

OOMA INC
Form 10-Q
December 10, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 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 October 31, 2015

OR

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

For the transition period from _____ to _____

Commission File Number: 001-37493

Ooma, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware 06-1713274
(State or other jurisdiction (I.R.S. Employer

of incorporation or organization) Identification No.)
1880 Embarcadero Road, Palo Alto, California 94303

(Address of principal executive offices)

(650) 566-6600

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(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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

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 December 7, 2015, there were 16,843,618 shares of the registrant's common stock outstanding.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

OOMA, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

(Unaudited)

	October 31, 2015	January 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$57,285	\$9,133
Accounts receivable, net	6,247	4,394
Inventories	5,789	8,081
Deferred inventory costs	2,674	2,248
Prepaid expenses and other current assets	1,440	945
Total current assets	73,435	24,801
Property and equipment, net	3,543	2,893
Intangible assets, net	983	1,278
Goodwill	1,117	1,117
Other assets	730	1,188
Total assets	\$79,808	\$31,277
Liabilities, convertible preferred stock, and stockholders' equity (deficit)		
Current liabilities:		
Accounts payable	\$6,361	\$3,967
Accrued expenses	12,793	10,313
Short-term debt	679	1,562
Convertible preferred stock warrant liability	—	474
Deferred revenue	15,549	14,348
Total current liabilities	35,382	30,664
Long-term debt	118	10,398
Convertible preferred stock warrant liability - noncurrent	—	743
Other long-term liabilities	224	980
Total liabilities	35,724	42,785
Commitments and contingencies (Note 7)		
Convertible preferred stock \$0.0001 par value: no shares authorized, issued or		
outstanding on October 31, 2015 and 8,708,333 shares authorized and 8,353,748 shares		
issued and outstanding on January 31, 2015	—	33,637

Stockholders' equity (deficit):

Preferred stock \$0.0001 par value: 10,000,000 shares authorized; no shares issued and outstanding on October 31, 2015; and no shares authorized, issued and outstanding on January 31, 2015	—	—
Common stock \$0.0001 par value: 100,000,000 shares authorized; 16,791,033 shares issued and outstanding on October 31, 2015; and 13,000,000 shares authorized; 2,515,065 share issued and outstanding on January 31, 2015	2	—
Additional paid-in capital	105,707	5,611
Accumulated deficit	(61,625)	(50,756)
Total stockholders' equity (deficit)	44,084	(45,145)
Total liabilities, convertible preferred stock, and stockholders' equity (deficit)	\$79,808	\$31,277

See notes to condensed consolidated financial statements

OOMA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	October 31, 2015	October 31, 2014	October 31, 2015	October 31, 2014
Revenue:				
Subscription and services	\$19,470	\$14,316	\$52,495	\$37,904
Product and other	4,006	3,971	11,969	13,383
Total revenue	23,476	18,287	64,464	51,287
Cost of revenue:				
Subscription and services	6,715	4,830	18,649	13,052
Product and other	4,277	4,065	12,067	12,610
Total cost of revenue	10,992	8,895	30,716	25,662
Gross profit	12,484	9,392	33,748	25,625
Operating expenses:				
Sales and marketing	7,539	5,958	20,247	15,518
Research and development	4,948	3,365	13,329	8,596
General and administrative	3,499	1,565	9,666	3,783
Total operating expenses	15,986	10,888	43,242	27,897
Loss from operations	(3,502)	(1,496)	(9,494)	(2,272)
Other (expense) income:				
Interest expense, net	(10)	(61)	(902)	(165)
Change in fair value of warrants	—	(151)	(442)	(366)
Other (expense) income, net	(19)	(11)	(31)	(20)
Loss before income taxes	(3,531)	(1,719)	(10,869)	(2,823)
Income tax benefit	—	—	—	502
Net loss	\$(3,531)	\$(1,719)	\$(10,869)	\$(2,321)
Net loss per share of common stock:				
Basic and diluted	\$(0.21)	\$(0.72)	\$(1.38)	\$(1.04)
Weighted-average number of shares used in per				
share amounts:				
Basic and diluted	16,703,852	2,379,125	7,875,761	2,221,414

See notes to condensed consolidated financial statements

OOMA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended	
	October 31,	October 31,
	2015	2014
Cash flows from operating activities:		
Net loss	\$(10,869)	\$ (2,321)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	2,725	171
Depreciation and amortization	1,046	644
Amortization of intangible assets	295	207
Deferred income taxes	—	(502)
Non-cash interest expense	64	40
Write-off of non-cash deferred debt issuance costs	332	—
Change in fair value of acquisition related contingent consideration	167	334
Change in fair value of warrant liability	442	366
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,853)	(1,801)
Inventories	2,292	(6,038)
Deferred inventory costs	(426)	(1,080)
Prepaid expenses and other assets	(531)	(396)
Accounts payable and accrued expenses	4,509	2,932
Other long term liabilities	(88)	17
Deferred revenue	1,199	4,035
Net cash used in operating activities	(696)	(3,392)
Cash flows from investing activities:		
Purchases of property and equipment	(1,117)	(961)
Business acquisition, net of cash assumed	—	(672)
Net cash used in investing activities	(1,117)	(1,633)
Cash flows from financing activities:		
Proceeds from initial public offering, net	57,303	—
Proceeds from Series Beta preferred stock, net	5,000	—
Repayment of debt and capital leases	(11,457)	(1,081)
Proceeds from issuance of debt	—	4,984
Payment of acquisition related earn-out	(475)	—
Proceeds from issuance of common stock related to warrants and employee stock benefit plans	178	385
Payment of preferred warrant liability	(584)	—
Net cash provided by financing activities	49,965	4,288
Net increase (decrease) in cash and cash equivalents	48,152	(737)
Cash and cash equivalents at beginning of period	9,133	6,364
Cash and cash equivalents at end of period	\$57,285	\$ 5,627
Supplemental disclosure of cash flow information:		

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Income taxes paid	\$2	\$ 1
Interest paid	\$560	\$ 111
Non-cash investing and financing activities:		
Conversion of preferred stock to common stock	\$38,629	\$ —
Unpaid offering costs	\$241	\$ —
De-recognition of warrant liability to additional paid-in capital	\$1,075	\$ —
Issuance of warrants in connection with long-term debt	\$—	\$ 61
Shares issued as consideration in business acquisition and related earnout	\$451	\$ 338
Unpaid portion of property and equipment purchases	\$578	\$ 22

See notes to condensed consolidated financial statements

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

Ooma, Inc. (the “Company”) is a leading provider of innovative communications solutions and other connected services to small business, home, and mobile users. The Company’s unique hybrid Software-as-a-Service (“SaaS”) platform, consisting of its proprietary cloud, on-premises appliances, mobile applications, and end-point devices, provides the connectivity and functionality that enables solutions. The Company was incorporated in Delaware on November 19, 2003.

