



**Airgain, Inc.**

**Second Quarter 2018 Earnings Conference Call**

**August 9, 2018**

## C O R P O R A T E   P A R T I C I P A N T S

**Jim Sims**, *Interim President and Chief Executive Officer*

**Anil Doradla**, *Chief Financial Officer*

**Jacob Suen**, *Senior Vice President, Worldwide Sales*

## C O N F E R E N C E   C A L L   P A R T I C I P A N T S

**Craig Ellis**, *B. Riley FBR*

**Karl Ackerman**, *Cowen & Company*

**Gus Richard**, *Northland Securities, Inc.*

## P R E S E N T A T I O N

### **Operator:**

Good afternoon. Welcome to Airgain's Second Quarter 2018 Earnings Conference Call. My name is Latania and I will be your coordinator for today's call. Joining us for today's call are Airgain's Interim CEO, Jim Sims; CFO Anil Doradla, and Senior Vice President Jacob Suen.

I would now like to turn the call over to Mr. Doradla, who will provide the necessary cautions regarding the forward-looking statements made by Management during today's call. Please proceed.

### **Anil Doradla:**

Thank you and good afternoon everyone. Please note that certain information discussed on the call today is covered under the Safe Harbor provisions of the Private Securities Litigation Reform Act. I caution listeners that during this call Airgain management will be making forward-looking statements about future events and Airgain's business strategy and future financial and operating performance, including performance for third quarter and Fiscal 2018. Actual results could differ materially from those stated or implied by these forward-looking statements due to risks and uncertainties associated with the Company's business. These forward-looking statements should be considered in conjunction with, and are qualified by, the cautionary statements contained in Airgain's earnings release and SEC filings, including its Form 10-Q, which we filed today, August 9, 2018.

This conference call contains time-sensitive information that is accurate only as of the date of this live broadcast, August 9, 2018. Airgain undertakes no obligation to revise or update any forward-looking statements to reflect events or circumstances after the date of this conference call.

This conference call may include a discussion of non-GAAP financial measures, including non-GAAP net income, non-GAAP EPS and Adjusted EBITDA. Please see today's earnings release, which is posted on Airgain's website for further details, including a reconciliation of the GAAP to non-GAAP results. Any discussion of non-GAAP measures is not intended to detract from the importance of comparable GAAP measures.

Finally, I would like to remind everyone on this call that this call will be recorded and made available for replay via a link available in the Investor Relations section of the Company's website at [www.airgain.com](http://www.airgain.com). Following Management's prepared remarks, we will open up the call for questions from Airgain's publishing sell-side analysts.

Now with that, I would like to turn the call over to our Interim CEO Jim Sims. Jim?

**Jim Sims:**

Thank you, Anil. Welcome everyone and thank you for joining us today. After the market close, we issued a press release announcing our unaudited results for the second quarter ended June 30th, 2018 which is available in the Investor Relations section of our website.

I am very pleased to report another record sales quarter for Airgain. For the second quarter 2018, our sales were \$15 million, up 12.5% sequentially and 15% year-over-year. We witnessed continued strength in our Connected Home business where we saw the ramp of both new and existing programs. Furthermore, our Fleet business continues to gain healthy traction with customers and we remain on target to achieve continued revenue growth from this market.

I am also pleased to report that on a non-GAAP basis, we have returned to profitability. For the second quarter, our non-GAAP net income was \$245,000, up from a non-GAAP net loss of \$635,000 last quarter. As I highlighted on last quarter call, my top priority was returning the Company to sustainable profitability, both on a GAAP and a non-GAAP basis. During the quarter we made some changes that I believe will enable us to achieve that objective. As we look towards the second half of the year, we believe the combination of improving operational efficiencies and greater discipline on spending will enable us to achieve our goals of sustainable profitability.

