

OOMA INC  
Form 10-K  
April 11, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended January 31, 2017

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)

Edgar Filing: OOMA INC - Form 10-K

(650) 566-6600

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: Common Stock, par value \$0.0001 per share; Common Stock traded on the New York Stock Exchange LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES NO

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definition of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant as of July 31, 2016, the last business day of the Registrant's most recently completed second fiscal quarter, was approximately \$79.8 million (based on the closing price of \$8.50 per share on July 31, 2016 on the New York Stock Exchange). Shares of the Registrant's common stock held by each executive officer, director and holder of 10% or more of the outstanding common stock have been excluded because such persons may be deemed affiliates. This calculation does not reflect a determination that certain persons are affiliates of the Registrant for any other purpose.

The number of shares of the Registrant's common stock outstanding as of March 31, 2017 was 18,245,827.

DOCUMENTS INCORPORATED BY REFERENCE

Information required by Part III of this Form 10-K is incorporated by reference to the Registrant's Definitive Proxy Statement for its 2017 Annual Meeting of Stockholders, which proxy statement will be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

---

Table of Contents

	Page
PART I	
Item 1. <u>Business</u>	3
Item 1A. <u>Risk Factors</u>	16
Item 1B. <u>Unresolved Staff Comments</u>	47
Item 2. <u>Properties</u>	47
Item 3. <u>Legal Proceedings</u>	47
Item 4. <u>Mine Safety Disclosures</u>	49
PART II	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	50
Item 6. <u>Selected Consolidated Financial Data</u>	52
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	54
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	72
Item 8. <u>Consolidated Financial Statements and Supplementary Data</u>	73
Item 9. <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	103
Item 9A. <u>Controls and Procedures</u>	103
Item 9B. <u>Other Information</u>	103
PART III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	104
Item 11. <u>Executive Compensation</u>	104
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	104
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	104
Item 14. <u>Principal Accounting Fees and Services</u>	104
PART IV	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	105
<u>Signatures</u>	106
<u>Exhibits</u>	107

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K for the year ended January 31, 2017, including the sections entitled “Business,” “Risk Factors,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words “believe,” “will,” “may,” “estimate,” “continue,” “anticipate,” “intend,” “should,” “plan,” “expect,” “predict,” “could,” “potentially” and similar expressions that convey uncertainty of future events or outcomes are intended to identify forward-looking statements.

These forward-looking statements include, but are not limited to, statements concerning the following:

- our future financial performance, including trends in revenue, cost of revenue, operating expenses and income taxes;
- our estimates of the size of our market opportunity and forecasts of market growth;
- changes to our business resulting from increased competition or changes in market trends;
- our ability to develop, launch or acquire new products and services, improve our existing products and services and increase the value of our products and services;
- our ability to increase our revenue and our revenue growth rate;
- our ability to anticipate demand for our products;
- our ability to effectively manage our future growth;
- our ability to successfully maintain our relationships with our resellers;
- our ability to attract and retain customers, including our ability to maintain adequate customer care and manage increases in our churn rate;
- our ability to improve local number portability provisioning and obtain direct inward dialing numbers;
- our ability to maintain, protect and enhance our brand and intellectual property;
- government regulation, including compliance with regulatory requirements and changes in market rules, rates and tariffs;
- our ability to comply with the FCC’s regulations regarding E-911 services;
- increasing regulation of our services and the imposition of federal, state and municipal sales and use taxes, fees or surcharges on our services;
- the effects of industry trends on our results of operations;
- server or system failures that could affect the quality or disrupt the services we provide and our ability to maintain data security;
- our ability to borrow additional funds and access capital markets, as well as our ability to comply with the terms of our indebtedness and the possibility that we may incur additional indebtedness in the future;
- the differences between our services, including our emergency calling service, compared to traditional phone services;
- the sufficiency of our cash and cash equivalents and cash generated from operations to meet our working capital and capital expenditure requirements;
- our ability to successfully enter new markets and manage our international expansion;
- our ability to successfully identify, evaluate and consummate acquisitions;
- the future trading prices of our common stock; and
- other risk factors included under the section titled “Risk Factors”

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Annual Report on Form 10-K primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations and prospects. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties and other factors described principally in the sections entitled “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Annual Report on Form 10-K. As a result, we cannot assure you that the results, events and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements contained in this Annual Report on Form 10-K.

The forward-looking statements made in this Annual Report on Form 10-K relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Annual Report on Form 10-K to reflect events or circumstances after the date of this Annual Report on Form 10-K or to reflect new information or the occurrence of unanticipated events, except as required by law. If we update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements. Readers are also urged to carefully review and consider all of the information in this Annual Report on Form 10-K, as well as the other documents we make available through the Securities and Exchange Commission’s website at [www.sec.gov](http://www.sec.gov). We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.

#### Corporate Information

We were incorporated in 2003 as a Delaware corporation. Our headquarters are located at 1880 Embarcadero Road, Palo Alto, CA 94303, and our telephone number is (650) 566-6600. Our corporate website address is [www.ooma.com](http://www.ooma.com). The information contained on our website is not incorporated by reference into this Annual Report on Form 10-K, and you should not consider any information contained on, or that can be accessed through, our website as part of this Annual Report on Form 10-K or in deciding whether to purchase our common stock. We have included our website address only as an inactive textual reference and do not intend it to be an active link to our website.

We are subject to the information and periodic reporting requirements of the Securities Exchange Act of 1934, or Exchange Act, and, in accordance therewith, file periodic reports, proxy statements, and other information with the Securities and Exchange Commission, or SEC. Such periodic reports, proxy statements, and other information are available for inspection and copying at the SEC’s Public Reference Room at 100 F Street, NE., Washington, DC 20549 or may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a website at <http://www.sec.gov> that contains reports, proxy statements, and other information regarding issuers that file electronically with the SEC. We also post on the Investor Relations page of our website, [www.ooma.com](http://www.ooma.com), a link to our filings with the SEC, our Corporate Governance Guidelines, and Code of Ethics and Business Conduct for Employees, Officers and Directors, and the charters of our Audit Committee, Compensation Committee, and Nominating and Governance Committee of our Board of Directors. Our filings with the SEC are posted on our website and are available free of charge as soon as reasonably practical after they are filed electronically with the SEC. You can also obtain copies of these documents free of charge by writing to us at: Corporate Secretary, Ooma, Inc., 1880 Embarcadero Road, Palo Alto, CA 94303.

When we use the terms “Ooma,” the “Company,” “we,” “us” or “our” in this report, we are referring to Ooma, Inc. and its consolidated subsidiary unless the context requires otherwise. Ooma PureVoice and the Ooma logo are trademarks of

Ooma, Inc. All other company and product names may be trademarks of the respective companies with which they are associated.

## PART I

### Item 1. Business

#### Overview

Ooma is 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 PureVoice 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 subscription services, for which they primarily pay on a monthly basis. Our communications solutions are distinguished by the combination of our proprietary PureVoice 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.

Our services run on our unique platform consisting of four proprietary elements: our multi-tenant cloud service, custom on-premise appliance, mobile applications, and end-point devices. Ooma's cloud provides a high-quality, secure, managed, and reliable connection integrating every element of our platform. Our on-premise appliances incorporate both a custom-designed, Linux-based computer and a high speed network router, with several key features, including wireless connectivity to end-point devices and custom firmware and software applications that are remotely upgradable and extensible to new services. Our mobile applications enable customers to access our product features from anywhere, and our end-point devices enable additional functionality and services. Our platform powers all aspects of our business, not only providing the infrastructure for the communications portion of our business, but also enabling a number of other current and future valuable productivity, automation, monitoring, safety, security, and networking infrastructure applications.

We currently offer our solutions in the U.S. and Canadian markets. We believe that our differentiated platform and our long-term customer relationships uniquely position us to add new connected services and exploit adjacent markets, all without significant capital investment or high customer acquisition costs to drive their adoption. We offer and/or are developing connected services for the following applications:

•Automation, monitoring, safety, and security. Our platform enables an ecosystem for connected services by integrating with other automation solutions. For example, we have integrated Ooma Telo with products from Nest Labs, Inc., a Google company, including the Nest Learning Thermostat and Nest Protect smoke and carbon monoxide detector, the Amazon Echo and Amazon Alexa voice service, and a variety of products integrated through the If This Then That ("IFTTT") platform. By combining Ooma's communications intelligence with these products' functions, we enable innovative and valuable features. For example, if the Nest Protect device detects smoke or carbon monoxide when the user is away from home, we provide the ability for the user, through the user's mobile device, to connect with emergency services from the user's home phone number and address. This allows users to immediately speak with the correct emergency services personnel, saving valuable time. We continue to develop



additional connected services for small businesses and homes to enable the Internet of Things. For example, we have introduced Ooma Internet Security powered by Zscaler, a real-time, cloud-based internet security service that protects all devices connected to the home network by blocking websites that contain viruses, malware and other online threats, and Ooma Home Security, a comprehensive do-it-yourself home security and monitoring solution that alerts users of events within their homes and provides the option to use the home phone number to dial 911 remotely in the event of an emergency.

• **Networking infrastructure.** Our on-premise appliances include a high-speed router that has the capacity to provide networking infrastructure solutions. In the future, we expect to launch connected services with applications for networking infrastructure for small businesses and homes.

• **Productivity.** We offer a small business productivity service, called “Business Promoter”, which provides lead generation services to businesses using proprietary techniques that leverage local, mobile and social media technologies and platforms to enable small businesses to be found, to engage with new prospects, and to receive telephone calls from qualified customer leads. In the future, we expect to launch additional connected services to enhance productivity for small businesses.

