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COMPANY INTERVIEW

ERIC KELLY

Sphere 3D Corp. (NASDAQ:ANY)

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Sphere 3D Corp. (NASDAQ:ANY)



ERIC KELLY has served as the Sphere 3D Corp. Chairman since July 2013 and Chief Executive Officer since the company's merger with Overland Storage in December 2014. Mr. Kelly served as Overland Storage's CEO since January 2009, its President and CEO since January 2010, and as a board member since November 2007. Prior to joining Overland, Mr. Kelly was President of Silicon Valley Management Partners Inc., a management consulting and M&A advisory firm, which he co-founded in 2007. He is a seasoned executive with over 30 years of experience in the technology industry. His earlier positions have included Vice President and General Manager of Storage Systems Solutions at Adaptec Inc.; President and CEO of Snap Appliance, which was acquired by Adaptec; President of the Systems Division at Maxtor Corp.; as well as various executive-

level roles with Dell Computer Corp., Diamond Multimedia, Conner Peripherals and IBM. Mr. Kelly currently serves on the U.S. Department of Commerce's Manufacturing Council, where he offers advice and counsel to the Obama administration on strategies and policy recommendations on ways to promote and advance U.S. manufacturing. He earned an MBA from San Francisco State University and a B.S. in business from San Jose State University.

SECTOR — MULTIMEDIA SOFTWARE

(AZU602) **TWST:** We spoke several years ago when you were leading Overland Storage. Would you start with an introduction to Sphere 3D in terms of the company's history and background?

Mr. Kelly: To give you a little background on Sphere 3D, it may be appropriate to start off where we ended when we talked a couple of years ago. Sphere 3D was a strategic partner of Overland Storage starting in 2013. Sphere 3D's strategy was to build the next-generation enterprise cloud infrastructure company, and it was very synergistic to what Overland was trying to accomplish as well when we talked back in 2014. Sphere 3D knew there were several components that needed to be pulled together from a technology perspective to really be able to achieve that enterprise cloud vision, and so that's really how the two companies came together. We knew we needed, what I call, a cloud component to the business; a virtualization component to enable any application on any device anywhere around the world; and an enterprise storage infrastructure component.

So what happened in 2014, probably right after you and I talked, was the integration of four companies. In January of 2014, Overland acquired Tandberg Data, which was a company that was in the same space that we were in, but they were headquartered in Germany. A few months after that, Sphere 3D acquired a company called V3 Systems here in the U.S., in Utah. And in December of 2014, Sphere 3D merged with Overland. So if you can picture it, we have four key components that came together in just 12 months to really build that cloud infrastructure, consisting of the containerization and virtualization infrastructure, as well as an enterprise storage platform. Those are the pieces that came together to help us achieve our vision to create a complete cloud experience for everyone.

People sometimes ask me, "Are you finished with the transformation?" I think, in technology, transformations are just part of the way you do business, but in terms of the integration of the companies,

I would say we're almost complete. There are always some minor things you're going to continue to tweak in terms of infrastructure and those types of things, but from a technology integration and an organization integration, all of those have been completed.

TWST: In light of the transition that the company has been in, would you give us an overview of the business, and your brands and product lines today?

Mr. Kelly: If you don't mind, I'll give you an overview of the business and share with you the thesis that we had back in 2014, actually earlier, probably 2012, that drove us to where we are today. There were a couple of trends that we saw happening in the industry, and it's really interesting because I tell people this story now, and they say, "Well, of course," but four years ago, it wasn't as real as it is today. One of the things we had identified was that the world was going to change, where mobile devices — whether smartphones, tablets, notebooks — were going to be the way that we all do business. Today, there are over 7 billion mobile devices out there, so that one came true.

We also said that companies would have somewhere between one and a half to two devices per employee. We kind of missed that one, as I think today it's probably three to four devices per employee. Personally, I have a tablet, an iPhone, a laptop and probably a couple of other things that I use on occasion. When I talk to some of our technical folks, they have four or five devices. The point there was, you're going to have to be able to support any device, anywhere, on any network, and people are going to want to be able to use them productively as they do their job.

Another prediction was the applications that people have been using, primarily Windows applications, are going to be either on-premise or in the cloud, or a hybrid cloud, so that when you're transitioning around the world or from location to location, you don't have to worry about whether or not you can access the applications.

And when I say cloud, it could be either a private cloud, something that's controlled by the company or a public cloud such as Microsoft or Google or Amazon. That part of the market is growing pretty fast.