2. Summary of Significant Accounting Policies

Basis of Presentation

These unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (the “SEC”) regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, the information included in this Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company’s prospectus filed with the SEC pursuant to Rule 424(b) under the Securities Act of 1933, as amended, on July 17, 2015 (the “Prospectus”). There have been no changes to the significant accounting policies described in the prospectus that have had a material impact on the condensed consolidated financial statements and related notes.

These financial statements have been prepared on the same basis as the Company’s annual financial statements and, in the opinion of management, reflect all normal recurring adjustments necessary to present fairly the Company’s financial position, its results of operations, and cash flows for the interim periods presented, but are not necessarily indicative of the results of operations to be anticipated for the full fiscal year ending January 31, 2016. The condensed consolidated balance sheet as of January 31, 2015 included herein was derived from the audited financial statements as of that date.

The condensed consolidated financial statements include accounts and the accounts of the Company’s wholly-owned subsidiary. All significant intercompany transactions and balances have been eliminated upon consolidation.

Reverse Stock Split

Effective July 6, 2015, the Company completed a one-for-two reverse stock split, as approved by its Board of Directors (the “Board”). All shares and warrants and per share and warrant amounts set forth herein give effect to this reverse stock split.

Initial Public Offering and Conversion of Preferred Stock

On July 22, 2015, the Company completed its initial public offering (the "IPO"). As a result, the following transactions were recorded in the Company's consolidated financial statements as of October 31, 2015:

- The Company issued 5,000,000 shares of its common stock at the initial public offering price of \$13.00 per share. The net proceeds from the sale of the shares was \$57.0 million after deducting the underwriters' discounts and commissions of \$4.5 million and \$3.5 million of offering expenses.
- 8,353,748 shares of Series Alpha convertible preferred stock and Series Alpha-1 convertible preferred stock were collectively converted into 8,353,748 shares of common stock on a 1:1 basis. The public offering price of \$13.00 per share triggered an automatic conversion of 241,469 shares of Series Beta convertible preferred stock, which automatically converted to 525,109 shares of common stock based on an adjusted conversion price equal to 75% of the \$13.00 public offering price, or \$9.75, rather than the \$21.2028 per share consideration paid, pursuant to the conversion price adjustment provision applicable to such shares in the Company's then-current amended and restated certificate of incorporation.
- The warrant issued in December 2010 to purchase 70,287 shares of Series Alpha convertible preferred stock was cash settled at the IPO price of \$13.00 per share after deducting the exercise price of \$4.70 per share. The Company paid \$0.6 million to the warrant holder on settlement.
- Of the warrants to purchase 34,397 shares of Series Alpha convertible preferred stock issued in June 2009, warrants to purchase 2,769 shares of Series Alpha convertible preferred stock were cash exercised at an exercise price of \$4.70 per share and resulted in 2,769 shares of common stock; warrants to purchase 21,529 shares of Series Alpha convertible preferred stock were net exercised using the IPO price of \$13.00 per share net of the exercise price of \$4.70 per share resulting in issuance of 13,752 shares of common stock; and warrants to purchase 10,099 shares of common stock were terminated due to failure to exercise on or before the IPO date per the terms of the warrant agreements.

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

- On the completion of the IPO, the warrants to purchase 21,299 shares of Series Alpha convertible preferred stock issued in May 2009 and warrants to purchase 66,026 shares of Series Alpha convertible preferred stock issued in conjunction with the Company's debt in April and December 2012 and October 2014 were converted on a 1:1 basis into warrants to purchase shares of common stock.
- Of the warrants to purchase 87,828 shares of common stock outstanding prior to the IPO, 6,542 common warrants were cash exercised and converted to 6,542 shares of common stock and 4,100 common warrants were exercised net of the respective exercise price per warrant to 2,612 shares of common stock and 556 common warrants were terminated due to non-exercise on IPO per the terms of the warrant agreement.

Use of Estimates

The preparation of the Company's condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of income and expenses during the reporting period. These estimates are based on information available as of the date of the condensed consolidated financial statements, and assumptions are inherently subjective in nature; therefore, actual results could differ from management's estimates.

Comprehensive Loss

The Company does not have any components of comprehensive income (loss), as such the net loss for all periods reported equals comprehensive loss.

Concentration of Risk— The concentration of accounts receivable, net of allowance of returns of \$0 and \$0.1 million as of October 31, 2015 and January 31, 2015, respectively are as follows:

	As of		
	October	January	
	31,	31,	
	2015	2015	
Customer A	11 %	*	
Customer B	*	11 %	
Customer C	*	23 %	
Customer D	*	10 %	

* represents less than 10% during the period

There were no customers that individually exceeded 10% of revenue during the three and nine months ended October 31, 2015 and 2014.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standard Update (“ASU”) No. 2014-09 (ASC 606), Revenue from Contracts with Customers, which affects any entity that either enters into contracts with customers to transfer goods and services or enters into contracts for the transfer of nonfinancial assets. ASU 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under the currently effective guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In July 2015, the FASB approved a one-year deferral of the effective date of the standard with the issuance of by ASU 2015-14, Revenue from Contracts with Customers (ASC 606) Deferral of Effective Date. As a result, ASU 2014-09 will become effective for the Company in the first quarter of fiscal 2019 and can be adopted either retrospectively to each prior reporting period presented or as a cumulative effect adjustment as of the date of adoption. Early adoption is permitted but not before the original effective date of annual periods beginning after December 15, 2016. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15 (ASC 205), Disclosure of Uncertainties About an Entity’s Ability to Continue as a Going Concern. The new standard provides guidance around management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial statements.

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

In July 2015, the FASB issued ASU No. 2015-11 (ASC 330), Simplifying the Measurement of Inventory related to measure inventory. Update No. 2015-11 requires companies to measure inventory using the lower of cost and net realizable value. It is effective for annual reporting periods beginning after December 15, 2016 and interim periods within those fiscal years. The Company is currently evaluating the impact, if any, of this guidance on the Company's consolidated financial statements.

3. Fair Value Measurement

The Company records its financial assets and liabilities at fair value. The inputs used in the valuation methodologies in measuring fair value are defined in the fair value hierarchy as follows:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities and which reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

The Company's financial instruments consist of Level 1 assets and Level 3 liabilities. Money market funds have been classified as Level 1 because these securities are valued based upon quoted prices in active markets. The money market funds are classified as cash equivalents.

As of January 31, 2015, the Level 3 liabilities consists of the Company's convertible preferred stock warrant liability and acquisition-related contingent consideration. As of October 31, 2015, the Level 3 liabilities consisted of acquisition-related contingent consideration.

There were no transfers into or out of the Level 3 category during the nine months ended October 31, 2015.