We believe that our platform is particularly well-suited to enable the delivery of connected services because it is always on, monitored and interactive. We expect the adoption of our connected services to support the continued growth of our recurring revenue stream.

We have experienced significant revenue and user growth in recent periods, growing our “core users” from approximately 645,000 as of January 31, 2015 to approximately 933,000 as of January 31, 2017, representing a compound annual growth rate of approximately 20%. We define core users as the number of home user accounts, office user extensions, and standalone Business Promoter accounts. We believe that we have one of the lowest customer churn rates in the industry, with an average annual core user churn rate of approximately 7%, excluding Business Promoter for the 12-month period ended January 31, 2017. Additionally, we had more than 1.7 million and approximately 1.6 million Talkatone monthly active users as of January 31, 2017 and 2016, respectively. We have a predictable revenue model with growth in recurring revenue, with total revenue of \$104.5 million, \$88.8 million and \$72.2 million in fiscal 2017, fiscal 2016 and fiscal 2015, respectively. Subscription and services revenue, which represents the recurring portion of our total revenue, has increased as a percentage of our total revenue over the last three years, from approximately 75% in fiscal 2015 to 87% in fiscal 2017. We have continued to make significant investments in research and development, brand marketing, and channel development, incurring net losses of \$(12.9) million, \$(14.1) million and \$(6.4) million in fiscal 2017, fiscal 2016 and fiscal 2015, respectively. Our Adjusted EBITDA was \$(1.4) million, \$(6.5) million, \$(3.5) million in fiscal 2017, fiscal 2016 and fiscal 2015, respectively. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Result of Operation” for a description of how we define Adjusted EBITDA and why we believe that it is useful to investors, and a reconciliation to our net loss, which is our most directly comparable financial measure calculated and presented in accordance with generally accepted accounting principles, or GAAP.

## Our Products and Services

### Ooma for Small Business

#### Ooma Office for Small Businesses

Ooma Office is a fully-featured multi-user communications system for small businesses, providing everything needed to manage communications in and out of the office with a suite of powerful features at an affordable price.

Unlike pure cloud-based phone services that only work with IP phones, our unique hybrid SaaS platform allows for the use of standard analog phones, mobile phones, and fax machines as well as select IP phones and internet fax. Ooma Office analog desktop extensions work wirelessly with no wiring infrastructure. This makes setup intuitive and easy enough for the user to install and manage without assistance from an IT professional.

Ooma Office consists of an on-premise appliance and an Ooma Linux end-point device, which wirelessly connects regular desktop telephones to the user’s high-speed internet connection. The user can configure the system online, using the Ooma Office Manager web portal. Ooma Office provides features not typically available to small businesses, including a virtual receptionist, music-on-hold, ring groups, a conference bridge, internet and analog fax capability, and mobility features, such as voicemail forwarding to a designated e-mail address.

The Ooma Office Mobile HD app allows users to remotely access their business communications system to make, receive and transfer phone calls and utilize many of the other features, as if they were in the office. The app is compatible with any iOS or Android mobile device and transmits calls over a Wi-Fi or cellular data connection.

Edgar Filing: OOMA INC - Form 10-K

Ooma Office Ooma Office

Mobile HD app and Linx

Ooma Office customers can subscribe to the following calling plans to enhance their business:

• **Local numbers.** Ooma allows businesses to select up to 20 local phone numbers to establish points of presence within a geographic area or for direct inward dialing to users of the system. Ooma offers phone numbers in all states and provinces in the U.S. and Canada, except the Northwest Territories of Canada.

• **Toll free numbers.** Ooma toll-free numbers come with 500 minutes of inbound calling included each month. For businesses that expect a large number of toll-free calls, Ooma offers toll-free calling plans that include an additional 1,000 or 2,500 additional minutes each month at a low cost.

• **Prepaid.** Ooma Office customers can save on international calling with everyday low rates from Ooma. International calls are charged against a prepaid account, which is automatically refilled as the balance runs low.

#### Business Promoter

Business Promoter is a service that helps businesses generate new customer leads. Business Promoter optimizes a business's online presence, enabling potential customers to discover the business and engage with it without requiring time or expertise from the business. Business Promoter utilizes location, mobile and social technologies and platforms to generate customer leads by delivering phone calls from potential customers to a business. Ooma Office users can also sign-up for the Business Promoter service on a pay-per-lead basis. Under the pay-per-lead model, users generally pay a price per lead that originates from a qualified phone call to the business.

Business Promoter also operates on a white-label basis for digital marketing agencies representing tens of thousands of business locations.

#### Ooma for Residence

#### Ooma Telo for Home

Ooma Telo is a complete home communications solution designed to serve as the primary phone line in the home, delivering high-quality voice communications and unique and valuable features.

Users buy an Ooma Telo and plug it into a high-speed internet connection and standard home phone devices. Users have the option to transfer their existing phone number from their current provider for a one-time fee or to select a new number at no cost. We provide local phone numbers throughout the U.S. and Canada except in the Northwest Territories of Canada. Once set up, users have access to free nationwide calling, international calling with low rates, and standard features such as voicemail, call waiting, caller ID, network address book, and 911 calling, with text alerts when 911 is dialed from the home. The base service is free, but users are required to pay applicable taxes and fees typically ranging from approximately \$3.77 to \$9.48 per month, depending on the jurisdiction. Based on a typical monthly phone bill of \$40 for standard landline service, we estimate that users can save approximately \$1,000 in three years by using an Ooma Telo.

The Ooma Mobile HD app allows Ooma Telo users to make and receive phone calls and access Ooma features and settings with any iOS or Android device over a Wi-Fi or cellular data connection. The Ooma Mobile HD app is free for Ooma Telo users and includes unlimited outbound calls within the U.S. (subject to normal residential usage limitations). Another advantage of the Ooma Mobile HD app is it enables users to make international calls on their mobile devices using Ooma's attractive international calling plan.

Ooma

Ooma Telo



## Ooma End-Point Devices

The Ooma Telo and the Ooma Office support a line of end-point devices to expand the capabilities of the system to serve the needs of an entire household.

### HD2 Handset Linx Safety Phone Wireless + Bluetooth Adapter

• The Ooma HD2 Handset is a sophisticated wireless handset with a color display that supports many enhanced Ooma features, including online contact list syncing, picture caller-ID, instant second line, voicemail screening, and musical ringtones.

• The Ooma Linx is a remote phone jack that can be plugged into any electrical socket to allow the user to connect a phone, fax machine, alarm panel, or anything that requires a phone line to the Ooma phone service, all completely wirelessly.

• The Ooma Safety Phone is a wireless, small form-factor, hands-free speakerphone that can be worn as a pendant. Two speed dial buttons can each be preset with up to three different numbers, including 911. The preset buttons can also be configured to trigger e-mails or SMS notification alerts when assistance is requested. The Safety Phone supports two-way voice communication and can also be used to answer phone calls.

• Ooma Wireless + Bluetooth Adapter adds Wi-Fi and Bluetooth capability to Ooma Telo. With this adapter, users can install the Ooma Telo device anywhere in the home within range of their wireless network instead of hardwiring the device to a modem or router. Bluetooth is used to pair Bluetooth-enabled mobile phones to the Ooma Telo so that incoming calls on the user's mobile phone can ring on the user's home phones.

### Ooma Premier Service for Telo

The Ooma Premier Service is a suite of over 25 advanced calling features that maximize the utility of the Ooma Telo on a monthly or annual subscription basis. The Ooma Premier Service helps our users enhance their privacy, stay connected on the go, better manage and access their voicemail, and expand calling options.

The most popular features of the Ooma Premier Service include:

• Blacklists that block over eight hundred and fifty thousand telemarketers, robocallers, and spammers, as well as a user-configurable list of unwanted callers.

• Instant Second Line that enables two household members to make calls simultaneously over the same phone number.

• Nest Product Integration that provides integration of our communications solution with the Nest Protect: Smoke + Carbon Monoxide alarm and Nest Learning Thermostat, enabling a variety of features and services, including remote emergency calling from a user's home number, event scheduling and alerts, and call forwarding based on occupancy sensors.

• Multi-Ring that enables calls to ring simultaneously on the home phone, cell phone, and Ooma Mobile application.

• Voicemail Monitoring that allows users to listen to and intercept calls as a voicemail message is being recorded.

• Voicemail Forwarding that provides users the option to listen to voicemail messages from their e-mail inbox or smartphone.

• Unlimited Free Mobile App Calling that allows users to make and receive unlimited phone calls within the U.S. from their mobile devices as if they were calling from their home number. The availability of unlimited phone calls within the U.S. is subject to normal residential usage limitations.

## Other Premium Services

We offer other premium subscription services to our customers, independent of the Ooma Premier Service, including the following services.

• **International calling plan.** We offer an international calling plan that allows users to make unlimited calls to 61 countries around the world for a monthly or annual fee, or on a pre-paid basis. Calls can be made from the Ooma Telo, or from the Ooma Mobile HD app.

• **Voicemail transcription service.** Users can have their voicemail messages converted into text and have it sent to the user via e-mail so they can read the content of the voicemail.

## Talkatone App

Our Talkatone mobile app is available to anyone with an iOS or Android mobile device. Users download the app from the Apple App Store or Google Play for free. Users select a phone number that they can use to make free U.S. and Canada calls and texts using a Wi-Fi or cellular data connection within and out of network. Advertising is displayed within the Talkatone mobile app and users can purchase premium services such as ad-free usage and international calling plans.

