

**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 September 30, 2017

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

000- 32743

(Commission File Number)

**DASAN ZHONE SOLUTIONS, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

22- 3509099  
(I.R.S. Employer  
Identification Number)

7195 Oakport Street  
Oakland, California  
(Address of principal executive offices)

94621  
(Zip code)

(510) 777- 7000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non- accelerated filer  (Do not check if a smaller reporting company)

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.

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No   
As of November 8, 2017, there were approximately 16,386,955 shares of the registrant's common stock outstanding.

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

## DASAN ZHONE SOLUTIONS, INC. AND SUBSIDIARIES

## Unaudited Condensed Consolidated Balance Sheets

(In thousands, except par value)

	September 30, 2017		December 31, 2016
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 10,145	\$	17,893
Restricted cash	13,058		6,650
Short- term investments	—		993
Accounts receivable, net of allowances for sales returns and doubtful accounts of \$2,095 as of September 30, 2017 and \$1,143 as of December 31, 2016:			
Trade receivables	43,478		38,324
Related parties	12,941		13,311
Other receivables:			
Others	13,851		12,068
Related parties	22		171
Inventories	31,966		31,032
Prepaid expenses and other current assets	3,198		4,131
<b>Total current assets</b>	<b>128,659</b>		<b>124,573</b>
Property and equipment, net	5,812		6,288
Goodwill	3,977		3,977
Intangible assets, net	7,174		8,767
Other assets	1,536		1,842
<b>Total assets</b>	<b>\$ 147,158</b>	<b>\$</b>	<b>145,447</b>
<b>Liabilities, Stockholders' Equity and Non-controlling Interest</b>			
Current liabilities:			
Accounts payable:			
Others	\$ 35,224	\$	30,681
Related parties	106		430
Short- term debt:			
Others	18,382		17,599
Related parties	3,544		—
Other payables:			
Others	1,691		2,040
Related parties	210		6,940
Deferred revenue	2,073		1,901
Accrued and other liabilities	10,108		8,163
<b>Total current liabilities</b>	<b>71,338</b>		<b>67,754</b>
Long- term debt - related parties	5,000		6,800
Deferred revenue	1,875		1,674
Other long- term liabilities	2,581		2,351
<b>Total liabilities</b>	<b>80,794</b>		<b>78,579</b>
Commitments and contingencies (Note 11)			
Stockholders' equity and non- controlling interest:			
Common stock, authorized 36,000 shares, 16,387 shares and 16,375 shares outstanding as of September 30, 2017 and December 31, 2016 at \$0.001 par value	16		16
Additional paid- in capital	89,873		89,174
Other comprehensive income (loss)	(1,052)		(2,815)
Accumulated deficit	(23,080)		(19,923)
<b>Total stockholders' equity</b>	<b>65,757</b>		<b>66,452</b>
Non- controlling interest	607		416

Total stockholders' equity and non- controlling interest	66,364	66,868
Total liabilities, stockholders' equity and non- controlling interest	\$ 147,158	\$ 145,447

See accompanying notes to unaudited condensed consolidated financial statements.

**DASAN ZHONE SOLUTIONS, INC. AND SUBSIDIARIES**  
**Unaudited Condensed Consolidated Statements of Comprehensive Loss**  
(In thousands, except per share data)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Net revenue:				
Net revenue	\$ 60,513	\$ 24,772	\$ 150,834	\$ 68,424
Net revenue - related parties	5,925	6,468	27,657	22,408
Total net revenue	<u>66,438</u>	<u>31,240</u>	<u>178,491</u>	<u>90,832</u>
Cost of revenue:				
Products and services	38,643	16,483	96,127	48,750
Products and services - related parties	5,569	5,406	22,851	19,118
Amortization of intangible assets	153	51	459	51
Total cost of revenue	<u>44,365</u>	<u>21,940</u>	<u>119,437</u>	<u>67,919</u>
Gross profit	22,073	9,300	59,054	22,913
Operating expenses:				
Research and product development	8,804	5,885	27,028	15,583
Selling, marketing, general and administrative	11,454	8,278	32,506	16,691
Amortization of intangible assets	154	251	1,191	259
Total operating expenses	<u>20,412</u>	<u>14,414</u>	<u>60,725</u>	<u>32,533</u>
Operating income (loss)	1,661	(5,114)	(1,671)	(9,620)
Interest income	36	31	82	137
Interest expense	(263)	(204)	(793)	(600)
Other income (loss), net	60	(112)	43	(41)
Income (loss) before income taxes	1,494	(5,399)	(2,339)	(10,124)
Income tax expense (benefit)	107	(610)	646	(1,041)
Net income (loss)	1,387	(4,789)	(2,985)	(9,083)
Net income (loss) attributable to non- controlling interest	(12)	(56)	172	(17)
Net income (loss) attributable to DASAN Zhone Solutions, Inc.	<u>\$ 1,399</u>	<u>\$ (4,733)</u>	<u>\$ (3,157)</u>	<u>\$ (9,066)</u>
Foreign currency translation adjustments	(284)	2,291	1,782	2,690
Comprehensive income (loss)	1,103	(2,498)	(1,203)	(6,393)
Comprehensive income (loss) attributable to non- controlling interest	(14)	(54)	191	48
Comprehensive income (loss) attributable to DASAN Zhone Solutions, Inc.	<u>\$ 1,117</u>	<u>\$ (2,444)</u>	<u>\$ (1,394)</u>	<u>\$ (6,441)</u>
Basic and diluted net income (loss) per share attributable to DASAN Zhone Solutions, Inc.	<u>\$ 0.09</u>	<u>\$ (0.42)</u>	<u>\$ (0.19)</u>	<u>\$ (0.90)</u>
Weighted average shares outstanding used to compute basic and diluted net income (loss) per share	16,382	11,139	16,380	10,046

See accompanying notes to unaudited condensed consolidated financial statements.

**DASAN ZHONE SOLUTIONS, INC. AND SUBSIDIARIES**  
**Unaudited Condensed Consolidated Statements of Cash Flows**  
**(In thousands)**

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2017</b>	<b>2016</b>
Cash flows from operating activities:		
Net loss	\$ (2,985)	\$ (9,083)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,105	1,164
Stock- based compensation	670	128
Unrealized gain (loss) on foreign currency transactions	(185)	1,655
Deferred taxes	—	(1,069)
Changes in operating assets and liabilities:		
Accounts receivable	(2,948)	14,450
Inventories	(578)	(4,107)
Prepaid expenses and other assets	(101)	2,320
Accounts payable	6,713	(5,814)
Accrued expenses	(4,314)	13,598
Net cash provided by (used in) operating activities	<u>(623)</u>	<u>13,242</u>
Cash flows from investing activities:		
Cash increase through Merger	—	7,013
Increase in restricted cash	(6,061)	(947)
Decrease in short- term and long- term loans to others	—	1,891
Increase in short- term and long- term loans to others	—	(1,386)
Proceeds from sale of short- term investments	1,463	—
Purchase of short- term investments	(430)	—
Proceeds from disposal of property and equipment and other assets	6	98
Purchase of property and equipment	(840)	(370)
Purchase of intangible asset	(72)	(92)
Net cash provided by (used in) investing activities	<u>(5,934)</u>	<u>6,207</u>
Cash flows from financing activities:		
Repayments of borrowings	(15,627)	(23,088)
Proceeds from short- term borrowings	13,778	19,769
Proceeds from long- term borrowings	—	6,800
Proceeds from issuance of common stock	28	—
Net cash provided by (used in) financing activities	<u>(1,821)</u>	<u>3,481</u>
Effect of exchange rate changes on cash	630	1,538
Net increase (decrease) in cash and cash equivalents	(7,748)	24,468
Cash and cash equivalents at beginning of period	<u>17,893</u>	<u>9,095</u>
Cash and cash equivalents at end of period	<u>\$ 10,145</u>	<u>\$ 33,563</u>

See accompanying notes to unaudited condensed consolidated financial statements.



**Notes to Unaudited Condensed Consolidated Financial Statements**

**(1) Organization and Summary of Significant Accounting Policies**

**(a) Description of Business**

DASAN Zhone Solutions, Inc. (formerly known as Zhone Technologies, Inc. and referred to, collectively with its subsidiaries, as "DZS" or the "Company") is a global provider of network access solutions and communications equipment for service provider and enterprise networks. The Company provides a wide array of reliable, cost-effective networking technologies, including broadband access, Ethernet switching, mobile backhaul, Passive Optical LAN and software-defined networks, to a diverse customer base that includes more than 1,000 customers in more than 50 countries worldwide.

DZS was incorporated under the laws of the state of Delaware in June 1999. On September 9, 2016, the Company acquired Dasan Network Solutions, Inc. ("DNS") through the merger of a wholly owned subsidiary of the Company with and into DNS, with DNS surviving as a wholly owned subsidiary of the Company (the "Merger"). At the effective time of the Merger, all issued and outstanding shares of capital stock of DNS held by DASAN Networks, Inc. ("DNI") were canceled and converted into the right to receive shares of the Company's common stock in an amount equal to 58% of the issued and outstanding shares of the Company's common stock immediately following the Merger. In connection with the Merger, the Company changed its name from Zhone Technologies, Inc. to DASAN Zhone Solutions, Inc. For periods through September 8, 2016, Zhone Technologies, Inc. is referred to as "Legacy Zhone." The Company's common stock continues to be traded on the Nasdaq Capital Market, and the Company's ticker symbol was changed from "ZHNE" to "DZSI" effective September 12, 2016. The Company is headquartered in Oakland, California.

**(b) Going Concern**

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States ("U.S. GAAP"), assuming the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. Accordingly, the unaudited condensed consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the possible inability of the Company to continue as a going concern.

Although the Company generated \$1.4 million of net income for the quarter ended September 30, 2017, the Company has incurred significant losses to date and losses from operations may continue. The Company incurred net losses of \$3.0 million and \$15.3 million for the nine months ended September 30, 2017 and for the year ended December 31, 2016, respectively. The Company had accumulated deficit of \$23.1 million and working capital of \$57.3 million as of September 30, 2017. As of September 30, 2017, the Company had approximately \$10.1 million in cash and cash equivalents, which included \$3.4 million in cash balances held by the Company's Korean subsidiary, and \$26.9 million in aggregate principal amount of outstanding borrowings under the Company's short-term debt obligations and the Company's loans from DNI and its affiliates. In addition, the Company had \$7.6 million in aggregate borrowing availability under its revolving credit facilities as of September 30, 2017. The Company had \$8.5 million committed as security for letters of credit under these facilities as of September 30, 2017. Due to the amount of short-term debt obligations maturing within the next 12 months and the Company's recurring operating losses, the Company's cash resources may not be sufficient to settle these short-term debt obligations. The Company's ability to continue as a "going concern" is dependent on many factors, including, among other things, its ability to comply with the covenants in its existing debt agreements, its ability to cure any defaults that occur under its debt agreements or to obtain waivers or forbearances with respect to any such defaults, and its ability to pay, retire, amend, replace or refinance its indebtedness as defaults occur or as interest and principal payments come due. Although the process of amending, replacing or refinancing the Company's short-term debt obligations is ongoing and the Company is in active discussions with multiple parties, there is no guarantee that they will result in transactions that are sufficient to provide the Company with the required liquidity to remove the substantial doubt as to its ability to continue as a going concern. If the Company is unable to amend, replace or refinance its short-term debt obligations or raise the capital needed to meet liquidity needs and finance capital expenditures and working capital, the Company may experience material adverse impacts on its business, operating results and financial condition.

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The Company has continued its focus on cost control and operating efficiency along with restrictions on discretionary spending, however in order to meet the Company's liquidity needs and finance its capital expenditures and working capital needs for its business, the Company may be required to sell assets, issue debt or equity securities, purchase credit insurance or borrow on potentially unfavorable terms. In addition, the Company may be required to reduce the scope of its planned product development, reduce sales and marketing efforts and reduce its operations in low margin regions, including reductions in headcount. Based on the Company's current plans and business conditions, the Company believes that its focused operating expense discipline along with its existing cash, cash equivalents and available credit facilities will be sufficient to satisfy its anticipated cash requirements for at least the next 12 months, however the factors discussed above raise substantial doubt about the Company's ability to continue as a going concern. The accompanying unaudited condensed consolidated financial statements do not include any adjustments that may result from the outcome of the uncertainties set forth above.

### **(c) Risks and Uncertainties**

DNI owned approximately 58% of the outstanding shares of the Company's common stock as of September 30, 2017. For so long as DNI and its affiliates hold shares of the Company's common stock representing at least a majority of the votes, DNI will be able to freely nominate and elect all the members of the Company's board of directors (subject to the restrictions in the Company's bylaws). The directors elected by DNI will have the authority to make decisions affecting the Company's capital structure, including the issuance of additional capital stock or options, the incurrence of additional indebtedness, the implementation of stock repurchase programs, and the declaration of dividends. The interests of DNI may not coincide with the interests of the Company's other stockholders or with holders of the Company's indebtedness. DNI's ability to control all matters submitted to the Company's stockholders for approval limits the ability of other stockholders to influence corporate matters and, as a result, the Company may take actions that the Company's other stockholders or holders of our indebtedness do not view as beneficial. See Note 2, Note 9 and Note 11 to the unaudited condensed consolidated financial statements for additional information.

As discussed above in Note 1(b), there is also substantial doubt about the Company's ability to continue as a going concern. The accompanying unaudited consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

### **(d) Correction of errors**

In this Quarterly Report on Form 10-Q, certain prior quarter financial information has been revised due to correction of certain errors. The Company identified errors related to the timing of revenue recognition in the consolidated financial statements for the quarter ended September 30, 2016. Correction of this error resulted in a decrease in total net revenue of \$0.8 million, an increase in net loss of \$0.1 million for the quarter ended September 30, 2016 as well as a decrease in net revenue of \$1.8 million, an increase in net loss of \$0.5 million and an increase in basic and diluted net loss per share attributable to DZS of \$0.05 for the nine months ended September 30, 2016. The prior quarter financial information has also been revised for the classification of certain related party revenue, related party cost of revenue, and related royalty fees. This correction resulted in the Company reclassifying revenues of \$0.2 million to related party revenues and costs of \$0.1 million to related party cost of revenue for the quarter ended September 30, 2016. This further resulted in the Company reclassifying revenues of \$9.6 million to related party revenues and costs of \$7.6 million to related party cost of revenue for the nine months ended September 30, 2016. Finally, an understatement of the cash flows used in investing activities of \$1.0 million was corrected in the statement of cash flows for the nine months ended September 30, 2016. The overall impact of these errors on the Company's condensed consolidated financial position and results of operations is not material and as such, previously filed quarterly financial information filed with the SEC on March 10, 2017 affected by the errors has not been amended.

### **(e) Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

The unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) that, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. All intercompany transactions and balances have been eliminated in consolidation. The results of operations for the current interim period are not necessarily indicative of results to be expected for

the current year or any other period. These unaudited condensed consolidated financial statements should be read in conjunction with the unaudited condensed consolidated financial statements of the Company and notes thereto included in the Company's Annual Report on Form 10- K for the year ended December 31, 2016 filed with the Securities and Exchange Commission.

As discussed more fully in Note 2, the Merger is treated as a reverse acquisition for accounting purposes, with DNS as the acquirer of the Company. As such, the consolidated financial results of the Company for the three and nine months ended September 30, 2017 are compared to the financial results for DNS and its consolidated subsidiaries for the prior year period through September 8, 2016 and the financial results of DZS and its consolidated subsidiaries for the period from September 9, 2016 through September 30, 2016. The balance sheet of the Company reflects the fair value of the assets and liabilities of Legacy Zhone as of the effective date of the Merger. Those assets include the fair value of acquired intangible assets and goodwill. Due to the foregoing, the Company's financial results for the three and nine months ended September 30, 2017 are not comparable to its financial results for the three and nine months ended September 30, 2016.

Except as otherwise specifically noted herein, all references to the "Company" refer to (i) DNS and its consolidated subsidiaries for periods through September 8, 2016 and (ii) the Company and its consolidated subsidiaries for periods on or after September 9, 2016.

**(f) Reverse Stock Split**

On February 28, 2017, the Company filed a Certificate of Amendment with the Delaware Secretary of State to amend the Company's Restated Certificate of Incorporation, which amendment effected a one- for- five reverse stock split of the Company's common stock and reduced the authorized shares of the Company's common stock from 180 million to 36 million. As a result of the reverse stock split, the number of shares of the Company's common stock then issued and outstanding was reduced from approximately 81.9 million to approximately 16.4 million. References to shares of the Company's common stock, stock options (and associated exercise price) and restricted stock units in this Quarterly Report on Form 10- Q are provided on a post- reverse stock split basis.

**(g) Concentration of Risk**

The Company's customers include competitive and incumbent local exchange carriers, competitive access providers, Internet service providers, wireless carriers and resellers serving these markets. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. Allowances are maintained for potential doubtful accounts. For the three months ended September 30, 2017, two customers represented, 10% and 9% of net revenue, respectively. For the three months ended September 30, 2016, three customers represented 18%, 16% (a related- party) and 12% of net revenue, respectively. For the nine months ended September 30, 2017, two customers each represented 9% of net revenue (one of which was a related- party). For the nine months ended September 30, 2016, three customers represented 23%, 21% (a related- party) and 12% of net revenue, respectively.

As of September 30, 2017, three customers represented 16% (a related- party), 11% and 10% of net accounts receivable, respectively. As of December 31, 2016, two customers represented 13% (a related- party) and 10% of net accounts receivable, respectively.

As of September 30, 2017 and December 31, 2016, receivables from customers in countries other than the United States represented 84% and 87%, respectively, of net accounts receivable.

**(h) Recent Accounting Pronouncements**

On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014- 09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The standard permits the use of either the retrospective or cumulative effect transition method. In August 2015, the FASB issued ASU 2015- 14, which defers the effective date of the guidance in ASU No. 2014- 09, Revenue from Contracts with Customer, for all entities by one year. With the deferral, the new standard is effective for the Company on January 1, 2018. Early adoption is permitted, but not before the original effective date of January 1, 2017. In May 2016, the FASB issued ASU 2016- 12, Revenue from Contracts with Customers, Narrow- Scope Improvements and Practical Expedients, which provides clarification on how to assess collectibility, present sales tax, treat noncash consideration, and account for completed and modified contracts at the time of transition of ASU 2014- 09. The effective date of this updated guidance for the Company is the same as the effective date of ASU 2014- 09, which is January 1, 2018. The Company does not plan to early adopt this guidance. The Company is currently assessing the

potential impact of adopting this new guidance on its unaudited condensed consolidated financial statements. The Company is not able to quantify or cannot reasonably estimate quantitative information related to the impact of the new standard on its unaudited condensed consolidated financial statements at this time.