I would like to provide some color around the operational initiatives we have put into process in the second quarter. To begin with, we have realigned our sales & marketing efforts to ensure that the spending not only meets our longer-term growth objectives but also supports our near-to-intermediate term profitability goals. Second, we are investing in our product development, which is R&D, to support new programs and products. Finally, we are investing in operations to improve efficiencies across our contract manufacturers and supply chain. We believe these initiatives will position Airgain well over the next several quarters and will support our efforts in Connected Home, Fleet aftermarket, and Auto OEM.

I would also like to highlight some of the key programs that have started ramping in the second quarter.

In France, we started shipping to a new Tier 1 carrier, a state of the art DSL Gateway with 15 Antennas that supports WiFi, LTE, Bluetooth and Zigbee.

In the enterprise market, we expanded our engagement with a Tier 1 customer with a new high-performance 802.11ac Wave 2 outdoor access point that includes an internal MIMO antenna.

On the aftermarket front, we are still on track to introducing three new Fleet and eight machine-to-machine antennas in the second half of 2018, bringing our antenna portfolio count for the year to 16.

All of our aftermarket antennas combine innovative RF design with significant reductions in footprint. We believe there are multiple incremental opportunities that include expanding our distribution partnerships in the U.S. and overseas and entering into new markets such as the military and public sector.

We have also initiated work with a global Tier 1 OEM in providing them with a 5G MIMO module for small-cells. On the 5G front, we have numerous patents and over time we believe Airgain is well positioned for this long-term opportunity.

On the public safety front, we have been chosen as a preferred vendor to a Tier 1 body cam provider. This is an existing customer to whom we already support antennas for FirstNet ready in-vehicle access points and ruggedized lap tops.

In a moment, I'll be happy to take any questions, but before I do I'd like to turn the call over to our Chief Financial Officer Anil Doradla who will walk us through the financial highlights for the quarter.

**Anil Doradla:**

Good afternoon. I will provide key financial highlights for the second quarter 2018 and provide some preliminary color around the third quarter. As you know, due to the nature of our business, historically we have provided annual guidance and refrained from providing quarterly guidance. That said, given the multiple expense and cost alignment initiatives that the Company is in the midst of, we felt it would be beneficial to the investment community to provide incremental color around the third quarter. We would also like to highlight that as we enter into 2019 we plan to revert back once again to our historical trend of providing annual guidance.

Reported sales of \$15 million grew 12.5% on a sequential basis and 15% on a year-over-year basis. Key strength in the quarter was driven by new program ramps across large service providers and the pick-up in momentum of existing product ramps.

Second quarter gross profit was \$6.6 million or 44.1% of sales, versus \$6.6 million or 46.6% in the first quarter, and \$6.1 million or 47.0% of sales in the same period a year ago. The decline as a percentage of sales was largely driven by product mix and the initial ramp of new products.

Our GAAP net loss totaled \$3.2 million, or a loss of \$0.34 per diluted share based on 9.4 million shares, compared to a GAAP net loss of \$70,000, or a loss of \$0.01 per diluted share based on 9.5 million shares in the same period a year ago. On a non-GAAP basis, our net income was \$245,000 or \$0.02 per diluted share. During the quarter we incurred non-recurring costs that impacted our second quarter GAAP earnings by \$0.21 that included accelerated vesting of options of former executives, executive severance, and costs associated with sales and marketing realignment initiatives.

During the second quarter, we reached an agreement with Skycross on the payment of contingent consideration stemming from our 2015 acquisition. As a reminder, upon the purchase of certain Skycross assets in 2015 there was a remaining \$1 million in deferred purchase price on the balance sheet pertaining to the acquisition.

Once again, we were active during the quarter in terms of our share buyback program which, as a reminder, our Board approved in August of 2017. During the quarter, we purchased approximately 64,000 shares for \$543,000. Since the buyback was implemented, we have purchased a total of 285,000 shares for \$2.6 million. Additionally, our Board of Directors recently approved an extension to the existing program for an additional year expiring in August 2019.