## Talkatone App Calling Talkatone App Texting

## Segment Information

We operate in one industry segment generating product and services revenue from the sale of on-premise appliances and end-point devices to our end-customers through our website and from sales through distributors, retailers and resellers.

## Backlog

We generally sign monthly and annual contracts for our subscriptions and generally invoice our customers on a monthly basis for the services purchased. Products are shipped and billed shortly after receipt of an order. We do not believe that our product backlog at any particular time is meaningful because it is not necessarily indicative of future revenue in any given period as such orders may be rescheduled or cancelled by our partners, or end-user customers, without penalty prior to shipment. Additionally, the majority of our product revenue comes from orders that are received and shipped in the same quarter. Until such time as these amounts are invoiced, we do not recognize them as revenues. Accordingly, we believe that fluctuations in backlog are not a reliable indicator of future revenues and we do not utilize backlog as a key management metric internally.

## Sales and Marketing

Our sales and marketing objective is to grow and retain our customer base, and sell them additional premium services using an integrated and multi-channel marketing approach. We continually test and refine our marketing and sales tactics to drive sales at a low customer acquisition cost.

We use television and radio advertising to build awareness and interest for our products and services, which benefits both the Ooma Office and Ooma Telo solutions. We believe that television advertising provides an opportunity to build the Ooma brand cost-effectively, educate prospects on Ooma's unique combination of quality and value, and capture prospects' attention. Small businesses and consumers who see our television advertising are directed to our web site and to key retail partners. Radio is used in a highly targeted manner primarily to reach small business owners and decision makers as they commute to and from their workplace.

We use online marketing including search engine marketing, search engine optimization, online video, display advertising, and social media to attract customers as they do online research for the products and services we offer. For those prospects who do not purchase immediately, we entice them to provide their e-mail address and/or phone number by offering helpful information, relevant case studies and demonstrative webinars to assist in making their purchase decision. We continue to reach out to our prospect leads over time using e-mail and telemarketing until they purchase or the lead is retired.

We actively mobilize our customers to spread word-of-mouth marketing by sharing Ooma news and information through social media and e-mail. We also encourage our customers to write product reviews on Amazon.com and other online retailer websites. We sell additional services to our existing customer base by offering free trials and promotional offers, as well as sending e-mail communications and leaving messages on their Ooma voicemail service.

Our small business and home products are sold through direct channels, retail and resellers, with the direct channel and resellers as our primary distribution channel for small business and the retail channel as our primary distribution channel for home customers. Our direct sales force is focused on small business sales and includes highly trained sales representatives located in the U.S. responding to inbound telephone calls and sales leads generated through marketing activity and our website. We consider our retail presence a competitive advantage and we are continuing to add retailers who share our growth objectives. Our retail distribution includes national and regional consumer electronics, big box retailers, and leading online retailers, including Amazon.com, Best Buy, Costco.com and others. Additionally, we have certain reseller partnerships with third parties who resell our home communications solution under their brand name. Our Ooma Business Promoter service is sold primarily to Ooma Office customers and through digital marketing agencies to businesses seeking to generate leads.

## Customer Support

Our primary customer support objective is to delight our customers and educate them on the features and benefits of our products to optimize the overall user experience. In addition to providing support to our customers, we employ an active customer management strategy in which we drive incremental revenue through cross-selling of products and services. Our customer support teams also manage the porting process for our customers and our customer billing and payment activities.

We maintain two customer contact centers, one operated by us in Newark, California, which primarily houses our small business support for our Ooma Office customers, and one operated by our partner Telus in Manila, Philippines, which provides our customer support primarily for our Ooma Telo customers. In order to maximize customer convenience and ease of use, we utilize a variety of communication media to serve the needs of our customers including telephone, online chat, online tutorials, and e-mail.



## Our Platform

Our unique hybrid SaaS platform consists of our proprietary cloud, on-premise appliances, mobile applications, and end-point devices. They work in concert to support our advanced features, high-quality, and the ability to offer customized connected services, which are vital to driving our high level of customer satisfaction and low customer churn.

We take an integrated approach to the development of our technology. Our extensive engineering resources span both hardware and software and our business scope encompasses the entire platform, giving us the ability to drive new integrated solutions for our customers. We believe our integrated engineering and business strategy is a significant competitive advantage and makes it feasible for us to leverage our platform to deliver a broad range of productivity, automation and infrastructure connected services.

The integrated approach to our technology allows us to operate at a reduced cost and provides competitive advantages:

- Because we designed our on-premise appliances and network elements to work in harmony, we are free to make optimizations that streamline and simplify the elements of the network.

- Our platform enables us to automatically select, on a call-by-call basis, between over a dozen call termination providers based on call cost and quality. Likewise, our platform allows us to shift our customer base among a several origination vendors. This, combined with our rapid growth creates a favorable environment to demand low costs from our vendors without sacrificing quality.

- The tight integration between our engineering and operations teams, combined with the functional nature of our on-premise appliances, facilitates our highly automated network operations, enabling us to efficiently scale our operations.

#### Cloud

Our multi-tenant cloud infrastructure provides a high-quality, secure, managed, and reliable suite of services integrating all elements of the platform. We have built a proprietary cloud in order to optimize quality of service, reliability and security, which are essential elements of our communications solutions. Our cloud simplifies the task of offering new services, and provides consistent performance and economies of scale for all of our connected services. Ooma's key cloud capabilities include: telecommunications, custom hosted services, interconnections to third party services (cloud-to-cloud), on-premise appliance management, remote diagnostics support, and billing.

We have engineered our cloud infrastructure to enable:

- Quality of Service through transcoding of data to/from our on-premise appliances, routing control, direct connection to internet transit providers, and strategic location of our data centers;

- Security through AES128-encrypted media and provisioning information and layered defenses against malicious cyber-threats; and

- Reliability through redundant data centers in Northern California and Virginia.

#### On-Premise Appliances

Our purpose-built on-premise appliances are both a custom-designed, Linux-based computer and a high speed network router, with several key features, including wireless connectivity to end-point devices and custom firmware and software applications that are remotely upgradable and extensible to new services.

We harness the power of our on-premise appliances, operating in conjunction with our cloud, to deliver three core technology advantages:

**PureVoice HD technology for improved call quality.** A common cause of customer churn for internet communications solutions is poor voice quality, which is primarily caused by packet loss or jitter from internet bottlenecks. Our PureVoice HD technology addresses these issues with the following elements:

**High-speed routing with hardware-based quality of service:** Ooma's on-premise appliances include network ports for both the local area network, or LAN, and the wide area network, or WAN, with a dedicated routing engine connecting the two. The routing engine is capable of routing 100Mbps per second and prioritizes voice traffic over other traffic in the business or home.

**Advanced voice compression technology:** The high processing power of our on-premise appliances makes it possible to employ an advanced voice compression technology that reduces the bandwidth required for carrying voice traffic over the customer's internet connection by over 70%, while providing greater error concealment than more commonly used voice compression technologies.

**Adaptive redundancy:** Our cloud dynamically detects when packets are being lost or delayed and signals our on-premise appliances to send redundant data in succeeding packets. Our cloud then reassembles the packets it receives into the proper data stream in real time. The level of redundancy is dynamically determined based upon the quality of the customer's internet connection, which optimizes the balance of latency and quality. Ooma business, home and mobile users can maintain three times packet redundancy while consuming virtually the same bandwidth as competing systems that use less advanced voice compression technology.

**HD Voice:** Our on-premise appliances double the sampling rate and sampling precision compared to a traditional voice call to capture a truer picture of the actual sound and provide a HD audio experience to the listener.

**Encrypted data transfer:** Signaling between our on-premise appliance and our cloud is embedded in an encrypted virtual private network, or VPN, making it very difficult to illicitly monitor. Likewise, we employ secure real-time protocol, or SRTP, to encrypt the media associated with voice conversations to and from our on-premise appliances.

**Extensibility to new services.** Our on-premise appliance incorporates extra processing power, networking capability and memory capacity to accommodate future services. We have also incorporated a USB port in the appliance for directly connecting other devices.

**Hub for the Internet of Things.** Our on-premise appliance supports a wireless networking protocol to facilitate connectivity to other end-point devices and enable the Internet of Things.

#### Mobile Applications

We have made significant investments in developing mobile applications for the iOS and Android operating systems. As a result, nearly every connected service and feature we deploy enhances or can be enhanced through integration with our customer's mobile device. We are in the process of integrating our PureVoice HD technology into our Ooma Mobile HD app. We plan to continue enhancing our mobile apps to incorporate features related to our partners' services (such as Nest Labs, Inc.) and other connected services.

#### End-Point Devices

Ooma has developed a range of end-point devices that together create a full communications solution for our customers. We also enable several proprietary features through our end-point devices, such as picture caller ID and address book sync/dial by name using the Ooma HD2 Handset and pre-programmed sequential dialing by the Ooma Safety Phone.

#### Operations and Manufacturing

We deliver our services through two separate data centers located in Northern California and Virginia, both hosted in facilities leased from Equinix, Inc. While our service operations are partially redundant, account provisioning and

billing are operated out of the San Jose facility.

Our network operations and carrier operations teams are responsible for designing our core routing and switching infrastructure, managing growth and maintenance (including the introduction of new services) and orchestrating vendor relationships for hosted services, IP transit and carrier services and daily operation of our cloud and other services. The design of these services, and the tools for monitoring and managing them, are developed in combination with our engineering team.