In July 2015, the FASB issued ASU No. 2015- 11, Simplifying the Measurement of Inventory, which requires an entity to measure inventory at the lower of cost and net realizable value. The guidance does not apply to inventory that is measured using last- in, first- out ("LIFO") or the retail inventory method. The guidance applies to all other inventory, which includes inventory that is measured using first- in, first- out ("FIFO") or average cost. The guidance is effective for the Company on January 1, 2017, and will be adopted accordingly. ASU No. 2015- 11 should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The adoption of this standard will have no impact on the Company's unaudited condensed consolidated financial statements.

In November 2015, the FASB issued ASU 2015- 17, Income Taxes, Balance Sheet Classification of Deferred Taxes, which simplifies the classification of deferred tax assets and liabilities as non- current in the balance sheet. The updated guidance is effective for the Company on January 1, 2017, and will be adopted accordingly.

The adoption of this standard will not have a material impact on the Company's unaudited condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016- 02, Leases. ASU 2016- 02 requires that lease arrangements longer than 12 months result in an entity recognizing an asset and liability. The updated guidance is effective for the Company on January 1, 2019, and early adoption is permitted. The Company does not plan to early adopt this guidance. The Company expects its assets and liabilities to increase as a result of the adoption of this standard. The Company is currently assessing the potential impact of adopting this new guidance on its unaudited condensed consolidated financial statements. The Company is not able to quantify or cannot reasonably estimate quantitative information related to the impact of the new standard on its unaudited condensed consolidated financial statements at this time.

In March 2016, the FASB issued ASU 2016- 09, Improvements to Employee Share- Based Payment Accounting, which requires entities to simplify several aspects of the accounting for share- based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on statements of cash flows. The guidance is effective for the Company on January 1, 2017, and has been adopted in the first quarter of 2017. The adoption of this standard had no material impact on the Company's unaudited condensed consolidated financial statements.

In August 2016, FASB issued ASU 2016- 15, Statement of Cash Flows, Classification of Certain Cash Receipts and Cash Payments, which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The updated guidance is effective for the Company on January 1, 2018. Early adoption is permitted. The Company continues to assess all the potential impacts of the new standard and anticipates this standard may have a material impact on its unaudited condensed consolidated financial statements. The Company is not able to quantify or cannot reasonably estimate quantitative information related to the impact of the new standard on its unaudited condensed consolidated financial statements at this time.

In November 2016, FASB issued ASU 2016- 18, Statement of Cash Flows, Restricted Cash, which require that a statement of cash flows to explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash and restricted cash equivalents. The updated guidance is effective for the Company beginning on January 1, 2018. Early adoption is permitted. Adoption of this ASU is applied using a retrospective approach. As a result, the Company will no longer present transfers between cash and cash equivalents and restricted cash in the consolidated cash flow statements.

In January 2017, FASB issued ASU 2017- 04, Simplifying the Test for Goodwill Impairment, which simplifies the accounting for goodwill impairment. The updated guidance is effective for the Company on January 1, 2020, and will be adopted accordingly. Early adoption is permitted. The Company is currently assessing the potential impact of adopting this new guidance on its unaudited condensed consolidated financial statements. The Company is not able to quantify or cannot reasonably estimate quantitative information related to the impact of the new standard on its unaudited condensed consolidated financial statements at this time.

In May 2017, the FASB issued ASU No. 2017- 09, Compensation—Stock Compensation (Topic 718): Scope of modification accounting. The purpose of the amendment is to clarify which changes to the terms or conditions of a share- based payment award require an entity to apply modification accounting. The updated guidance is effective

for the Company beginning on January 1, 2018. The Company is currently assessing the potential impact of adopting this new guidance on its unaudited condensed consolidated financial statements. The Company is not able to quantify or cannot reasonably estimate quantitative information related to the impact of the new standard on its unaudited condensed consolidated financial statements at this time.

## (2) Merger

On September 9, 2016, the Company acquired DNS through the Merger of a wholly owned subsidiary of the Company with and into DNS, with DNS surviving as a wholly owned subsidiary of the Company. The Merger combines leading technology platforms with a broadened customer base.

At the effective time of the Merger, all issued and outstanding shares of capital stock of DNS held by DNI were canceled and converted into the right to receive shares of the Company's common stock in an amount equal to 58% of the issued and outstanding shares of the Company's common stock immediately following the Merger. Accordingly, at the effective time of the Merger, the Company issued 9,493,016 shares (post reverse stock split) of the Company's common stock to DNI as consideration in the Merger, of which 949,302 shares (post reverse stock split) are being held in escrow as security for claims for indemnifiable losses in accordance with the merger agreement relating to the Merger. As a result, immediately following the effective time of the Merger, DNI held 58% of the outstanding shares of the Company's common stock and the holders of the Company's common stock immediately prior to the Merger retained, in the aggregate, 42% of the outstanding shares of the Company's common stock.

The Company accounted for the Merger as a reverse acquisition under the acquisition method of accounting in accordance with ASC 805, "Business Combination." Consequently, for the purpose of the purchase price allocation, DNS' assets and liabilities have been retained at their carrying values and Legacy Zhone's assets acquired, and liabilities assumed, by DNS (as the accounting acquirer in the Merger) have been recorded at their fair value measured as of September 9, 2016.

The total purchase consideration in the Merger was based on the number of shares of Legacy Zhone common stock and Legacy Zhone stock options vested and outstanding immediately prior to the closing of the Merger, and was determined based on the closing price of \$5.95 per share (post reverse stock split) of the Company's common stock on the September 9, 2016. The estimated total purchase consideration is calculated as follows (in thousands):

	Estimated Fair	
	Shares	Value
Shares of Legacy Zhone stock as of September 8, 2016	6,874	\$ 40,902
Legacy Zhone stock options	198	540
Total Purchase Consideration		<u>\$ 41,442</u>

The following table summarizes the allocation of the fair value consideration transferred as of the acquisition date (in thousands):

Cash and cash equivalents	\$ 7,013
Accounts receivable	18,510
Inventory	16,456
Prepaid expenses and other current assets	2,191
Property and equipment	4,339
Other assets	125
Identifiable intangible assets	10,479
Goodwill	3,284
Accounts payable	(11,021)
Accrued and other liabilities	(7,089)
Other long- term liabilities	<u>(2,845)</u>
Total Indicated Fair Value of Assets	<u>\$ 41,442</u>

The goodwill was primarily attributed to people, geographic diversification and complementary products. The goodwill arising from the Merger is not tax deductible.

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The Company considered the deferred tax liabilities caused by the Merger to be a source of income to support recoverability of acquired deferred tax assets, before considering the recoverability of the acquirer's existing deferred tax assets. Accordingly, the valuation allowance on the acquiree's deferred tax assets was reduced by the deferred tax liabilities caused by the Merger and accounted for as part of the purchase price allocation. The following table presents the fair values of the acquired intangible assets at the effective date of the Merger (in thousands, except years):

	<u>Useful life (in Years)</u>	<u>Fair Value</u>
Developed technology	5	\$ 3,060
Customer relationships	10	5,240
Backlog	1	<u>2,179</u>
		<u>\$ 10,479</u>

The following unaudited pro forma condensed combined financial information for the three and nine months ended September 30, 2016 gives effect to the Merger as if it had occurred at the beginning of 2015. The unaudited pro forma condensed combined financial information has been included for comparative purposes only and is not necessarily indicative of what the combined Company's financial position or results of operations might have been had the Merger been completed as of the date indicated.

	<u>September 30, 2016</u>	
	<u>Three Months Ended</u>	<u>Nine Months Ended</u>
(in thousands)		
Pro forma total net revenue	\$ 39,740	\$ 142,530
Pro forma net loss	(15,569)	(25,504)

### (3) Fair Value Measurement

The Company utilizes a fair value hierarchy that is intended to increase consistency and comparability in fair value measurements and related disclosures. The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's pricing based upon their own market assumptions. The fair value hierarchy consists of the following three levels:

Level 1 – Inputs are quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs are quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable and market- corroborated inputs which are derived principally from or corroborated by observable market data.

Level 3 – Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

The following financial instruments are not measured at fair value on the Company's condensed consolidated balance sheet as of September 30, 2017 and December 31, 2016, but require disclosure of their fair values: cash and cash equivalents, short- term investments, accounts receivable, accounts payable and debt. The carrying values of financial instruments such as cash and cash equivalents, short- term investments, accounts receivable and accounts payable approximate their fair values based on their short- term nature. The carrying value of the Company's debt approximates their fair values based on the current rates available to the Company for debt of similar terms and maturities.

**(4) Inventories**

Inventories as of September 30, 2017 and December 31, 2016 were as follows (in thousands):

	<b>September 30, December 31,</b>	
	<b>2017</b>	<b>2016</b>
Raw materials	\$ 12,812	\$ 13,547
Work in process	3,004	3,705
Finished goods	16,150	13,780
Total inventories	<u>\$ 31,966</u>	<u>\$ 31,032</u>

Inventories provided as collateral for borrowings from Export- Import Bank of Korea amounted to \$18.9 million and \$14.4 million as of September 30, 2017 and December 31, 2016, respectively.

**(5) Property and Equipment**

Property and equipment as of September 30, 2017 and December 31, 2016 were as follows (in thousands):

	<b>September 30, December 31,</b>	
	<b>2017</b>	<b>2016</b>
Furniture and fixtures	\$ 21,251	\$ 20,040
Machinery and equipment	4,945	4,530
Leasehold improvements	3,386	3,573
Computers and software	567	411
Other	983	922
	<u>31,132</u>	<u>29,476</u>
Less accumulated depreciation and amortization	(25,109)	(22,922)
Less government grants	(211)	(266)
Total property and equipment, net	<u>\$ 5,812</u>	<u>\$ 6,288</u>

Depreciation and amortization expense associated with property and equipment for the three and nine months ended September 30, 2017 was \$0.5 million and \$1.4 million, respectively. Depreciation and amortization expense associated with property and equipment for the three and nine months ended September 30, 2016 was \$0.4 million and \$0.9 million, respectively.

The Company receives grants from the government mainly to support capital expenditures. Such grants are deferred and are generally refundable to the extent the Company does not utilize the funds for qualifying expenditures. Once earned, the Company records the grants as a contra amount to the assets and amortizes such amount over the useful lives of the related assets as a reduction to depreciation expense.

**(6) Goodwill and Intangible Assets**

Goodwill as of September 30, 2017 and December 31, 2016 was as follows (in thousands):

	<b>September 30, December 31,</b>	
	<b>2017</b>	<b>2016</b>
Beginning balance	\$ 3,977	\$ 693
Addition from Merger	—	3,284
Less: accumulated impairment	—	—
Ending balance	<u>\$ 3,977</u>	<u>\$ 3,977</u>



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The Company did not recognize impairment loss on goodwill during the three and nine months ended September 30, 2017 and 2016. Intangible assets as of September 30, 2017 and December 31, 2016 were as follows (in thousands):

	September 30, 2017	December 31, 2016
Developed technology	\$ 3,060	\$ 3,060
Customer relationships	5,240	5,240
Backlog	2,179	2,179
Other	194	105
Less accumulated amortization	<u>(3,499)</u>	<u>(1,817)</u>
Intangible assets, net	<u>\$ 7,174</u>	<u>\$ 8,767</u>

Amortization expense associated with intangible assets for the three and nine months ended September 30, 2017 was \$0.3 million and \$1.7 million, respectively. Amortization expense associated with intangible assets for each of the three and nine months ended September 30, 2016 was \$0.3 million.

**(7) Debt****Wells Fargo Bank Facility**

As of September 30, 2017, the Company had a \$25.0 million credit facility (the "WFB Facility") with Wells Fargo Bank ("WFB"). Under the WFB Facility, the Company has the option of borrowing funds at agreed upon interest rates. The amount that the Company is able to borrow under the WFB Facility varies based on eligible accounts receivable and inventory, as defined in the agreement, as long as the aggregate amount outstanding does not exceed \$25.0 million less the amount committed as security for letters of credit. To maintain availability of funds under the WFB Facility, the Company pays a commitment fee on the unused portion. The commitment fee is 0.25% per annum and is recorded as interest expense.

As of September 30, 2017, the Company had no outstanding borrowings under its WFB Facility, and \$2.5 million was committed as security for letters of credit. The Company had \$6.7 million of borrowing availability under the WFB Facility as of September 30, 2017. The amounts borrowed under the WFB Facility bear interest, payable monthly, at a floating rate equal to the three-month LIBOR plus a margin based on the Company's average excess availability (as calculated under the WFB Facility). The interest rate on the WFB Facility was 3.8% at September 30, 2017. The maturity date under the WFB Facility is March 31, 2019.

The Company's obligations under the WFB Facility are secured by substantially all of its personal property assets and those of its subsidiaries that guarantee the WFB Facility, including their intellectual property. The WFB Facility contains certain financial covenants, and customary affirmative covenants and negative covenants. If the Company defaults under the WFB Facility due to a covenant breach or otherwise, WFB may be entitled to, among other things, require the immediate repayment of all outstanding amounts and sell the Company's assets to satisfy the obligations under the WFB Facility. As of September 30, 2017, the Company was in compliance with the covenants under the WFB Facility.

**Bank and Trade Facilities - Foreign Operations**

Certain of the Company's foreign subsidiaries have entered into various financing arrangements with foreign banks and other lending institutions consisting primarily of revolving lines of credit, trade facilities, term loans and export development loans. These facilities are renewed on an annual basis and are generally secured by a security interest in certain assets of the applicable foreign subsidiaries. Payments under such facilities are made in accordance with the given lender's amortization schedules.



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As of September 30, 2017 and December 31, 2016, the Company had an aggregate outstanding balance of \$18.4 million and \$17.6 million, respectively, under such financing arrangements, and the interest rates per annum applicable to outstanding borrowings under these financing arrangements were as listed in the tables below.

		<u>As of September 30, 2017</u>	
		<u>Interest rate (%)</u>	<u>Amount</u>
Industrial Bank of Korea	Credit facility	2.8 - 3.0	\$ 3,235
Industrial Bank of Korea	Trade finance	3.9- 5.4	2,287
Shinhan Bank	General loan	5.89	2,791
Shinhan Bank	Trade finance	3.70	1,950
NongHyup Bank	Credit facility	1.7 - 3.0	1,841
The Export- Import Bank of Korea	Export development loan	3.1	6,278
			<u>\$ 18,382</u>
		<u>As of December 31, 2016</u>	
		<u>Interest rate (%)</u>	<u>Amount</u>
Industrial Bank of Korea	Credit facility	2.16 - 2.76	\$ 1,106
Shinhan Bank	General loan	4.08	3,310
Shinhan Bank	Trade finance	3.28 - 3.44	1,752
NongHyup Bank	Credit facility	1.92 - 2.66	482
KEB Hana Bank	Comprehensive credit loan	2.79	3,501
The Export- Import Bank of Korea	Export development loan	3.10	7,448
			<u>\$ 17,599</u>

As of September 30, 2017, the Company had \$5.0 million in outstanding borrowings and \$6.0 million committed as security for letters of credit under the Company's \$12.0 million credit facility with certain foreign banks.

**(8) Non- Controlling Interests**

Non- controlling interests for the nine months ended September 30, 2017 and 2016 were as follows (in thousands):

	<u>Nine Months Ended September 30,</u>	
	<u>2017</u>	<u>2016</u>
Beginning non- controlling interests	\$ 416	\$ 138
Acquisition of additional interest in a subsidiary	—	277
Net income (loss) attributable to non- controlling interests	172	(17)
Foreign currency translation adjustments (OCI)	19	66
Ending non- controlling interests	<u>\$ 607</u>	<u>\$ 464</u>

**(9) Related- Party Transactions****Related- Party Debt**

In connection with the Merger, on September 9, 2016, the Company entered into a loan agreement with DNI for a \$5.0 million unsecured subordinated term loan facility. Under the loan agreement, the Company was permitted to request drawdowns of one or more term loans in an aggregate principal amount not to exceed \$5.0 million. As of September 30, 2017, \$5.0 million in term loans was outstanding under the facility. Such term loans mature in September 2021 and are pre- payable at any time by the Company without premium or penalty. The interest rate as of September 30, 2017 under this facility was 4.6% per annum.

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In addition, the Company borrowed \$1.8 million from DNI for capital investment in February 2016, which amount was outstanding as of September 30, 2017. This loan matured in March 2017 with an option of renewal by mutual agreement, and bore interest at a rate of 6.9% per annum, payable annually. Effective February 27, 2017, the Company amended the terms of this loan to extend the repayment date from March 2017 to March 2018, and to reduce the interest rate from 6.9% to 4.6% per annum.

On June 23, 2017, the Company borrowed \$3.5 million from Solueta, an affiliate of DNI. As of September 30, 2017, the aggregate outstanding balance under this loan agreement was \$1.7 million. This loan matures in November 2017 and bears interest at a rate of 4.6% per annum, payable monthly.

