 10.24
Granted	—	$ —
Exercised	(433)	$ 6.90
Forfeited / cancelled	—	$ —
Expired	(12)	$ 7.55
Outstanding as of July 2, 2023	1,637	$ 11.15
Vested and expected to vest as of July 2, 2023	1,637	$ 11.15
Exercisable Options as of July 2, 2023	1,637	$ 11.15

RSU Activity

RSU activity, excluding PSU activity, during the six months ended July 2, 2023 was as follows:

ARLO TECHNOLOGIES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	Number of Shares		Weighted Average Grant Date Fair Value Per Share
	(In thousands)		(In dollars)
Outstanding as of December 31, 2022	9,487	$	6.36
Granted	4,975	$	3.95
Vested	(4,641)	$	4.79
Forfeited	(363)	$	6.42
Outstanding as of July 2, 2023	9,458	$	5.86

PSU Activity

Our executive officers and other senior employees have been granted performance-based awards with vesting occurring at the end of a three or five-year period if performance conditions or market conditions are met. The number of units earned and eligible to vest are determined based on the achievement of various performance conditions or market conditions, including the cumulative paid accounts targets, stock price, cash balances at reporting period, and the recipients' continued services. At the end of each reporting period, we evaluate the probability of achieving the performance or market conditions and record the related stock-based compensation expense based on the achievement over the service period.

PSU activity during the six months ended July 2, 2023 was as follows:

	Number of Shares		Weighted Average Grant Date Fair Value Per Share
	(In thousands)		(In dollars)
Outstanding as of December 31, 2022	4,041	$	6.22
Granted	2,050	$	4.56
Vested	(2,067)	$	5.51
Forfeited	(3)	$	8.28
Outstanding as of July 2, 2023	4,021	$	5.74

Stock-Based Compensation Expense

The following table sets forth the stock-based compensation expense included in our unaudited condensed consolidated statements of comprehensive loss:

	Three Months Ended				Six Months Ended			
	July 2, 2023		July 3, 2022		July 2, 2023		July 3, 2022	
	(In thousands)							
Cost of revenue	$	967	$	1,335	$	1,828	$	2,245
Research and development		3,311		3,621		7,222		5,923
Sales and marketing		1,670		1,790		3,392		3,170
General and administrative		7,025		5,499		15,122		10,496
Total	$	12,973	$	12,245	$	27,564	$	21,834

As of July 2, 2023, there was no unrecognized compensation cost related to stock options. Approximately $71.2 million of unrecognized compensation cost related to unvested RSUs and PSUs is expected to be recognized over a weighted-average period of 2.2 years as of July 2, 2023.

ARLO TECHNOLOGIES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 10. Income Taxes

The provision for income taxes for the three and six months ended July 2, 2023 was $0.2 million and $1.0 million, or an effective tax rate of (3.1)% and (4.9)%. The provision for income taxes for the three and six months ended July 3, 2022 was $0.2 million and $0.4 million, or an effective tax rate of (2.0)% and (2.3)%. During the three and six months ended July 2, 2023 and July 3, 2022, we sustained U.S. book losses. Consistent with the prior year periods, we maintained a valuation allowance against our U.S. federal and state deferred tax assets and did not record a tax benefit on these deferred tax assets since it is more likely than not that these deferred tax assets will not be realized. Provision for income taxes decreased slightly for the three months ended July 2, 2023, compared to the prior year period and increased for the six months ended July 2, 2023, compared to the prior year period, primarily due to the higher U.S. earnings and also the application of Section 174 of the Internal Revenue Code requiring capitalization of research and experimental expenses, which increase was recognized mostly in the first quarter of 2023.

Note 11. Net Loss Per Share

	Three Months Ended		Six Months Ended	
	July 2, 2023	July 3, 2022	July 2, 2023	July 3, 2022
	(In thousands, except per share data)			
Numerator:				
Net loss	$ (7,363)	$ (11,557)	$ (21,608)	$ (20,036)
Denominator:				
Weighted average common shares - basic and dilutive	92,337	86,868	90,984	85,966
Basic and diluted net loss per share	$ (0.08)	$ (0.13)	$ (0.24)	$ (0.23)
Anti-dilutive employee stock-based awards, excluded	1,370	4,812	3,238	1,476

ARLO TECHNOLOGIES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 12. Segment and Geographic Information

Segment Information

We operate as one operating and reportable segment. Our Chief Executive Officer ("CEO") is identified as the Chief Operating Decision Maker ("CODM"), who reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance.