We contract with manufacturers in Taiwan that have a manufacturing facility in China to produce our on-premise appliances and end-point devices. We also contract with a manufacturer in Israel to produce components of our home security solutions. We configure and ship to our channel partners and end users through our internal manufacturing and logistics team based in Newark, California. Our internal logistics team also manages reverse logistics for channel and warranty returns and works closely with our engineering team to develop tooling and processes that bring new products into production.

#### Engineering, Research, and Development

We have invested significant time and resources into developing our engineering, research, and development team, resulting in a group with diverse skills, ranging from digital and radio frequency hardware design to embedded software, network software, telecommunications, database architecture, operations support systems, billing, security, web design and mobile app development. The team develops all aspects of our platform, including our hosted services, on-premise appliances, mobile applications, end-point devices, interconnections to third party services and tools and utilities that facilitate customer provisioning, debugging, billing and reporting. Because our engineering, research, and development team manages all aspects of our solutions, we are able to offer an integrated solution that works seamlessly between software and hardware and to respond to customer feedback to add in additional features and services that work across the entire platform.

The engineering, research and development team consists of a core set of engineers located primarily in Palo Alto, California, augmented by contract development teams in Canada, India, Ukraine, Russia, Serbia and New Zealand.

#### Competition

The market for communications solutions and other connected services for small business, home, and mobile users is complex, fragmented, and defined by constant shifts in technology and customer demands. We expect competition to continue increasing in the future. We believe that the defining factors driving competition in our market include:

- Quality and consistency of communications services;
- Lifetime value of initial investment and ongoing cost of services;
- Breadth of features and capabilities;
- System reliability, availability and performance;
- Speed and ease of activation, setup, and configuration;
- Ownership and control of the proprietary technology;
- Integration with multiple end-point devices and mobile solutions; and
  - Customer satisfaction and brand loyalty.

We believe that we compete favorably on the basis of the factors listed above.

We face competition from a broad range of providers of communications solutions and other connected services for small business, home, and mobile users. Some of these competitors include:

- established communications providers, such as AT&T Inc., Comcast Corporation and Verizon Communications Inc. in the U.S., and Rogers Communications Inc. and others in Canada, that resell on-premise hardware, software and hosted solutions;
- other communications companies such as 8x8 Inc., magicJack VocalTec Ltd., RingCentral, Inc. and Vonage Holdings Corp.;
- companies such as Broadsoft, Inc. and Microsoft Corporation;
-

traditional on-premise, hardware business communications providers such as Avaya Inc., Cisco Systems, Inc. and ShoreTel, Inc., any of which may now or in the future also host their solutions through the cloud, and their resellers; mobile communications app companies providing “over-the-top” solutions, such as Grasshopper (Citrix, Inc.), LINE Corporation, Pinger, Inc., Viber (Rakuten, Inc.) and WhatsApp, Inc.; and other large internet companies, such as Google Inc., any of which might launch its own cloud-based business communications services or acquire other cloud-based business communications companies in the future.

### Competition with Established Telephone and Cable Companies

Established telephone companies such as AT&T, Verizon and CenturyLink, and national cable companies such as Comcast and Cox Communications and Time Warner Cable represent a significant portion of our competition in the telecommunications market. These competitors are many times larger and better capitalized than Ooma, continue to make substantial investments in competitive products, features and services, and take significant advantage of their existing business relationships with their very large customer bases. For example, these cable and phone companies often bundle home phone service with Internet access and/or cable television access, and the pricing of these various “bundles” may imply a zero or very low price to the customer for home phone service. While we believe that we compete favorably based upon our service features, quality and pricing, such aggressive pricing tactics make it more difficult for us to attract the existing customers of our large competitors.

### Competition with Non-traditional Communications Providers

Non-traditional communication providers such as Facebook, Google Voice, WhatsApp and Pinger offer telephony services at little or no cost as an added benefit to their existing customers, and/or to attract additional users. Some of these providers arguably are not in compliance with certain regulatory requirements, for example, to collect certain federal, state and local regulatory taxes and fees, or to provide 911 service, which means their costs to provide telephony services may be substantially less than ours.

### Intellectual Property

Our success depends, in part, on our ability to protect our proprietary technology and other intellectual property rights. We rely on a combination of patents, trade secrets, copyrights and trademarks, as well as contractual protections to establish and protect our intellectual property rights. We require our employees, consultants and other third parties to enter into confidentiality and proprietary rights agreements, we control access to our software, documentation and other proprietary information, and our software is protected by U.S. and international copyright laws. For example, we require our employees and independent contractors involved in the development of intellectual property on our behalf to enter into agreements acknowledging that all works or other intellectual property generated or conceived by them on our behalf belong to us, and assigning to us any rights, including intellectual property rights, that they may claim or otherwise have in those works or property, to the extent allowable under applicable law.

As of January 31, 2017, we had 13 issued patents, 15 patent applications pending for examination in the U.S., and five patent applications pending for examination in foreign jurisdictions, all of which are related to U.S. applications. Our issued patents will expire between 2028 and 2036. We cannot assure you whether any of our patent applications will result in the issuance of a patent or whether the examination process will require us to narrow our claims. Any issued patents may be contested, circumvented, found unenforceable or invalidated, and we may not be able to prevent third parties from infringing them. We are also a party to various license agreements with third parties who typically grant us the right to use certain third-party technology in conjunction with our products and services, or to integrate software into our products, including open source software and other software available on commercially reasonable terms.

Although we rely on laws respecting intellectual property rights, including patent, trade secret, copyright and trademark laws, as well as contractual protections to establish and protect our intellectual property rights, we believe the technological and creative skills of our personnel, the development of new features and functionality and frequent enhancements to our products and services are the primary methods of establishing and maintaining our technology leadership position.

Despite our efforts to protect our proprietary technology and our intellectual property rights, unauthorized parties may attempt to misappropriate our rights or to copy or obtain and use our proprietary technology to develop products and services with the same functionality as ours. Policing unauthorized use of our technology and intellectual property rights is difficult, and enforcing our intellectual property rights is expensive and uncertain.

#### Employees and Contractors

As of January 31, 2017, we had 180 full-time employees, all of whom were located in the U.S., including 14 in manufacturing, 35 in customer support and service, 65 in research and development, 38 in sales and marketing, and 28 in general and administration. None of our employees are either represented by a labor union or subject to a collective bargaining agreement. We have not experienced any work stoppages and we believe that our employee relations are good.

We also contract with third-party contractors whose employees or subcontractors' employees perform services for us. As of January 31, 2017, we had 368 of these third-party contractors, including 9 in manufacturing, 138 in customer support and service, 116 in research and development, 99 in sales and marketing, and 6 in general and administration. As of such date, 138 were located in the U.S. and 230 internationally.



## Facilities

Our corporate headquarters are located in Palo Alto, California and consist of approximately 18,000 square feet of office space pursuant to a lease agreement that expires November 30, 2017. We lease additional office space in Palo Alto consisting of approximately 2,379 square feet pursuant to a lease agreement that expires April 30, 2017 and a multi-use industrial space consisting of 13,800 square feet pursuant to a lease agreement that expires February 28, 2018. Outside of Palo Alto, we lease warehouse and office space totaling 16,200 square feet in Newark, California, and pursuant to co-location agreements, we lease space from third-party datacenter hosting facilities in Northern California and Virginia that support our cloud infrastructure. We believe that we will be able to obtain additional space at other locations at commercially reasonable terms to support our continuing expansion.

## Regulatory Matters

### Overview of Regulatory Environment

Traditional telephone service historically has been subject to extensive federal and state regulation, while Internet services generally have been subject to less regulation. Because some elements of VoIP resemble the services provided by traditional telephone companies and others resemble the services provided by internet service providers, the VoIP industry has not fit easily within the existing framework of telecommunications law and until recently has developed in an environment largely free from regulation.

The Federal Communications Commission, or FCC, the U.S. Congress and various regulatory bodies in the states and in foreign countries have begun to assert regulatory authority over VoIP providers and are continuing to evaluate how VoIP will be regulated in the future.

### Federal Regulation

As a provider of internet communications services, we are subject to regulation in the U.S. by the FCC. Some of these regulatory obligations include contributing to the Federal Universal Service Fund (“USF”), the Telecommunications Relay Service Fund and federal programs related to number administration; providing access to E-911 services; protecting customer information; and porting phone numbers upon a valid customer request.

Our services are also subject to a number of other FCC regulations. Among others, we must comply (in whole or in part) with:

- the Communications Assistance for Law Enforcement Act, or CALEA, which requires covered entities to assist law enforcement in undertaking electronic surveillance;
- requirements to provide E-911 to our customers;
- contributions to the USF, which requires that we pay a percentage of our interstate end-user telecommunications revenue to support certain federal programs;
- payment of annual FCC regulatory fees based on our interstate and international revenue;
- payment of Local Number Portability and North American Numbering Plan Administration fees;
- rules pertaining to access to our services by people with disabilities and contributions to the Telecommunications Relay Services fund;
- rules requiring reporting to the FCC of certain service outages;
- rules requiring notice to the FCC before discontinuing service; and
- FCC rules regarding CPNI and other proprietary information, which require, among other things, that we not use CPNI for marketing without customer approval, subject to certain exceptions, that we file annual reports regarding CPNI protections, and that we disclose breaches to law enforcement.

If we do not comply with any current or future rules or regulations that apply to our business, we could be subject to substantial fines and penalties, may have to restructure our service offerings, exit certain markets or raise the price of our services, any of which could ultimately harm our business and results of operations.