**Other Related- Party Transactions**

Sales and purchases, cost of revenue, research and product development, selling, marketing, general and administrative and other expenses to and from related parties for the three and nine months ended September 30, 2017 and 2016 were as follows (in thousands):

		<b>Three Months Ended September 30, 2017</b>					
<b>Counterparty</b>	<b>DNI Ownership Interest</b>	<b>Sales</b>	<b>Cost of revenue</b>	<b>(Cost of revenue)</b>	<b>Research and product development</b>	<b>Selling, marketing, general and administrative</b>	<b>Other Expenses</b>
DNI (Parent Company)	N/A	\$ 3,976	\$ 3,604	\$ —	\$ —	\$ 1,291	\$ 51
CHASAN Networks Co., Ltd.	100%	—	—	257	20	—	—
DASAN FRANCE	100%	662	576	—	—	83	—
DASAN INDIA Private Limited	100%	—	—	—	—	30	—
D- Mobile	100%	1,233	1,077	—	—	122	—
HANDYSOFT, Inc.	17.64%	54	12	—	—	6	4
Tomato Soft Ltd.	100%	—	—	43	108	—	—
Tomato Soft (Xi'an) Ltd.	100%	—	—	—	144	—	—
		<b>\$ 5,925</b>	<b>\$ 5,269</b>	<b>\$ 300</b>	<b>\$ 272</b>	<b>\$ 1,532</b>	<b>\$ 55</b>
		<b>Three Months Ended September 30, 2016 (As Revised)</b>					
<b>Counterparty</b>	<b>DNI Ownership Interest</b>	<b>Sales</b>	<b>Cost of revenue</b>	<b>(Cost of revenue)</b>	<b>Research and product development</b>	<b>Selling, marketing, general and administrative</b>	<b>Other Expenses</b>
DNI (Parent Company)	N/A	\$ 5,112	\$ 4,390	\$ —	\$ —	\$ 946	\$ 89
CHASAN Networks Co., Ltd.	100%	—	—	130	38	—	—
DASAN FRANCE	100%	3	3	—	—	—	—
D- Mobile	100%	1,267	789	—	—	125	—
HANDYSOFT, Inc.	17.64%	68	58	—	—	—	—
J- Mobile Corporation	90.47%	18	—	—	—	—	—
Tomato Soft Ltd.	100%	—	—	36	—	—	—
Tomato Soft (Xi'an) Ltd.	100%	—	—	—	181	—	—
		<b>\$ 6,468</b>	<b>\$ 5,240</b>	<b>\$ 166</b>	<b>\$ 219</b>	<b>\$ 1,071</b>	<b>\$ 89</b>

Nine Months Ended September 30, 2017								
Counterparty	DNI Ownership Interest	Sales	Cost of revenue	(Cost of revenue)	Manufacturing (Cost of revenue)	Research and product development	Selling, marketing, general and administrative	Other Expenses
DNI (Parent Company)	N/A	\$ 16,608	\$ 14,020	\$ —	\$ —	\$ —	\$ 3,491	\$ 171
CHASAN Networks Co., Ltd.	100%	—	—	—	578	79	—	—
DASAN FRANCE	100%	1,612	1,512	—	—	—	383	—
DASAN INDIA Private Limited	100%	6,287	4,783	—	—	—	30	—
D- Mobile	100%	3,054	1,831	—	—	—	318	—
Fine Solution	100%	—	—	—	—	—	4	—
HANDYSOFT, Inc.	17.64%	88	23	—	—	—	6	4
J- Mobile Corporation	90.47%	8	—	—	—	—	132	—
Tomato Soft Ltd.	100%	—	—	—	104	108	—	—
Tomato Soft (Xi'an) Ltd.	100%	—	—	—	—	448	37	—
Soluetta	27.21%	—	—	—	—	—	—	3
		<u>\$ 27,657</u>	<u>\$ 22,169</u>	<u>\$ 682</u>	<u>\$ 635</u>	<u>\$ 4,401</u>	<u>\$ 178</u>	

Nine Months Ended September 30, 2016 (As Revised)								
Counterparty	DNI Ownership Interest	Sales	Cost of revenue	(Cost of revenue)	Manufacturing (Cost of revenue)	Research and product development	Selling, marketing, general and administrative	Other Expenses
DNI (Parent Company)	N/A	\$ 19,080	\$ 16,219	\$ —	\$ —	\$ —	\$ 4,255	\$ 309
CHASAN Networks Co., Ltd.	100%	—	—	—	436	106	—	—
DASAN FRANCE	100%	3	3	—	—	—	—	—
DASAN INDIA Private Limited	100%	—	—	—	—	—	—	—
D- Mobile	100%	3,135	2,231	—	—	—	318	—
DMC, Inc.	27.21%	1	1	—	—	—	—	—
HANDYSOFT, Inc.	17.64%	150	130	—	—	—	—	—
J- Mobile Corporation	90.47%	39	—	—	—	—	634	—
PANDA Media, Inc.	100%	—	—	—	—	—	2	—
Tomato Soft Ltd.	100%	—	—	—	98	—	—	—
Tomato Soft (Xi'an) Ltd.	100%	—	—	—	—	560	—	—
		<u>\$ 22,408</u>	<u>\$ 18,584</u>	<u>\$ 534</u>	<u>\$ 666</u>	<u>\$ 5,209</u>	<u>\$ 309</u>	

The Company has entered into certain sales agreements with DNI and certain of its subsidiaries. Sales and cost of revenue to DNI, DASAN France, DASAN INDIA Private Limited, and D- Mobile represent finished goods produced by the Company that are sold to these related parties who sell the Company's products in Korea, France, India and Taiwan, respectively.

The Company has entered into agreements with Tomato Soft Ltd. and CHASAN Networks Co., Ltd. to provide manufacturing and research and development services for the Company. Under the agreement with Tomato Soft Ltd. and CHASAN Networks., Ltd., the Company is charged a cost plus 7% fee for the manufacturing and development of certain deliverables.

The Company has entered into an agreement with Tomato Soft (Xi'an) Ltd. to provide research and development services for the Company. Under the agreement with Tomato Soft (Xi'an) Ltd., the Company is charged an expected annual fee of \$0.8 million for the development of certain deliverables.

Prior to the Merger, as DNS was then a wholly owned subsidiary of DNI, DNI had sales agreements with certain customers on DNS' behalf. Since the Merger, due to these prior sales agreements, the Company has entered into an agreement with DNI in which DNI acts as a sales channel to these customers. Selling, marketing, general and administrative expense to DNI includes a fee of 3% of total sales to DNI for sales to these customers. The Company shares office space with DNI and certain of DNI's subsidiaries. Prior to the Merger, DNS, then a wholly owned subsidiary of DNI, shared human resources, treasury and other administrative support with DNI. As such, the Company entered into certain service sharing agreements with DNI and certain of its subsidiaries for the shared office

space and shared administrative services. Expenses related to rent and administrative services are allocated to the Company based on square footage occupied and headcount, respectively.

The Company has entered into sales agreement with Handysoft, Inc., provider of software and system integration solutions in Korea, to supply networks equipment, research and development and logistics services through DASAN Networks, Inc.

The Company has entered into sales agreement with J- Mobile Corporation to supply networks equipment in Japan. J- Mobile Corporation also provides marketing services in Japan.

Other expenses to related parties represent expenses to DNI for its payment guarantees relating to the Company's borrowings. The Company pays DNI a guarantee fee which is calculated as 0.9% of the guaranteed amount.

**Balances of Receivables and Payables with Related Parties**

Balances of receivables and payables arising from sales and purchases of goods and services with related parties as of September 30, 2017 and December 31, 2016 were as follows (in thousands):

		<u>As of September 30, 2017</u>						
		<b>Deposits</b>						
<u>Counterparty</u>	<u>DNI Ownership Interest</u>	<u>Account</u>	<u>Other</u>	<u>for</u>	<u>Accounts</u>	<u>Other</u>	<u>Loans</u>	
		<u>receivables</u>	<u>receivables</u>	<u>lease*</u>	<u>payable</u>	<u>payables</u>	<u>Loans</u>	
DNI (Parent Company)	N/A	\$ 9,196	\$ —	\$ 727	\$ —	\$ 125	\$ 6,800	
ABLE	61.99%	56	—	—	—	—	—	
CHASAN Networks Co., Ltd.	100%	—	—	—	100	—	—	
DASAN France	100%	662	4	—	—	—	—	
D- Mobile	100%	3,001	16	—	—	—	—	
HANDYSOFT, Inc.	17.64%	26	—	—	6	1	—	
Soljeta	27.21%	—	2	—	—	2	1,744	
Tomato Soft Ltd.	100%	—	—	—	—	25	—	
Tomato Soft (Xi'an) Ltd.	100%	—	—	—	—	57	—	
		<u>\$ 12,941</u>	<u>\$ 22</u>	<u>\$ 727</u>	<u>\$ 106</u>	<u>\$ 210</u>	<u>\$ 8,544</u>	

  

		<u>As of December 31, 2016</u>						
		<b>Deposits</b>						
<u>Counterparty</u>	<u>DNI Ownership Interest</u>	<u>Account</u>	<u>Other</u>	<u>for</u>	<u>Accounts</u>	<u>Other</u>	<u>Loans</u>	
		<u>receivables</u>	<u>receivables</u>	<u>lease*</u>	<u>payable</u>	<u>payables</u>	<u>Loans</u>	
DNI (Parent Company)	N/A	\$ 6,679	\$ 171	\$ 690	\$ 360	\$ 6,861	\$ 6,800	
ABLE	61.99%	53	—	9	—	—	—	
CHASAN Networks Co., Ltd.	100%	—	—	—	70	—	—	
DASAN France	100%	23	—	—	—	—	—	
DASAN INDIA Private Limited	100%	2,606	—	—	—	—	—	
D- Mobile	100%	3,943	—	—	—	—	—	
HANDYSOFT, Inc.	17.64%	2	—	—	—	—	—	
J- Mobile Corporation	68.56%	5	—	—	—	—	—	
Tomato Soft Ltd.	100%	—	—	—	—	16	—	
Tomato Soft (Xi'an) Ltd.	100%	—	—	—	—	63	—	
		<u>\$ 13,311</u>	<u>\$ 171</u>	<u>\$ 699</u>	<u>\$ 430</u>	<u>\$ 6,940</u>	<u>\$ 6,800</u>	

\* Included in other assets related to deposits for lease in the condensed consolidated balance sheet as of September 30, 2017 and the consolidated balance sheet as of December 31, 2016.

**(10) Net Income (Loss) Per Share Attributable to DASAN Zhong Solutions, Inc.**

Basic net income (loss) per share attributable to DASAN Zhong Solutions, Inc. is computed by dividing the net income (loss) attributable to DASAN Zhong Solutions, Inc. for the period by the weighted average number of shares of common

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stock outstanding during the period. The calculation of diluted net income (loss) per share attributable to DASAN Zhone Solutions, Inc. gives effect to common stock equivalents; however, potential common equivalent shares are excluded if their effect is antidilutive. Potential common equivalent shares are composed of incremental shares of common equivalent shares issuable upon the exercise of stock options and the vesting of restricted stock units.

Basic net income (loss) per share is the same as diluted net income (loss) per share for the three and nine months ended September 30, 2016 because DNS did not issue the potentially dilutive common stock. Basic net income (loss) per share is the same as diluted net income (loss) per share for the three and nine months ended September 30, 2017 because the effects of stock options and restricted stock units would have been anti-dilutive.

The following table is a reconciliation of the numerator and denominator in the basic and diluted net income (loss) per share calculation (in thousands, except per share data):

	<b>Three Months</b>		<b>Nine Months Ended</b>	
	<b>Ended September 30, 2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
		(As Revised)		(As Revised)
Net income (loss) attributable to DASAN Zhone Solutions, Inc.	\$ 1,399	\$ (4,733)	\$ (3,157)	\$ (9,066)
Weighted average number of shares outstanding:				
Basic	16,382	11,139	16,380	10,046
Effect of dilutive securities:				
Stock options, restricted stock units and share awards	—	—	—	—
Diluted	<u>16,382</u>	<u>11,139</u>	<u>16,380</u>	<u>10,046</u>
Net income (loss) per share attributable to DASAN Zhone Solutions, Inc.:				
Basic	<u>\$ 0.09</u>	<u>\$ (0.42)</u>	<u>\$ (0.19)</u>	<u>\$ (0.90)</u>
Diluted	<u>\$ 0.09</u>	<u>\$ (0.42)</u>	<u>\$ (0.19)</u>	<u>\$ (0.90)</u>

The outstanding common equivalent shares excluded from the computation of the diluted net income (loss) per share attributable to DASAN Zhone Solutions, Inc. for the periods presented because including them would have been antidilutive are as follows (in thousands):

	<b>Three and Nine Months Ended September 30,</b>	
	<b>2017</b>	<b>2016</b>
	(As Revised)	
Stock options	915	795
Restricted stock units	<u>2</u>	<u>9</u>
	<u>917</u>	<u>804</u>

**(11) Commitments and Contingencies****Operating Leases**

The Company has entered into operating leases for certain office space and equipment, some of which contain renewal options and escalation clauses. Estimated future lease payments under all non- cancellable operating leases with terms in excess of one year, including taxes and service fees, are as follows (in thousands):

	<u>Operating Leases</u>	
Year ending December 31:		
2017 (remainder of the year)	\$	967
2018		3,359
2019		2,496
2020		2,358
2021		2,264
Thereafter		8,722
Total minimum lease payments	\$	<u>20,166</u>

**Warranties**

The Company accrues for warranty costs based on historical trends for the expected material and labor costs to provide warranty services. Warranty periods are generally two to five years from the date of shipment. The following table reconciles changes in the Company's accrued warranties and related costs for the nine months ended September 30, 2017 and 2016 (in thousands):

	<u>Nine Months Ended September 30,</u>	
	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 878	\$ 441
Charged to cost of revenue	126	227
Claims and settlements	(195)	(389)
Foreign exchange impact	14	78
Ending balance	<u>\$ 823</u>	<u>\$ 357</u>

**Performance Bonds**

In the normal course of operations, from time to time, the Company arranges for the issuance of various types of surety bonds, such as bid and performance bonds, which are agreements under which the surety company guarantees that the Company will perform in accordance with contractual or legal obligations. As of September 30, 2017, the Company had \$1.0 million of performance bonds and \$0.4 million of warranty bonds guaranteed by third parties.

In addition, the Company has entered into a sales agreement with DNI, that distributes Company's products to a certain customer in Vietnam. Under the agreement with the customer, DNI is required to provides various types of surety bonds which are guaranteed by the bank. As of September 30, 2017, the Company had restricted cash of \$1.2 million, \$2.1 million and \$2.0 million as a collateral for the advance payment bonds, performance bonds and warranty bonds, respectively, issued by DNI.

**Purchase Commitments**

The Company has agreements with various contract manufacturers which include non- cancellable inventory purchase commitments. The Company's inventory purchase commitments typically allow for cancellation of orders 30 days in advance of the required inventory availability date as set by the Company at time of order. The amount of non- cancellable purchase commitments outstanding, net of reserve, was \$3.0 million as of September 30, 2017.

[Table of Contents](#)**Payment Guarantees**

The following table sets forth third parties that have provided payment guarantees of the Company's indebtedness and other obligations as of September 30, 2017 (in thousands):

<u>Guarantor</u>	<u>Amount</u> <u>Guaranteed</u>	<u>Description of Obligations Guaranteed</u>
DNI (Parent Company)	\$ 3,349	Borrowings from Shinhan Bank
DNI (Parent Company)	1,884	Purchasing card from Shinhan Bank
DNI (Parent Company)	10,493	Credit facility & purchasing card from Industrial Bank of Korea
DNI (Parent Company)	6,000	Credit facility from NongHyup Bank
DNI (Parent Company)	523	Purchasing card from NongHyup Bank
Industrial Bank of Korea	6,512	Credit facility
Industrial Bank of Korea	864	Performance bonds
NongHyup Bank	4,567	Credit facility
Shinhan Bank	191	Purchasing card
KEB Hana Bank	33	Performance bonds
State Bank of India	38	Performance bonds
Seoul Guarantee Insurance Co.	54	Performance bonds
Seoul Guarantee Insurance Co.	373	Warranty bonds
	<u>\$ 34,881</u>	

**Royalties**

The Company has certain royalty commitments associated with the shipment and licensing of certain products. Royalty expense is generally based on a dollar amount per unit shipped or a percentage of the underlying revenue and is recorded in cost of revenue.

**Legal Proceedings**

The Company is subject to various legal proceedings, claims and litigation arising in the ordinary course of business. While the outcome of these matters is currently not determinable, the Company records an accrual for legal contingencies that it has determined to be probable to the extent the amount of the loss can be reasonably estimated. The Company does not expect that the ultimate costs to resolve these matters will have a material adverse effect on its consolidated financial position or results of operations. However, litigation is subject to inherent uncertainties, and unfavorable rulings could occur. If an unfavorable ruling were to occur, there exists the possibility of a material adverse impact on the results of operations of the period in which the ruling occurs, or future periods.

**(12) Enterprise- Wide Information**

The Company is a global provider of network access solutions and communications equipment for service provider and enterprise networks. There are no segment managers who are held accountable for operations, operating results and plans for levels or components below the Company unit level. Accordingly, the Company is considered to be in a single reporting segment and operating unit structure. The Company's chief operating decision makers are the Company's Co- Chief Executive Officers, who review financial information presented on a consolidated basis accompanied by disaggregated information about revenues by geographic region for purposes of making operating decisions and assessing financial performance. The Company attributes revenue from customers to individual countries based on location shipped. The following summarizes required disclosures about geographic concentrations and revenue by products and services (in thousands):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	(As Revised)		(As Revised)	
Revenue by geography:				
United States	\$ 13,068	\$ 3,408	\$ 37,176	\$ 7,432
Canada	1,498	254	4,112	254
Total North America	<u>14,566</u>	<u>3,662</u>	<u>41,288</u>	<u>7,686</u>
Latin America	7,480	1,877	19,425	2,912
Europe, Middle East, Africa	7,378	2,232	19,134	5,209
Korea	20,520	18,372	69,032	60,144
Other Asia Pacific	16,494	5,097	29,612	14,881
Total International	<u>51,872</u>	<u>27,578</u>	<u>137,203</u>	<u>83,146</u>
Total	<u>\$ 66,438</u>	<u>\$ 31,240</u>	<u>\$ 178,491</u>	<u>\$ 90,832</u>

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	(As Revised)		(As Revised)	
Revenue by products and services:				
Products	\$ 63,257	\$ 28,891	\$ 169,831	\$ 84,666
Services	3,181	2,349	8,660	6,166
Total	<u>\$ 66,438</u>	<u>\$ 31,240</u>	<u>\$ 178,491</u>	<u>\$ 90,832</u>

The Company's property and equipment, net of accumulated depreciation, were located in the following geographical areas as of September 30, 2017 and December 31, 2016 (in thousands):

	<b>September 30, 2017</b>	<b>December 31, 2016</b>
United States	\$ 3,611	\$ 4,094
Korea	1,449	1,455
Japan and Vietnam	752	739
	<u>\$ 5,812</u>	<u>\$ 6,288</u>



### **(13) Income Taxes**

Income tax expense for the three and nine months ended September 30, 2017 was \$0.1 million and \$0.6 million, respectively, on pre-tax income (losses) of \$1.5 million and \$(2.3) million, respectively. For the three and nine months ended September 30, 2016, the Company recognized income tax benefit of \$0.6 million and \$1.0 million, respectively, on pre-tax losses of \$5.4 million and \$10.1 million, respectively. As of September 30, 2017, the income tax rate varied from the United States statutory income tax rate primarily due to valuation allowances in the United States and taxable income generated by the Company's wholly-owned foreign subsidiaries.