Geographic Information for Revenue

Revenue consists of gross product shipments and service revenue, less allowances for estimated sales returns, price protection, end-user customer rebates, net changes in deferred revenue, and other channel sales incentives deemed to be a reduction of revenue per the authoritative guidance. Sales and usage-based taxes are excluded from revenue. For reporting purposes, revenue by geography is generally based upon the ship-to location of the customer for device sales and device location for service sales. The following table presents revenue by geographic area. For comparative purposes, amounts in prior periods have been recast.

	Three Months Ended		Six Months Ended	
	July 2, 2023	July 3, 2022	July 2, 2023	July 3, 2022
	(In thousands)			
United States	$ 78,186	$ 59,997	$ 134,029	$ 125,234
Spain	19,549	40,141	58,120	64,709
Ireland	4,106	10,664	8,986	32,751
Other countries	13,235	8,177	24,945	21,036
Total	$ 115,076	$ 118,979	$ 226,080	$ 243,730

Geographic Information for Long-Lived Assets

Long-lived assets include property and equipment, net and operating lease right-of-use assets, net. Our long-lived assets are based on the physical location of the assets. The following table presents long-lived assets by geographic area.

	As of	
	July 2, 2023	December 31, 2022
	(In thousands)	
United States	$ 14,961	$ 17,762
Other countries	2,549	2,383
Total	$ 17,510	$ 20,145

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

Forward-looking Statements

This Quarterly Report on Form 10-Q (the "Quarterly Report") contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the Private Securities Litigation Reform Act of 1995. Such statements are based upon current expectations that involve risks and uncertainties. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. For example, the words "believes," "anticipates," "plans," "expects," "intends," "could," "may," "will," and similar expressions are intended to identify forward-looking statements, including statements concerning our business and the expected performance characteristics, specifications, reliability, market acceptance, market growth, specific uses, user feedback, and market position of our products and technology. Our actual results and the timing of certain events may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a discrepancy include, but are not limited to, those discussed in "Part II—Item 1A —Risk Factors" and "Liquidity and Capital Resources" below.

All forward-looking statements in this document are based on information available to us as of the date hereof, such information may be limited or incomplete, and we assume no obligation to update any such forward-looking statements. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements. The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and the accompanying notes contained in this Quarterly Report. Unless expressly stated or the context otherwise requires, the terms "we," "our," "us," the "Company," and "Arlo" refer to Arlo Technologies, Inc. and our subsidiaries.

Business and Executive Overview

Arlo combines an intelligent cloud infrastructure and mobile app with a variety of smart connected devices that are transforming the way people experience the connected lifestyle. Arlo's deep expertise in product design, wireless connectivity, cloud infrastructure and cutting-edge AI capabilities focuses on delivering a seamless, smart home experience for Arlo users that is easy to setup and interact with every day. Our cloud-based platform provides users with visibility, insight and a powerful means to help protect and connect in real-time with the people and things that matter most, from any location with a Wi-Fi or a cellular connection. Since the launch of our first product in December 2014, we have shipped over 29.4 million smart connected devices. As of July 2, 2023, the Arlo platform had approximately 7.9 million cumulative registered accounts across more than 100 countries around the world coupled with 2.3 million cumulative paid subscribers and annual recurring revenue of $193.6 million.

We conduct business across three geographic regions—(i) the Americas; (ii) Europe, Middle-East and Africa ("EMEA"); and (iii) Asia Pacific ("APAC")—and we primarily generate revenue by selling devices through retail, wholesale distribution, wireless carrier channels, security solution providers, Arlo's direct to consumer store and paid subscription services. For the three months ended July 2, 2023 and July 3, 2022, we generated total revenue of $115.1 million and $119.0 million, respectively. Loss from operations was $8.0 million and $11.3 million for the three months ended July 2, 2023 and July 3, 2022, respectively. For the six months ended July 2, 2023 and July 3, 2022, we generated total revenue of $226.1 million and $243.7 million, respectively. Loss from operations was $22.2 million and $20.0 million for the six months ended July 2, 2023 and July 3, 2022, respectively.

Our goal is to continue to develop innovative, world-class connected lifestyle solutions to expand and further monetize our current and future user and paid account bases. We believe that the growth of our business is dependent on many factors, including our ability to innovate and launch successful new products on a timely basis and grow our installed base, to increase subscription-based recurring revenue, to invest in channel partnerships and to continue our global expansion. We expect to increase our investment in research and development going forward as we continue to introduce new and innovative products and services to enhance the Arlo platform and compete for engineering talent. We also expect our sales and marketing expense to increase in the future as we invest in marketing to drive demand for our products and services.