The Company's financial assets and liabilities that are measured at fair value on a recurring basis by level within the fair value hierarchy are as follows (in thousands):

	Balance as of October 31, 2015			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash	\$254	\$ —	\$ —	\$254
Money market fund	57,031	—	—	57,031
Total cash and cash equivalents	\$57,285	\$ —	\$ —	\$57,285

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Liabilities:					
Acquisition-related contingent consideration	\$—	\$	—	\$841	\$841
Total liabilities	\$—	\$	—	\$841	\$841

	Balance as of January 31, 2015				
	Level	Level	Level		
	1	2	3	Total	
Assets:					
Cash	\$115	\$	—	\$—	\$115
Money market fund	9,018	—	—	—	9,018
Total cash and cash equivalents	\$9,133	\$	—	\$—	\$9,133

Liabilities:					
Acquisition-related contingent consideration	\$—	\$	—	\$1,695	\$1,695
Convertible preferred stock warrant liability	—	—	—	1,217	1,217
Total liabilities	\$—	\$	—	\$2,912	\$2,912

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Changes in the Level 3 fair value category for the periods presented are as follows (in thousands):

	Convertible Preferred Stock Warrant Liability	Acquisition-Related Contingent Consideration
Balance at January 31, 2015	\$ 1,217	\$ 1,695
Payout of consideration	—	(570)
Issuance of shares	—	(451)
Changes in fair value	442	167
Payment of preferred warrant liability upon IPO	(584)	—
De-recognition of preferred warrant liability to additional paid-in capital	(1,075)	—
Balance at October 31, 2015	\$ —	\$ 841

Level 3 instruments consisted of the Company's preferred stock warrant liability. Prior to the Company's IPO, outstanding warrants to purchase shares of the Company's convertible preferred stock were classified as other liabilities. At every reporting date the warrants were remeasured and the change in the fair value was recorded as a component of other (expense) income, in the condensed consolidated statement of operations and liabilities on the condensed consolidated balance sheet.

Upon the closing of the Company's IPO, a warrant to purchase 70,287 shares of Series Alpha convertible preferred stock was remeasured at the initial offering price of \$13.00 per share less the exercise price of \$4.70 per share. The total warrant liability of \$0.6 million related to this warrant was cash settled. The aggregate fair value of the other warrants was de-recognized and reclassified from liabilities to additional paid-in capital, a component of stockholders' equity (deficit), and the Company ceased recording any further changes.

The carrying value of the Company's accounts receivable, inventory and other current assets and current liabilities approximates fair value due to short maturities.

4. Balance Sheet Components

Inventories

The following table shows the components of inventories (in thousands):

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	October 31, 2015	January 31, 2015
Finished goods	\$ 5,100	\$ 5,719
Raw material	689	2,362
Total inventory	\$ 5,789	\$ 8,081

Deferred Revenue

The following table shows the components of deferred revenue (in thousands):

	October 31, 2015	January 31, 2015
Deferred revenue:		
Subscription and services	\$ 11,601	\$ 9,863
Product and other	3,982	4,523
Total deferred revenue	15,583	14,386
Less: current portion of deferred revenue	15,549	14,348
Deferred revenue, noncurrent portion included in other long-term liabilities	\$ 34	\$ 38

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Accrued Expenses

The following table shows the components of accrued expenses (in thousands):

	October 31, 2015	January 31, 2015
Accrued regulatory fees and taxes	\$4,736	\$4,762
Accrued payroll and related expenses	2,761	2,022
Acquisition-related contingent consideration-current portion	841	1,027
Other accrued expenses	4,455	2,502
Total accrued expenses	\$12,793	\$10,313

Included in other accrued expenses is \$1.2 million and \$0.1 million of advertising costs as of October 31, 2015 and January 31, 2015, respectively.

5. Debt

In April 2012, (amended in October 2012), the Company entered into a secured debt agreement (“Term Debt”) in the amount of \$4.0 million. The debt had a maturity date in September 2015 and a fixed interest rate of 5.75%. The Company made monthly interest-only payments through September 2012, and monthly payments of principal and interest thereafter. In July 2015, the Company paid off the remaining balance of \$0.3 million using a portion of the IPO proceeds.

In December 2012, the Company entered into an amended secured debt agreement, adding a revolving line of credit in the amount of \$6.0 million (“the Revolver”). The interest rate on the Revolver is 2.75% above the prime rate (6.0% at January 31, 2015). The Revolver includes a financial covenant that the Company is required to have a certain number of subscribers each quarter. The Revolver was originally due to mature in December 2014. In July 2014, the Company entered into an amended agreement to extend the maturity date until July 2016. In October 2014, the Company borrowed \$5.0 million under the Revolver. The outstanding debt of \$5.0 million was repaid in July 2015 using a portion of the IPO proceeds.

In January 2015, the Company entered into an amended line of credit under a loan and security agreement with its current lender which increased the amount available under the Revolver to \$12.0 million and added a new line of credit of up to \$10.0 million. The Company’s credit agreements with its lender contain customary negative covenants that limit the ability to, among other things, incur additional indebtedness, grant liens, make investments, repurchase stock, pay dividends, transfer assets and merge or consolidate. In January 2015, the Company drew down \$5.0 million of this new line of credit. The interest rate on advances under the line of credit is 11%, and interest is payable

monthly. The original maturity date of the line of credit was January 2018. The Company repaid this outstanding debt of \$5.0 million in July 2015 using a portion of the IPO proceeds. In connection with the agreement, the Company issued warrants to purchase 76,630 shares of the Company's common stock with an exercise price of \$6.04 per share that are exercisable until January 2025. These warrants remained outstanding as of October 31, 2015.

The Company has certain non-financial covenants in connection with the borrowings. As of January 31, 2015 and October 31, 2015, the Company was in compliance with all the covenants under the Revolver agreement.

As of October 31, 2015, the amount available under the Revolver agreement was \$12.0 million.

Total interest expense recognized was \$10,000 and \$0.1 million for the three months ended October 31, 2015 and 2014, respectively, and \$0.9 million and \$0.2 million for the nine months ended October 31, 2015 and 2014, respectively. Total amortization of debt issuance costs recognized was \$0 and \$12,000 for the three months ended October 31, 2015 and 2014, respectively and \$0.1 million and \$40,000 for the nine months ended October 31, 2015 and 2014, respectively.

Interest expense for the three and nine months ended October 31, 2015 also included \$0 and \$0.3 million write-off of non-cash deferred issuance costs due to the repayment by the Company of all of the outstanding debt in July 2015.

As of October 31, 2015, the debt on the consolidated balance sheet related to equipment acquired under capital lease.

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

6. Convertible Preferred Stock Warrant Liability

At each balance sheet date, the Company had the following warrants to purchase convertible preferred stock outstanding:

	Warrants outstanding as of January 31, 2015	Fair value of Warrants Liabilities as of January 31, 2015 (in thousands)	Warrants outstanding as of April 30, 2015	Fair value of Warrants Liabilities as of April 30, 2015 (in thousands)	Warrants outstanding as of July 31, and October 31, 2015	Fair value of Warrants Liabilities as of July 31, and October 31, 2015 (in thousands)
December 2010 warrant	70,287	\$ 474	70,287	\$ 726	—	\$ —
April 2012, December 2012 and						
October 2014 warrants	66,026	374	66,026	611	—	—
May and June 2009 warrants	55,696	369	55,696	596	—	—
Total	192,009	\$ 1,217	192,009	\$ 1,933	—	\$ —

In December 2010, the Company issued a warrant to purchase 70,287 shares of Series Alpha convertible preferred stock at an exercise price of \$4.70 per share. On completion of the IPO, the Company remeasured the warrant at the IPO price of \$13.00 per share, after deducting the exercise price the fair value of the warrant was determined to be \$0.6 million. The warrant was cash settled and the Company paid \$0.6 million to the warrant holder upon the IPO.