Finally, our cash equivalents and short-term investments totaled \$32.1 million.

As we highlighted above, GAAP net loss was \$3.2 million and non-GAAP net income was \$245,000. Let me walk you through the GAAP to non-GAAP reconciliation.

The key components to these adjustments are tied to personnel changes, amortization, stock-based compensation and the realignment of our sales and marketing efforts. During the quarter there was approximately \$169,000 in amortization, \$1.76 million in stock-based compensation which included accelerated vesting of options of former executives, and approximately \$1.9 million in executive severance along with the sales & marketing realignment.

As Jim pointed out earlier, over the past 90 days we have taken a closer look at our spending levels and these changes reflect our desire to maintain sustainable profitability. We feel good about these actions and believe we have put in place the foundation for Airgain's future profitable growth.

Now I would like to provide preliminary outlook for the third quarter 2018. For the third quarter 2018, we expect sales to be in the range of \$15.6 million to \$15.8 million. At the midpoint of \$15.7 million, we expect to grow 5% on a sequential basis and 26% on a year-over-year basis. On a non-GAAP earnings basis, we expect third quarter 2018 to be in the range of \$0.03 to \$0.05 cents and on a GAAP basis we expect to be breakeven. Furthermore, for Fiscal 2018, the Company projects sales outlook of at least 20% growth of Fiscal 2017.

This completes my financial summary. I will now turn the call over to Jim. Jim?

**Jim Sims:**

Thank you Anil, and thanks to everyone for being on the call today. Before I open the call for questions, I wanted to share a couple of closing thoughts.

As you may recall, in our first quarter earnings call we highlighted returning the Company to sustainable profitability in the second half of 2018. To achieve that goal, we embarked on a two-fold strategy. The first was focus on achieving greater efficiency by ensuring that our operating expenses, especially on the sales and marketing front, were aligned with the Company's profitability objectives. The second was focused on the gross margin front by ensuring our manufacturing, supply chain, and contract manufacturers were setup for Airgain's long term success.

As the second quarter results highlight, we have made significant progress in realigning our operating expenses by taking a more disciplined approach to how we execute our growth strategies. Additionally, as we enter the second half of 2018, we will kick off several additional initiatives to ensure greater efficiency of our manufacturing and supply chain in the long run. These include broadening our contract manufacturing relationships to leverage better pricing, and expanding our supply chain to support our new product initiatives, especially in the automotive market.

We currently work with two contract manufacturers in China. Given the growth opportunities in front of us, we are pursuing one or more additional contract manufacturing partners. We have also deepened our supply chain and product quality bench with additional resources to prepare for our projected growth.

In our first quarter earnings call, we highlighted our business being supported by three pillars of growth. The first is tied to the upgrade cycle for the next generation WiFi technologies in the Connected Home. On that front, and as the second quarter results highlight, we are now witnessing product ramping and expect it to play out favorably over multiple quarters. The second pillar of growth is the automotive fleet, IoT, and enterprise. Similar to the first pillar, we continue to see positive trends across each of these markets. On the automotive fleet market, we believe the products that we are developing and are

expected to be released in the second half of the year will provide us with a healthy tailwind as we enter 2019.

Finally, on the automotive OEM market, as we expected, in the second quarter we continued to execute on multiple OEM engagements that will lead us to incremental revenue in the 2020 and beyond timeframes.

In conclusion, we feel real good of what we have set out to do over the past 90 days, and more importantly, we are confident of achieving our goals of not only showcasing healthy growth, but also profitability on a sustainable basis.

With that, we're ready to open the call for your questions. Operator, please provide the appropriate instructions.

**Operator:**

Thank you. We will now take questions from Airgain's Publishing Sell Side Analysts. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. Once again, that's star, one at this time. One moment while we poll for our first question.

Our first question comes from Craig Ellis with B. Riley. Please proceed with your question.