Key Business Metrics

In addition to the measures presented in our unaudited condensed consolidated financial statements, we use the following key metrics to evaluate our business, measure our performance, develop financial forecasts and make strategic decisions. We believe these key business metrics provide useful information by offering the ability to make more meaningful period-to-period comparisons of our on-going operating results and a better understanding of how management plans and measures our underlying business. Our key business metrics may be calculated in a manner different from the same key business metrics used by other companies. We regularly review our processes for calculating these metrics, and from time to time we may discover inaccuracies in our metrics or make adjustments to better reflect our business or to improve their accuracy, including adjustments that may result in the recalculation of our historical metrics. We believe that any such inaccuracies or adjustments are immaterial unless otherwise stated.

	As of and for the Three Months Ended		
	July 2, 2023	% Change	July 3, 2022
	(In thousands, except percentage data)		
Cumulative registered accounts	7,860	18.4 %	6,640
Cumulative paid accounts [1]	2,289	54.9 %	1,478
Annual recurring revenue	$ 193,633	66.1 %	$ 116,601

(1) The increase for the three months ended July 2, 2023 compared to the prior year period reflects an increase in the number of paid accounts in our EMEA region which were managed by Verisure and now onboarded with us. This does not have an impact to our financial statements and key business metrics other than our number of Cumulative Paid Accounts.

Cumulative Registered Accounts. We believe that our ability to increase our user base is an indicator of our market penetration and growth of our business as we continue to expand and innovate our Arlo platform. We define our registered accounts at the end of a particular period as the number of unique registered accounts on the Arlo platform as of the end of such period. The number of registered accounts does not necessarily reflect the number of end-users on the Arlo platform as one registered account may be used by multiple end-users to monitor the devices attached to that household.

Cumulative Paid Accounts. Paid accounts are defined as any account worldwide where a subscription to a paid service is being collected (either by us or by our customers or channel partners, including Verisure).

Annual Recurring Revenue ("ARR"). We believe ARR enables measurement of our business initiatives, and serves as an indicator of our future growth. ARR represents the amount of paid service revenue that we expect to recur annually and is calculated by taking our recurring paid service revenue for the last calendar month in the fiscal quarter, multiplied by 12 months. Recurring paid service revenue represents the revenue we recognize from our paid accounts and excludes prepaid service revenue. ARR is a performance metric and should be viewed independently of revenue and deferred revenue, and is not intended to be a substitute for, or combined with, any of these items.

Impact of Global Geopolitical, Economic and Business Conditions

During the six months ended July 2, 2023, we remained focused on the ongoing conflict in Ukraine, supply chain disruptions, inflation, fluctuating consumer confidence and rising interest rates by preserving our liquidity and managing our cash flow by taking preemptive action to enhance our ability to meet our short-term liquidity needs. These actions include, but are not limited to, proactively managing working capital by closely monitoring customers' credit and collections, renegotiating payment terms with third-party manufacturers and key suppliers, closely monitoring inventory levels and purchases against forecasted demand, reducing or eliminating non-essential spending, and subleasing or reducing excess office space. We continue to monitor the situation and may, as necessary, reduce expenditures further, borrow under our revolving credit facility, or pursue other sources of capital that may include other forms of external financing in order to maintain our cash position and preserve financial flexibility in response to the uncertainty in the United States and global markets resulting from the ongoing conflict in Ukraine, supply chain disruptions, the inflationary macro environment, fluctuating consumer confidence and rising interest rates and current financial conditions within the banking industry, including the effects of recent failures of other financial institutions, and liquidity levels.

Results of Operations

We operate as one operating and reportable segment. The following table sets forth, for the periods presented, the unaudited condensed consolidated statements of comprehensive loss data, which we derived from the accompanying unaudited condensed consolidated financial statements:

	Three Months Ended				Six Months Ended			
	July 2, 2023		July 3, 2022		July 2, 2023		July 3, 2022	
	(In thousands, except percentage data)							
Revenue:								
Products	$ 64,749	56.3 %	$ 86,191	72.4 %	$ 131,809	58.3 %	$ 181,016	74.3 %
Services	50,327	43.7 %	32,788	27.6 %	94,271	41.7 %	62,714	25.7 %
Total revenue	115,076	100.0 %	118,979	100.0 %	226,080	100.0 %	243,730	100.0 %
Cost of revenue:								
Products	60,446	52.5 %	73,829	62.0 %	124,487	55.1 %	154,606	63.4 %
Services	12,772	11.1 %	11,410	9.6 %	24,518	10.8 %	21,809	8.9 %
Total cost of revenue	73,218	63.6 %	85,239	71.6 %	149,005	65.9 %	176,415	72.4 %
Gross profit	41,858	36.4 %	33,740	28.4 %	77,075	34.1 %	67,315	27.6 %
Operating expenses:								
Research and development	17,618	15.3 %	17,402	14.6 %	35,368	15.6 %	33,781	13.9 %
Sales and marketing	16,921	14.7 %	14,506	12.2 %	32,274	14.3 %	27,674	11.4 %
General and administrative	15,007	13.0 %	13,149	11.1 %	30,629	13.5 %	25,770	10.6 %
Others	341	0.4 %	25	— %	973	0.5 %	104	— %
Total operating expenses	49,887	43.4 %	45,082	37.9 %	99,244	43.9 %	87,329	35.8 %
Loss from operations	(8,029)	(7.0)%	(11,342)	(9.5)%	(22,169)	(9.8)%	(20,014)	(8.2)%
Interest income, net	835	0.8 %	129	0.1 %	1,561	0.7 %	124	0.1 %
Other income (expense), net	52	— %	(116)	(0.1)%	13	— %	295	0.1 %
Loss before income taxes	(7,142)	(6.2)%	(11,329)	(9.5)%	(20,595)	(9.1)%	(19,595)	(8.0)%
Provision for income taxes	221	0.2 %	228	0.2 %	1,013	0.5 %	441	0.2 %
Net loss	$ (7,363)	(6.4)%	$ (11,557)	(9.7)%	$ (21,608)	(9.6)%	$ (20,036)	(8.2)%

Revenue

Our gross revenue consists primarily of sales of devices, prepaid and paid subscription service revenue. We generally recognize revenue from product sales at the time the product is shipped and transfer of control from us to the customer occurs. Upon device shipment, we attribute a portion of the sales price as prepaid service, deferring this revenue at the outset and subsequently recognizing it ratably over the estimated useful economic life of the device or free trial period, as applicable. Our paid subscription services relate to sales of subscription plans to our registered accounts.

Our revenue consists of gross revenue, less customer rebates and other channel sales incentives, allowances for estimated sales returns, price protection, and net changes in deferred revenue. A significant portion of our marketing expenditure is with customers and is deemed to be a reduction of revenue under authoritative guidance for revenue recognition.

We conduct business across three geographic regions—(i) the Americas; (ii) EMEA; and (iii) APAC—and generally base revenue by geography on the ship-to location of the customer for device sales and device location for service sales.

	Three Months Ended			Six Months Ended		
	July 2, 2023	% Change	July 3, 2022	July 2, 2023	% Change	July 3, 2022
	(In thousands, except percentage data)					
Americas	$ 78,136	29.5 %	$ 60,345	$ 134,768	4.6 %	$ 128,811
Percentage of revenue	*67.9 %*		*50.7 %*	*59.6 %*		*52.8 %*
EMEA	30,958	(43.2)%	54,483	79,430	(24.0)%	104,458
Percentage of revenue	*26.9 %*		*45.8 %*	*35.1 %*		*42.9 %*
APAC	5,982	44.1 %	4,151	11,882	13.6 %	10,461
Percentage of revenue	*5.2 %*		*3.5 %*	*5.3 %*		*4.3 %*
Total revenue	$ 115,076	(3.3)%	$ 118,979	$ 226,080	(7.2)%	$ 243,730

Product revenue decreased by $21.4 million, or 24.9% and $49.2 million, or 27.2% for the three and six months ended July 2, 2023 compared to the prior year periods. The declines were experienced mainly in EMEA and Americas primarily driven by a reduction in the average selling prices ("ASPs") of our products as we increased promotional activities to stimulate household acquisition and increased subscriber growth coupled with a shift in product mix driven by the softening consumer demand as a result of current macro-economic factors and seasonality.

Service revenue increased in all regions by $17.5 million, or 53.5% and $31.6 million, or 50.3% for the three and six months ended July 2, 2023 compared to the prior year periods, primarily due to a 54.9% increase in cumulative paid accounts and rates for our subscription plans.

Cost of Revenue

Cost of revenue consists of both product costs and service costs. Product costs primarily consist of the cost of finished products from our third-party manufacturers and overhead costs, including personnel expense for operation staff, purchasing, product planning, inventory control, warehousing and distribution logistics, third-party software licensing fees, inbound freight, IT and facilities overhead, warranty costs associated with returned goods, write-downs for excess and obsolete inventory and excess components, and royalties to third parties. Service costs consist of costs attributable to the provision and maintenance of our cloud-based platform, including personnel, storage, security and computing, IT and facilities overhead.