The warrant was initially measured at its fair value and recorded as a derivative liability. On each reporting date the change in fair value of the warrant was determined based on Monte-Carlo valuation model or IPO pricing on payout. The Company recorded a remeasurement gain (loss) of \$0 million and \$(0.1) million during the three months ended October 31, 2015 and 2014, respectively; and \$(0.1) million and \$(0.2) million during the nine months ended October 31, 2015 and 2014, respectively.

In April 2012, December 2012 and October 2014, the Company issued warrants to purchase an aggregate of 66,026 shares of Series Alpha convertible preferred stock with an exercise price of \$4.70 per share in connection with a debt agreement with a lender. The warrants had expiration dates ranging from April 2022 to December 2022. The Company recorded the warrants as a derivative liability. The warrants were initially measured at fair value and remeasured at every reporting period date using Monte-Carlo valuation. The Company recorded a remeasurement gain (loss) of \$0 million and \$(13,000) for the three months ended October 31, 2015 and 2014 respectively, and \$(0.3) million and \$(0.1) million for the nine months ended October 31, 2015 and 2014, respectively. Upon completion of the IPO on July 22, 2015, the total aggregate liability of \$0.7 million related to these warrants was derecognized and reclassified to additional paid in capital which then automatically converted into warrants to purchase shares of

common stock on a 1:1 basis.

In June 2009, the Company issued warrants to purchase 34,397 shares of Series Alpha convertible preferred stock and in May 2009, the Company issued warrants to purchase 21,299 shares of convertible preferred stock. The Company recorded the warrants to purchase shares of convertible preferred stock as derivative liabilities. These warrants were initially measured at fair value and remeasured at every reporting period date using a Black Scholes valuation model and the change in the fair value was recorded in other (expense) income in the condensed consolidated statement of operations. The Company recorded a remeasurement gain (loss) of \$0 million and \$(0.1) million for the three months ended October 31, 2015 and 2014, respectively, and \$(0.1) million and \$(0.1) million for the nine months ended October 31, 2015 and 2014, respectively.

Upon completion of the IPO on July 22, 2015, of the warrants to purchase 34,397 shares of Series Alpha convertible preferred stock issued in June 2009, warrants to purchase 2,769 shares of Series Alpha convertible preferred were cash exercised at an exercise price of \$4.70 per share to 2,769 shares of common stock; warrants to purchase 21,529 shares of Series Alpha convertible preferred stock were net exercised using the IPO price of \$13.00 per share net of the exercise price of \$4.70 per share to 13,752 shares of common stock; and warrants to purchase 10,099 shares were terminated due to failure to exercise on or before the IPO per the terms of the warrant agreement. The Company recognized a gain of \$0.1 million on the termination of 10,099 warrants. The IPO also triggered the 21,299 warrants issued in May 2009, to convert to common warrants to purchase 21,299 shares of common stock. The total aggregate liability of \$0.4 million related to these warrants was derecognized and reclassified to additional paid in capital.

The following assumptions were used to calculate the fair value of the warrants:

	Three Months Ended		Nine Months Ended	
	October 31, 2015	2014	October 31, 2015	2014
Assumptions:				
Expected volatility	— %	70%	66%-70%	70%
Expected term (in years)	—	1.6	0-1.1	1.6-2.1
Risk-free interest rate	— %	0.3%-0.4%	0%-0.3%	0.3%-0.5%
Dividend yield	— %	— %	— %	— %

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

7. Commitments and Contingencies

The Company leases office space in Palo Alto and Newark, California under operating leases that are scheduled to expire through February 2018.

In January 2015, the Company entered into a capital lease for computer equipment that matures in December 2016 with the right to purchase the equipment at maturity for one dollar.

Minimum rental commitments under all non-cancelable leases with an initial term in excess of one year as of October 31, 2015, were as follows (in thousands):

Year Ending January 31,	Capital Leases	Operating Leases
2016 (remaining three months)	\$ 178	\$ 431
2017	653	1,802
2018	—	1,421
2019	—	45
Total	\$ 831	\$ 3,699
Less: Amount representing interest	(34)	
Present value of lease payments	797	
Less: Current portion	(679)	
Capital lease—net of current portion	\$ 118	

Rent expense was \$0.3 million and \$0.3 million for the three months ended October 31, 2015 and 2014, respectively, and \$0.9 million and \$0.7 million for the nine months ended October 31, 2015 and 2014, respectively.

As of October 31, 2015, non-cancelable purchase commitments were \$0.8 million.

Legal Matters—The Company is party to actions and proceedings incident to the Company's business in the ordinary course of business, including litigation regarding its intellectual property, challenges to the enforceability or validity of its intellectual property, and claims that the Company's products or services infringe on the intellectual property rights of others. The Company accrues a liability for such matters when it is probable that future expenditures will be made and such expenditures can be reasonably estimated. In management's opinion, there are no contingent liabilities requiring accrual as of October 31, 2015.

In November 2015, a lawsuit was filed by the State of Alabama related to 9-1-1 charges. At this point in the proceedings, losses, if any, that are reasonably possible to result from this litigation are not reasonably estimable. Accordingly, no reserves have been recorded in the Company's condensed consolidated financial statements with

respect to the action.

Indemnification—The Company enters into standard indemnification arrangements in the ordinary course of business. Pursuant to these arrangements, the Company indemnifies, holds harmless, and agrees to reimburse the indemnified parties for losses suffered or incurred by the indemnified party, in connection with any trade secret, copyright, patent or other intellectual property infringement claim by any third party with respect to the Company's technology. The term of these indemnification agreements is generally perpetual. The maximum potential amount of future payments the Company could be required to make under these agreements is not determinable because it involves claims that may be made against the Company in the future, but have not yet been made.

The Company has entered into indemnification agreements with its directors and officers that may require the Company to indemnify its directors and officers against liabilities that may arise by reason of their status or service as directors or officers, other than liabilities arising from willful misconduct of the individual. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has director and officer insurance coverage that reduces the Company's exposure and enables the Company to recover a portion of any future amounts paid.

To date the Company has not incurred costs to defend lawsuits or settle claims related to these indemnification agreements. No liability associated with such indemnifications has been recorded to date.

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

8. Stockholders' Equity

Reverse Stock Split

On July 6, 2015, the Company effected a one-for-two reverse stock split of its outstanding common stock, convertible preferred stock, stock options, warrants to purchase preferred stock and warrants to purchase common stock as approved by its Board of Directors. All information in this Quarterly Report on Form 10-Q relating to the number of shares, price per share and per share amounts have been adjusted to give effect to the one-for-two reverse stock split.