**Craig Ellis:**

Thanks for the question and congratulations on the good financial execution in the quarter guys. Jim, I wanted to follow up with some of the comments that you made regarding growth initiatives and understand what those meant intermediate and longer term. The growth objectives outlined on the last call, we can check three boxes. It looks like those are performing well and you identified some new things that were happening earlier in your prepared comments. So as we add it up all, does this mean that the business can sustain 20% growth intermediate term, or with some of the things that are happening intraquarter are you seeing an acceleration in growth that could happen exiting this year and into next year?

**Jim Sims:**

What a great question. Our three pillars, we talk about our Connected Home, we talk about our fleet, everything in those markets will allow us to sustain our 20% growth rate during the second half of this year, so, we're very comfortable with that. As we move into next year, both the transition that's happening in the Connected Home should continue, so we see our growth continuing in that area. We actually expect our fleet aftermarket to improve with the 16 new products that we announced this year, so I would see an improvement in growth there.

The next area really is we'll start to move into the 5G sub-6 gigahertz. That will start to transition next year, which I think will give us growth, and to be honest with you, we're going to focus on—I think we're in a pretty good shape for '19 based on all the initiatives we've taken.

What our focus now is to make darn sure we're on the forefront of the 5-millimeter wave of 5G as we enter 2020, so we are focused on that like a razor, I tell you, to make that happen because that's going to move us into the small cell area, all these new areas where we want to participate in.

I'm comfortable with our near-term growth as outlined by Anil. I'm comfortable with our growth going into next year with our current offerings and current strategy, and now we're trying to focus on 2020 and beyond.

**Craig Ellis:**

Great.

**Anil Doradla:**

Hey, Craig. Thanks. Let me just add one thing, Craig, if you don't mind.

**Craig Ellis:**

Sure.

**Anil Doradla:**

As Jim said, when Jim came on board 90 days ago, and when we look at the business now, the trends are very positive and we're in a product cycle. Just want to make it clear that our focus is in 2018, trends are positive, but we're not providing any guidance for 2019. We'll give you more color as the year turns around.

**Craig Ellis:**

Yes, that's completely fair, Anil. If I could ask a follow up question on gross margins, it seems like the new product dynamics that are playing in the business in the second quarter resulted in about a 270 basis point decrease in gross margins quarter-on-quarter. Are the operating initiatives that were outlined in prepared remarks intended to get gross margin back up to prior quarter and prior year levels, or are there things that are related either to yield or other manufacturability issues that in their own right can lift gross margins back towards levels where I think the company has targeted in the past?

**Anil Doradla:**

Hey, Craig. Thanks for the question. Great question again. As Jim pointed out, there were two parts of our strategy. The first part we talked about extensively was around the operating expenses. The second part was around the whole manufacturing process. Now, there are multiple elements there. The first element is product mix, right? You've got large service provider ramps going on, and typically, when you have those, there is going to be a mix issue.

The second element of that is around as a smaller company we had a certain structure with our contract manufacturers, and when Jim came on board, he said, "All right, let's go ahead and take a look at it, kind of a little bit in the near term, intermediate and long term," and one of the things that we felt was that we have to invest a little bit more there and we have to invest for kind of supporting our long-term growth.

I would also say that being a smaller company, I think the scale advantages that some of the bigger guys have, we don't have that, so we're trying to work on that. So your question is absolutely right; the focus is eventually getting back to good levels, but for that, we would have to kind of invest a little bit in the near term to intermediate term. Jim, you want to add?

**Jim Sims:**



Yes. Maybe I could just add to that. First, I want to make it clear, during the last quarter the restructuring charge that we have taken was to align our operating expenses, and I call that course granularity. We went after the biggest stuff, we got it done. I'm very comfortable with our operating expenses going forward, we don't see any more need for that.