Our cost of revenue as a percentage of revenue can vary based upon a number of factors, including those that may affect our revenue set forth above and factors that may affect our cost of revenue, including, without limitation product mix, sales channel mix, registered accounts' acceptance of paid subscription service offerings, and changes in our cost of goods sold due to fluctuations in prices paid for components, net of vendor rebates, cloud platform costs, warranty and overhead costs, inbound freight and duty costs, and charges for excess or obsolete inventory. We outsource our manufacturing, warehousing, and distribution logistics. We also outsource certain components of the required infrastructure to support our cloud-based back-end IT infrastructure. We believe this outsourcing strategy allows us to better manage our product and service costs and gross margin and allows us to adapt to changing market dynamics and supply chain constraints.

The following table presents cost of revenue and gross margin for the periods indicated:

	Three Months Ended			Six Months Ended		
	July 2, 2023	% Change	July 3, 2022	July 2, 2023	% Change	July 3, 2022
	(In thousands, except percentage data)					
Cost of revenue:						
Products	$ 60,446	(18.1)%	$ 73,829	$ 124,487	(19.5)%	$ 154,606
Services	12,772	11.9 %	11,410	24,518	12.4 %	21,809
Total cost of revenue	$ 73,218	(14.1)%	$ 85,239	$ 149,005	(15.5)%	$ 176,415

Product cost of revenue decreased 18.1% and 19.5% for the three and six months ended July 2, 2023 compared to the prior year periods, respectively, primarily due to decreases in product shipments coupled with decreases in freight-in costs due to normalization of the supply chain and utilization of ocean freight, partially offset by increases in inventory reserves.

Service cost of revenue increased 11.9% and 12.4% for the three and six months ended July 2, 2023 compared to the prior year periods, respectively, as a result of service revenue growth, offset by cost optimizations.

Gross Profit

The following table presents gross profit for the periods indicated:

	Three Months Ended			Six Months Ended		
	July 2, 2023	% Change	July 3, 2022	July 2, 2023	% Change	July 3, 2022
	(In thousands, except percentage data)					
Gross profit:						
Products	$ 4,303	(65.2)%	$ 12,362	$ 7,322	(72.3)%	$ 26,410
Services	37,555	75.7 %	21,378	69,753	70.5 %	40,905
Total gross profit	$ 41,858	24.1 %	$ 33,740	$ 77,075	*14.5 %*	$ 67,315
Gross margin percentage:						
Products	6.6 %		14.3 %	5.6 %		14.6 %
Services	74.6 %		65.2 %	74.0 %		65.2 %
Total gross margin	36.4 %		28.4 %	34.1 %		27.6 %

Product gross profit decreased for the three and six months ended July 2, 2023 compared to the prior year periods, primarily driven by a reduction in the ASPs of our products as we increased promotional activities to stimulate household acquisition and increased subscriber growth coupled with a shift in product mix driven by the softening consumer demand as a result of current macro-economic factors. The product gross profit decrease was partially offset by the decrease in freight-in costs due to normalization of the supply chain and utilization of ocean freight.

Service gross profit increased for the three and six months ended July 2, 2023 compared to the prior year periods, primarily due to growth in paid service revenue in all regions as a result of a 54.9% increase in cumulative paid accounts and rates for our subscription plans as well as cost optimizations.

Operating Expenses

Research and Development

Research and development expense consists primarily of personnel-related expense, safety, security, regulatory services and testing, other research and development consulting fees, and corporate IT and facilities overhead. Generally, we recognize research and development expenses as they are incurred. We have invested in and expanded our research and development organization to enhance our ability to introduce innovative products and services. We expect research and development expense to increase in absolute dollars as we develop new product and service offerings and compete for engineering talent. We believe that innovation and technological leadership are critical to our future success, and we are committed to continuing a significant level of research and development to develop new technologies, products, and services, including our hardware devices, cloud-based software, AI-based algorithms, and machine learning capabilities.

The following table presents research and development expense for the periods indicated:

	Three Months Ended			Six Months Ended		
	July 2, 2023	% Change	July 3, 2022	July 2, 2023	% Change	July 3, 2022
	(In thousands, except percentage data)					
Research and development expense	$ 17,618	1.2 %	$ 17,402	$ 35,368	4.7 %	$ 33,781

Research and development expense increased by $0.2 million for the three months ended July 2, 2023 compared to the prior year period, primarily due to an increase of $0.5 million in personnel-related expenses mainly from increase in base compensation as a result of headcount increase, partially offset by a decrease of $0.2 million in corporate IT and facilities overhead.