Convertible Preferred Stock

Upon the closing of the IPO on July 22, 2015, all of the Company's outstanding Series Alpha and Series Alpha-1 convertible preferred stock converted into 8,353,748 shares of common stock on a 1:1 basis and 241,469 shares of Series Beta preferred stock converted into 525,109 shares of common stock.

Common Stock and Preferred Stock

On July 6, 2015, the Company filed an amended and restated certificate of incorporation to increase the amount of common stock authorized for issuance to 100,000,000 shares with a par value of \$0.0001 per share and 10,000,000 shares with a \$0.0001 par value per share of preferred stock.

As of October 31, 2015 the Company had 16,791,033 shares of common stock outstanding which includes the 5,000,000 shares issued in the IPO. The Company did not have any shares of preferred stock issued and outstanding.

Equity Award Plans

2005 Stock Plan

The Board of Directors adopted, and the stockholders approved, the Company's 2005 Stock Plan (the "2005 Plan"), in April 2005. The 2005 Plan provides for the grant of incentive stock options to its employees (and employees of its subsidiaries), and for the grant of non-statutory stock options and stock purchase rights to its employees, directors and consultants (and employees and consultants of its subsidiaries). In June 2015, the 2005 Plan was amended and restated in the form of the 2015 Equity Incentive Plan described below. The terms of the 2005 Plan as described in the Prospectus will continue to govern the terms and conditions of the outstanding awards previously granted thereunder.

2015 Equity Incentive Plan

In June 2015, the Company amended and restated its 2005 Plan in the form of 2015 Equity Incentive Plan (the "2015 Plan") which became effective immediately upon the effectiveness of the Company's IPO. The 2015 Plan provides for the grant of incentive stock options to its employees and any of its subsidiary corporations' employees, and for the grant of non-statutory stock options, stock appreciation rights, restricted stock, restricted stock units, performance units and performance shares to its employees, directors and consultants and its subsidiary corporations' employees and consultants. The maximum aggregate number of shares that may be issued under the 2015 Plan is 4,433,102 shares (which is the number of shares previously reserved for issuance under the 2005 Plan) plus 2,205,828 shares which is the number of shares equal to 10% of its outstanding shares of common stock measured at the time of

completion of its IPO (as determined on a fully diluted basis, including the shares reserved under its equity plans). In addition, the number of shares available for issuance under the 2015 Plan will be annually increased on the first day of each of its fiscal years beginning with fiscal 2017, by an amount equal to the lessor of (i) 5% of the outstanding shares of its common stock as of the last day of its immediately preceding fiscal year; and (ii) such other amount as the Company's board of directors may determine.

As of October 31, 2015, the Company had 1,299,718 shares available for future issuance.

Employee Stock Purchase Plan

In conjunction with the completion of its IPO, the Company adopted the 2015 Employee Stock Purchase Plan ("ESPP"). The ESPP has 441,165 shares authorized for future issuance. The number of authorized shares under the ESPP is subject to increase on an annual basis. The ESPP allows eligible employees to purchase shares of common stock at a discount through payroll deductions of up to 15% of their eligible compensation subject to plan limitations. The ESPP provides for a 24-month offering period comprised of four purchase periods of approximately six months. Employees are able to purchase shares at 85% of the lower of the fair market value of the Company's common stock (i) at the date of commencement of the offering period or (ii) at the last day of the purchase period. The offering periods are scheduled to start on the first trading day on or after March 15 and September 15 of each year, except for the first offering period, which commenced on the first trading day upon the completion of the Company's IPO, or July 17, 2015, and ends on September 15, 2017. During the three months ended October 31, 2015, there was a purchase of 15,569 shares at a purchase price of \$7.12 per share.

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

On September 15, 2015 the Company started a new offering period at a new offering price based on the closing price of the Company's common stock on the same date. The Company concluded that starting a new offering period prior to the completion of the existing offering period resulted in an accounting modification and accordingly, recorded \$0.6 million of incremental compensation charge to be recognized over the remaining life of the ESPP offering period. During the three and nine months ended October 31, 2015, the Company recorded stock-based compensation expense of \$0.2 million and \$0.2 million, respectively, related to the ESPP.

Stock Options

Options to purchase shares of common stock may be granted to employees, directors, and consultants. These options vest from date of grant to up to five years and expire 10 years from the date of grant. Options may be exercised anytime during their term in accordance with the vesting/exercise schedule specified in the recipient's stock option agreement and in accordance with the plan provisions. Shares issued upon exercise prior to vesting, are subject to a right of repurchase, which lapses according to the original option vesting schedule.

Summary of option activity under the Company's 2005 Plan and 2015 Plan for the nine months ended October 31, 2015 is set forth below:

	Options Outstanding		Weighted	Aggregate
	Number of	Weighted	Average	Intrinsic
	Shares	Average	Remaining	Value
	Underlying	Exercise	Contractual Term	(in
	Outstanding		(Years)	thousands)
Balance, January 31, 2015	1,893,239	\$ 3.85	8.40	\$ 10,109
Options granted	443,517	12.36		
Options exercised	(60,127)	0.43		
Options canceled	(87,328)	5.61		
Balance, October 31, 2015	2,189,301	5.60	8.05	\$ 7,240
Vested and exercisable, October 31, 2015	636,197	\$ 1.31	5.25	\$ 4,419
Vested and expected to vest, October 31, 2015	1,990,744	\$ 5.52	7.96	\$ 6,743

Aggregate intrinsic value represents the difference between the exercise price of the options to purchase common stock and the fair market value of the Company's common stock. The aggregate intrinsic value of options exercised for the three months ended October 31, 2015 and 2014 was \$0.2 million and \$7,000, respectively, and \$0.8 million and \$0.4 million for the nine months ended October 31, 2015 and 2014, respectively.

Restricted Stock Units

Restricted Stock Units (RSUs) were granted to employees, non-employee board members and consultants. These RSUs are subject to a time-based vesting condition, which ranges from one to four years.

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A summary of the Company's RSU activity and related information for the nine months ended October 31, 2015 is as follows:

	Number of	Weighted-Average	Weighted-Average	Aggregate
	Shares	Grant-Date Fair	Remaining	Intrinsic
		Value Per Share	Contractual	Value
			Life (Years)	(in
				thousands)
Balance as of January 31, 2015	—	\$ —	—	\$ —
RSUs granted	987,355	10.04		
RSUs vested	—	—		
RSUs canceled	(38,700)	10.91		
Balance as of October 31, 2015	948,655	\$ 10.00	2.32	\$ 7,646
Vested and expected to vest - October 31, 2015	901,222	\$ 9.04	2.17	\$ 7,396

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Common Stock Warrants

A summary of the Company's warrants to purchase common stock activity and related information for the nine months ended October 31, 2015 is as follows:

	Common Warrants
	Outstanding
Balance, January 31, 2015	87,828
Add: Conversion of Preferred Series Alpha warrants to common warrants on IPO	87,325
Less: Common warrants exercised to common stock	(9,152)
Less: Common warrants terminated	(2,046)
Balance, October 31, 2015	163,955

These warrants have exercise prices ranging from \$4.70 to \$6.04 per share and have expiration dates through January 2025.