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And then, another prediction was that the bandwidth requirements to be able to have access to any application and any piece of data on a cellular connection was going to be important. There's 3G. There's 4G. I even hear there's 5G coming out. So those are the industry trends that drove us to the vision we are marching toward today. Sometimes you hit the mark; sometimes you don't. The ones that we had identified really did come true, some faster than others, but they're here today.

When you look at where we are today through the integration of the four companies, we now have an impressive global footprint. We have customers in over 90 different countries, operations all around the world, manufacturing facilities in China, in the U.S. and in Mexico. We have engineering teams in multiple locations: Toronto, Colorado and in San Jose. And we have infrastructure and support teams, and sales and technical support throughout Europe, primarily in France, Germany, the U.K., Italy; an Asia operation, China, Japan, Singapore, Dubai; throughout the U.S. as well; and also in South America.

So that has really allowed the company to have a very broad global footprint to support our customers and deliver our technology. We also, through the integration of the companies, have probably one of the largest reseller networks in the world, roughly 20,000 resellers that, on a day-to-day basis, represent the company, and sell and support our products. So that gives you a feel in terms of what has happened from an operations standpoint.

If you look at what's happened from 2014 and 2015 from just a revenue trajectory, in 2014, our annual revenue was about \$12.2 million at Sphere 3D, and in 2015, our annual revenue was about \$65.5 million, a pretty substantial growth rate. Quite a bit of that, from Sphere 3D's perspective, was through acquisition, and some was organic. But at the end of the day, technology companies live and breathe through organic and inorganic growth as they continue to adopt technology.

Our disk and virtualization platform, which is one of our key strategic initiatives, grew from \$8.5 million to \$39.8 million in revenue. Our tape archive solutions grew from \$3.7 million to \$25.7 million. And our service revenue grew from \$1.3 million to \$10.7 million. I know you are going to ask me the question, “Can we continue that growth rate?” I'm not going to commit to that. However, we are at the stage to be able to really start leveraging some of the new

partnerships and some of the new initiatives we have in place. But from 2014 to 2015 was a pretty exciting time for us.

TWST: What collaborations and partnerships have you announced in the past year or so, and what is their significance for the company?

Mr. Kelly: When we talked in 2014, the two partnerships that I'm going to talk about we didn't yet have in play. The first one is Microsoft. We started the partnership with Microsoft at the beginning of 2015 and with the objective to work with them on our cloud initiative. We started the development and the go-to-market plans with them in early 2015, and by the end of 2015, we had both our application containerization and virtualization platform, called Glassware 2.0, as well as our storage platform, called SnapCLOUD, that had been launched in the Microsoft Azure cloud. So it's been a very exciting partnership with them. We actually went on a tour in 2015 with Microsoft to several locations at their technology centers here in the U.S. and in Toronto, and we're looking to expand that internationally this year.

The other exciting partnership, which just happened in February of this year, is with VMware. VMware announced their next-generation platform, Horizon Air with Hybrid-Mode, and we're one of just a couple of partners they selected. One is Dell; the other one is Sphere 3D here in the U.S. I think they have one international partner as well.

They selected us really because of our technology and our ability to deliver a unique architecture that allows customers of any size — from small customers all the way to large enterprise — to scale under a distributed architecture and start seeing the economic benefits of a virtual desktop versus a physical desktop. We're pretty excited to have VMware endorse our platform. When they announced the product in February, they rolled out a video, and we were front and center with Dell, EMC and VMware as their strategic partners on this new platform. And I can tell you, since we announced that, it has added another level of visibility for us, which is great. We're starting to see opportunities that before we would not have had the chance to participate in.

TWST: Who are your typical customers, and are there any industry verticals that you're particularly strong in?

Mr. Kelly: Our customers range from small and medium businesses all the way to the Fortune 500 companies. Our products scale to the enterprise level, but they start off at a very entry level so that small and medium businesses can leverage our enterprise solution. If you look at it from the vertical standpoint, we're very strong in most of the verticals. One of the ones that we've been focused on is video surveillance because all the cybersecurity and video security that companies are now putting in place requires them to have a lot more storage and also to have a lot more analytics behind the storage to be able to access it real time. So we see that vertical growing for us extremely fast.

We're seeing hospitality grow for us, as well as financial services in terms of them continuing to try to have an efficient solution that provides more security. For example, the virtual desktop and the containerized application solutions allow you or I to have access to our information but not actually have the data sitting on the endpoint device. That's one of the things that everyone's been seeking for a decade, “How do I have access to my applications

but improve the security so that if someone loses their device, their sensitive data is not sitting on that endpoint device?”