Management periodically evaluates the realizability of the Company's net deferred tax assets based on all available evidence, both positive and negative. The Company evaluates on a jurisdictional basis and certain jurisdictions could result in a realization of net deferred tax assets sooner than others. The realization of net deferred tax assets is dependent on the Company's ability to generate sufficient future taxable income, on a jurisdictional basis, during periods prior to the expiration of tax attributes to fully utilize these assets. The Company weighed both positive and negative evidence and determined that there is a continued need for a full valuation allowance on its deferred tax assets in certain jurisdictions as of September 30, 2017. The Company currently believes there is not sufficient positive evidence of future profitability to change its judgment regarding the need for a full valuation allowance on its deferred tax assets in these jurisdictions. The continued improvement in the Company's operating results, conditioned on successfully commercializing new business arrangements and managing costs would provide additional positive evidence in determining the need for a valuation allowance in certain jurisdictions and could lead to reversal of substantially all of the Company's valuation allowance on its deferred tax assets. Until such time, consumption of tax attributes to offset profits will reduce the overall level of deferred tax assets subject to valuation allowance. Should the Company determine that it would be able to realize its remaining deferred tax assets in the foreseeable future, on a jurisdictional basis, an adjustment to its remaining deferred tax assets would cause a material increase to income in the period such determination is made.

The total amount of unrecognized tax benefits, including interest and penalties, at September 30, 2017 was not material. The amount of tax benefits that would impact the effective income tax rate, if recognized, is not expected to be material. There were no significant changes to unrecognized tax benefits during the quarters ended September 30, 2017 and 2016. The Company does not anticipate any significant changes with respect to unrecognized tax benefits within the next 12 months.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. The open tax years for the major jurisdictions are as follows:

- Federal 2013 - 2016
- California and Canada 2012 - 2016
- Brazil 2011 - 2016
- Germany 2012 - 2016
- Japan 2011 - 2016
- Korea 2015 - 2016
- United Kingdom 2014 - 2016
- Vietnam 2016

However, due to the fact the Company had net operating losses and credits carried forward in most jurisdictions, certain items attributable to closed years are still subject to adjustment by the relevant taxing authority through an adjustment to tax attributes carried forward to open years.

The Company estimates that its foreign income will generally be subject to taxation in the United States on a current basis and that its foreign subsidiaries and representative offices will therefore not have any material untaxed earnings subject to deferred taxes. In addition, to the extent the Company is deemed to have sufficient connection to a particular taxing jurisdiction to enable that jurisdiction to tax the Company but the Company has not filed an income tax return in that jurisdiction for the year(s) at issue, the jurisdiction would typically be able to assert a tax liability for such years without limitation on the number of years it may examine.

The Company is not currently under examination for income taxes in any material jurisdiction.

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

As used in this report, unless the context suggests otherwise, the terms "we", "us", or "our" refer to (i) Dasan Network Solutions, Inc. (DNS) and its consolidated subsidiaries for periods through September 8, 2016 and (ii) DASAN Zhone Solutions, Inc. and its consolidated subsidiaries (collectively, DZS) for periods on or after September 9, 2016, the effective date of the Merger (as defined below). In connection with the Merger, Zhone Technologies, Inc. changed its name to DASAN Zhone Solutions, Inc. For periods through September 8, 2016, Zhone Technologies, Inc. is referred to as "Legacy Zhone."

#### **Forward-Looking Statements**

This report, including "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements regarding future events and our future results that are subject to the safe harbors created under the Securities Act of 1933 and the Securities Exchange Act of 1934. These statements are based on current expectations, estimates, forecasts, and projections about the industries in which we operate and the beliefs and assumptions of our management. We use words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "goal," "intend," "may," "plan," "project," "seek," "should," "target," "will," "would," variations of such words, and similar expressions to identify forward-looking statements. In addition, statements that refer to projections of earnings, revenue, costs or other financial items; anticipated

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growth and trends in our business or key markets; cost synergies, growth opportunities and other financial and operating benefits of the Merger; future growth and revenues from our products; our ability to refinance or repay our existing indebtedness prior to the applicable maturity date; future economic conditions and performance; anticipated performance of products or services; plans, objectives and strategies for future operations; and other characterizations of future events or circumstances, are forward- looking statements. Readers are cautioned that these forward- looking statements are only predictions and are subject to risks, uncertainties and assumptions that are difficult to predict, including those identified under the heading "Risk Factors" in Part II, Item 1A, elsewhere in this report and our other filings with the Securities and Exchange Commission (the SEC). Therefore, actual results may differ materially and adversely from those expressed in any forward- looking statements. Factors that might cause such a difference include, but are not limited to, our ability to realize the anticipated cost savings, synergies and other benefits of the Merger and any integration risks relating to the Merger, the ability to generate sufficient revenue to achieve or sustain profitability, the ability to raise additional capital to fund existing and future operations or to refinance or repay our existing indebtedness, defects or other performance problems in our products, any economic slowdown in the telecommunications industry that restricts the ability of our customers to purchase our products, commercial acceptance of our products, intense competition in the communications equipment market from large equipment companies as well as private companies with products that address the same networks needs as our products, higher than anticipated expenses that we may incur, any failure to comply with the periodic filing and other requirements of The Nasdaq Stock Market for continued listing, material weaknesses or other deficiencies in our internal control over financial reporting, the initiation of any civil litigation, regulatory proceedings, government enforcement actions or other adverse effects relating to the Audit Committee investigation or errors in the consolidated financial statements of Legacy Zhone and other factors identified elsewhere in this report and in our most recent reports on Forms 10- K, 10- Q and 8- K. We undertake no obligation to revise or update any forward- looking statements for any reason.

**OVERVIEW**

We are a global provider of network access solutions and communications equipment for service provider and enterprise networks. We research, develop, test, sell, manufacture and support communications equipment in five major areas: broadband access, Ethernet switching, mobile backhaul, passive optical LAN (POLAN) and software defined networks (SDN).

As discussed under "Liquidity and Capital Resources" below, the maturing of short- term debt obligations and our recurring losses from operations raise substantial doubt on whether we will be able to continue as a going concern.

As of September 30, 2017, the total outstanding principal amount of our debt obligations was \$26.9 million, consisting of the following:

- \$18.4 million in short- term debt obligations to other non- related parties;
- \$3.5 million in short- term debt obligations to related parties;
- and
- \$5.0 million in long- term debt obligations to related parties.

Our ability to continue as a "going concern" is dependent on many factors, including, among other things, our ability to comply with the covenants in our existing debt agreements, our ability to cure any defaults that occur under our debt agreements or to obtain waivers or forbearances with respect to any such defaults, and our ability to pay, retire, amend, replace or refinance our indebtedness as defaults occur or as interest and principal payments come due.

Going forward, our key financial objectives include the following:

- Increasing revenue while continuing to carefully control costs;
- Continued investments in strategic research and product development activities that will provide the maximum potential return on investment; and
- Minimizing consumption of our cash and cash equivalents.

## **Merger**

On September 9, 2016, we acquired DNS through the merger of a wholly owned subsidiary of Zhone Technologies, Inc. with and into DNS, with DNS surviving as our wholly owned subsidiary (the Merger). In connection with the Merger, Zhone Technologies, Inc. changed its name to DASAN Zhone Solutions, Inc. Our common stock continues to be traded on the Nasdaq Capital Market, and our ticker symbol was changed from "ZHNE" to "DZSI" effective September 12, 2016.

At the effective time of the Merger, all issued and outstanding shares of capital stock of DNS held by its sole shareholder, DASAN Networks, Inc. (DNI), were canceled and converted into the right to receive shares of our common stock in an amount equal to 58% of the issued and outstanding shares of our common stock immediately following the Merger. Accordingly, at the effective time of the Merger, we issued 9,493,016 shares (post reverse stock split) of our common stock to DNI as consideration in the Merger, of which 949,302 shares (post reverse stock split) are being held in escrow as security for claims for indemnifiable losses in accordance with the merger agreement relating to the Merger. As a result, immediately following the effective time of the Merger, DNI held 58% of the outstanding shares of our common stock and the holders of our common stock immediately prior to the Merger retained, in the aggregate, 42% of the outstanding shares of our common stock.

See Note 2 to the unaudited condensed consolidated financial statements set forth in Part I, Item 1 of this report for additional information regarding the Merger.

## **ITEMS AFFECTING COMPARABILITY OF OUR FINANCIAL RESULTS**

As discussed in Note 1(e) to the unaudited condensed consolidated financial statements set forth in Part I, Item 1 of this report, the Merger has been accounted for as a reverse acquisition under which DNS was considered the accounting acquirer of Legacy Zhone. As such, our financial results for the three and nine months ended September 30, 2017 presented in this report are compared to the financial results of DNS and its consolidated subsidiaries for the prior year period through September 8, 2016 and the financial results of DZS and its consolidated subsidiaries for the period from September 9, 2016 through September 30, 2016. Our balance sheet includes the fair value of the assets and liabilities of Legacy Zhone as of the effective date of the Merger. Those assets include the fair value of acquired intangible assets and goodwill. Due to the foregoing, our financial results for the three and nine months ended September 30, 2017 are not comparable to our financial results for the three and nine months ended September 30, 2016.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

There have been no material changes to our critical accounting policies and estimates from the information provided in Part II, "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates" included in our Annual Report on Form 10-K for the year ended December 31, 2016.

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**RESULTS OF OPERATIONS**

We list in the table below the historical condensed consolidated statement of comprehensive loss data as a percentage of net revenue for the periods indicated.

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
		(As Revised)		(As Revised)
Net revenue:				
Net revenue	91 %	79 %	85 %	75 %
Net revenue - related parties	9 %	21 %	15 %	25 %
Total net revenue	100 %	100 %	100 %	100 %
Cost of revenue:				
Products and services	58 %	53 %	54 %	54 %
Products and services - related parties	8 %	17 %	13 %	21 %
Amortization of intangible assets	0 %	0 %	0 %	0 %
Total cost of revenue	67 %	70 %	67 %	75 %
Gross profit	33 %	30 %	33 %	25 %
Operating expenses:				
Research and product development	14 %	19 %	15 %	17 %
Selling, marketing, general and administrative	17 %	26 %	18 %	18 %
Amortization of intangible assets	0 %	1 %	1 %	0 %
Total operating expenses	31 %	46 %	34 %	35 %
Operating income (loss)	2 %	(16)%	(1)%	(10)%
Interest income	0 %	0 %	0 %	0 %
Interest expense	0 %	(1)%	0 %	(1)%
Other income, net	0 %	0 %	0 %	0 %
Income (loss) before income taxes	2 %	(17)%	(1)%	(11)%
Income tax provision (benefit)	0 %	(2)%	1 %	(1)%
Net income (loss)	2 %	(15)%	(2)%	(10)%
Net loss attributable to non- controlling interest	0 %	0 %	0 %	0 %
Net income (loss) attributable to DASAN Zhong Solutions, Inc.	2 %	(15)%	(2)%	(10)%
Foreign currency translation adjustments	0 %	7 %	1 %	3 %
Comprehensive income (loss)	2 %	(8)%	(1)%	(7)%
Comprehensive income attributable to non- controlling interest	0 %	0 %	0 %	0 %
Comprehensive income (loss) attributable to DASAN Zhong Solutions, Inc.	2 %	(8)%	(1)%	(7)%

**Net Revenue**

Information about our net revenue for products and services for the three and nine months ended September 30, 2017 and 2016 is summarized below (in millions):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017	2016	Increase/(decrease)	% change	2017	2016	Increase/(decrease)	% change
	(As Revised)				(As Revised)			
Products	\$ 63.2	\$ 28.9	\$ 34.3	119%	\$ 169.8	\$ 84.6	\$ 85.2	101%
Services	3.2	2.3	0.9	39%	8.7	6.2	2.5	40%
Total	<u>\$ 66.4</u>	<u>\$ 31.2</u>	<u>\$ 35.2</u>	<u>113%</u>	<u>\$ 178.5</u>	<u>\$ 90.8</u>	<u>\$ 87.7</u>	<u>97%</u>

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Information about our net revenue for North America and international markets for the three and nine months ended September 30, 2017 and 2016 is summarized below (in millions):

	<b>Three Months Ended September 30,</b>				<b>Nine Months Ended September 30,</b>			
	<b>2017</b>	<b>2016</b>	<b>Increase/(decrease)</b>	<b>% change</b>	<b>2017</b>	<b>2016</b>	<b>Increase/(decrease)</b>	<b>% change</b>
	(As Revised)	(As Revised)			(As Revised)	(As Revised)		
Revenue by geography:								
United States	\$ 13.1	\$ 3.4	\$	9.7 285%	\$ 37.2	\$ 7.4	\$	29.8 403%
Canada	1.5	0.3		1.2 100%	4.1	0.3		3.8 100%
Total North America	14.6	3.7		10.9 295%	41.3	7.7		33.6 436%
Latin America	7.5	1.9		5.6 295%	19.4	2.9		16.5 569%
Europe, Middle East, Africa	7.4	2.2		5.2 236%	19.1	5.2		13.9 267%
Korea	20.5	18.4		2.1 11%	69.0	60.1		8.9 15%
Asia Pacific	16.4	5.0		11.4 228%	29.7	14.9		14.8 99%
Total International	51.8	27.5		24.3 88%	137.2	83.1		54.1 65%
Total	\$ 66.4	\$ 31.2	\$	35.2 113%	\$ 178.5	\$ 90.8	\$	87.7 97%

For the three months ended September 30, 2017, net revenue increased 113% or \$35.2 million to \$66.4 million from \$31.2 million for the same period last year. For the nine months ended September 30, 2017, net revenue increased 97% or \$87.7 million to \$178.5 million from \$90.8 million for the same period last year. For the three months ended September 30, 2017, product revenue increased 119% or \$34.3 million to \$63.2 million compared to the same period last year. For the nine months ended September 30, 2017, product revenue increased 101% or \$85.2 million to \$169.8 million compared to the same period last year. The increase in net revenue for the three and nine months ended September 30, 2017 was primarily related to the consummation of the Merger in September 2016 (which resulted in the inclusion of net revenue related to the Legacy Zhone business for the entire current year periods, compared to only 22 days in the prior year periods).

Service revenue represents revenue from maintenance and other services associated with product shipments. For the three months ended September 30, 2017, service revenue increased 39% or \$0.9 million to \$3.2 million compared to the same period last year. For the nine months ended September 30, 2017, service revenue increased 40% or \$2.5 million to \$8.7 million compared to the same period last year. The increases in service revenue were primarily related to the consummation of the Merger in September 2016 (which resulted in the inclusion of service revenue related to the Legacy Zhone business for the entire current year periods, compared to only 22 days in the prior year periods), as well as an increase in sales of maintenance services.

International net revenue increased 88% or \$24.3 million to \$51.8 million for the three months ended September 30, 2017 from \$27.5 million for the same period last year, and represented 78% of total net revenue compared with 88% during the same period of 2016. International net revenue increased 65% or \$54.1 million to \$137.2 million for the nine months ended September 30, 2017 from \$83.1 million for the same period last year, and represented 77% of total net revenue compared with 92% during the same period of 2016. The increases in international net revenue were primarily related to the consummation of the Merger in September 2016 (which resulted in the inclusion of international net revenue related to the Legacy Zhone business for the entire current year periods, compared to only 22 days in the prior year periods).

For the three months ended September 30, 2017, two customers represented, 10% and 9% of net revenue, respectively. For the nine months ended September 30, 2017, two customers each represented 9% of net revenue (one of which was a related- party). For the three months ended September 30, 2016, three customers represented 18%, 16% (a related- party) and 12% of net revenue, respectively. For the nine months ended September 30, 2016, three customers represented 23%, 21% (a related- party) and 12% of net revenue, respectively. We anticipate that our results of operations in any given period may depend to a large extent on sales to a small number of large accounts. As a result, our revenue for any quarter may be subject to significant volatility based upon changes in orders from one or a small number of key customers.

### **Cost of Revenue and Gross Margin**

Total cost of revenue increased 102% or \$22.4 million to \$44.4 million for the three months ended September 30, 2017, compared to \$21.9 million for the three months ended September 30, 2016. Total cost of revenue increased 76% or \$51.5 million to \$119.4 million for the nine months ended September 30, 2017, compared to \$67.9 million for the nine months ended September 30, 2016. The increases in total cost of revenue were primarily due to the consummation of the Merger in September 2016 (which resulted in the inclusion of cost of revenue related to the Legacy Zhone business for the entire current year periods, compared to only 22 days in the prior year periods) as well as increased sales. Gross margin increased slightly in both the three and nine months ended September 30, 2017 compared to the prior year periods due to improved manufacturing efficiencies and product mix.

We expect that in the future our cost of revenue as a percentage of net revenue will vary depending on the mix and average selling prices of products sold. In addition, continued competitive and economic pressures could cause us to reduce our prices, adjust the carrying values of our inventory, or record inventory charges relating to discontinued products and excess or obsolete inventory.

### **Research and Product Development Expenses**

Research and product development expenses increased 50% or \$2.9 million to \$8.8 million for the three months ended September 30, 2017 compared to \$5.9 million for the three months ended September 30, 2016. Research and product development expenses increased 73% or \$11.4 million to \$27.0 million for the nine months ended September 30, 2017 compared to \$15.6 million for the nine months ended September 30, 2016. The increase in research and product development expenses was primarily due to the consummation of the Merger in September 2016 (which resulted in the inclusion of research and product development expenses related to the Legacy Zhone business for the entire current year periods, compared to only 22 days in the prior year periods). We intend to continue to invest in research and product development to attain our strategic product development objectives while seeking to manage the associated costs through expense controls.

### **Selling, Marketing, General and Administrative Expenses**

Selling, marketing, general and administrative expenses increased 38% or \$3.2 million to \$11.5 million for the three months ended September 30, 2017 compared to \$8.3 million for the three months ended September 30, 2016. Selling, marketing, general and administrative expenses increased 95% or \$15.8 million to \$32.5 million for the nine months ended September 30, 2017 compared to \$16.7 million for the nine months ended September 30, 2016. The increases in selling, marketing, general and administrative expenses were primarily due to the consummation of the Merger in September 2016 (which resulted in the inclusion of selling, marketing, general and administrative expenses related to Legacy Zhone business for the entire current year periods, compared to only 22 days in the prior year periods), offset by higher commission expenses during the three and nine months ended September 30, 2016.

### **Income Tax Provision**

During the three and nine months ended September 30, 2017 and 2016, no material provision or benefit for income taxes was recorded, due to our recurring operating losses and the significant uncertainty regarding the realization of our net deferred tax assets, against which we have continued to record a full valuation allowance.