Research and development expense increased by $1.6 million for the six months ended July 2, 2023 compared to the prior year period, primarily due to an increase of $2.5 million in personnel-related expenses mainly from stock-based compensation and merit increases, partially offset by a decrease of $0.9 million in corporate IT and facilities overhead.

Sales and Marketing

Sales and marketing expense consists primarily of personnel expense for sales and marketing staff, technical support expense, advertising, trade shows, media and placement, corporate communications and other marketing expense, product marketing expense, IT and facilities overhead, outbound freight costs, and credit card processing fees. We expect our sales and marketing expense to increase in the future as we invest in marketing to drive demand for our products and services.

The following table presents sales and marketing expense for the periods indicated:

	Three Months Ended			Six Months Ended		
	July 2, 2023	% Change	July 3, 2022	July 2, 2023	% Change	July 3, 2022
	(In thousands, except percentage data)					
Sales and marketing expense	$ 16,921	16.6 %	$ 14,506	$ 32,274	16.6 %	$ 27,674

Sales and marketing expense increased $2.4 million for the three months ended July 2, 2023 compared to the prior year period, primarily due to increases of $0.7 million in marketing expenditures, $0.7 million in customer care services, $0.7 million freight-out expenses, and $0.6 million in credit card processing fees as a result of increases in Arlo.com Store sales and paid subscriber accounts.

Sales and marketing expense increased $4.6 million for the six months ended July 2, 2023 compared to the prior year period, primarily due to increases of $1.7 million in marketing expenditures, $1.2 million in credit card processing fees as a result of increases in Arlo.com Store sales and paid subscriber accounts, $1.1 million freight-out expenses, and $1.0 million in customer care services.

General and Administrative

General and administrative expense consists primarily of personnel-related expense for certain executives, finance and accounting, investor relations, human resources, legal, information technology, professional fees, corporate IT and facilities overhead, strategic initiative expense, and other general corporate expense. We expect our general and administrative expense to fluctuate as a percentage of our revenue in future periods based on fluctuations in our revenue and the timing of such expense.

The following table presents general and administrative expense for the periods indicated:

	Three Months Ended			Six Months Ended		
	July 2, 2023	% Change	July 3, 2022	July 2, 2023	% Change	July 3, 2022
	(In thousands, except percentage data)					
General and administrative expense	$ 15,007	14.1 %	$ 13,149	$ 30,629	18.9 %	$ 25,770

General and administrative expense increased $1.9 million for the three months ended July 2, 2023 compared to the prior year period, primarily due to an increase of $2.6 million in personnel-related expenses mainly from stock-based compensation, partially offset by decreases of $0.6 million in legal and professional services and corporate IT and facilities overhead.

General and administrative expense increased $4.9 million for the six months ended July 2, 2023 compared to the prior year period, primarily due to an increase of $6.6 million in personnel-related expenses mainly from stock-based compensation and merit increases, partially offset by decreases of $1.6 million in corporate IT and facilities overhead and legal and professional services.

Others

Others include separation expense, which consists primarily of costs of legal and professional services for IPO-related litigation associated with our separation from NETGEAR, and restructuring charges, which consist of severance costs and office exit expense associated with the abandonment of certain lease contracts.

Interest Income and Other Income (Expense), Net

The following table presents interest income and other income (expense), net for the periods indicated:

	Three Months Ended			Six Months Ended		
	July 2, 2023	% Change	July 3, 2022	July 2, 2023	% Change	July 3, 2022
	(In thousands, except percentage data)					
Interest income, net	$ 835	**	$ 129	1,561	**	124
Other income (expense), net	$ 52	**	$ (116)	13	(95.6)%	295

**Percentage change not meaningful.

Interest income, net increased for the three and six months ended July 2, 2023 compared to the prior year periods, primarily due to the increase in our short-term investments as well as a result of higher interest rates.