“The R&D teams are doing an amazing job on the technology. From an investment standpoint, we spend roughly \$10 million-plus a year in R&D. We also spend quite a bit of R&D dollars with our strategic partners as well. We make a significant investment relative to the size of the company.”

Government has always been strong for us, on the federal, state and local level. Education is also one that’s adopting a lot of our technology because they are cost-sensitive, and because with our entry point, they are able to grow the technology as they need to grow the business and not have to make a large upfront investment. That goes both on-premise as well as in the cloud, because in the cloud, it’s really a consumption model, and so as you add 10 users, you add 10 new, more users on the cloud side.

As you think about the geographical distribution, roughly 60% of our business is outside of the United States today. We see a lot of international growth throughout Europe, throughout the Asia region, and we’re pretty happy where we are.

And to give you the complete picture, we do have several large OEMs as strategic partners — IBM, Lenovo, HP, Dell, Fujitsu, just to name a few of them — and they actually OEM our products and put their labels on it, take it to their customers and to their channel partners. That can represent about 15% to 20% of our overall business, which is where I want it to be. I don’t want to have too much concentration there, but they’re definitely important to our business, and they help promote our technology. Also, our OEMs have access to customers that are loyal to their brands that we would never get access to.

TWST: What is your annual spend on R&D? And are there any recent technology innovations you would note?

Mr. Kelly: I tell my team, we have more technology for a typical company of our size and age, and the technology areas are really across the board. We’ve announced some very new data management solutions. For example, companies want to have an enterprise collaboration platform that supports secure file sync and share.

On the consumer side, you’re probably familiar with Dropbox. However, it doesn’t have a lot of the security and data protection features that IT organizations are looking for. We just announced a competing platform, called SnapSync, and so far, it has received a lot of interest from industry analysts and media. It is a very easy, simple-to-use collaboration platform that allows you to share information on any device anywhere around the world. You just drop it into the folder, and it shows up on all your endpoint devices, and it’s protected. It’s IT-controlled, so you can’t now send that link to someone outside of the corporation unless IT gives you permission to do that.

On the virtualization side, we’ve announced some very next-generation virtualization platforms. Our Glassware 2.0 platform is what people call containerization or containerized, and what it does

is it gives you the ability to take an application, whether it’s Windows or non-Windows, and be able to deliver that without any coding or any changing of that application on any device. For example, let’s say that you’re trying to run a Windows application, but you want to look at it on your iPad. Now, you can use Glassware 2.0, and the identical application will show up on your iPad, no changes, same features, same functionality, with performance that you would expect from your desktop or your laptop on that device. It could be on your iPhone; it could be on your Android. And then, the other one is our virtual desktop infrastructure architecture that we call V3, which is fairly unique and which I believe is one of the reasons why VMware selected us as their strategic partner for their new Horizon Air platform.

The R&D teams are doing an amazing job on the technology. From an investment standpoint, we spend roughly \$10 million-plus a year in R&D. We also spend quite a bit of R&D dollars with our strategic partners as well. We make a significant investment relative to the size of the company. But I think what’s just as important is that through acquisitions we have picked up technology that’s been around for 30-plus years, so if we think about the investments that have been made in these foundational platforms in technology, now you’re talking the equivalent of hundreds of millions of dollars of investment.

TWST: What would you say were the key takeaways from your most recent quarterly results?

Mr. Kelly: I think the key takeaways were, one, our disk systems and virtualization business continues to be on track. The other thing that we highlighted on earnings was the pipeline of our virtualization business has increased 10 times since the announcement of the partnership with VMware, and that just shows the customer interest in the solutions that we rolled out, and also the ability to have a partner like VMware endorse our platform and put us at a tier-1 level across the globe. Those are some of the things that I would highlight from our latest earnings call and results.

When I look at how we’re performing, I look at a couple of layers underneath what we announce to the public. We tried to give a little insight by giving some guidance on the pipeline that we saw happening on our virtualization platform. We always try to make announcements on some of our key wins, whether it’s in the call-center vertical or in the video-surveillance vertical or a large data-center deployment, so people can see the products and how they work together.

The other thing that we highlighted, which I can give you a lot more detail on, is we announced a new financing. We raised about \$3.6 million through an equity financing, and then, we raised about \$20 million through a debt financing. We restructured our debts, so we no longer have any short-term debt, so we don’t have to worry about that. Through this restructuring, we picked up a new financing partner called Opus, which is a regional bank. I think they’re ranked in the top 300 in terms of banks in the U.S. They have a very strong technology focus here in California, and we’re very pleased to begin a partnership with them.