### **OTHER PERFORMANCE MEASURES**

In managing our business and assessing our financial performance, we supplement the information provided by our GAAP results with adjusted earnings before stock- based compensation, interest, taxes, and depreciation, or Adjusted EBITDA, a non- GAAP financial measure. We define Adjusted EBITDA as net income (loss) plus (i) interest expense, (ii) provision (benefit) for taxes, (iii) depreciation and amortization, (iv) stock- based compensation, and (v) material non- recurring transactions or events, such as Merger transaction costs or a gain (loss) on sale of assets or impairment of fixed assets. We believe that the presentation of Adjusted EBITDA enhances the usefulness of our financial information by presenting a measure that management uses internally to monitor and evaluate our operating performance and to evaluate the effectiveness of our business strategies. We believe Adjusted EBITDA also assists investors and analysts in comparing our performance across reporting periods on a consistent basis because it excludes the impact of items that we do not believe reflect our core operating performance.

Adjusted EBITDA has limitations as an analytical tool. Some of these limitations are:

- Adjusted EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual requirements;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

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- Adjusted EBITDA does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debts;
- although depreciation and amortization are non- cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;
- non- cash compensation is and will remain a key element of our overall long- term incentive compensation package, although we exclude it as an expense when evaluating our ongoing operating performance for a particular period; and
- other companies in our industry may calculate Adjusted EBITDA and similar measures differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, Adjusted EBITDA should not be considered in isolation or as a substitute for net income (loss) or any other performance measures calculated in accordance with GAAP or as a measure of liquidity. Management understands these limitations and compensates for these limitations by relying primarily on our GAAP results and using Adjusted EBITDA only supplementally.

Set forth below is a reconciliation of net loss to Adjusted EBITDA, which we consider to be the most directly comparable GAAP financial measure to Adjusted EBITDA (in thousands):

	Three Months		Nine Months Ended	
	Ended September 30,		September 30,	
	2017	2016	2017	2016
		(As Revised)		(As Revised)
Net income (loss)	\$ 1,387	\$ (4,789)	\$ (2,985)	\$ (9,083)
Add:				
Interest expense, net	227	173	711	463
Income tax provision (benefit)	107	(610)	646	(1,041)
Depreciation and amortization	752	628	3,105	1,165
Stock- based compensation	195	128	670	128
Merger- related costs	—	3,536	—	3,536
Adjusted EBITDA	<u>\$ 2,668</u>	<u>\$ (934)</u>	<u>\$ 2,147</u>	<u>\$ (4,832)</u>

## LIQUIDITY AND CAPITAL RESOURCES

Our operations are financed through a combination of our existing cash, cash equivalents, available credit facilities, and sales of equity and debt instruments, based on our operating requirements and market conditions.

As of September 30, 2017, our cash and cash equivalents were \$10.1 million compared to \$17.9 million at December 31, 2016. Our cash and cash equivalents as of September 30, 2017 included \$3.4 million in cash balances held by our Korean subsidiary. The \$7.7 million decrease in cash and cash equivalents was attributable to net cash used in operating, investing and financing activities of \$0.6 million, \$5.9 million and \$1.8 million, respectively, partially offset by the effect of exchange rate changes on cash of \$0.6 million.

### Ability to Continue as a Going Concern

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with GAAP, assuming we will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. Accordingly, the unaudited condensed consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the possible inability of DZS to continue as a going concern.

Although we generated \$1.4 million of net income for the quarter ended September 30, 2017, we have incurred significant losses to date and our losses from operations may continue. We incurred net losses of \$3.0 million and \$15.3 million for the nine months ended September 30, 2017 and the year ended December 31, 2016, respectively. We had accumulated deficit of \$23.1 million and working capital of \$57.3 million as of September 30, 2017. As of September 30, 2017, we had approximately \$10.1 million in cash and cash equivalents, which included \$3.4 million in cash balances held by our Korean subsidiary, and \$26.9 million in aggregate principal amount of outstanding borrowings under our short- term debt obligations and our loans from DNI and its affiliates. In addition, we had \$7.6 million in aggregate borrowing availability under our credit facilities as of



September 30, 2017. We had \$8.5 million committed as security for letters of credit under these facilities as of September 30, 2017. Due to the amount of short- term debt obligations maturing within the next 12 months and our recurring operating losses, our cash resources may not be sufficient to settle these short- term debt obligations. Our ability to continue as a "going concern" is dependent on many factors, including, among other things, our ability to comply with the covenants in our existing debt agreements, our ability to cure any defaults that occur under our debt agreements or to obtain waivers or forbearances with respect to any such defaults, and our ability to pay, retire, amend, replace or refinance our indebtedness as defaults occur or as interest and principal payments come due. Although the process of amending, replacing or refinancing our short- term debt obligations is ongoing and we are in active discussions with multiple parties, there is no guarantee that they will result in transactions that are sufficient to provide us with the required liquidity to remove the substantial doubt as to our ability to continue as a going concern. If we are unable to amend, replace, refinance our short- term debt obligations or raise the capital needed to meet liquidity needs and finance capital expenditures and working capital, we may experience material adverse impacts on our business, operating results and financial condition. We have continued our focus on cost control and operating efficiency along with restrictions on discretionary spending. In order to meet our liquidity needs and finance our capital expenditures and working capital needs for our business, we may be required to sell assets, issue debt or equity securities, purchase credit insurance or borrow on potentially unfavorable terms. In addition, we may be required to reduce the scope of our planned product development, reduce sales and marketing efforts and reduce our operations in low margin regions, including reductions in headcount. Based on our current plans and business conditions, we believe that our focused operating expense discipline along with our existing cash, cash equivalents and available credit facilities will be sufficient to satisfy our anticipated cash requirements for at least the next 12 months, however the factors discussed above raise substantial doubt about our ability to continue as a going concern.

#### **Operating Activities**

Net cash used in operating activities for the nine months ended September 30, 2017 consisted of a net loss of \$3.0 million, adjusted for non- cash charges totaling \$3.6 million and a decrease in net operating assets totaling \$1.2 million. The most significant components of the changes in net operating assets were an increase in accounts receivable of \$2.9 million, an increase in inventory of \$0.6 million and a decrease in accrued expenses of \$4.3 million offset by an increase in accounts payable of \$6.7 million. The increase in accounts receivable was primarily the result of the timing of receivables collections during the current year period. The increase in inventory was due to slower utilization of inventory in the current year period. The decrease in accounts payable was mainly due to reclassification of certain balances to short- term debt.

Net cash provided by operating activities for the nine months ended September 30, 2016 consisted of a net loss of \$9.1 million, adjusted for non- cash charges totaling \$1.9 million and an increase in net operating assets totaling \$20.4 million. The most significant components of the changes were a decrease in accounts receivables of \$14 million and an increase in accrued expenses of \$13.6 million offset by a decrease in accounts payable of \$5.8 million. The increase in accounts receivable was primarily due to the timing of receivables collections during the current year period. The decrease in accounts payable was primarily due to timing of payments.

#### **Investing Activities**

Net cash used in investing activities for the nine months ended September 30, 2017 consisted of an increase in restricted cash of \$6.1 million and purchase of property of equipment of \$0.8 million, offset by proceeds from sale of short- term investments of \$1.5 million. The increase in restricted cash was to provide collateral for the various surety bonds issued by DNI to a certain customer in Vietnam.

Net cash used in investing activities for the nine months ended September 30, 2016 consisted of an increase in short- term and long- term loans to others of \$1.4 million and an increase in restricted cash of \$0.9 million, offset by a decrease in short- term and long- term loans of \$1.9 million.

**Financing Activities**

Net cash used in financing activities for the nine months ended September 30, 2017 consisted of cash used in repayments of borrowings of \$15.6 million, offset by proceeds from short- term borrowings of \$13.8 million.

Net cash provided by financing activities for the nine months ended September 30, 2016 consisted of proceeds from short- term borrowings and proceeds from long- term borrowings of \$19.8 million and \$6.8 million, respectively, offset by repayments of borrowings of \$23.1 million.

**Cash Management**

Our primary source of liquidity comes from our cash and cash equivalents, which totaled \$10.1 million at September 30, 2017, as well as our credit facilities, under which we had aggregate borrowing availability of \$7.6 million as of September 30, 2017, and under which \$8.5 million was committed as security for letters of credit as of September 30, 2017. Our cash and cash equivalents as of September 30, 2017 included \$3.4 million in cash balances held by our Korean subsidiary.

**WFB Facility**

As of September 30, 2017, we had a \$25.0 million credit facility (the WFB Facility) with Wells Fargo Bank (WFB). Under the WFB Facility, we have the option of borrowing funds at agreed upon interest rates. The amount that we are able to borrow under the WFB Facility varies based on eligible accounts receivable and inventory, as defined in the WFB Facility, as long as the aggregate amount outstanding does not exceed \$25.0 million less the amount committed as security for letters of credit. To maintain availability of funds under the WFB Facility, we pay a commitment fee on the unused portion. The commitment fee is 0.25% per annum and is recorded as interest expense.

As of September 30, 2017, we had no outstanding borrowings under the WFB Facility, and \$2.5 million was committed as security for letters of credit. We had \$6.7 million of borrowing availability under the WFB Facility as of September 30, 2017. The amounts borrowed under the WFB Facility bear interest, payable monthly, at a floating rate equal to the three- month LIBOR plus a margin based on our average excess availability (as calculated under the WFB Facility). The interest rate on the WFB Facility was 3.8% at September 30, 2017. The maturity date under the WFB Facility is March 31, 2019.

Our obligations under the WFB Facility are secured by substantially all of our personal property assets and those of our subsidiaries that guarantee the WFB Facility, including our intellectual property. The WFB Facility contains certain financial covenants, and customary affirmative covenants and negative covenants. If we default under the WFB Facility due to a covenant breach or otherwise, WFB may be entitled to, among other things, require the immediate repayment of all outstanding amounts and sell our assets to satisfy the obligations under the WFB Facility. In the past we have violated the covenants in our former credit facility and received waivers for these violations. As of September 30, 2017, we were in compliance with the covenants under the WFB Facility. We make no assurances that we will be in compliance with these covenants in the future.

**Bank and Trade Facilities - Foreign Operations**

Certain of our foreign subsidiaries have entered into various financing arrangements with foreign banks and other lending institutions consisting primarily of revolving lines of credit, trade facilities, term loans and export development loans. These facilities are renewed on an annual basis and are generally secured by a security interest in certain assets of the applicable foreign subsidiaries. Payments under such facilities are made in accordance with the given lender's amortization schedules. As of September 30, 2017 and December 31, 2016, we had an aggregate outstanding balance of \$18.4 million and \$17.6 million, respectively, under such financing arrangements, and the interest rate per annum applicable to outstanding borrowings under these financing arrangements as of September 30, 2017 and December 31, 2016 ranged from 2.3% to 5.9% and 1.9% to 4.1%, respectively.

**Related- Party Debt**

In connection with the Merger, on September 9, 2016, we entered into a loan agreement with DNI for a \$5.0 million unsecured subordinated term loan facility. Under the loan agreement, we were permitted to request drawdowns of one or more term loans in an aggregate principal amount not to exceed \$5.0 million. As of September 30, 2017, \$5.0 million in term loans was outstanding under the facility. Such term loans mature in September 2021 and are pre-payable at any time by us without premium or penalty. The interest rate as of September 30, 2017 under this facility was 4.6% per annum.

In addition, we borrowed \$1.8 million from DNI for capital investment in February 2016, which amount was outstanding as of September 30, 2017. This loan matured in March 2017 with an option of renewal by mutual agreement, and bore interest at a rate of 6.9% per annum, payable annually. Effective February 27, 2017, we amended the terms of this loan to extend the repayment date from March 2017 to March 2018 and to reduce the interest rate from 6.9% to 4.6% per annum.

On June 23, 2017, we borrowed \$3.5 million from Solueta, an affiliate of DNI. As of September 30, 2017, the aggregate outstanding balance under this loan agreement was \$1.7 million. This loan matures in November 2017 and bears interest at a rate of 4.6% per annum, payable monthly.

**Future Requirements and Funding Sources**

Our fixed commitments for cash expenditures consist primarily of payments under operating leases, inventory purchase commitments, and payments of principal and interest for debt obligations.

From time to time, we may provide or commit to extend credit or credit support to our customers. This financing may include extending the terms for product payments to customers. Any extension of financing to our customers will limit the capital that we have available for other uses.

Our accounts receivable, while not considered a primary source of liquidity, represent a concentration of credit risk because a significant portion of the accounts receivable balance at any point in time typically consists of a relatively small number of customer account balances. As of September 30, 2017, three customers accounted for 16% (a related-party), 11% and 10% of net accounts receivables, respectively, and receivables from customers in countries other than the United States represented 84% of net accounts receivable. We do not currently have any material commitments for capital expenditures, or any other material commitments aside from operating leases for our facilities, inventory purchase commitments and debt.

As discussed above in "Ability to Continue as a Going Concern", there is substantial doubt about our ability to continue as a going concern. The accompanying unaudited condensed consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

**Contractual Commitments and Off- Balance Sheet Arrangements**

At September 30, 2017, our future contractual commitments by fiscal year were as follows (in thousands):

	Total	Payments due by period					Thereafter
		2017	2018	2019	2020	2021	
Operating leases	\$ 20,166	\$ 967	\$ 3,359	\$ 2,496	\$ 2,358	\$ 2,264	\$ 8,722
Purchase commitments	2,966	2,966	—	—	—	—	—
Short-term debt	18,382	18,382	—	—	—	—	—
Related-party debt	8,544	1,744	1,800	—	—	5,000	—
Total future contractual commitments	<u>\$ 50,058</u>	<u>\$ 24,059</u>	<u>\$ 5,159</u>	<u>\$ 2,496</u>	<u>\$ 2,358</u>	<u>\$ 7,264</u>	<u>\$ 8,722</u>

**Operating Leases**

The operating lease amounts shown above represent primarily off-balance sheet arrangements. For operating lease commitments, a liability is generally not recorded on our balance sheet unless the facility represents an excess facility for which an estimate of the facility exit costs has been recorded on our balance sheet, net of estimated sublease income. For operating leases that include contractual commitments for operating expenses and maintenance, estimates of such amounts are included based on current rates. Payments made under operating leases will be treated as rent expense for the facilities currently being utilized.

**Purchase Commitments**

The purchase commitments shown above represent non- cancellable inventory purchase commitments as of September 30, 2017.

**Short- term Debt**

Our short- term debt obligations have been recorded as liabilities on our balance sheet, and comprised \$18.4 million in outstanding borrowings under the credit facilities of our foreign subsidiaries as of September 30, 2017. The amount shown above represents scheduled principal repayments under the facilities, but not the associated interest payments which may vary based on changes in market interest rates. At September 30, 2017, the interest rate per annum applicable to outstanding borrowings under the trade facilities of our foreign subsidiaries ranged from 2.3% to 5.9%. The amount shown above excludes \$3.5 million in short- term debt obligations to related parties, which is included in the table as related- party debt (as discussed further below).

See above under “Cash Management” for further information about these facilities.

**Related- Party Debt**

As of September 30, 2017, we had borrowed an aggregate of \$8.5 million from related parties, which included \$6.8 million from DNI, of which \$5.0 million and \$1.8 million mature in September 2021 and March 2018, respectively, and \$1.7 million from Solueta, an affiliate of DNI, which matures in November 2017. The interest rate per annum applicable to these borrowings was 4.6%.

See above under “Cash Management” for further information about our related- party debt.

**RECENT ACCOUNTING PRONOUNCEMENTS**

Please refer to “Part I, Item 1. Financial Statements” and “Notes to Condensed Consolidated Financial Statements, Note 1 (h) – Recent Accounting Pronouncements.”

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

**Concentration of Credit Risk**

Financial instruments which potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents, and accounts receivable. Cash and cash equivalents consist principally of demand deposit and money market accounts. Cash and cash equivalents are principally held with various domestic financial institutions with high credit standing. We perform ongoing credit evaluations of our customers and generally do not require collateral. Allowances are maintained for potential doubtful accounts.

We anticipate that our results of operations in any given period may depend to a large extent on sales to a small number of large accounts. As a result, our revenue for any quarter may be subject to significant volatility based upon changes in orders from one or a small number of key customers.

For the three months ended September 30, 2017, two customers represented, 10% and 9% of net revenue, respectively. For the nine months ended September 30, 2017, two customers each represented 9% of net revenue (one of which was a related- party). For the three months ended September 30, 2016, three customers represented 18%, 16% (a related- party) and 12% of net revenue, respectively. For the nine months ended September 30, 2016, three customers represented 23%, 21% (a related- party) and 12% of net revenue, respectively.

As of September 30, 2017, three customers represented 16% (a related- party), 11% and 10% of net accounts receivable, respectively. As of December 31, 2016, two customers represented 13% (a related- party) and 10% of net accounts receivable, respectively.

As of September 30, 2017 and December 31, 2016, receivables from customers in countries other than the United States represented 84% and 87%, respectively, of net accounts receivable.

### **Interest Rate Risk**

Our exposure to market risk for changes in interest rates relates primarily to our variable rate outstanding debt. As of September 30, 2017, our outstanding debt balance was \$26.9 million, which comprised \$18.4 million in aggregate principal amount of borrowings under our short-term credit facilities and \$8.5 million in loans from DNI and its affiliates (which bear interest at a fixed rate). Amounts borrowed under our short-term credit facilities bore interest ranging from 2.3% to 5.9% as of September 30, 2017. Assuming the outstanding balance on our variable rate debt remains constant over a year, a 2% increase in the interest rate would decrease pre-tax income and cash flow by approximately \$0.5 million.

### **Foreign Currency Risk**

We transact business in various foreign countries, and a significant portion of our assets is located in Korea. We have sales operations throughout Europe, Asia, the Middle East and Latin America. We are exposed to foreign currency exchange rate risk associated with foreign currency denominated assets and liabilities, primarily intercompany receivables and payables. Accordingly, our operating results are exposed to changes in exchange rates between the U.S. dollar and those currencies. During the first nine months of 2017 and during fiscal year 2016, we did not hedge any of our foreign currency exposure.

We have performed a sensitivity analysis as of September 30, 2017 using a modeling technique that measures the impact on the balance sheet arising from a hypothetical 10% adverse movement in the levels of foreign currency exchange rates relative to the U.S. dollar, with all other variables held constant. The sensitivity analysis indicated that a hypothetical 10% adverse movement in foreign currency exchange rates would result in a foreign exchange loss of \$2.3 million at September 30, 2017. This sensitivity analysis assumes a parallel adverse shift in foreign currency exchange rates, which do not always move in the same direction. Actual results may differ materially.