## Regulatory Classification of VoIP Services

To date, the FCC has regulated certain VoIP services without concluding that these services are telecommunications services subject to the traditional common carrier regulation. In various proceedings the FCC has nonetheless imposed certain regulation obligations on interconnected VoIP and certain non-interconnected VoIP services. The FCC may continue to impose additional regulations on these services without resolving their regulatory classification. The FCC could also at any time determine that interconnected VoIP or non-interconnected VoIP services are telecommunications services and thus subject to traditional common carrier regulation. Additional regulation would impose compliance costs and could increase our risk of enforcement or other liability.

## VoIP E-911 Matters

The FCC requires internet voice communications providers, such as our company, to provide E-911 service in all geographic areas covered by the traditional wire line E-911 network. Under the FCC's rules, Internet voice communications providers must transmit the caller's phone number and registered location information to the appropriate Public Safety Answering Point, or PSAP, for the caller's registered location.

In Canada, the Canadian Radio-television and Telecommunications Commission ("CRTC") has imposed similar requirements for fixed/non-native internet voice communications related to the provision of E-911 services in all areas of Canada where the wireline incumbent carrier offers such 911 services. In the case of nomadic internet voice communications, service providers are required to ensure that 911 calls are routed to a call center which routes these calls to the appropriate PSAP based on information provided by the caller or, if the caller is unable to provide location information, based on the last registered address of the caller. The CRTC also mandates certain customer notification requirements pursuant to which new customers are required to be notified of 911 service limitations and to consent to the same before their service with us commences and we are required to provide annual update notifications to our customers of the 911 limitations of our service.

We provide E-911 service in compliance with the CRTC and the FCC's rules, as applicable, to substantially all of our customers' interconnected VoIP lines. Our mobile platform also allows users to make emergency 911 calls from their mobile devices using their home phone number and address. In some circumstances, 911 calls may be routed to a national emergency call center that routes the call to the appropriate PSAP.

On August 8, 2014, the FCC adopted an Order setting text-to-911 requirements. The Order requires all Commercial Mobile Radio Services ("CMRS") providers and all interconnected text messaging application providers to be able to deliver text messages to PSAPs, by December 31, 2014, and to begin sending text messages to a given PSAP within six months of a valid request. Compliance with this mandate and any additional 911 mandates placed on text messaging providers will impose costs on our business. If we fail to comply with these obligations, we may face significant enforcement liability or other liability risks.

In connection with the regulatory requirements that we provide E-911 to all of our interconnected VoIP customers, we must obtain from each customer, prior to the initiation of or changes to service, the physical locations at which the service will first be used for each VoIP line. For services that can be utilized from more than one physical location, we must provide customers one or more methods of updating their physical location and in Canada, these customers must be able to update their location online. Because we do not validate the physical address at each location where the services may be used by our customers, and because customers may use the services in locations that differ from the registered location without providing us with the updated information, it is possible that E-911 calls may be routed to the wrong public safety answering point, or PSAP. We are also aware that certain customer registered addresses are incorrect, or may not have been updated. If E-911 calls are not routed to the correct PSAP, and if the delay results in serious injury or death, we could be sued and the damages substantial.

We could be subject to enforcement action by the FCC or the CRTC for our customer lines that do not have E-911 service. This enforcement action could result in significant monetary penalties and restrictions on our ability to offer services.

Customers may in the future attempt to hold us responsible for any loss, damage, personal injury, or death suffered as a result of delayed, misrouted or uncompleted emergency service calls. The New and Emerging Technologies 911 Improvement Act of 2008 provides that internet voice communications providers have the same protections from liability for the operation of 911 services as traditional wire-line and wireless providers. Limitations on liability for the provision of 911 services are normally governed by state law, and these limitations typically are not absolute. It is also unclear under the FCC's rules whether the limitations on liability would apply to those customer lines for which we do not provide E-911 service. In Canada, provincial consumer protection laws may constrain our ability to limit liability to our non-business customers for any liability caused due to the 911 shortfalls inherent in internet voice communications services.

## State Regulation

The FCC has preempted much regulation of internet voice communications services. However, a number of states have ruled that non-nomadic internet voice communications services may or do fall within the definition of “telecommunications services” or are otherwise within state telecommunications regulatory jurisdiction and therefore those states assert that they have authority to regulate the service. No states currently require certification for nomadic internet voice communications service providers. Nevertheless, a number of states have imposed certain traditional telecommunications requirements on such services, including assessing state USF or other surcharge requirements, E-911 support and fees and other surcharges on nomadic VoIP providers. A number of states require us to contribute to state USF and E-911, and pay other surcharges, while others are actively considering extending their public policy programs to include the services we provide. We pass USF, E-911 fees and other surcharges through to our customers, which may result in our services becoming more expensive or require that we absorb these costs. We expect that state public utility commissions will continue their attempts to apply state telecommunications regulations to internet voice communications services like ours. If the FCC determines that VoIP services are telecommunications services, the risk of state regulation will increase significantly.

## International Regulation

As we expand internationally, we will be subject to laws and regulations in the countries in which we offer our services. Regulatory treatment of internet communications services outside the U.S. varies from country to country, is often unclear, and may be more onerous than imposed on our services in the U.S. In Canada, our service is regulated by the CRTC, which, among other things, imposes requirements similar to the U.S. related to the provision of E-911 services in all areas of Canada where the traditional telephone carrier offers such 911 services. Our regulatory obligations in foreign jurisdictions could have a material adverse effect on our ability to expand internationally, and on the use of our services in international locations. See “Item 1A. Risk Factors” for more information.

## ITEM 1A. RISK FACTORS

Our current and prospective investors should carefully consider the risks and uncertainties described below, together with all of the other information in this Annual Report on Form 10-K, including our consolidated financial statements and the related notes, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the “Cautionary Note Regarding Forward-Looking Statements,” before making investment decisions regarding our common stock. The risks and uncertainties described below may not be the only ones we face, but include the most significant factors currently known by us. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, also may become important factors that affect us. If any of the risks actually occur, our business, financial condition, results of operations could be materially and adversely affected. In that event, the trading price of our common stock could decline, and you could lose part or all of your investment.

### Risks Related to Our Business and Our Industry

If we are unable to attract new users of our services on a cost-effective basis, our business will be materially and adversely affected.

In order to grow our business, we must continue to attract new users on a cost-effective basis. We use and periodically adjust the mix of advertising and marketing programs to promote our services. Significant increases in the pricing of one or more of our advertising channels could increase our advertising costs or may cause us to choose less expensive and perhaps less effective channels to promote our services. As we add to or change the mix of our advertising and marketing strategies, we may need to expand into channels with significantly higher costs than our current programs, which could materially and adversely affect our results of operations. We will incur advertising and marketing expenses in advance of when we anticipate recognizing any revenue generated by such expenses, and we may fail to experience an increase in revenue or brand awareness as a result of such expenditures. We have made in the past, and may make in the future, significant expenditures and investments in new advertising campaigns, and we cannot assure you that any such investments will lead to the cost-effective acquisition of additional customers. New users are drawn to our products and services by rankings circulated by organizations such as Amazon.com, Apple and Google app stores and highly regarded publications such as PC Magazine. If we are unable to maintain effective advertising programs and garner favorable rankings, our ability to attract new customers could be materially and adversely affected, our advertising and marketing expenses could increase substantially, and our results of operations may suffer.

We market our products and services principally to small businesses and households. Many of these consumers tend to be less technically knowledgeable and may be resistant to new technologies such as our cloud-based communications solutions and our connected services. Because our potential customers need to connect additional hardware at their location and take other technical steps not required for the use of traditional communications services such as telephone, fax and e-mail, these consumers may be reluctant to use our service. These customers may also lack sufficient resources, financial or otherwise, to invest in learning about our services, and therefore may be unwilling to adopt them. If these consumers choose not to adopt our services, our ability to grow our business will be limited.

Our customers may terminate their subscriptions for our service at any time without penalty, and increased customer turnover, or costs we incur to retain our customers and encourage them to add users and, in the future, to purchase additional functionalities and premium service editions, could materially and adversely affect our financial performance.

Our customers generally do not have long-term contracts with us, and they may terminate their subscription for our service at any time without penalty or early termination charges. We cannot accurately predict the rate of customer

terminations or average monthly service cancellations or failures to renew, which we refer to as churn. Our Ooma Office customers may choose to reduce the number of lines or remove some of the solutions to which they subscribe. Additionally, our Ooma Telo customers subscribing to Premium Services have no obligation to renew their subscriptions for such services and may elect to terminate their subscription for any number of reasons, including changes in financial or employment status, perceived reduction in quality or value, and other unique and personal reasons.

We may not be able to predict the renewal rates for our customers. In addition, small business customers generally pay more for their subscriptions than home or mobile customers, so any increased churn in small business customers could materially and adversely affect our financial performance and user churn, resulting in a significant impact on our results of operations, and an increase in the cost we incur in our efforts to retain our customers and encourage them to upgrade their services and increase their number of users. Our core user churn rate could increase in the future if customers are not satisfied with our service, the value proposition of our services or our ability to otherwise meet their needs and expectations. Churn and reductions in the number of users for whom a small business customer subscribes may also increase due to factors beyond our control. Because of churn and reductions in the number of users for whom a customer subscribes, we have to acquire new customers, or acquire new users within our existing customer base, on an ongoing basis simply to maintain our existing level of customers and revenue. If a significant number of customers terminate, reduce or fail to renew their subscriptions, we may need to incur significantly higher marketing expenditures than we currently anticipate in order to increase the number of new customers or to sell existing customers additional services, and such additional marketing expenditures could harm our business and results of operations. Different factors may affect the churn of business, home, and mobile customers, and Talkatone customers differently. As a result, our business is susceptible to a broad array of market forces, and any of our efforts to mitigate risk of customer churn due to one factor may divert management's time and focus away from efforts to mitigate risk of customer churn due to other factors. This broad-based susceptibility to churn could materially and adversely affect our financial performance.