On the margin side, we're focused on that this next quarter. This is not course granularity, it's fine granularity, that we have to work with the contract manufactures. We think there is opportunities across that area. Anil and myself are focused on that, literally the next couple of weeks, to try to make sure not just this year but as we enter next year, we're getting the maximum value we can with the maximum flexibility. Because we have all sorts of flexibility where we can move our SKUs, what the margins are in SKUs, how we can improve our margins on the SKUs, but we're focused on that. I think the mid-range where we were at last year are pretty sustainable once we both get the new products going in the marketplace and we focus on our factories.

**Craig Ellis:**

That makes sense. Lastly, if I could, with regard to the operating expense initiatives, is that intended to retain expenses at current levels while you fund the incremental growth initiatives that you have outlined, or is there an intent to take operating expense dollars down, and if so, to what degree?

**Jim Sims:**

First, the expense changes that we made are sustainable, meaning nothing that we've done will hurt the growth of the Company going forward in the third quarter and fourth quarter. So, we are on target to make that happen.

Now, I think what you will see as we move forward, our expenses will always grow at a slower rate than our revenues and our margins are going to grow at. So, we plan to constantly improve profitability in this company. We're making the investments, but a lot of the investments—where you see us making investments, look, we're a technology company. We're the best RF people out there in the world. We're going to our make investments around making sure we are state-of-the-art technology and we beat the next trends that are going to happen, so we'll invest in that but it's not going to be incremental relative to the organic growth we can get from revenues.

**Anil Doradla:**

Craig, building up on with Jim said, we just completed kind of a 90-day review. We're looking at opportunities and all that stuff. I think in a quarter or two you will have a lot more clarity on how some these trends are playing out. But what is very clear is that what you saw in the recent past where some of the growth outpaced our top line growth, that definitely will not happen.

**Craig Ellis:**

Makes sense, guys. Appreciate the color. Thank you.

**Anil Doradla:**

Thanks, Craig.

**Jim Sims:**



Thank you.

**Operator:**

Thank you. Our next question comes from Karl Ackerman with Cowen. Please proceed with your question.

**Karl Ackerman:**

Hi, good afternoon, gentleman, and congrats on (inaudible). Jim or Anil, first on the cable side, you've seen some (inaudible) across the supply chain with the chipset makers showing healthy growth, but the rest of the supply chain has struggled quite a bit. May you comment how the component shortages in slightly higher levels of DOCSIS 3 inventory factor into your optimistic guide for September in the December quarter? And I have a follow up, please.

**Anil Doradla:**

Sure, Karl. Great question, and you're absolutely right, right? I mean there is enough commentary across the whole ecosystem around some of these puts and takes.

Now, one of the key things that I always like to remind people is that our lead times are very short, right? When we actually sell and we show the growth, it's a reflection of kind of the end markets. Now in our case, what we are seeing is we have to some extent some level of diversification of products. We not only are in the service provider business, but we have other stuff, the fleet aftermarket and so forth, so the mechanics and dynamics there are slightly different from a component shortages point of view.

Now, we have to remember, this is going to something that will impact kind of industry wide. But I think, what is happening is that being—we've got some new product cycles. We've got some diversified product cycles and from what we are seeing right now, we feel very good about how the third quarter guidance is set up.

Without getting into too many details, we've taken some of these things into account. Jim, I don't know whether you want to add?

**Jim Sims:**

Yes, let me just add to that. We're aware of the component shortages in the carrier side. We have taken that into consideration with any guidance that we have given you.

**Karl Ackerman:**

Perfect. I appreciate that. As a follow up, may you comment on how many Tier 1 cable MSOs adopted your DOCSIS 3.1 solutions? Because your optimism extending into September would seem to certainly indicate, it's now beyond just the Tier 1 MSO provider in the U.S. Any commentary there would be helpful.

**Anil Doradla:**

Karl, this is Anil. The exact number, again the definition of Tier 1, Tier 2, right, let's put it this way. When we look at major initiatives across the Western world, we are either shipping or we are actively engaged with these guys. I think it's fair to say that every chipset provider who is working on 802.11ac, .ax or whatever the next generation is, we are engaged with them. I mean we're on the reference design of who's who in the chipset industry.