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

### **Disclosure Controls and Procedures**

We maintain disclosure controls and procedures designed to provide reasonable assurance of achieving the objective that information required to be disclosed in our reports filed or submitted pursuant to the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Co-Chief Executive Officers and Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2017, the end of the period covered by this report. The evaluation was done under the supervision and with the participation of management, including our Co-Chief Executive Officers and our Chief Financial Officer. Based upon this evaluation, our Co-Chief Executive Officers and Chief Financial Officer concluded that, because of the material weaknesses in our internal control over financial reporting that existed as of December 31, 2016 and that have not yet been remediated, as described below, our disclosure controls and procedures were not effective as of September 30, 2017.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the registrant's annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses that management previously identified in connection with its evaluation of our internal control over financial reporting as of December 31, 2016 were as follows: we did not maintain an effective control environment as there was an insufficient complement of personnel with appropriate accounting knowledge, experience and competence, resulting in incorrect application of generally accepted accounting principles. This material weakness contributed to the following material weaknesses. We did not maintain effective controls over our financial close process. Also, we did not design and maintain effective controls over the review of supporting information to determine the completeness and accuracy of the accounting for complex transactions, specifically related to the business combination that occurred on September 9, 2016, which resulted in an incorrect application of generally accepted accounting principles that resulted in material misstatements and a restatement of our unaudited condensed consolidated financial statements for the three and nine months period ended September 30, 2016. Additionally, these material weaknesses could result in a misstatement in the financial statements that would result in a material misstatement in the annual or interim consolidated financial statements that would not be prevented or detected.

In light of the material weakness described above, and based on the criteria set forth in Internal Control —Integrated Framework (2013) issued by the Committee Sponsoring Organizations of the Treadway Commission (COSO), our management concluded that our internal control over financial reporting was not effective as of December 31, 2016.

As of the date of this report, we are re- assessing the design of our controls and modifying processes related to the accounting for significant and unusual transactions as well as enhancing monitoring and oversight controls in the application of applicable accounting guidance related to such transactions. In connection therewith, we anticipate that we will hire additional accounting personnel with relevant skills, training and experience, and conduct further training of accounting and finance personnel.

### **Changes in Internal Control over Financial Reporting**

Except as described above, there were no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Merger- related integration activities may lead us to modify certain internal controls in future periods.

### **Inherent Limitations on Effectiveness of Controls**

Our management, including our Co- Chief Executive Officers and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision- making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

We are subject to various legal proceedings, claims and litigation arising in the ordinary course of business. While the outcome of these matters is currently not determinable, we do not expect that the ultimate costs to resolve these matters will have a material adverse effect on our consolidated financial position or results of operations. However, litigation is subject to inherent uncertainties, and unfavorable rulings could occur. If an unfavorable ruling were to occur, there exists the possibility of a material adverse impact on the results of operations of the period in which the ruling occurs, or future periods.

### **Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A, Risk Factors" in our Annual Report on Form 10- K for the year ended December 31, 2016, which could materially affect our business, financial condition or future results. There have been no material changes to the risk factors described in the "Risk Factors" section in our Annual Report on Form 10- K for the year ended December 31, 2016. The risks described in our Annual Report on Form 10- K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

### **Item 2. Exhibits**

**EXHIBIT INDEX**

**Exhibit  
Number Description**

- 10.1 [Letter agreement, dated July 3, 2017, by and among DASAN Zhone Solutions, Inc., ZTI Merger Subsidiary III, Inc., Premisys Communications, Inc., Zhone Technologies International, Inc., Paradyne Networks, Inc., Paradyne Corporation, Dasan Network Solutions, Inc. and Wells Fargo Bank, National Association \(incorporated by reference to Exhibit 10.1 of registrant's Current Report on Form 8-K dated July 3, 2017\)](#)
- 10.2 [General Release of Claims, dated as of September 11, 2017, by and between DASAN Zhone Solutions, Inc. and James Norrod](#)
- 10.3 [General Release of Claims, dated as of September 11, 2017, by and between DASAN Zhone Solutions, Inc. and Kirk Misaka](#)
- 31.1 [Certification of Chief Executive Officer and Acting Chief Financial Officer Pursuant to Rule 13a- 14\(a\)/15d- 14\(a\)](#)
- 32.1 [Section 1350 Certification of Chief Executive Officer and Acting Chief Financial Officer](#)
- 101.INS XBRL Instance Document
- 101.SCHXBRL Taxonomy Extension Schema
- 101.CALXBRL Taxonomy Extension Calculation Linkbase
- 101.DEF XBRL Taxonomy Extension Definition Linkbase
- 101.LABXBRL Taxonomy Extension Labels Linkbase
- 101.PREXBRL Taxonomy Extension Presentation Linkbase



**SIGNATURES**

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

DASAN ZHONG SOLUTIONS, INC.

Date: November 14, 2017 By: \_\_\_\_\_ /s/ IL YUNG KIM

**Name: Il Yung Kim**

**Title: President, Chief Executive Officer and Acting Chief Financial Officer**

**GENERAL RELEASE OF CLAIMS**

THIS GENERAL RELEASE OF CLAIMS (this "Release") is entered into by and between DASAN Zhone Solutions, Inc., a Delaware corporation (the "Company"), and James Norrod ("Executive"), as of the Effective Date (as defined below).

WHEREAS, the Company and Executive are parties to that certain Amended and Restated Employment Agreement dated as of September 9, 2016 (the "Employment Agreement");

WHEREAS, the Company has agreed to provide Executive with certain severance benefits, subject to Executive's execution of this Release; and

WHEREAS, the Company and Executive now wish to fully and finally resolve all matters between them.

NOW, THEREFORE, in consideration of, and subject to, the severance benefits payable to Executive described in Section 2(d) below, the adequacy of which is hereby acknowledged by Executive, and which Executive acknowledges that he would not otherwise be entitled to receive, Executive and the Company hereby agree as follows:

1. Effective Date; Termination of Employment.

(a) Effective Date. This Release shall become effective upon the occurrence of both of the following events: (i) execution of the Release by the parties; and (ii) expiration of the revocation period applicable under Section 3(d) below without Executive having given notice of revocation. The date of the last to occur of the foregoing events shall be referred to in this Release as the "Effective Date." Until and unless both of the foregoing events occur, this Release shall be null and void. Executive understands that Executive will not be given any severance benefits under this Release unless the Effective Date occurs on or before the date that is thirty (30) days following the Termination Date (as defined below).

(b) Termination of Employment. Executive's employment by the Company will terminate effective as of September 11, 2017 (the "Termination Date"). Executive hereby resigns from his position as Co- Chief Executive Officer and as a member of the Board of Directors of the Company (and any other officer titles or officer positions he may hold) of the Company (and any of its affiliates and subsidiaries) effective as of the Termination Date. Executive shall execute any additional documentation necessary to effectuate such resignations. Executive's "separation from service" for purposes of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), shall be the Termination Date.

2. Compensation.

(a) Compensation Through Termination Date. On the Termination Date, the Company shall issue to Executive his final paycheck, reflecting (i) Executive's fully earned but unpaid base salary, through the Termination Date at the rate then in effect, and (ii) all accrued, unused paid time off due Executive through the Termination Date. Subject to Sections 2(b) and (d) below, Executive acknowledges and agrees that with his final check, Executive received all monies, bonuses, commissions, expense reimbursements, paid time off, or other compensation he earned or was due during his employment by the Company.

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(b) Expense Reimbursements. The Company, within thirty (30) days after the Termination Date, will reimburse Executive for any and all reasonable and necessary business expenses incurred by Executive in connection with the performance of his job duties prior to the Termination Date, which expenses shall be submitted to the Company with supporting receipts and/or documentation no later than thirty (30) days after the Termination Date.

(c) Benefits. Subject to Section 2(d)(ii) below, Executive's entitlement to benefits from the Company, and eligibility to participate in the Company's benefit plans, shall cease on the Termination Date, except to the extent Executive elects to and is eligible to receive continued healthcare coverage pursuant to the provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), for himself and any covered dependents, in accordance with the provisions of COBRA.

(d) Severance. In exchange for Executive's agreement to be bound by the terms of this Release, including, but not limited to, the release of claims in Section 3, Executive shall be entitled to receive the following, which shall be the exclusive severance benefits to which Executive is entitled, unless Executive has materially breached the provisions of this Release, in which case Section 4(e)(iii) shall apply:

(i) A cash payment in the amount of \$300,000, payable in a lump sum within ten (10) days following the later of (A) the Effective Date or (B) October 6, 2017; plus

(ii) for the period beginning on the Termination Date and ending on the date which is six (6) full months following the Termination Date (or, if earlier, (1) the date on which the applicable continuation period under COBRA expires or (2) the date Executive becomes eligible to receive the equivalent or increased healthcare coverage from a subsequent employer) (such period, the "COBRA Coverage Period"), if Executive and his eligible dependents who were covered under the Company's health insurance plans as of the Termination Date elect to have COBRA coverage and are eligible for such coverage, the Company shall pay or reimburse Executive on a monthly basis for an amount equal to (A) the monthly premium Executive is required to pay for continuation coverage pursuant to COBRA for Executive and his eligible dependents who were covered under the Company's health plans as of the Termination Date (calculated by reference to the premium as of the Termination Date) less (2) the amount Executive would have had to pay to receive group health coverage for Executive and his covered dependents based on the cost sharing levels in effect on the Termination Date. If any of the Company's health benefits are self-funded as of the Termination Date, or if the Company cannot provide the foregoing benefits in a manner that is exempt from Section 409A (as defined below) or that is otherwise compliant with applicable law (including, without limitation, Section 2716 of the Public Health Service Act), instead of providing the reimbursements as set forth above, the Company shall instead pay to Executive the foregoing monthly amount as a taxable monthly payment for the COBRA Coverage Period (or any remaining portion thereof). Executive shall be solely responsible for all matters relating to continuation of coverage pursuant to COBRA, including, without limitation, the election of such coverage and the timely payment of premiums; plus

(iii) Executive's outstanding stock options to purchase shares of the Company's common stock granted under the Company's equity plan (the "Stock Options") shall cease vesting as of the Termination Date and any unvested Stock Options shall terminate on such date. Executive's vested Stock Options as of the Termination Date may be exercised by Executive (or Executive's legal guardian or legal representative) until September 11, 2018; provided, however, that in no event shall any Stock Option remain exercisable beyond the original outside expiration date of such Stock Option. Except as modified above, Executive's Stock Options shall continue to be governed by the terms and conditions

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of the Stock Option agreements and the Company's equity plan pursuant to which such Stock Options were granted.

(e) Return of the Company's Property. On the Termination Date, and prior to the payment of any amounts to Executive under Section 2(d) above, Executive shall immediately surrender to the Company all lists, books and records of, or in connection with, the Company's business, and all other property belonging to the Company, it being distinctly understood that all such lists, books and records, and other documents, are the property of the Company.

3. General Release of Claims by Executive.

(a) Executive, on behalf of himself and his executors, heirs, administrators, representatives and assigns, hereby agrees to release and forever discharge the Company and all predecessors, successors and their respective parent corporations, affiliates, related, and/or subsidiary entities, and all of their past and present investors, directors, shareholders, officers, general or limited partners, employees, attorneys, agents and representatives, and the employee benefit plans in which Executive is or has been a participant by virtue of his employment with or service to the Company (collectively, the "Company Releasees"), from any and all claims, debts, demands, accounts, judgments, rights, causes of action, equitable relief, damages, costs, charges, complaints, obligations, promises, agreements, controversies, suits, expenses, compensation, responsibility and liability of every kind and character whatsoever (including attorneys' fees and costs), whether in law or equity, known or unknown, asserted or unasserted, suspected or unsuspected (collectively, "Claims"), which Executive has or may have had against such entities based on any events or circumstances arising or occurring on or prior to the date hereof, arising directly or indirectly out of, relating to, or in any other way involving in any manner whatsoever Executive's employment by or service to the Company or the termination thereof, including any and all claims arising under federal, state, or local laws relating to employment, including without limitation claims of wrongful discharge, breach of express or implied contract, fraud, misrepresentation, defamation, or liability in tort, and claims of any kind that may be brought in any court or administrative agency including, without limitation, claims under Title VII of the Civil Rights Act of 1964, as amended, 42 U.S.C. Section 2000, et seq.; the Americans with Disabilities Act, as amended, 42 U.S.C. § 12101 et seq.; the Rehabilitation Act of 1973, as amended, 29 U.S.C. § 701 et seq.; the Civil Rights Act of 1866, and the Civil Rights Act of 1991; 42 U.S.C. Section 1981, et seq.; the Age Discrimination in Employment Act, as amended, 29 U.S.C. Section 621, et seq. (the "ADEA"); the Equal Pay Act, as amended, 29 U.S.C. Section 206(d); regulations of the Office of Federal Contract Compliance, 41 C.F.R. Section 60, et seq.; the Family and Medical Leave Act, as amended, 29 U.S.C. § 2601 et seq.; the Fair Labor Standards Act of 1938, as amended, 29 U.S.C. § 201 et seq.; the Employee Retirement Income Security Act, as amended, 29 U.S.C. § 1001 et seq.; and the California Fair Employment and Housing Act, California Government Code Section 12940, et seq.

Notwithstanding the generality of the foregoing, Executive does not release the following claims:

- (i) Claims for unemployment compensation or any state disability insurance benefits pursuant to the terms of applicable state law;
  - (ii) Claims for workers' compensation insurance benefits under the terms of any worker's compensation insurance policy or fund of the Company;
  - (iii) Claims pursuant to the terms and conditions of the federal law known as COBRA;
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- (iv) Claims for indemnity under the bylaws of the Company, as provided for by California law (including California Labor Code Section 2802) or under any applicable insurance policy with respect to Executive's liability as an employee, director or officer of the Company;
- (v) Claims based on any right Executive may have to enforce the Company's executory obligations under this Release;
- (vi) Executive's right to bring to the attention of the Equal Employment Opportunity Commission or the California Department of Fair Employment and Housing claims of discrimination; provided, however, that Executive does release his right to secure any damages for alleged discriminatory treatment;
- (vii) Executive's right to communicate or cooperate with any government agency; and
- (vii) Any other Claims that cannot be released as a matter of law.

(b) EXECUTIVE ACKNOWLEDGES THAT HE HAS BEEN ADVISED OF AND IS FAMILIAR WITH THE PROVISIONS OF CALIFORNIA CIVIL CODE SECTION 1542, WHICH PROVIDES AS FOLLOWS:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH, IF KNOWN BY HIM OR HER, MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR."

BEING AWARE OF SAID CODE SECTION, EXECUTIVE HEREBY EXPRESSLY WAIVES ANY RIGHTS HE MAY HAVE THEREUNDER, AS WELL AS UNDER ANY OTHER STATUTES OR COMMON LAW PRINCIPLES OF SIMILAR EFFECT.

(c) Executive acknowledges that this Release was presented to him on September \_\_, 2017, and that Executive is entitled to have twenty- one (21) days' time in which to consider it. Executive further acknowledges that the Company has advised him that he is waiving his rights under the ADEA, and that Executive should consult with an attorney of his choice before signing this Release, and Executive has had sufficient time to consider the terms of this Release. Executive represents and acknowledges that if Executive executes this Release before twenty- one (21) days have elapsed, Executive does so knowingly, voluntarily, and upon the advice and with the approval of Executive's legal counsel (if any), and that Executive voluntarily waives any remaining consideration period.

(d) Executive understands that after executing this Release, Executive has the right to revoke it within seven (7) days after his execution of it. Executive understands that this Release will not become effective and enforceable unless the seven (7) day revocation period passes and Executive does not revoke the Release in writing. Executive understands that this Release may not be revoked after the seven (7) day revocation period has passed. Executive also understands that any revocation of this Release must be made in writing and delivered to the Chief Executive Officer of the Company, the Company's principal place of business, within the seven (7) day period.

(e) Executive understands that this Release shall become effective, irrevocable, and binding upon Executive on the eighth (8th) day after his execution of it, so long as Executive has not revoked it within the time period and in the manner specified in clause (d) above.

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4. Confirmation of Continuing Obligations.

(a) Proprietary Rights Agreement. Executive hereby expressly reaffirms his obligations under the Company's standard employee innovations and proprietary rights assignment agreement (the "Proprietary Rights Agreement"), which Executive has previously executed, a copy of which is attached to this Release as Exhibit A and incorporated herein by reference, and agrees that such obligations shall survive the Termination Date and any termination of his services to the Company.

(b) Customers and Suppliers. Executive recognizes that he possesses Proprietary Information (as such term is defined in the Proprietary Rights Agreement) about the customers or suppliers of the Company and its subsidiaries and affiliates. Executive recognizes that the Proprietary Information he possesses about these customers or suppliers may not be generally known, is of substantial value to the Company and its subsidiaries in developing its business and in securing and retaining customers, and was acquired by him because of his business position with the Company and its subsidiaries and affiliates. Executive agrees that, for a period of nine (9) months beyond the Termination Date, he will not, directly or indirectly, influence or attempt to influence customers or suppliers of the Company or any of its subsidiaries or affiliates to divert their business to any competitor of the Company, and that he will not convey any such Proprietary Information or trade secrets about the customers or suppliers of the Company and its subsidiaries or affiliates to any other person.

(c) Employees. Executive recognizes that he possesses Proprietary Information about other employees of the Company and its subsidiaries and affiliates relating to their education, experience, skills, abilities, compensation and benefits, and inter-personal relationships with customers of the Company and its subsidiaries and affiliates. Executive recognizes that the Proprietary Information he possesses about these other employees is not generally known, is of substantial value to the Company and its subsidiaries in developing its business and in securing and retaining customers, and will be acquired by him because of his business position with the Company and its subsidiaries and affiliates. Executive agrees that, for a period of nine (9) months beyond the Termination Date, he will not, directly or indirectly, induce, solicit or recruit any employee of the Company or its subsidiaries or affiliates for the purpose of being employed by him or by any competitor of the Company on whose behalf he is acting as an agent, representative or employee, and that he will not convey any such Proprietary Information or trade secrets about other employees of the Company and its subsidiaries or affiliates to any other person.

(d) Reasonableness of Relief; Blue Penciling. Executive acknowledges and agrees that the covenants and agreements contained herein are reasonable and valid in geographic and temporal scope and in all other respects and are reasonably necessary to protect the Company. If any court determines that any of the covenants and agreements contained herein, or any part thereof, is unenforceable because of the duration or geographic scope of such provision, such court shall have the power to reduce the duration or scope of such provision, as the case may be, and, in its reduced form, such provision shall then be enforceable to the maximum extent permitted by applicable law.