Our future success also depends in part on our ability to sell additional subscriptions and additional functionalities to our current customers. This may require increasingly sophisticated and costlier sales efforts and a longer sales cycle. Any increase in the costs necessary to upgrade, expand and retain existing customers could materially and adversely affect our financial performance. If our efforts to convince customers to add users and, in the future, to purchase additional functionalities are not successful, our business may suffer. In addition, such increased costs could cause us to increase our subscription rates, which could increase our turnover rate.

We face competition in our markets by our competitors and may lack sufficient financial or other resources to compete successfully.

The cloud-based communications and connected services industries are highly competitive. We face continued competition from (i) established communications providers, such as AT&T Inc., Comcast Corporation and Verizon Communications Inc. in the U.S., and Rogers Communications Inc. and others in Canada; (ii) other communications companies such as 8x8, Inc., magicJack VocalTec Ltd., RingCentral, Inc. and Vonage Holdings Corp.; (iii) companies such as Broadsoft, Inc. and Microsoft Corporation (that generally license their software) and their resellers; (iv) traditional on-premise, hardware communications providers, such as Avaya Inc., Cisco Systems, Inc., ShoreTel, Inc. and their resellers; (v) mobile communications app companies providing "over-the-top" solutions, such as LINE Corporation, Pinger, Inc., Viber (Rakuten, Inc.) and WhatsApp Inc.; and (vi) large internet companies, such as Google Inc. All of these companies currently or may in the future host their solutions through the cloud. In addition, as we expand our connected services, we face competition from lead-generation and internet search engine optimization companies and home automation companies.

Aggressive business tactics by our competitors may reduce our revenue.

Increased competition may result in aggressive business tactics by our competitors, including:

- offering products similar to our platform and solutions on a bundled basis at no charge;
- announcing competing products combined with extensive marketing efforts;
- providing financial incentives to consumers; and
- asserting intellectual property rights irrespective of the validity of the claims.



Our retail partners may offer the products and services of competing companies, which would adversely affect our business. Competition from other companies may also adversely affect our negotiations with service providers and suppliers, including, in some cases, requiring us to lower our prices. We may not be able to compete successfully with the offerings and sales tactics of other companies, which could result in the loss of customers and, as a result, our revenue and profitability could be adversely affected.

Mergers or other strategic transactions involving our competitors could weaken our competitive position, which could adversely affect our ability to compete effectively and harm our results of operations. Additionally, mergers or other strategic transactions we engage in may not be successful.

We believe that some of our existing competitors may consolidate or be acquired. In addition, some of our competitors may enter into new alliances with each other or may establish or strengthen cooperative relationships with systems integrators, third-party consulting firms or other parties. Any such consolidation, acquisition, alliance or cooperative relationship could adversely affect our ability to compete effectively and lead to pricing pressure and our loss of market share, and could result in a competitor with greater financial, technical, marketing, service and other resources, all of which could harm our business, results of operations and financial condition.

In the past we have decided, and in the future may decide, to enter into mergers or other strategic transactions in which we acquire other companies. We cannot guarantee we will be able to successfully integrate the teams, assets, or business of these target companies into our business, that we will be able to fully recover the costs of such transactions or that we will be successful in leveraging such strategic transactions into increased business for our products.

We rely significantly on retailers and reseller partnerships to sell our products. Our failure to effectively develop, manage, and maintain our retail sales and reseller partnership channels could materially and adversely affect our revenue.

We currently sell our Ooma Telo and Ooma Office products through a combination of direct sales, leading retailers such as Amazon.com, Costco.com, Best Buy, Fry's Electronics and Walmart, and our reseller partnerships and a significant portion of our product sales are made through our retail and reseller partnership channels. Similarly, to date, the vast majority of our Business Promoter accounts are obtained through a limited number of reseller partnerships. In addition, our Talkatone application relies significantly on the Apple and Google app stores for distribution. Our future success depends on our continued ability to establish and maintain a network of productive retailers, to maintain and expand our reseller partnership arrangements, and to maintain the ability of Talkatone to be distributed through the app stores and increase Talkatone's visibility therein. We expect that we will need to maintain and expand our retail channel and reseller partnership sales and Talkatone's distribution and visibility in the app stores as we seek to expand our customer base. We generally do not have long-term contracts with our retailers, distributors and reseller partners, and we have in the past and may in the future experience a loss of or reduction in sales through any of these third parties, which could materially reduce our revenue. For example, our reseller partnership with Vivint has not produced significant sales to end users and to our knowledge, Vivint is not currently reselling our home communications solution to new customers. In addition, if Apple or Google determine that Talkatone is non-compliant with their app store vendor policies, they may revoke our rights to sell Talkatone through their app store at any time. Our competitors may in some cases be effective in causing our current and potential retailers, and reseller partners to favor their services or prevent or reduce sales of our services. If we fail to maintain relationships with current retailers and reseller partners, fail to develop relationships with new retailers and reseller partners in new markets or expand the number of retailers and reseller partners in existing markets, fail to manage, train, or provide appropriate incentives to our existing retailers and reseller partners, or if they are not successful in their sales efforts, sales of our products and services may decrease and our results of operations would suffer.

We depend on a small number of vendors to manufacture the on-premise appliances, end-point devices and home security systems we sell, and any delay or interruption in manufacturing, configuring and delivering by these third parties would result in delayed or reduced shipments to our customers and may harm our business.

We primarily rely on Mitac Computing Technology Corporation for production of our on-premise appliances, Hualin Precision Technology Co., Ltd. ("Hualin") for production of our end point devices, and Hualin and Crow Corporation for production of our home security systems we sell to our customers. We currently do not have long-term contracts with

these vendors. As a result, these third parties are not obligated to provide products to or perform services for us for any specific period, in any specific quantities or at any specific price, except as may be provided in a particular purchase order. If these third parties are unable to deliver on premise appliances or end-point devices of acceptable quality or in a timely manner, our ability to bring services to market, the reliability of our services and our reputation could suffer. We expect that it could take several months to effectively transition to new third-party manufacturers or fulfillment agents. Additionally, several components used in our on-premise appliances and end-point devices are “single sourced” and any interruption in the suppliers of such components could cause our business to suffer as we identify alternative sources of components. In the past, labor strikes in West Coast ports have delayed shipments of our products from our manufacturers. Future repetition of such delays could negatively affect our ability to deliver product to our customers in a timely manner and may harm our business and hinder our growth.

To deliver our services, we rely on third parties for our network connectivity and co-location facilities for certain features in our services and for certain elements of providing our services.

We currently use the infrastructure of third-party service providers for hosting, internet access and other services that are vital to our service offering. Equinix, Inc. provides data center facilities; Comcast, NTT Inc. and others provide backbone internet access; and Bandwidth.com, Onvoy and others provide origination services. We also rely on third-party services for our SMS and speech-to-text services which are sole-sourced. Intrado is our sole provider of 911 services. We expect that we will continue to rely heavily on third-party network service providers to provide these services for the foreseeable future. If any of these network service providers stop providing us with access to their infrastructure, fail to provide these services to us on a cost-effective basis, cease operations, or otherwise terminate these services, the delay caused by qualifying and switching to another third-party network service provider, if one is available, could have a material adverse effect on our business and results of operations.

We may be required to transfer our servers to new data center facilities if we are unable to renew our leases on acceptable terms, if at all, or the owners of the facilities decide to close their facilities, and we may incur significant costs and possible service interruption in connection with doing so. In addition, any financial difficulties, such as bankruptcy or foreclosure, faced by our third-party data center operators or any of the service providers with which we or they contract, may have negative effects on our business, the nature and extent of which are difficult to predict. Additionally, if our data centers are unable to keep up with our increasing needs for capacity, our ability to grow our business could be materially and adversely impacted.

If problems occur with any of these third-party network or service providers, it may cause errors or reduced quality in our services, and we could encounter difficulty identifying the source of the problem. The occurrence of errors or reduced quality in our service, whether caused by our systems or a third-party network or service provider, may result in the loss of our existing customers, delay or loss of market acceptance of our services, termination of our relationships and agreements with our resellers or liability for failure to meet service level agreements, and may seriously harm our business and results of operations.

We rely on purchased or leased hardware and software licensed from third parties in order to offer our service. In some cases, we integrate third-party licensed software components into our platform. This hardware and software may not continue to be available at reasonable prices or on commercially reasonable terms, or at all. Any loss of the right to use any of this hardware or software could significantly increase our expenses and otherwise result in delays in the provisioning of our service until equivalent technology is either developed by us, or, if available, is identified, obtained and integrated. Any errors or defects in third-party hardware or software could result in errors or a failure of our service which could harm our business.

We also contract with third parties to provide enhanced 911, or E-911, services, including assistance in routing emergency calls and terminating E-911 calls. Our providers operate a national call center that is available 24 hours a day, seven days a week, to receive certain emergency calls and maintain public service answering point, or PSAP, databases for the purpose of deploying and operating E-911 services. On mobile devices, we generally rely on the underlying cellular or wireless carrier to provide E-911 services. Any failure to perform, including interruptions in service, by our vendors, could cause failures in our customers' access to E-911 services and expose us to significant liability and damage our reputation.

Interruptions in our services could harm our reputation, result in significant costs to us and impair our ability to sell our services.