Within North America, we're participating very actively in healthy ramps. In other parts we are. I won't be able to provide you the exact number because I actually don't have that, unfortunately, but it's fair to say Karl, that wherever something is going on, if it's being provided by one of these six or seven global chipset providers, we are either actively involved or we are part of the deployment. Jim, do you want to add anything to that?

**Jim Sims:**

I can't add to that, Anil.

**Anil Doradla:**

All right.

**Jim Sims:**

Thank you.

**Karl Ackerman:**

Okay, perfect. Just one last question, if I may. It sounds like your fleet management business is continuing to hold up pretty well, but as we look into the September quarter, and also the December quarter as well, when should we expect a more meaningful impact on your automotive business from the rollout of FirstNet. Do you think that it's still something that can drive revenues in the second half of 2018 or is that more of a 2019 story? Thank you.

**Jim Sims:**

First of all, when we talk about—and I should clarify it further—the fleet, that sector of our business is fleet, it's machine-to-machine and it's IoT, so it has a broader—the 16 products we're shipping are broader than just fleet and FleetNet; it includes a far greater business opportunity for us. All of those look positive going forward. I would think the FleetNet is happening, but that will happen one city at a time, and I would expect us to see far more growth next year on that accelerated growth than just the second half of this year.

**Anil Doradla:**

Karl, building up on what Jim just said, the FirstNet, when it happens it happens. It's something that the government and AT&T and some of these bigger players are defining. So, when that happens, we're right there. Whether it's a first half 2019, second half of 2019 or even 2020, I just don't know, but all we know is that we're engaged with multiple agencies and when it happens we're there.

The other very interesting thing which I find very fascinating in Airgain—as you know, I've been here for six months—is the differentiation of that product line in the aftermarket and the fact that the demand really is outstripping some of the supplies. It has multiple quarters of secular trend, and it's a nice emerging tailwind for us. We feel very good about how it's going to play out this year and even next year and beyond.

**Jim Sims:**

Our Centurion product is going to roll out sometime in September, that's our new 9:1 antenna that's going to really fit into that market, so we won't start shipping that until probably September/October timeframe.

**Anil Doradla:**

Some of the comments that we talked about, operational efficiencies, were tied to some of these things where we have to get into more expanded capacity, support bigger growth and all those things. There are couple of things that are going on both in the Connected Home, as well as the aftermarket, but all these things lead us to be incrementally positive.

**Karl Ackerman:**

That's very helpful. Gentlemen, I appreciate the color and thank you.

**Anil Doradla:**

Thank you, Karl.

**Operator**

Thank you. At this time, this concludes our question-and-answer session. If your question was not taken, you may contact Airgain's Investor Relations at [investors@airgain.com](mailto:investors@airgain.com). I'd now like to turn the call back over to Mr. Sims for his closing comments.

**Jim Sims:**

Before I do that, we just have another. Northland has a question we would like to take.

**Operator:**

Sure. Gus Richard from Northland, please proceed.

**Jim Sims:**

Yes.

**Gus Richard:**

Thank you so much for taking my question. In your prepared comments you talked a little bit about a new design for a DSL box, in Europe I believe, and I was hoping you could give us a little color on how you see that ramping. Is that a bigger impact near term or is that a '19 opportunity?

**Anil Doradla:**

Gus, yes, you're right. We talked about France, and it is happening as we speak. It is something that is going to be a tailwind for us in the second half of 2018, and obviously it will rollover into 2019. It is a very advanced box and we feel pretty good about this design win, and we believe that this design win once again proves our ability to deliver very cutting edge technology. So, it is a second half and 2019.

**Gus Richard:**

Got it. Then, could you talk a little bit about—you talked about product mix having an issue with gross margins in the quarter. Can you give any more color on that in terms of is that MSO service provider? Is that some of your fleet products? Any additional color would be helpful.