(e) Rights and Remedies Upon Breach. In the event Executive breaches, or threatens to commit a breach of, any of the provisions of this Section 4, the Company and its subsidiaries, affiliates, successors or assigns shall have the following rights and remedies, each of which shall be independent of the others and severally enforceable, and each of which shall be in addition to, and not in lieu of, any other rights or remedies available to the Company or its subsidiaries, affiliates, successors or assigns at law or in equity under this Release or otherwise:

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(i) Specific Performance. The right and remedy to have each and every one of the covenants in this Release specifically enforced and the right and remedy to obtain injunctive relief, it being agreed that any breach or threatened breach of any of the nonsolicitation or other restrictive covenants and agreements contained herein would cause irreparable injury to the Company and its subsidiaries, affiliates, successors or assigns and that money damages would not provide an adequate remedy at law to the Company and its subsidiaries, affiliates, successors or assigns.

(ii) Accounting. The right and remedy to require Executive to account for and pay over to the Company and its subsidiaries, affiliates, successors or assigns, as the case may be, all compensation, profits, monies, accruals, increments or other benefits derived or received by Executive that result from any transaction or activity constituting a breach of this Release.

(iii) Cessation of Payments. The right to cease all severance payments to Executive hereunder.

(f) Enforceability in all Jurisdictions. Executive intends to and hereby confers jurisdiction to enforce each and every one of the covenants and agreements contained herein upon the courts of any jurisdiction within the geographic scope of such covenants and agreements. If the courts of any one or more of such jurisdictions hold any such covenant or agreement unenforceable by reason of the breadth of such scope or otherwise, it is the intention of Executive and the Company that such determination shall not bar or in any way affect the Company's or any of its subsidiaries', affiliates', successors' or assigns' right to the relief provided above in the courts of any other jurisdiction within the geographic scope of such covenants and agreements, as to breaches of such covenants and agreements in such other respective jurisdictions, such covenants and agreements as they relate to each jurisdiction being, for this purpose, severable into diverse and independent covenants and agreements.

(e) Whistleblower Provision. Notwithstanding the foregoing, or anything contained in the Proprietary Rights Agreement, Executive acknowledges that he will not be held criminally or civilly liable for (i) the disclosure of confidential or proprietary information that is made in confidence to a government official or to an attorney solely for the purpose of reporting or investigating a suspected violation of law, or (ii) disclosure of confidential or proprietary information in a made in a complaint or other document filed in a lawsuit or other proceeding under seal or pursuant to court order.

5. Nondisparagement; Confidentiality. Executive agrees that he shall not disparage or otherwise communicate negative statements or opinions about the Company, its board members, officers, employees, shareholders or agents; provided, however, that Executive shall not be prohibited from making such statements or opinions to his immediate family so long as such statements or opinions are not likely to be harmful to the Company, its board members, officers, employees, shareholders or agents or its or their businesses, business reputations, or personal reputations. The Company agrees that neither its board members nor officers shall disparage or otherwise communicate negative statements or opinions about Executive. Nothing in this Section 5 shall prohibit Executive from (a) testifying in any legal proceeding in which his testimony is compelled by law or court order and no breach of this provision shall occur due to any accurate, legally compelled testimony or (b) communicating or cooperating with any government agency.

6. Binding Arbitration. Except as provided in Section 4 of this Release, any dispute, claim or controversy based on, arising out of or relating to Executive's employment or this Release shall be settled by final and binding arbitration in Palo Alto, California, before a single neutral arbitrator in accordance with the employment arbitration rules (the "Rules") of the Judicial Arbitration and Mediation Services/

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Endispute (“JAMS”), and judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction. The Rules may be found online at [www.jamsadr.org](http://www.jamsadr.org). Arbitration may be compelled pursuant to the California Arbitration Act (Code of Civil Procedure §§ 1280 et seq.). If the parties are unable to agree upon an arbitrator, one shall be appointed by JAMS in accordance with its Rules. Subject to Section 7 below, each party shall pay the fees of its own attorneys, the expenses of its witnesses and all other expenses connected with presenting its case. Other costs of the arbitration, including the cost of any record or transcripts of the arbitration, JAMS’s administrative fees, the fee of the arbitrator, and all other fees and costs, shall be borne by the Company. This Section 6 is intended to be the exclusive method for resolving any and all claims by the parties against each other for payment of damages under this Release or relating to Executive’s employment; provided, however, that Executive shall retain the right to file administrative charges with or seek relief through any government agency of competent jurisdiction, and to participate in any government investigation, including but not limited to (a) claims for workers’ compensation, state disability insurance or unemployment insurance; (b) claims for unpaid wages or waiting time penalties brought before the California Division of Labor Standards Enforcement; provided, however, that any appeal from an award or from denial of an award of wages and/or waiting time penalties shall be arbitrated pursuant to the terms of this Release; and (c) claims for administrative relief from the United States Equal Employment Opportunity Commission and/or the California Department of Fair Employment and Housing (or any similar agency in any applicable jurisdiction other than California); provided, further, that Executive shall not be entitled to obtain any monetary relief through such agencies other than workers’ compensation benefits or unemployment insurance benefits. This Release shall not limit either party’s right to obtain any provisional remedy, including, without limitation, injunctive or similar relief, from any court of competent jurisdiction as may be necessary to protect their rights and interests pending the outcome of arbitration, in any court of competent jurisdiction pursuant to California Code of Civil Procedure § 1281.8 or any similar statute of an applicable jurisdiction. Seeking any such relief shall not be deemed to be a waiver of such party’s right to compel arbitration. Both Executive and the Company expressly waive their right to a jury trial.

7. Attorney Fees. In the event that any dispute between the Company and Executive should result in arbitration, the arbitrator may award to one or more of the Prevailing Persons (as defined below) such reasonable attorney fees, costs and expenses, as determined by the arbitrator. Any judgment or order enforcing such arbitration may, in the discretion of the court entering such judgment or order contain, a specific provision providing for the recovery of attorney fees and costs incurred in enforcing such judgment or order and an award of prejudgment interest from the date of the breach at the maximum rate of interest allowed by law. For the purposes of this Section 7: (a) “attorney fees” shall include, without limitation, attorney fees incurred in the following: (i) arbitration; (ii) post- arbitration order or judgment motions; (iii) contempt proceedings; (iv) garnishment, levy, and debtor and third party examinations; (v) discovery; and (vi) bankruptcy litigation; and (b) “Prevailing Person” shall mean any person who is determined by the arbitrator in the proceeding to have prevailed or who prevails by dismissal, default or otherwise.

8. Miscellaneous.

(a) Assignment; Assumption by Successor. The rights of the Company under this Release may, without the consent of Executive, be assigned by the Company, in its sole and unfettered discretion, to any person, firm, corporation or other business entity which at any time, whether by purchase, merger or otherwise, directly or indirectly, acquires all or substantially all of the assets or business of the Company. The Company will require any successor (whether direct or indirect, by purchase, merger or otherwise) to all or substantially all of the business or assets of the Company expressly to assume and to agree to perform this Release in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place; provided, however, that no such assumption

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shall relieve the Company of its obligations hereunder. As used in this Release, the “Company” shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Release by operation of law or otherwise.

(b) Survival. The covenants, agreements, representations and warranties contained in or made in Sections 2, 3, 4, 5, 6, 7 and 8 of this Release shall survive Executive’s termination of employment or any termination of this Release.

(c) Severability. In the event any provision of this Release is found to be unenforceable by an arbitrator or court of competent jurisdiction, such provision shall be deemed modified to the extent necessary to allow enforceability of the provision as so limited, it being intended that the parties shall receive the benefit contemplated herein to the fullest extent permitted by law. If a deemed modification is not satisfactory in the judgment of such arbitrator or court, the unenforceable provision shall be deemed deleted, and the validity and enforceability of the remaining provisions shall not be affected thereby.

(d) Interpretation; Construction. The headings set forth in this Release are for convenience only and shall not be used in interpreting this Release. This Release has been drafted by legal counsel representing the Company, but Executive has participated in the negotiation of its terms. Furthermore, Executive acknowledges that Executive has had an opportunity to review and revise the Release and have it reviewed by legal counsel, if desired, and, therefore, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Release. Either party’s failure to enforce any provision of this Release shall not in any way be construed as a waiver of any such provision, or prevent that party thereafter from enforcing each and every other provision of this Release.

(e) Governing Law and Venue. This Release shall be governed by the laws of the State of California as they are applied to contracts between California residents to be performed completely within California. The parties irrevocably submit to the non- exclusive jurisdiction of the Superior Court of the State of California, Santa Clara County, and the United States District Court for the Northern District of California, Branch nearest to Palo Alto, California, in any action to enforce an arbitration award or any other suit brought hereunder. Each party hereby agrees that any such court shall have in personam jurisdiction over it and consents to service of process in any manner authorized by California law.

(f) Entire Agreement; Modification. This Release and the Proprietary Rights Agreement set forth the entire understanding of the parties with respect to the subject matter hereof and thereof and supersedes all existing agreements between them concerning such subject matter. The Employment Agreement shall be superseded entirely by this Release and the Employment Agreement shall be terminated and be of no further force or effect. This Release may be amended or modified only with the written consent of Executive and an authorized representative of the Company. No oral waiver, amendment or modification will be effective under any circumstances whatsoever.

(g) Counterparts. This Release may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same Release.

(h) Withholding and other Deductions. All compensation payable to Executive hereunder shall be subject to such deductions as the Company is from time to time required to make pursuant to law, governmental regulation or order.

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(i) Code Section 409A.

(i) **This Release is not intended to provide for any deferral of compensation subject to Section 409A of the Code, and, accordingly, the amounts payable hereunder shall be paid no later than the later of: (A) the fifteenth (15th) day of the third month following Executive's first taxable year in which such amounts are no longer subject to a substantial risk of forfeiture, and (B) the fifteenth (15th) day of the third month following first taxable year of the Company in which such amounts are no longer subject to substantial risk of forfeiture, as determined in accordance with Code Section 409A and any Treasury Regulations and other guidance issued thereunder. Each series of installment payments made under this Release is hereby designated as a series of "separate payments" within the meaning of Section 409A of the Code.**

(ii) To the extent applicable, this Release shall be interpreted in accordance with the applicable exemptions from Section 409A of the Code. To the extent that any provision of the Release is ambiguous as to its compliance with Section 409A of the Code, the provision shall be read in such a manner that no payments payable under this Release shall be subject to an "additional tax" as defined in Section 409A(a)(1)(B) of the Code.

(iii) Any reimbursement of expenses or in-kind benefits payable under this Release shall be made in accordance with Treasury Regulation Section 1.409A-3(i)(1)(iv) and shall be paid on or before the last day of Executive's taxable year following the taxable year in which Executive incurred the expenses. The amount of expenses reimbursed or in-kind benefits payable during any taxable year of Executive's will not affect the amount eligible for reimbursement or in-kind benefits payable in any other taxable year of Executive's, and Executive's right to reimbursement for such amounts shall not be subject to liquidation or exchange for any other benefit.

(j) RIGHT TO ADVICE OF COUNSEL. EXECUTIVE ACKNOWLEDGES THAT HE HAS THE RIGHT, AND IS ENCOURAGED, TO CONSULT WITH HIS LAWYER; BY HIS SIGNATURE BELOW, EXECUTIVE ACKNOWLEDGES THAT HE HAS CONSULTED, OR HAS ELECTED NOT TO CONSULT, WITH HIS LAWYER CONCERNING THIS RELEASE.

(Signature Page Follows)

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IN WITNESS WHEREOF, the parties have executed this Release as of the dates set forth below.

**DASAN ZHONG  
SOLUTIONS, INC.**

Date: September 11, 2017 By: /s/ Il Yung Kim  
Name: Il Yung Kim  
Chief Executive  
Title: Officer

**EXECUTIVE**

Date: September 11, 2017 By: /s/ James  
Norrod  
James  
Norrod

**EXHIBIT A**

**EMPLOYEE INNOVATIONS AND PROPRIETARY RIGHTS ASSIGNMENT AGREEMENT**

[SIGNATURE PAGE TO GENERAL RELEASE OF CLAIMS]

**GENERAL RELEASE OF CLAIMS**

THIS GENERAL RELEASE OF CLAIMS (this "Release") is entered into by and between DASAN Zhone Solutions, Inc., a Delaware corporation (the "Company"), and Kirk Misaka ("Executive"), as of the Effective Date (as defined below).

WHEREAS, the Company and Executive are parties to that certain Amended and Restated Employment Agreement dated as of September 9, 2016 (the "Employment Agreement"), pursuant to which Executive has served as the Company's Chief Financial Officer;

WHEREAS, the Company and Executive have agreed that Executive will cease to serve as the Company's Chief Financial Officer effective September 11, 2017 (the "Transition Date");

WHEREAS, the Company and Executive have agreed to terminate the Employment Agreement effective as of the Transition Date;

WHEREAS, following the Transition Date Executive will continue to be employed by the Company following the Transition Date as its Corporate Treasurer and Secretary on an at- will basis pursuant to a standard form of offer letter to be executed by Executive and the Company; and

WHEREAS, the Company has agreed to provide Executive with certain benefits in connection with the termination of the Employment Agreement, subject to Executive's execution of this Release.

NOW, THEREFORE, in consideration of, and subject to, the benefits payable to Executive described in Section 2 below, the adequacy of which is hereby acknowledged by Executive, and which Executive acknowledges that he would not otherwise be entitled to receive, Executive and the Company hereby agree as follows:

1. Effective Date: Termination of Employment Agreement.

(a) Effective Date. This Release shall become effective upon the occurrence of both of the following events: (i) execution of the Release by the parties; and (ii) expiration of the revocation period applicable under Section 3(d) below without Executive having given notice of revocation. The date of the last to occur of the foregoing events shall be referred to in this Release as the "Effective Date." Until and unless both of the foregoing events occur, this Release shall be null and void. Executive understands that Executive will not be given any severance benefits under this Release unless the Effective Date occurs on or before the date that is thirty (30) days following the Transition Date.

(b) Transition Date. Effective as of the Transition Date, Executive hereby resigns from his position as Chief Financial Officer of the Company. Following the Transition Date, Executive will continue to be employed by the Company following the Transition Date as its Corporate Treasurer and Secretary. Executive shall execute any additional documentation necessary to effectuate such resignation.

(c) Termination of Employment Agreement. The parties hereby agree that the Employment Agreement shall terminate effective as of the Transition Date and shall not be in force and effect thereafter. Executive hereby waives, effective as of the Effective Date, all rights under the Employment Agreement, and acknowledges and agrees that neither the Company nor its affiliates shall have any further obligations or liabilities with respect thereto, except as provided in this Release.

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(d) At- Will Employment. Executive's employment relationship with the Company following the Transition Date will continue on an at- will basis. At- will employment means that either the Company or Executive may terminate Executive's employment at any time and for any or no reason, without advance notice.

2. Employment Agreement Termination Benefits. In exchange for Executive's agreement to be bound by the terms of this Release, including, but not limited to, the release of claims in Section 3, Executive shall be entitled to receive the following, which shall be the exclusive benefits to which Executive is entitled as a result of the termination of the Employment Agreement, unless Executive has materially breached the provisions of this Release, in which case Section 4(e)(iii) shall apply:

(a) A cash payment in the amount of \$232,500, payable in a lump sum following the Effective Date (but in no event later than March 14, 2018); plus

(b) Executive's outstanding stock options to purchase shares of the Company's common stock granted under the Company's equity plan (the "Stock Options") will continue to vest following the Transition Date so long as Executive continues to be employed by or providing services to the Company. In the event of Executive's termination of employment or service, his vested Stock Options as of such termination date may be exercised by Executive (or Executive's legal guardian or legal representative) until the later of (i) September 11, 2018 or (ii) such later date as such Stock Options remain exercisable pursuant to their terms; provided, however, that in no event shall any Stock Option remain exercisable beyond the original outside expiration date of such Stock Option. Except as modified above, Executive's Stock Options shall continue to be governed by the terms and conditions of the Stock Option agreements and the Company's equity plan pursuant to which such Stock Options were granted.

3. General Release of Claims by Executive.

(a) Executive, on behalf of himself and his executors, heirs, administrators, representatives and assigns, hereby agrees to release and forever discharge the Company and all predecessors, successors and their respective parent corporations, affiliates, related, and/or subsidiary entities, and all of their past and present investors, directors, shareholders, officers, general or limited partners, employees, attorneys, agents and representatives, and the employee benefit plans in which Executive is or has been a participant by virtue of his employment with or service to the Company (collectively, the "Company Releasees"), from any and all claims, debts, demands, accounts, judgments, rights, causes of action, equitable relief, damages, costs, charges, complaints, obligations, promises, agreements, controversies, suits, expenses, compensation, responsibility and liability of every kind and character whatsoever (including attorneys' fees and costs), whether in law or equity, known or unknown, asserted or unasserted, suspected or unsuspected (collectively, "Claims"), which Executive has or may have had against such entities based on any events or circumstances arising or occurring on or prior to the date hereof, arising directly or indirectly out of, relating to, or in any other way involving in any manner whatsoever Executive's employment by or service to the Company or the termination of the Employment Agreement, including any and all claims arising under federal, state, or local laws relating to employment, including without limitation claims of wrongful discharge, breach of express or implied contract, fraud, misrepresentation, defamation, or liability in tort, and claims of any kind that may be brought in any court or administrative agency including, without limitation, claims under Title VII of the Civil Rights Act of 1964, as amended, 42 U.S.C. Section 2000, et seq.; the Americans with Disabilities Act, as amended, 42 U.S.C. § 12101 et seq.; the Rehabilitation Act of 1973, as amended, 29 U.S.C. § 701 et seq.; the Civil Rights Act of 1866, and the Civil Rights Act of 1991; 42 U.S.C. Section 1981, et seq.; the Age Discrimination in Employment Act, as amended, 29 U.S.C. Section 621, et seq. (the "ADEA"); the Equal Pay Act, as amended, 29 U.S.C. Section 206(d); regulations of the Office of Federal

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Contract Compliance, 41 C.F.R. Section 60, et seq.; the Family and Medical Leave Act, as amended, 29 U.S.C. § 2601 et seq.; the Fair Labor Standards Act of 1938, as amended, 29 U.S.C. § 201 et seq.; the Employee Retirement Income Security Act, as amended, 29 U.S.C. § 1001 et seq.; and the California Fair Employment and Housing Act, California Government Code Section 12940, et seq.