9. Stock-Based Compensation

The total stock-based compensation the Company recognized for stock-based awards in the condensed consolidated statements of operations is as follows (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2015	2014	2015	2014
Cost of revenue	\$ 138	\$ 5	\$ 261	\$ 14
Sales and marketing	194	5	323	17
Research and development	487	35	943	73
General and administrative	617	31	1,198	67
Total stock-based compensation expense	\$ 1,436	\$ 76	\$ 2,725	\$ 171

The following table presents stock-based compensation expense by award-type (in thousands):

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	Three Months Ended		Nine Months Ended	
	October 31,		October 31,	
	2015	2014	2015	2014
Stock Options	\$656	\$ 76	\$1,898	\$171
Restricted Stock Units	575	—	604	—
Employee Stock Purchase Plan	205	—	223	—
Total stock-based compensation expense	\$1,436	\$ 76	\$2,725	\$171

As of October 31, 2015, there was \$6.2 million, \$7.6 million and \$1.5 million of unrecognized share-based compensation expense, net of estimated forfeitures, related to non-vested stock option grants, unvested RSUs and ESPP, respectively, which will be recognized on a straight-line basis over the remaining weighted-average vesting periods of approximately 1.8 years, 2.8 years and 1.1 years, respectively.

Total outstanding non-employee stock options were 88,699 and 29,134 at October 31, 2015 and 2014, respectively. The total outstanding non-employee RSUs were 70,500 and 0 at October 31, 2015 and 2014, respectively. The non-employee stock-based compensation expense for the stock options and RSUs was not material for any of the periods presented.

Prior to the Company's IPO, the fair value of the shares of common stock underlying stock options was historically established by the Company's Board of Directors, and was based in part upon a valuation provided by an independent third-party valuation firm. Subsequent to the completion of the IPO, the Company uses the closing price of common stock as reported on the New York Stock Exchange on the grant date. The Company has consistently used peer company volatilities for calculating the expected volatilities for employee stock options and the ESPP. The expected term of options granted to employees is based on the simplified method as the Company does not have sufficient historical exercise data, and the expected term of the ESPP is based on the contractual term. The risk-free interest rate for the expected term of the options and the ESPP is based on the U.S. Treasury yield curve in effect at the time of grant. The Company recognizes its stock-based compensation related to options and RSUs using a straight-line method over the vesting term. The Company recognizes its stock-based compensation related to ESPP using a straight-line method over the offering period.

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

For the three and nine months ended October 31, 2015 and 2014 the fair value of employee stock options grants was estimated using the Black – Scholes model with the following assumptions:

	Three Months Ended		Nine Months Ended	
	October 31, 2015	2014	October 31, 2015	2014
Stock Options:				
Expected volatility	54%-57%	73%-79%	54% - 62%	73%-81%
Expected term (in years)	5.8-6.1	5.5-6.1	5.3-6.1	5.5-6.1
Risk-free interest rate	1.6%-1.7%	1.9%-2.0%	1.6%-1.9%	1.8%-2.0%
Dividend yield	— %	— %	— %	— %

For the three and nine months ended October 31, 2015 and 2014 the fair value of employee stock purchase plan was estimated using the Black – Scholes model with the following assumptions:

For the three and nine months ended October 31, 2015 and 2014 the fair value of ESPP was estimated using the following assumptions:

	Three Months Ended		Nine Months Ended	
	October 31, 2015	2014	October 31, 2015	2014
ESPP:				
Expected volatility	38%-44%	— %	35%-44%	— %
Expected term (in years)	0.4-1.9	—	0.7-2.2	—
Risk-free interest rate	0.3%-0.8%	— %	0.1%-0.8%	— %
Dividend yield	— %	— %	— %	— %

Early Exercise of Common Stock

During the three and nine months ended October 31, 2014, the Company issued 61,667 and 125,560 shares, respectively, of common stock following the exercise of common stock options prior to their vesting dates, or early exercises. The Company did not issue any shares during the three and nine months ended October 31, 2015 that were early exercised. The amounts received from all such early exercises is recorded in accrued expenses and other long-term liabilities on the consolidated balance sheets and reclassified to stockholders' equity (deficit) as the options vest. The unvested shares are subject to the Company's repurchase right at the original purchase price, which lapses

over the vesting term of the original option grant. As of October 31, 2015 and January 31, 2015, the aggregate price of shares subject to repurchase recorded in accrued expenses and other long-term liabilities totaled \$0.2 million and \$0.3 million, respectively.

Note 10. Income Taxes

The Company did not record a provision or benefit for income taxes during the three and nine months ended October 31, 2015, primarily due to unbenefited domestic losses. The Company recorded a \$0.5 million benefit in the three and nine months ended October 31, 2014 arising from the acquisition of Talkatone, Inc. The Company continues to maintain a full valuation allowance against its net deferred tax assets.

At October 31, 2015, the Company had unrecognized tax benefits of \$1.1 million, none of which would currently affect the Company's effective tax rate, if recognized due to the Company's net deferred tax assets being offset by a valuation allowance. The Company does not anticipate that the amount of unrecognized tax benefits relating to tax positions existing at October 31, 2015 will significantly increase or decrease within the next 12 months. There was no interest expense or penalties related to unrecognized tax benefits recorded through October 31, 2015.

A number of years may elapse before an uncertain tax position is audited and finally resolved. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, the Company believes that its reserves for income taxes reflect the most likely outcome. The Company adjusts these reserves, as well as the related interest, in light of changing facts and circumstances. Settlement of any particular position could require the use of cash.

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 11. Basic and Diluted Net Loss Per Share

Basic and diluted net loss per share of common stock allocable to common stockholders is calculated by dividing the net loss allocable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net loss per share of common stock is the same as basic net loss per share of common stock, since the effects of potentially dilutive securities are antidilutive. Upon completion of the IPO on July 22, 2015, all outstanding convertible preferred stock was converted to common stock and are included in the weighted average number of common shares used to compute net loss per share from the conversion date.

The following table sets forth the computation of the Company's basic and diluted net loss per share of common stock (in thousands, except share and per share data):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2015	2014	2015	2014
Numerator				
Net loss	\$(3,531)	\$(1,719)	\$(10,869)	\$(2,321)
Denominator				
Weighted-average common shares for basic				
and diluted net loss per share	16,703,852	2,379,125	7,875,761	2,221,414
Basic and diluted net loss per share	\$(0.21)	\$(0.72)	\$(1.38)	\$(1.04)

The following table sets forth the potential shares of common stock that were excluded from diluted weighted-average common shares outstanding:

	Three and Nine Months Ended October 31,	
	2015	2014
Options to purchase common stock	2,189,301	872,713
Employee stock purchase plan	400,487	—
Convertible preferred stock	—	8,353,748
Restricted stock units	948,655	—
Warrants to purchase convertible preferred stock	—	192,009
Warrants to purchase common stock	163,955	34,908
Common stock subject to repurchase	255,706	590,528
Potential shares excluded from diluted net loss per share	3,958,104	10,043,906

12. Defined Contribution Plans

The Company's contributions to the 401(k) defined contribution plan, which are expensed immediately as compensation costs, were \$0.1 million and \$0.1 million for the three months ended October 31, 2015 and October 31, 2014, respectively, and \$0.4 million and \$0.2 million for the nine months ended October 31, 2015 and October 31, 2014, respectively.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and with our audited financial statements included in our prospectus filed pursuant to Rule 424(b) under the Securities Act of 1933, as amended (the "Securities Act") with the SEC on July 17, 2015. In addition to historical condensed consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included under Part II, Item 1A below.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995 and other legal authority. These forward-looking statements concern our operations, economic performance, financial condition, goals, beliefs, future growth strategies, objectives, plans and current expectations.