**Anil Doradla:**

Sure. It's a combination of a couple of things that are going on. There is an element where the mix, both from an end customer and product play is there. What we also find is that when you have some of these initial ramps, there is a little bit more of a cost element. Even when you look at our MSO businesses, there are varying profiles. When certain MSOs gets stronger, obviously it's a tailwind; certain MSOs get stronger, it could be a little bit of a headwind.

The other element of this whole thing is just the whole gambit and backdrop of our operations, right? As Jim pointed out, we work with contract manufacturers and we're doing some work on that front too, which includes whether it's prototyping, whether it's improving efficiencies, whether it is cost downs, just a whole gambit, so there are many moving parts there. But at least in this quarter I would say it was largely driven by some of the MSO mix, but we're using this as an opportunity to take a very in-depth look at our manufacturing, and given that we've got demand outstripping what we could build out today in our fleet, plus the fact that we want to build out our third or fourth contract manufacturer, it takes a little bit of investment. Remember, every \$50,000 or \$100,000 might have several bps of margin impact. That's what we're really doing.

**Jim Sims:**

I just want to add to that; it's basically what we said earlier. Our focus in the last quarter was really on the growth granularity problem of expenses on our operating area. This quarter, we want to focus on what's going on in our factories. We think we are in good shape, we just think there's some improvement we can make there, and Anil and I are focused on that over the next quarter.

**Gus Richard:**

Got it. Thanks. Then, just one quick follow on. In terms of—obviously you have made some adjustments to your op ex. Is it fair to think that more of the cuts have come out of S&M, and maybe R&D may actually even go up from here, but absolute overall op ex could come down. Am I thinking about that correctly?

**Anil Doradla:**

Sure. Gus, great question. You're absolutely right. When Jim came on board 90 days ago, he took a look at the whole structure and his philosophy, which is consistent with previous management's too, was we're fundamentally an engineering company, so you are absolutely right with that observation. The focus tends to be engineering and that's what we're going to be investing in. Some of the other overhead stuff is something that we have taken a closer look. I don't know, Jim, if you want to add anything?

**Jim Sims:**

I think you'll see the G&A and the marketing expenses to go down dramatically, and you'll probably see a slight increase in the research and development.

**Gus Richard:**

Perfect. Got it. Thanks so much.

**Anil Doradla:**

Let me just add just a little statement there. I mean that what Jim talk about is kind of some of the maybe little longer term. The way we're going to look at it in the second quarter and third quarter, we're working on it. I don't want everyone modeling a dropdown in op ex, that's basically as we go into the second and third—I mean third quarter and fourth quarter over the kind of second quarter. We're going to be here in these comparable levels, but as we go forward, we're going to get some of the...

**Jim Sims:**

I was referring to the GAAP.

**Anil Doradla:**

Okay, okay, okay.

**Jim Sims:**

Just so you understand.

**Gus Richard:**

All right. I understand. All right, very good. Thanks so much.

**Anil Doradla:**

Thank you.

**Operator:**

At this time, this concludes our question and answer session. If your questions were not taken, you may contact Airgain's Investor Relations at [investors@airgain.com](mailto:investors@airgain.com). I'd now like to turn the call over to Mr. Sims for his closing remarks.

**Jim Sims:**

First, I'd like to thank all of you for joining us on this call today. I especially want to thank our employees, our partners, and all of our investors who have really been with us through this journey. We look forward to updating you on our next call three months from now.

Just by the way, during the upcoming quarter we'll be attending the ROTH Internet of Things Conference Day, September 5th in San Francisco, as well as Anil and I will be doing a non-deal roadshow, both in the Midwest and the East Coast over the next several weeks. With that, let me turn it back over to the operator.

**Operator:**

Thank you for joining us today for Airgain's Second Quarter 2018 Earnings Call. You may disconnect your lines.