Because our technology platform is complex, incorporates a variety of new computer hardware, and the platform continues to evolve, our services may have errors or defects that are identified after customers begin using such

services, which could result in unanticipated service interruptions. Although we test our services to detect and correct errors and defects before their initial release and before we make updates or other changes to such services, we have occasionally experienced significant service interruptions as a result of undetected errors or defects and may experience future interruptions of service if we fail to detect and correct errors and defects. For example, in April and May 2015 while working to upgrade our network, we encountered unexpected problems with the communications between our data centers, as well as certain server capacity issues, which led to multiple intermittent service outages, some of which lasted for up to approximately eight hours for some of our customers. While we have identified root causes of these service outages, and in each case were able to restore service to all of the affected customers, we continue to take corrective actions to address these root causes. We were able to correct such root causes without incurring material expenses, and the outages in April and May 2015 did not materially affect our results of operations. However, the costs incurred in correcting root causes for future service outages may be substantial and these and other related consequences could negatively impact our results of operations.

We currently serve our customers from two data center hosting facilities located in Northern California and Virginia, where we lease space from Equinix, Inc. While we believe that the additional data center and certain procedures we have adopted will enable us to restore services quickly in the event of a service outage, these procedures and our data centers, by themselves, will not prevent future outages. Any damage to, or failure of, these facilities, the communications network providers with whom we or they contract or with the systems by which our communications providers allocate capacity among their customers, including us, could result in interruptions in our service. Additionally, in connection with the expansion or consolidation of our existing data center facilities, we may move or transfer our data and our customers' data to other data centers. Despite precautions we take during this process, any unsuccessful data transfers may impair or cause disruptions in the delivery of our service.

Despite precautions taken at our hosting facilities, the occurrence of a natural disaster or an act of terrorism or other unanticipated problems at these facilities could result in lengthy interruptions in our service. Even with the disaster recovery arrangements that we have in place, our service could be interrupted.

Any defects in, or unavailability of, the components of our platform that cause interruptions of our services could, among other things:

- cause a reduction in revenue or a delay in market acceptance of our services;
- require us to issue refunds to our customers or expose us to claims for damages;
- cause us to lose existing customers and make it more difficult to attract new customers;
- divert our development resources or require us to make extensive changes to our software, which would increase our expenses and slow innovation;
- increase our technical support costs; and
- harm our reputation and brand.

We rely on third parties for some of our software development, quality assurance and operations.

We currently depend on various third parties for some of our software development efforts, quality assurance and operations. Specifically, we outsource some of our software development and design, quality assurance and operations activities to third-party contractors that have employees and consultants located in Canada, China, India, New Zealand, Russia, Serbia and Ukraine. Our dependence on third-party contractors creates a number of risks, in particular, the risk that we may not maintain control or effective management with respect to these business operations.

Our agreements with these third-party contractors are either not terminable by them (other than at the end of the term or upon an uncured breach by us) or require at least 30 days' prior written notice of termination. If we experience problems with our third-party contractors, the costs charged by our third-party contractors increase or our agreements with our third-party contractors are terminated, we may not be able to develop new solutions, enhance or operate existing solutions or provide customer support in an alternate manner that is equally or more efficient and cost-effective.

We anticipate we will continue to depend on these and other third-party relationships in order to grow our business for the foreseeable future. If we are unsuccessful in maintaining existing and, if needed, establishing new relationships with third parties, our ability to efficiently operate existing services or develop new services and provide adequate customer support could be impaired, and as a result, our competitive position or our results of operations could suffer.

We rely on third parties to provide the majority of our customer service and support representatives. If these third parties do not provide our customers with reliable, high quality service, our reputation will be harmed, and we may lose customers.

We offer customer support through both our online account management website and our toll-free customer support number. Our customer support is currently provided via a third-party provider located in the Philippines, as well as our employees in the U.S. We currently offer support almost exclusively in English. Our third-party providers generally provide customer service and support to our customers without identifying themselves as independent parties. The ability to support our customers may be disrupted by natural disasters, inclement weather conditions, civil unrest, strikes, acts of terrorism and other adverse events in the Philippines. Furthermore, as we expand our operations internationally, we may need to make significant expenditures and investments in our customer service and support to adequately address the complex needs of international customers, such as support in multiple foreign languages.

If any of these third parties do not provide reliable, high-quality service, our reputation and our business will be harmed and we may be exposed to significant liability. In addition, a significant service outage may cause a high volume of customer support inquiries, and our third party customer service call center might be unable to respond to a significant spike in customer support inquiries in a timely manner. In addition, industry consolidation among providers of services to us may impact our ability to obtain these services or increase our costs for these services.

Our limited operating history makes it difficult to evaluate our current business and future prospects, which may increase the risk of investing in our stock.

Although we were incorporated in 2003, we did not formally introduce Ooma Telo until 2009 or Ooma Office until 2013. In addition, we acquired our Business Promoter business in 2012 and our Talkatone business in 2014. Our limited operating history limits our ability to plan for and model future growth. We have encountered and expect to continue encountering risks and uncertainties frequently experienced by growing companies in rapidly changing markets. If our assumptions regarding these uncertainties are incorrect or change in reaction to changes in our markets, or if we do not manage or address these risks successfully, our results of operations could differ materially from our expectations, and our business could suffer. Any success we may experience in the future will depend, in large part, on our ability to, among other things:

- retain and expand our customer base;
- increase revenue from existing customers as they add users and, in the future, purchase additional functionalities and premium service subscriptions;
- successfully acquire customers on a cost-effective basis;
- improve the performance and capabilities of our services, applications, and hardware through research and development;
- successfully expand our business domestically and internationally;
- successfully compete in our markets;
- continue to innovate and expand our service offerings;
- continue our relationships with strategic partners like Amazon, Nest Labs, Inc. and our reseller partners;
- continue our relationships with our current retail partners and develop relationships with additional retail partners;
- continue our relationships with our digital marketing agency partners, advertising agencies and digital advertising networks;
- continue our relationships with third-party vendors that enable our solutions;
- successfully protect our intellectual property and defend against intellectual property infringement claims;
- generate leads and convert potential customers into paying customers;
- maintain and enhance our third-party data center hosting facilities to minimize interruptions in the use of our services;
- determine appropriate prices for the marketplace; and
- hire, integrate and retain professional and technical talent.

We have incurred significant losses and negative cash flows in the past and anticipate continuing to incur losses and negative cash flows for the foreseeable future, and we may therefore not be able to achieve or sustain profitability in the future.

We have incurred substantial net losses since our inception, including net losses of approximately \$12.9 million, \$14.1 million and \$6.4 million for the fiscal year ended January 31, 2017, 2016 and 2015, respectively. We had an accumulated deficit of \$77.8 million and \$64.8 million as of January 31, 2017 and 2016, respectively. We have spent considerable amounts of time and money since inception to develop new communications solutions and connected services. Additionally, we have incurred substantial losses and expended significant resources to market, promote, develop and sell our products and solutions. We also expect to continue investing for future growth, including for advertising, customer acquisition, technology infrastructure, storage capacity, services development and international



expansion. In addition, as a public company, we may incur additional accounting, legal and other expenses.

As a result of our increased expenditures, we may have negative operating cash flows for the foreseeable future and will have to generate and sustain increased revenue to achieve future profitability. Achieving profitability will require us to increase revenue, manage our cost structure and avoid significant liabilities. Revenue growth may slow, revenue may decline or we may incur significant losses in the future for a number of possible reasons, including general macroeconomic conditions, increasing competition (including competitive pricing pressures), a decrease in the growth of the markets in which we compete or failure for any reason to continue capitalizing on growth opportunities. Additionally, we may encounter unforeseen operating expenses, difficulties, complications, delays, service delivery and quality problems and other unknown factors that may result in losses in future periods. If these losses exceed our expectations or our revenue growth expectations are not met in future periods, our financial performance will be harmed and our stock price could be volatile or decline.

Our business could suffer if we cannot obtain or retain direct inward dialing numbers, or DIDs, are prohibited from obtaining local or toll-free numbers, or are limited to distributing local or toll-free numbers to only certain customers.

Our future success depends on our ability to procure large quantities of local and toll-free DIDs in the U.S. and foreign countries in desirable locations at a reasonable cost and without restrictions. Our ability to procure and distribute DIDs depends on factors outside of our control, such as applicable regulations, the practices of the communications carriers that provide DIDs, the cost of these DIDs, and the level of demand for new DIDs. Due to their limited availability, there are certain popular area code prefixes we generally cannot obtain. Our inability to acquire DIDs for our operations would make our services less attractive to potential customers in the affected local geographic areas. In addition, future growth in our customer base, together with growth in the customer bases of other providers of internet-based business communications, has increased, which increases our dependence on needing sufficiently large quantities of DIDs.

If we are unable to effectively process local number and toll-free number portability provisioning in a timely manner, our growth may be negatively affected.

We support local number and toll-free number portability, which allows our customers to transfer to us and thereby retain their existing phone numbers when subscribing to our small business, home, and mobile services. Transferring numbers can be a manual process that can take up to 15 business days or longer to complete. A new customer of our services must maintain both our service and the customer's existing phone service during the number transferring process. Any delay we experience in transferring these numbers typically results from the fact that we depend on third-party carriers to transfer these numbers, a process we do not control, and these third-party carriers may refuse or substantially delay the transfer of these numbers to us. Local number portability is considered an important feature by many potential customers, and if we fail to reduce any related delays, we may experience increased difficulty in acquiring new customers. Moreover, the FCC requires us to comply with specified number porting timeframes when customers leave our service for the services of another provider. In Canada, the Canadian Radio-television and Telecommunications Commission, or CRTC, has imposed a similar number portability requirement on service providers like us. If we, or our third-party carriers, are unable to process number portability requests within the requisite timeframes, we could be subject to fines and penalties. Additionally, in the U.S., both customers and carriers may seek relief from the relevant state public utility commission, the FCC, or in state or federal court for violation of local number portability requirements.