Forward-looking statements appear throughout this Quarterly Report on Form 10-Q including in this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. Forward-looking statements can generally be identified by words such as "will," "enables," "expects," "allows," "continues," "believes," "anticipates," "estimates," or similar expressions. Examples of forward-looking statements include, among others, statements we make regarding (i) expected operating results, such as revenue growth, operating and other expenses, margins and earnings; (ii) expectations of the effect on our financial condition of claims, litigation, contingent liabilities, and governmental and regulatory investigations and proceedings; (iii) strategies for customer retention, growth, product development, market position, financial results and reserves; and (iv) strategies for risk management.

Forward-looking statements are neither historical facts nor assurances of future performance. They are based only on our current beliefs, expectations and assumptions regarding the future of our business, anticipated events and trends, the economy and other future conditions. As such, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and in many cases outside our control. Our expected results may not be achieved, and actual results may differ materially from our expectations. Therefore, you should not rely on any of these forward-looking statements.

Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as the section titled "Risk Factors" included under Part II, Item 1 A below, including but not limited to (i) the extent to which we are successful in gaining new customers and retaining existing ones; (ii) the incidence of service outages that could harm our reputation and impair our ability to sell our services; (iii) developments and changes in laws and regulations, including increased regulation of the internet telecommunications industry through legislative action and revised rules and standards applied by the Federal Communications Commission; and (iv) disruptions to our technology network including computer systems and software, as well as natural events such as severe weather, fires, floods and earthquakes or man-made or other disruptions of our operating systems, structures or equipment. Furthermore, such forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

We are a leading provider of innovative communications solutions and other connected services to small business, home, and mobile users. Our unique hybrid SaaS platform, consisting of our proprietary cloud, on-premise appliances, mobile applications, and end-point devices, provides the connectivity and functionality that power our solutions. Our communications solutions deliver our proprietary HD voice quality, advanced features, and integration with mobile devices, at extremely competitive pricing and value. Our platform helps create smart workplaces and homes by providing value-added communications and other connected services and by integrating end-point devices to enable the Internet of Things. Our platform and solutions have the power to provide communications, productivity, automation, monitoring, safety, security, and networking infrastructure applications to our users.

We drive the adoption of our platform by providing communications solutions to the large and growing markets for small business, home, and mobile users and then accelerate growth by offering new and innovative connected services to our user base. Our small business and home customers adopt our platform by making a one-time purchase of one of our on-premise appliances, connecting the appliance to the internet and activating services, for which they primarily pay on a monthly basis. Our communications solutions are distinguished by the combination of our proprietary HD voice quality, exceptional value, an advanced feature set enhanced by a number of end-point devices and integration with mobile devices. We believe we have achieved high levels of customer retention and loyalty by delivering exceptional quality and customer satisfaction.

We generate our subscription and services revenue by selling subscriptions and other services for our communications solutions, as well as other connected services.

We generate our product and other revenue from the sale of our on-premise appliances and our end-point devices, as well as from porting fees to enable customers to transfer their existing phone numbers to the Ooma service.

Our total revenue increased from \$18.3 million in the three months ended October 31, 2014 to \$23.5 million in the three months ended October 31, 2015, representing 28% growth in total revenue. In the nine months ended October 31, 2015 our total revenue increased to \$64.5 million compared to \$51.3 million in the nine months ended October 31, 2014, representing 26% growth in total revenue. We have continued to make investments in research and development, brand marketing and channel development, incurring net losses of \$(3.5) million and \$(1.7) million during the three months ended October 31, 2015 and 2014, respectively, and \$(10.9) million and \$(2.3) million during the nine months ended October 31, 2015 and 2014, respectively.

Key Business Metrics

We review the following key metrics, to evaluate our business, measure our performance, identify trends affecting our business, formulate financial projections and make strategic decisions.

Core Users

We believe that the number of our core users is an indicator of our market penetration, the growth of our business and our anticipated future subscription and services revenue. We define our core users as the number of home user accounts, office user extensions and standalone Business Promoter accounts, which means Business Promoter users who do not subscribe to any other services from us. Talkatone users are excluded from the total number of core users.

Our core users as of October 31, 2015 and 2014 are approximately as follows:

	As of October 31,	
	2015	2014
Core Users	761,000	604,000

The increase in our core users was primarily due to the increases in our Ooma Telo customers and small business customers.

Annualized Exit Recurring Revenue

We believe that our annualized exit recurring revenue, or AERR, for our core users is an indicator of recurring subscription and services revenue for near-term future periods. Our AERR as of October 31, 2015 and 2014 is approximately as follows:

	As of October 31,	
	2015	2014
	(In thousands)	
Annualized Exit Recurring Revenue	\$74,369	\$57,158

We have experienced a year-over-year increase in AERR primarily due to an increase in our core users and also due to increase in our average recurring revenue per user.

Annual Net Dollar Subscription Retention Rate

We believe that our annual net dollar subscription retention rate for our core users provides insight into our ability to retain and grow our subscription and services revenue, and is an indicator of the long-term value of our customer relationships and the stability of our revenue base.

The Annual Net Dollar Subscription Retention Rate as of October 31, 2015 and 2014 is as follows:

	As of October 31,	
	2015	2014
Annual Net Dollar Subscription Retention Rate	97%	102%

Net Dollar Subscription Retention Rate decreased year-over-year primarily due to lower growth in average revenue per user on a year-over-year basis.

Adjusted EBITDA

We use Adjusted EBITDA to manage our business, evaluate our performance and make planning decisions. Adjusted EBITDA represents net loss before interest expense, net, other (expense) income, income taxes, depreciation and amortization, write-off of non-cash deferred debt issuance costs, stock-based compensation, change in the fair value of our convertible preferred stock warrants and change in fair value of our acquisition-related contingent consideration. A reconciliation of our net loss to Adjusted EBITDA for the three and nine months ended October 31, 2015 and 2014 is described below (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2015	2014	2015	2014
Reconciliation of net loss to Adjusted				
EBITDA:				
Net loss	\$(3,531)	\$(1,719)	\$(10,869)	\$(2,321)
Reconciling items:				
Interest expense, net	10	61	570	165
Write-off of non-cash deferred debt issuance costs	—	—	332	—
Other income and expense, net	19	11	31	20
Depreciation and amortization	376	232	1,046	644
Amortization of intangibles	98	111	295	207
Stock - based compensation	1,436	76	2,725	171
Benefit from Income tax	—	—	—	(502)
Change in fair value of convertible preferred stock warrants	—	151	442	366
Change in fair value of acquisition-related contingent consideration	43	241	167	334
Adjusted EBITDA	\$(1,549)	\$(836)	\$(5,261)	\$(916)

Components of Results of Operations

Revenue

We generate revenue primarily through the sale of subscriptions to our communications solutions and other connected services. We also generate revenue from the sale of our on-premise appliances and end-point devices that enable our solutions, as well as from porting fees to enable our customers to transfer their existing phone numbers to the Ooma service.