TWST: In the next one to two years, what are your main goals and your strategy for accomplishing them?

Mr. Kelly: One to two years is great; if you asked me five to 10, the world would change, and it probably would never come true. But for the next 12 to 24 months, it’s really continuing to expand the relationship we have with our key partners — Microsoft,

VMware and a number of others in particular vertical markets — and to make sure that we deliver our data management and our virtualization technology, and really start pushing what we call the next-generation enterprise cloud infrastructure solution.

The other thing that we're going to be focused on over the next 12 to 24 months is making sure that we continue to expand our cloud offering. The partnership with Microsoft will continue to grow I think, both in revenue as well in just the offerings that we're able to deliver through the Microsoft platform. But the cloud initiative is broader than that, and so we'll continue to work with partners to deliver our solutions in what we call a hybrid cloud architecture and really make sure that our solutions, whether on-premise or in the cloud, are transparent to our customers so that all they need to worry about is that they have access to the data on any device.

So you'll see us continuing to push that initiative around the world. That was the reason why we brought the four companies together in 2014: So we have a footprint and a go-to-market strategy through all of our channel partners that, once we have the technology coming out, we can deliver it quickly and efficiently around the world.

I've learned 12 to 24 months go by extremely fast. It's hard to imagine that you and I talked two years ago. We need to do this once a year because it's moving so fast. The exciting part is, honestly, that we spent the last two years getting the technology that we wanted, integrating the technology into the platforms that would deliver on the vision and then getting the anchor partners like VMware and Microsoft to say, "Yes, you've got it right. Let's help you with your go-to-market strategy." They're opening doors that we probably couldn't open for the next 10 years on our own.

The other thing that you'll see us really focusing on, which may not really address the 12 to 24 months, is the unbelievable customer base we have with Tandberg and Overland with their 30-plus years of customer history. We're going back to those customers and saying, "You've been a loyal partner for us for many years. Now, let us show you about the new technology that we have and how we can take what you've already purchased from us and used to the next-generation platforms."

So going back to the ones that have bought 300,000-plus of our SnapServers and saying, "Here's the next-generation platform," or the hundreds of thousands of tape libraries that are out there, "Here's the new platform and how they work together, and by the way, let us help you with your virtualization initiatives in terms of being able to run your business because you have the 7 billion mobile devices out there; you have all of the employees that want to be able to work no matter where they are, whether it's remote or it's in the office, and be able to make sure they have access to whatever information they are looking for."

One of the other verticals that we've been having a lot of success in is health care. We've made a couple of announcements with some very strategic partners in that vertical market. Novarad is one, where physicians now can walk around with their mobile device and iPad, and actually look at an image. Whether they are a radiologist, whatever their particular medical discipline is, they can actually now be mobile and improve their workflow as they make their rounds around the hospital, talking to patients. So that's one that we have seen a lot of interest in.

And with all the HIPAA laws that are out there in terms of needing to keep two copies of the data, needing to keep it for the lifetime of the patient, think about the large amount and size of data that they're trying to preserve, and they have to have it in a digital format today, and they have to have two copies. We play extremely well in that particular vertical market.

TWST: Would you like to conclude with some final thoughts?

Mr. Kelly: The company is now in the next phase of its transformation. When we talked in 2014, it really was executing, scaling the business, acquiring or developing the technology to deliver on our vision, and now that we've done that, the next phase is, how do we leverage our 20,000-plus partners — our strategic partners like Microsoft and VMware — to now go deliver the solutions on a global basis? That's the phase we're in now.

It's a lot more exciting for me personally to now go to the customers and go to our partners and say, "We told you we were going to do this two years ago, and here it is." And I think Microsoft, VMware, all of our global partners, they're all excited as well. I think in the next 12 months when we talk again, we'll hopefully be at a different phase, and I am pretty excited about that.

What I would leave you with is, we've made it through that transition, and quite honestly, we've had support across the board, whether it's our new banking relationship with Opus to be able to fund the business where we wanted to, our technology partners or our customers. It's an exciting time for the company. We're not getting a lot of sleep these days, but we're having a lot of fun.

TWST: Thank you. (MN)

ERIC KELLY

Chairman & CEO

Sphere 3D Corp.

125 S. Market St.

San Jose, CA 95113

(408) 283-4700

(408) 283-4701 — FAX

www.sphere3d.com