Notwithstanding the generality of the foregoing, Executive does not release the following claims:

- (i) Claims for unemployment compensation or any state disability insurance benefits pursuant to the terms of applicable state law;
- (ii) Claims for workers' compensation insurance benefits under the terms of any worker's compensation insurance policy or fund of the Company;
- (iii) Claims pursuant to the terms and conditions of the federal law known as COBRA;
- (iv) Claims for indemnity under the bylaws of the Company, as provided for by California law (including California Labor Code Section 2802) or under any applicable insurance policy with respect to Executive's liability as an employee, director or officer of the Company;
- (v) Claims based on any right Executive may have to enforce the Company's executory obligations under this Release;
- (vi) Executive's right to bring to the attention of the Equal Employment Opportunity Commission or the California Department of Fair Employment and Housing claims of discrimination; provided, however, that Executive does release his right to secure any damages for alleged discriminatory treatment;
- (vii) Executive's right to communicate or cooperate with any government agency; and
- (vii) Any other Claims that cannot be released as a matter of law.

(b) EXECUTIVE ACKNOWLEDGES THAT HE HAS BEEN ADVISED OF AND IS FAMILIAR WITH THE PROVISIONS OF CALIFORNIA CIVIL CODE SECTION 1542, WHICH PROVIDES AS FOLLOWS:

“A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH, IF KNOWN BY HIM OR HER, MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.”

BEING AWARE OF SAID CODE SECTION, EXECUTIVE HEREBY EXPRESSLY WAIVES ANY RIGHTS HE MAY HAVE THEREUNDER, AS WELL AS UNDER ANY OTHER STATUTES OR COMMON LAW PRINCIPLES OF SIMILAR EFFECT.

(c) Executive acknowledges that this Release was presented to him on September \_\_, 2017, and that Executive is entitled to have twenty- one (21) days' time in which to consider it. Executive further acknowledges that the Company has advised him that he is waiving his rights under the ADEA, and

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that Executive should consult with an attorney of his choice before signing this Release, and Executive has had sufficient time to consider the terms of this Release. Executive represents and acknowledges that if Executive executes this Release before twenty- one (21) days have elapsed, Executive does so knowingly, voluntarily, and upon the advice and with the approval of Executive's legal counsel (if any), and that Executive voluntarily waives any remaining consideration period.

(d) Executive understands that after executing this Release, Executive has the right to revoke it within seven (7) days after his execution of it. Executive understands that this Release will not become effective and enforceable unless the seven (7) day revocation period passes and Executive does not revoke the Release in writing. Executive understands that this Release may not be revoked after the seven (7) day revocation period has passed. Executive also understands that any revocation of this Release must be made in writing and delivered to the Chief Executive Officer of the Company, the Company's principal place of business, within the seven (7) day period.

(e) Executive understands that this Release shall become effective, irrevocable, and binding upon Executive on the eighth (8th) day after his execution of it, so long as Executive has not revoked it within the time period and in the manner specified in clause (d) above.

#### 4. Confirmation of Continuing Obligations.

(a) Proprietary Rights Agreement. Executive hereby expressly reaffirms his obligations under the Company's standard employee innovations and proprietary rights assignment agreement (the "Proprietary Rights Agreement"), which Executive has previously executed, a copy of which is attached to this Release as Exhibit A and incorporated herein by reference, and agrees that such obligations shall continue to apply during Executive's employment following the Transition Date and shall survive any termination of his employment or services to the Company.

(b) Customers and Suppliers. Executive recognizes that he possesses Proprietary Information (as such term is defined in the Proprietary Rights Agreement) about the customers or suppliers of the Company and its subsidiaries and affiliates. Executive recognizes that the Proprietary Information he possesses about these customers or suppliers may not be generally known, is of substantial value to the Company and its subsidiaries in developing its business and in securing and retaining customers, and was acquired by him because of his business position with the Company and its subsidiaries and affiliates. Executive agrees that, for a period of nine (9) months beyond the date on which his employment or service with the Company terminates, he will not, directly or indirectly, influence or attempt to influence customers or suppliers of the Company or any of its subsidiaries or affiliates to divert their business to any competitor of the Company, and that he will not convey any such Proprietary Information or trade secrets about the customers or suppliers of the Company and its subsidiaries or affiliates to any other person.

(c) Employees. Executive recognizes that he possesses Proprietary Information about other employees of the Company and its subsidiaries and affiliates relating to their education, experience, skills, abilities, compensation and benefits, and inter- personal relationships with customers of the Company and its subsidiaries and affiliates. Executive recognizes that the Proprietary Information he possesses about these other employees is not generally known, is of substantial value to the Company and its subsidiaries in developing its business and in securing and retaining customers, and will be acquired by him because of his business position with the Company and its subsidiaries and affiliates. Executive agrees that, for a period of nine (9) months beyond the date on which his employment or service with the Company terminates, he will not, directly or indirectly, induce, solicit or recruit any employee of the

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Company or its subsidiaries or affiliates for the purpose of being employed by him or by any competitor of the Company on whose behalf he is acting as an agent, representative or employee, and that he will not convey any such Proprietary Information or trade secrets about other employees of the Company and its subsidiaries or affiliates to any other person.

(d) Reasonableness of Relief: Blue Penciling. Executive acknowledges and agrees that the covenants and agreements contained herein are reasonable and valid in geographic and temporal scope and in all other respects and are reasonably necessary to protect the Company. If any court determines that any of the covenants and agreements contained herein, or any part thereof, is unenforceable because of the duration or geographic scope of such provision, such court shall have the power to reduce the duration or scope of such provision, as the case may be, and, in its reduced form, such provision shall then be enforceable to the maximum extent permitted by applicable law.

(e) Rights and Remedies Upon Breach. In the event Executive breaches, or threatens to commit a breach of, any of the provisions of this Section 4, the Company and its subsidiaries, affiliates, successors or assigns shall have the following rights and remedies, each of which shall be independent of the others and severally enforceable, and each of which shall be in addition to, and not in lieu of, any other rights or remedies available to the Company or its subsidiaries, affiliates, successors or assigns at law or in equity under this Release or otherwise:

(i) Specific Performance. The right and remedy to have each and every one of the covenants in this Release specifically enforced and the right and remedy to obtain injunctive relief, it being agreed that any breach or threatened breach of any of the nonsolicitation or other restrictive covenants and agreements contained herein would cause irreparable injury to the Company and its subsidiaries, affiliates, successors or assigns and that money damages would not provide an adequate remedy at law to the Company and its subsidiaries, affiliates, successors or assigns.

(ii) Accounting. The right and remedy to require Executive to account for and pay over to the Company and its subsidiaries, affiliates, successors or assigns, as the case may be, all compensation, profits, monies, accruals, increments or other benefits derived or received by Executive that result from any transaction or activity constituting a breach of this Release.

(iii) Cessation of Payments. The right to cease all severance payments to Executive hereunder.

(f) Enforceability in all Jurisdictions. Executive intends to and hereby confers jurisdiction to enforce each and every one of the covenants and agreements contained herein upon the courts of any jurisdiction within the geographic scope of such covenants and agreements. If the courts of any one or more of such jurisdictions hold any such covenant or agreement unenforceable by reason of the breadth of such scope or otherwise, it is the intention of Executive and the Company that such determination shall not bar or in any way affect the Company's or any of its subsidiaries', affiliates', successors' or assigns' right to the relief provided above in the courts of any other jurisdiction within the geographic scope of such covenants and agreements, as to breaches of such covenants and agreements in such other respective jurisdictions, such covenants and agreements as they relate to each jurisdiction being, for this purpose, severable into diverse and independent covenants and agreements.

(e) Whistleblower Provision. Notwithstanding the foregoing, or anything contained in the Proprietary Rights Agreement, Executive acknowledges that he will not be held criminally or civilly liable for (i) the disclosure of confidential or proprietary information that is made in confidence to a government official or to an attorney solely for the purpose of reporting or investigating a suspected violation

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of law, or (ii) disclosure of confidential or proprietary information in a made in a complaint or other document filed in a lawsuit or other proceeding under seal or pursuant to court order.

5. Nondisparagement; Confidentiality. Executive agrees that he shall not disparage or otherwise communicate negative statements or opinions about the Company, its board members, officers, employees, shareholders or agents; provided, however, that Executive shall not be prohibited from making such statements or opinions to his immediate family so long as such statements or opinions are not likely to be harmful to the Company, its board members, officers, employees, shareholders or agents or its or their businesses, business reputations, or personal reputations. The Company agrees that neither its board members nor officers shall disparage or otherwise communicate negative statements or opinions about Executive. Nothing in this Section 5 shall prohibit Executive from (a) testifying in any legal proceeding in which his testimony is compelled by law or court order and no breach of this provision shall occur due to any accurate, legally compelled testimony or (b) communicating or cooperating with any government agency.

6. Binding Arbitration. Except as provided in Section 4 of this Release, any dispute, claim or controversy based on, arising out of or relating to Executive's employment or this Release shall be settled by final and binding arbitration in Palo Alto, California, before a single neutral arbitrator in accordance with the employment arbitration rules (the "Rules") of the Judicial Arbitration and Mediation Services/Endispute ("JAMS"), and judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction. The Rules may be found online at [www.jamsadr.org](http://www.jamsadr.org). Arbitration may be compelled pursuant to the California Arbitration Act (Code of Civil Procedure §§ 1280 et seq.). If the parties are unable to agree upon an arbitrator, one shall be appointed by JAMS in accordance with its Rules. Subject to Section 7 below, each party shall pay the fees of its own attorneys, the expenses of its witnesses and all other expenses connected with presenting its case. Other costs of the arbitration, including the cost of any record or transcripts of the arbitration, JAMS's administrative fees, the fee of the arbitrator, and all other fees and costs, shall be borne by the Company. This Section 6 is intended to be the exclusive method for resolving any and all claims by the parties against each other for payment of damages under this Release or relating to Executive's employment; provided, however, that Executive shall retain the right to file administrative charges with or seek relief through any government agency of competent jurisdiction, and to participate in any government investigation, including but not limited to (a) claims for workers' compensation, state disability insurance or unemployment insurance; (b) claims for unpaid wages or waiting time penalties brought before the California Division of Labor Standards Enforcement; provided, however, that any appeal from an award or from denial of an award of wages and/or waiting time penalties shall be arbitrated pursuant to the terms of this Release; and (c) claims for administrative relief from the United States Equal Employment Opportunity Commission and/or the California Department of Fair Employment and Housing (or any similar agency in any applicable jurisdiction other than California); provided, further, that Executive shall not be entitled to obtain any monetary relief through such agencies other than workers' compensation benefits or unemployment insurance benefits. This Release shall not limit either party's right to obtain any provisional remedy, including, without limitation, injunctive or similar relief, from any court of competent jurisdiction as may be necessary to protect their rights and interests pending the outcome of arbitration, in any court of competent jurisdiction pursuant to California Code of Civil Procedure § 1281.8 or any similar statute of an applicable jurisdiction. Seeking any such relief shall not be deemed to be a waiver of such party's right to compel arbitration. Both Executive and the Company expressly waive their right to a jury trial.

7. Attorney Fees. In the event that any dispute between the Company and Executive should result in arbitration, the arbitrator may award to one or more of the Prevailing Persons (as defined below) such reasonable attorney fees, costs and expenses, as determined by the arbitrator. Any judgment or order enforcing such arbitration may, in the discretion of the court entering such judgment or order contain, a specific provision providing for the recovery of attorney fees and costs incurred in enforcing such judgment

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or order and an award of prejudgment interest from the date of the breach at the maximum rate of interest allowed by law. For the purposes of this Section 7: (a) “attorney fees” shall include, without limitation, attorney fees incurred in the following: (i) arbitration; (ii) post- arbitration order or judgment motions; (iii) contempt proceedings; (iv) garnishment, levy, and debtor and third party examinations; (v) discovery; and (vi) bankruptcy litigation; and (b) “Prevailing Person” shall mean any person who is determined by the arbitrator in the proceeding to have prevailed or who prevails by dismissal, default or otherwise.

8. Miscellaneous.

(a) Assignment: Assumption by Successor. The rights of the Company under this Release may, without the consent of Executive, be assigned by the Company, in its sole and unfettered discretion, to any person, firm, corporation or other business entity which at any time, whether by purchase, merger or otherwise, directly or indirectly, acquires all or substantially all of the assets or business of the Company. The Company will require any successor (whether direct or indirect, by purchase, merger or otherwise) to all or substantially all of the business or assets of the Company expressly to assume and to agree to perform this Release in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place; provided, however, that no such assumption shall relieve the Company of its obligations hereunder. As used in this Release, the “Company” shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Release by operation of law or otherwise.

(b) Survival. The covenants, agreements, representations and warranties contained in or made in Sections 2, 3, 4, 5, 6, 7 and 8 of this Release shall survive Executive’s termination of employment or service or any termination of this Release.

(c) Severability. In the event any provision of this Release is found to be unenforceable by an arbitrator or court of competent jurisdiction, such provision shall be deemed modified to the extent necessary to allow enforceability of the provision as so limited, it being intended that the parties shall receive the benefit contemplated herein to the fullest extent permitted by law. If a deemed modification is not satisfactory in the judgment of such arbitrator or court, the unenforceable provision shall be deemed deleted, and the validity and enforceability of the remaining provisions shall not be affected thereby.

(d) Interpretation: Construction. The headings set forth in this Release are for convenience only and shall not be used in interpreting this Release. This Release has been drafted by legal counsel representing the Company, but Executive has participated in the negotiation of its terms. Furthermore, Executive acknowledges that Executive has had an opportunity to review and revise the Release and have it reviewed by legal counsel, if desired, and, therefore, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Release. Either party’s failure to enforce any provision of this Release shall not in any way be construed as a waiver of any such provision, or prevent that party thereafter from enforcing each and every other provision of this Release.

(e) Governing Law and Venue. This Release shall be governed by the laws of the State of California as they are applied to contracts between California residents to be performed completely within California. The parties irrevocably submit to the non- exclusive jurisdiction of the Superior Court of the State of California, Santa Clara County, and the United States District Court for the Northern District of California, Branch nearest to Palo Alto, California, in any action to enforce an arbitration award or any other suit brought hereunder. Each party hereby agrees that any such court shall have in personam jurisdiction over it and consents to service of process in any manner authorized by California law.

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(f) Entire Agreement; Modification. This Release, the Proprietary Rights Agreement and the offer letter to be entered into by Executive and the Company following the Transition Date set forth the entire understanding of the parties with respect to the subject matter hereof and thereof and supersede all existing agreements between them concerning such subject matter. The Employment Agreement shall be superseded entirely by this Release and the Employment Agreement shall be terminated and be of no further force or effect. This Release may be amended or modified only with the written consent of Executive and an authorized representative of the Company. No oral waiver, amendment or modification will be effective under any circumstances whatsoever.

(g) Counterparts. This Release may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same Release.

(h) Withholding and other Deductions. All compensation payable to Executive hereunder shall be subject to such deductions as the Company is from time to time required to make pursuant to law, governmental regulation or order.

(i) Code Section 409A.

**(i) This Release is not intended to provide for any deferral of compensation subject to Section 409A of the Code, and, accordingly, the amounts payable hereunder shall be paid no later than the later of: (A) the fifteenth (15th) day of the third month following Executive's first taxable year in which such amounts are no longer subject to a substantial risk of forfeiture, and (B) the fifteenth (15th) day of the third month following first taxable year of the Company in which such amounts are no longer subject to substantial risk of forfeiture, as determined in accordance with Code Section 409A and any Treasury Regulations and other guidance issued thereunder. Each series of installment payments made under this Release is hereby designated as a series of "separate payments" within the meaning of Section 409A of the Code.**

(ii) To the extent applicable, this Release shall be interpreted in accordance with the applicable exemptions from Section 409A of the Code. To the extent that any provision of the Release is ambiguous as to its compliance with Section 409A of the Code, the provision shall be read in such a manner that no payments payable under this Release shall be subject to an "additional tax" as defined in Section 409A(a)(1)(B) of the Code.

(iii) Any reimbursement of expenses or in-kind benefits payable under this Release shall be made in accordance with Treasury Regulation Section 1.409A-3(i)(1)(iv) and shall be paid on or before the last day of Executive's taxable year following the taxable year in which Executive incurred the expenses. The amount of expenses reimbursed or in-kind benefits payable during any taxable year of Executive's will not affect the amount eligible for reimbursement or in-kind benefits payable in any other taxable year of Executive's, and Executive's right to reimbursement for such amounts shall not be subject to liquidation or exchange for any other benefit.

(j) RIGHT TO ADVICE OF COUNSEL. EXECUTIVE ACKNOWLEDGES THAT HE HAS THE RIGHT, AND IS ENCOURAGED, TO CONSULT WITH HIS LAWYER; BY HIS SIGNATURE BELOW, EXECUTIVE ACKNOWLEDGES THAT HE HAS CONSULTED, OR HAS ELECTED NOT TO CONSULT, WITH HIS LAWYER CONCERNING THIS RELEASE.

(Signature Page Follows)

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IN WITNESS WHEREOF, the parties have executed this Release as of the dates set forth below.

**DASAN ZHONG  
SOLUTIONS, INC.**

Date: September 11, 2017 By: /s/ Il Yung Kim  
Name: Il Yung Kim  
Chief Executive  
Title: Officer

**EXECUTIVE**

Date: September 11, 2017 By: /s/ Il Yung  
Kim  
Kirk  
Misaka

**EXHIBIT A**

**EMPLOYEE INNOVATIONS AND PROPRIETARY RIGHTS ASSIGNMENT AGREEMENT**

**CERTIFICATION OF CO- CHIEF EXECUTIVE OFFICER  
PURSUANT TO  
RULE 13a- 14(a)/15d- 14(a)**

I, Il Yung Kim, certify that:

1. I have reviewed this Quarterly Report on Form 10- Q of DASAN Zhone Solutions, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a- 15(e) and 15d- 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a- 15(f) and 15d- 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: November 14, 2017

/s/ **IL YUNG KIM**

Il Yung Kim

President, Chief Executive Officer, Acting Chief Financial Officer and  
Director

**SECTION 1350 CERTIFICATION**

Pursuant to 18 U.S.C. Section 1350, Il Yung Kim, President, Chief Executive Officer, Acting Chief Financial Officer and Director of DASAN Zhone Solutions, Inc. (the "Company"), hereby certify that, to his knowledge:

1. The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, 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: November 14, 2017

\_\_\_\_\_  
/s/ **IL YUNG KIM**

**Il Yung Kim**

President, Chief Executive Officer, Acting Chief Financial Officer and  
Director