Subscription and services revenue. Our subscription and services revenue consists primarily of fees we bill to our customers in connection with their subscriptions to our communications solutions. Our revenue varies based upon the

services and features utilized by our core users. We derive subscription and services revenue primarily from recurring monthly payments related to service plans, such as Ooma Premier, Ooma Office, international calling plans, and other subscriptions, which we refer to as service subscription plans. Subscription and services revenue also includes revenue generated from payments for qualified lead generation, prepaid international and directory assistance calling and mobile advertising from customers who have subscribed for these services, which we refer to as usage-based subscriptions. We recognize revenue under service subscription plans on a straight-line basis over their contractual service term. We recognize revenue under usage-based subscriptions based on actual usage. We also earn revenue from the display of advertisements through our Talkatone mobile application, primarily based on advertisement impressions displayed. We generally recognize revenue from mobile advertising on a net basis, because we are not the primary obligor to advertisers. We expect our subscription and services revenue to increase in absolute dollars, as we continue to grow our user base.

Product and other revenue. Our product and other revenue consists primarily of the sale of our on-premise appliances and end-point devices used in connection with our services and includes shipping and handling fees. We also generate other revenue from porting fees we charge our customers to enable them to transfer their existing phone numbers to Ooma Office or Telo. We recognize product and other revenue when the product has been delivered to the customer. We expect our product and other revenue to remain relatively flat or decrease slightly as we continue to sell our on-premise appliances at an attractive price point to facilitate the adoption of our platform, as well as selling fewer on-premise appliances per core user as we continue to emphasize growth in Ooma Office.

Cost of Revenue

Cost of subscription and services revenue. Our cost of subscription and services revenue primarily consists of payments we make for third-party network operations and telecommunications services, credit card processing fees, costs to maintain data centers, including co-location fees for the right to place our servers in data centers owned by third parties, depreciation of servers and equipment, along with related utilities and maintenance costs, personnel costs associated with customer care and network operations support, and allocated costs of facilities and information technology.

Cost of product and other revenue. Cost of product and other revenue is comprised primarily of the costs associated with the manufacturing of our on-premise appliances and end-point devices, as well as personnel costs for employees and contractors, costs related to porting our customers' phone numbers to our service, shipment of on-premise appliances and end-point devices, and allocated costs of facilities and information technology.

Gross Margin

Subscription and services gross margin. Subscription and services gross margin, can fluctuate based on a number of factors, including the costs we pay to third-party telecommunications providers, the timing of capital expenditures and related depreciation charges and changes in headcount. We expect our subscription and services gross margin to increase over the long term as users adopt additional connected services that we introduce in the future, although our subscription and services gross margin may fluctuate in the short term depending on the interplay of all of the factors identified above.

Product and other gross margin. Product and other gross margin, can fluctuate based on a number of factors, including the number of our on-premise appliances and end-point devices we sell during a period, as compared to the cost to produce those units and the relatively fixed personnel costs for employees and contractors incurred during the period. We sell our on-premise appliances at an attractive price point to facilitate the adoption of our platform. We therefore expect our product and other gross margin to fluctuate on a quarterly basis from small gross margin to breakeven in the foreseeable future.

Our subscription and services gross margin is significantly higher than our product and other gross margin. As a result, any significant change in the mix between subscription and services revenue and product and other revenue will cause our total gross margin to change. For example, in periods where we sell significantly more on-premise appliances than we forecasted, we would expect our total gross margin to decline.

However, we do expect our total gross margin to improve in the longer term as we continue to add more core users.

Operating Expenses

We classify our operating expenses as sales and marketing expenses, research and development expenses, and general and administrative expenses.

Sales and marketing expenses. Our sales and marketing expenses are the largest component of our operating expenses and consist primarily of personnel costs for employees and contractors directly associated with our sales and marketing activities, internet, television, radio and billboard advertising fees, public relations expenses, commissions we pay to resellers and other third parties, trade show expenses, travel expenses, marketing and promotional activities and allocated costs of facilities and information technology. We expect our sales and marketing expenses to increase in absolute dollars as we continue to actively grow our core users.

Research and development expenses. Our research and development efforts are focused on developing new and expanded features for our services and improvements to our platform and backend architecture. Our research and development expenses consist primarily of personnel costs for employees and contractors and allocated costs of facilities and information technology, software tools, and product certification. We expense research and development costs as incurred. We expect our research and development expenses to grow modestly going forward.

General and administrative expenses. Our general and administrative expenses consist primarily of personnel costs for employees engaged in administrative activities to support the day-to-day operations of our business. Other significant components of our general and administrative expenses include professional service fees, legal fees and allocated

costs of facilities and information technology. We expect general and administrative expenses to modestly grow going forward.

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Results of Operations

The following tables set forth selected condensed consolidated statement of operations data and such data as a percentage of total revenues. The historical results presented below are not necessarily indicative of the results that may be expected for any future period (in thousands):

	Three Months Ended October 31, 2015		Nine Months Ended October 31, 2014	
Revenues:				
Subscription and services	\$19,470	\$14,316	\$52,495	\$37,904
Product and other	4,006	3,971	11,969	13,383
Total revenues	23,476	18,287	64,464	51,287
Cost of revenues:				
Subscription and services	6,715	4,830	18,649	13,052
Product and other	4,277	4,065	12,067	12,610
Total cost of revenues	10,992	8,895	30,716	25,662
Gross profit	12,484	9,392	33,748	25,625
Operating expenses:				
Sales and marketing	7,539	5,958	20,247	15,518
Research and development	4,948	3,365	13,329	8,596
General and administrative	3,499	1,565	9,666	3,783
Total operating expenses	15,986	10,888	43,242	27,897
Loss from operations	(3,502)	(1,496)	(9,494)	(2,272)
Other (expense) income:				
Interest expense, net	(10)	(61)	(902)	(165)
Change in fair value of warrants	—	(151)	(442)	(366)
Other (expense) income, net	(19)	(11)	(31)	(20)
Other (expense) income	(29)	(223)	(1,375)	(551)
Loss before provision for income taxes	(3,531)	(1,719)	(10,869)	(2,823)
Income tax benefit	—	—	—	502
Net loss	\$(3,531)	\$(1,719)	\$(10,869)	\$(2,321)
Stock-based compensation:				
Cost of revenues	\$138	\$5	\$261	