Provision for Income Taxes

The following table presents provision for income taxes for the periods indicated:

	Three Months Ended			Six Months Ended		
	July 2, 2023	% Change	July 3, 2022	July 2, 2023	% Change	July 3, 2022
	(In thousands, except percentage data)					
Provision for income taxes	$ 221	(3.1)%	$ 228	$ 1,013	129.7 %	$ 441
Effective tax rate	*(3.1)%*		*(2.0)%*	*(4.9)%*		*(2.3)%*

Provision for income taxes decreased slightly for the three months ended July 2, 2023, compared to the prior year period and increased for the six months ended July 2, 2023, compared to the prior year period, primarily due to the higher U.S. earnings and also the application of Section 174 of the Internal Revenue Code requiring capitalization of research and experimental expenses, which increase was recognized mostly in the first quarter of 2023. Consistent with the prior year periods, we maintained a valuation allowance against our U.S. federal and state deferred tax assets and did not record a tax benefit on these deferred tax assets since it is more likely than not that these deferred tax assets will not be realized.

Liquidity and Capital Resources

As of July 2, 2023, our cash and cash equivalents and short-term investments totaled $123.7 million and we had unused borrowing capacity of $13.8 million based on the terms and conditions of our revolving credit facility. We have a history of losses and may incur operating and net losses in the future. As of July 2, 2023, our accumulated deficit was $367.0 million. Historically, we have funded our principal business activities through cash flows generated from operations and available cash on hand.

Material Cash Requirements

We believe that our existing sources of liquidity will be sufficient to meet our anticipated cash requirements for at least the next 12 months. However, in the future we may require or desire additional funds to support our operating expenses and capital requirements. To the extent that current and anticipated future sources of liquidity are insufficient, we may seek to raise additional funds through public or private equity. We have no commitments to obtain such additional financing and cannot provide assurance that additional financing will be available at all or, if available, that such financing would be obtainable on terms favorable to us and would not be dilutive.

Our future liquidity and cash requirements may vary from those currently planned and will depend on numerous factors, including the introduction of new products, the growth in our service revenue, the ability to increase our gross margin dollars, as well as cost optimization initiatives and controls over our operating expenditures. As we grow our installed base and related cost structure, there will be a need for additional working capital, hence, we have increased our subscription rates effective February 3, 2023.

Leases and Contractual Commitments

Our operating lease obligations mostly include offices, equipment, data centers, and distribution centers. Our contractual commitments are primarily inventory-related purchase obligations with suppliers.

Contingencies

We are involved in disputes, litigation, and other legal actions. We evaluate whether or not a potential loss amount or a potential range of loss is probable and reasonably estimable under the provisions of the authoritative guidance that addresses accounting for contingencies. Significant judgment is required to determine both the probability and the estimated amount of loss. In such cases, we accrue for the amount or, if a range, we accrue the low end of the range, only if there is not a better estimate than any other amount within the range, as a component of legal expense within litigation reserves, net.

Refer to Note 8. *Commitments and Contingencies* in the Notes to Unaudited Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report for further information about our operating leases, purchase obligations, and legal contingencies.

Cash Flow

The following table presents our cash flows for the periods presented:

	Six Months Ended	
	July 2, 2023	July 3, 2022
	(In thousands)	
Net cash provided by (used in) operating activities	$ 22,908	$ (29,381)
Net cash used in investing activities	(33,150)	(50,429)
Net cash used in financing activities	(11,951)	(10,384)
Net cash decrease	$ (22,193)	$ (90,194)

Operating activities

Net cash provided by operating activities increased by $52.3 million for the six months ended July 2, 2023 compared to the prior year period, primarily due to improved profitability and changes in working capital as a result of an increase in our service revenue driven by growth in paid accounts and increased subscription rates, lower payments to suppliers primarily as a result of reduced inventory purchases, and higher collection from customers on products sales due to enhanced collection efforts.

Investing activities

Net cash used in investing activities decreased by $17.3 million for the six months ended July 2, 2023 compared to the prior year period, primarily due to a decrease in net purchases, and maturities, of short-term investments.

Financing activities

Net cash used in financing activities increased by $1.6 million for the six months ended July 2, 2023 compared to the prior year period, primarily due to the increase in withholding tax from restricted stock unit releases, partially offset by higher proceeds related to employee benefit plans.

Critical Accounting Policies and Estimates

For a complete description of what we believe to be the critical accounting policies and estimates used in the preparation of our Unaudited Condensed Consolidated Financial Statements, refer to our Annual Report on Form 10-K for the year ended December 31, 2022. There have been no material changes to our critical accounting policies and estimates during the six months ended July 2, 2023, other than as discussed in Note 2. *Significant Accounting Policies and Recent Accounting Pronouncements,* in the Notes to Unaudited Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report.

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

During the six months ended July 2, 2023, there were no material changes to our market risk disclosures as set forth in Part II Item 7A "Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K for the year ended December 31, 2022.

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

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of the end of the period covered by this Quarterly Report. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that, as of the end of the period covered by this Quarterly Report, our disclosure controls and procedures were, in design and operation, effective at the reasonable assurance level. A control system, no matter how well conceived and operated, can provide only reasonable assurance that the objectives of the control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within an organization have been detected.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. It should be noted that any system of controls, however well designed and operated, can provide only reasonable assurance, and not absolute assurance, that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals in all future circumstances.

PART II: OTHER INFORMATION

Item 1. Legal Proceedings

The information set forth under the heading "Litigation and Other Legal Matters" in Note 8, *Commitments and Contingencies,* in Notes to Unaudited Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report, is incorporated herein by reference. For additional discussion of certain risks associated with legal proceedings, see the section entitled "Risk Factors" in Part II, Item 1A of this Quarterly Report.

Item 1A. *Risk Factors*

Our business, reputation, results of operations and financial condition, as well as the price of our stock, can be affected by a number of factors, whether currently known or unknown, including those described in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2022 under the heading "Risk Factors." During the six months ended July 2, 2023, there have been no significant changes to the risk factors under the heading "Risk Factors" described in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2022.

Item 5. Other Information

Trading Arrangements

During the quarter ended July 2, 2023, our directors and officers (as defined in Rule 16a-1(f) under the Exchange Act) adopted or terminated the contracts, instructions or written plans for the purchase or sale of Arlo's securities set forth in the table below:

			Type of Trading Arrangement			
Name and Position	**Action**	**Date**	**Rule 10b5-1 (1)**	**Non-Rule 10b5-1 (2)**	**Total Shares to be Sold**	**Expiration Date**
Matthew McRae, *Chief Executive Officer*	Adoption	May 31, 2023 (3)	X		577,014	September 15, 2023

(1) Contract, instruction or written plan intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) under the Exchange Act.

(2) "Non-Rule 10b5-1 trading arrangement" as defined in Item 408(c) of Regulation S-K under the Exchange Act.

(3) Adopted for personal tax planning purposes.

Item 6. ***Exhibits***

Exhibit Index

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
3.1	Amended and Restated Certificate of Incorporation of Arlo Technologies, Inc.	8-K	8/7/2018	3.1	
3.2	Amended and Restated Bylaws of Arlo Technologies, Inc.	8-K	8/7/2018	3.2	
4.1	Common Stock Certificate of Arlo Technologies, Inc.	S-1/A	7/23/2018	4.1	
31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer				X
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer				X
32.1#	Section 1350 Certification of Principal Executive Officer				X
32.2#	Section 1350 Certification of Principal Financial Officer				X
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				X
101.SCH	Inline XBRL Taxonomy Extension Schema Document				X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				X

This certification is deemed to accompany this Quarterly Report on Form 10-Q and will not be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) or otherwise subject to the liabilities of that section. This certification will not be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ARLO TECHNOLOGIES, INC.

Registrant

/s/ MATTHEW MCRAE

Matthew McRae
Chief Executive Officer
(Principal Executive Officer)

/s/ KURTIS BINDER

Kurtis Binder
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: August 10, 2023

EXHIBIT 31.1

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Matthew McRae, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Arlo Technologies, Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the Registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including 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: August 10, 2023

/s/ MATTHEW MCRAE

Matthew McRae
Chief Executive Officer
Arlo Technologies, Inc.

EXHIBIT 31.2

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Kurtis Binder, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Arlo Technologies, Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the Registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including 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: August 10, 2023

/s/ KURTIS BINDER

Kurtis Binder
Chief Financial Officer
Arlo Technologies, Inc.

EXHIBIT 32.1

CERTIFICATION

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), I, Matthew McRae, Chief Executive Officer of Arlo Technologies, Inc. (the "Company"), hereby certify that, to the best of my knowledge:

(1) This Quarterly Report of the Company on Form 10-Q for the period ended July 2, 2023, to which this Certification is attached as Exhibit 32.1 (the “Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 10, 2023

By: /s/ MATTHEW MCRAE
Matthew McRae
Chief Executive Officer
Arlo Technologies, Inc.

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

EXHIBIT 32.2

CERTIFICATION

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), I, Kurtis Binder, Chief Financial Officer of Arlo Technologies, Inc. (the "Company"), hereby certify that, to the best of my knowledge:

(1) This Quarterly Report of the Company on Form 10-Q for the period ended July 2, 2023, to which this Certification is attached as Exhibit 32.2 (the “Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 10, 2023

By: /s/ KURTIS BINDER
Kurtis Binder
Chief Financial Officer
Arlo Technologies, Inc.

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