If small businesses opt to perform advertising tasks on their own, demand for our lead generation services would decrease, thereby negatively affecting our revenue.

Large internet marketing providers such as Google, Yahoo! and Microsoft offer online advertising products to small businesses through self-service platforms. As small businesses become more familiar with such platforms, they may increasingly choose to actively manage their own internet presence and their demand for the lead-generation services

may decrease. We cannot predict the evolving experiences and preferences of small businesses and cannot assure you that we can develop our lead generation business, or develop similar new services, in a manner that will suit their needs and expectations faster or more effectively than our competitors, or at all. If we are not able to do so, our results of operations would suffer.

Our access to the majority of our lead-generation customers is currently through a limited number of digital agencies, which creates a significant risk that we could lose a majority of our lead generation service customers due to factors beyond our control.

We currently contract with several digital agencies to provide our lead-generation services as a component of their service to third parties who we include as our core users. If our relationship with these digital agencies degrades, they could elect not to use our lead-generation service, which would lead to the loss of a portion of our lead generation business revenue as well as a number of our core users. Also, for reasons beyond our control, the digital agencies we work with may lose their business relationships with third parties who purchase lead generation services for their customers, causing the digital agency to terminate its business relationship with us and the loss of such lead generation business revenue. The concentration of our access to lead generation customers creates volatility in our revenue and in the churn of our core users, which risk will remain unless and until we significantly grow the number of digital agencies we contract with, and/or increase the number of small businesses that obtain lead generation services directly from us.

If we fail to continue developing our brand or our reputation is harmed, our business may suffer.

We believe that continuing to strengthen our current brand will be critical to achieving widespread acceptance of our services and will require continued focus on active marketing efforts. The demand for and cost of online and traditional advertising have been increasing and may continue to increase. Accordingly, we may need to increase our investment in, and devote greater resources to, advertising, marketing, and other efforts to create and maintain brand loyalty among users. Brand promotion activities may not yield increased revenue, and even if they do, any increased revenue may not offset the expenses incurred in building our brands. If we fail to promote and maintain our brand, or if we incur substantial expense in an unsuccessful attempt to promote and maintain our brands, our business could be materially and adversely affected.

Our services, as well as those of our competitors, are regularly reviewed and commented upon by online and social media sources, as well as computer and other business publications. Negative reviews, or reviews in which our competitors' products and services are rated more highly than our solutions, could negatively affect our brand and reputation. From time to time, our customers have expressed dissatisfaction with our services, including dissatisfaction with our customer support, our billing policies and the way our services operate. If we do not handle customer complaints effectively, our brand and reputation may suffer, we may lose our customers' confidence, and they may choose to terminate, reduce or not to renew their subscriptions. In addition, many of our customers participate in social media and online blogs about internet-based services, including our services, and our success depends in part on our ability to minimize negative and generate positive customer feedback through such online channels where existing and potential customers seek and share information. If actions we take or changes we make to our services upset these customers, their blogging could negatively affect our brand and reputation. Complaints or negative publicity about our services or customer service could materially and adversely impact our ability to attract and retain customers and our business, financial condition and results of operations.

A security breach could delay or interrupt service to our customers, compromise the integrity of our systems or data that we collect, result in the loss of our intellectual property or confidential information, harm our reputation, or subject us to significant liability.

Our operations depend on our ability to protect our network from interruption or damage resulting from unauthorized access or entry, computer viruses or malware or other events beyond our control. In the past, we may have been subject to undetected distributed denial-of-service, or DDOS, cyberattacks by hackers intent on bringing down our services, and we may be subject to DDOS and other forms of cyberattacks in the future. We cannot assure you that our backup systems, regular data backups, physical, technological and organizational security protocols and measures and other procedures that are currently in place, or that may be in place in the future, will be adequate to prevent unauthorized access to our systems, significant damage, system interruption, degradation or failure, or data loss or to respond to a cyberattack once launched. Additionally, hackers may attempt to directly gain access to a customer's on-premise appliance, which may delay or interrupt services, or may subject our customers to further security risks, including in relation to any connected household devices a customer might have now or in the future, such as Nest devices or other household sensors, or to our network more generally. Also, our services are web-based, and the amount of data we store for our users on our servers has been increasing as our business has grown. Despite the implementation of security measures, our infrastructure may be vulnerable to hackers, computer viruses, worms, other malicious software programs or similar disruptive problems caused by our customers, employees, consultants or other internet users who attempt to invade public and private data networks. In some cases we do not have in place disaster recovery facilities for certain ancillary services, such as email delivery of messages. Currently, nearly all of our customers authorize us to bill their credit or debit card accounts directly for all transaction fees that we charge. We rely on encryption and authentication technology to ensure secure transmission of confidential information, including customer credit and debit card numbers. Despite our efforts to encrypt and secure customer payment card information, hackers with sufficiently sophisticated technology or methods may still be able to infiltrate our systems to gain unauthorized access to payment card information. Further, advances in computer capabilities, new discoveries in the field of cryptography or other developments may result in a compromise or breach of the technology we use to protect transaction data.

Additionally, third parties may attempt to fraudulently induce domestic and international employees, consultants or customers into disclosing sensitive information, such as user names, passwords or customer proprietary network information, or CPNI, or other information in order to gain access to our customers' data or to our data. CPNI includes information such as the phone numbers called by a customer, the frequency, duration, and timing of such calls, and any services purchased by the customer, such as call waiting, call forwarding and caller ID, in addition to other information that may appear on a customer's bill. Third parties may also attempt to fraudulently induce employees, consultants or customers into disclosing sensitive information regarding our intellectual property and other confidential business information, or our information technology systems. In addition, because the techniques used to obtain unauthorized access, or to sabotage systems, change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any system failure or security breach that causes interruptions or data loss in our operations or in the computer systems of our customers or leads to the misappropriation of our or our customers' confidential or personal information, or CPNI, could result in significant liability to us. Such failure or breach could cause our service to be perceived as not being secure, subject us to regulatory requirements such as FCC notification, result in significant monetary costs, such as fines, legal fees and expenditures to improve and enhance our security measures, cause considerable harm to us and our reputation (including requiring notification to customers, regulators or the media) and deter current and potential customers from using our services. Additionally, we could incur significant costs, both monetary and with respect to management's time and attention, to investigate and remediate a data security breach. Because our onboarding and billing functions are conducted primarily through a single data center, any security breach in that data center may cause an interruption in our business operations. Any of these events could have a material adverse effect on our business, results of operations and financial condition.



Failures in internet infrastructure or interference with broadband access could cause current or potential customers to believe that our systems are unreliable, leading our current customers to switch to our competitors or potential customers to avoid using our services.

Many of our services depend on our customers' broadband access to the internet, usually provided through a cable or digital subscriber line, or DSL, connection. In addition, users who access our services and applications through mobile devices, such as smartphones and tablets, must have a high-speed connection, such as Wi-Fi, 3G, 4G or LTE, to use our services and applications. Currently, this access is provided by companies that have significant and increasing market power in the broadband and internet access marketplace, including incumbent phone companies, cable companies and wireless companies. Increasing numbers of users and increasing bandwidth requirements may degrade the performance of internet and mobile infrastructure, resulting in outages or deteriorations in connectivity and negatively impacting the quality with which we can deliver our solutions. As our customer base grows and their usage of communications capacity increases, we will be required to make additional investments in network capacity to maintain adequate data transmission speeds, the availability of which may be limited, or the cost of which may be on terms unacceptable to us. If adequate capacity is not available to us as our customers' usage increases, our network may be unable to achieve or maintain sufficiently high data transmission capacity, reliability or performance. Furthermore, as the rate of adopting new technologies increases, the networks on which our services and applications rely may not be able to sufficiently adapt to the increased demand for these services, including ours. In the past, we have experienced disruptions to our service. For example, in August 2011, we experienced an outage for approximately three hours, and in April and May 2015, we experienced multiple intermittent service outages that lasted for up to eight hours for some of our customers. Frequent or persistent interruptions could cause current or potential users to believe that our systems or services are unreliable, leading them to switch to our competitors or to avoid our services, and could permanently harm our reputation and brands. Because some of our services rely on integration between features that use both wired and wireless infrastructures, any of the aforementioned problems with either wired or wireless infrastructure may result in the inability of customers to take advantage of our integrated services and therefore may decrease the attractiveness of our collective services to current and potential customers.

The success of our business relies on customers' continued and unimpeded access to broadband service. Providers of broadband services may be able to block our services or charge their customers more for using our services, which could adversely affect our revenue and growth.

Some of the providers of broadband internet access and high-speed mobile access, such as AT&T and Verizon, offer products and services that directly compete with our own offerings, which can potentially give such providers a competitive advantage. For example, these providers may market and sell a bundle of services to our current and potential customers that includes services directly competitive to ours, and our current and potential customers may prefer these bundled offerings. Some providers of broadband access, including providers outside of the U.S., may take measures that affect their customers' ability to use our service, such as degrading the quality of the data packets we transmit over their lines, giving those packets low priority, giving other packets higher priority than ours, blocking our packets entirely or attempting to charge their customers more for also using our services. While actions like these by U.S. providers would violate the net neutrality rules recently adopted by the FCC and described below, most foreign countries have not adopted formal net neutrality or open internet rules, and there continues to be some uncertainty regarding whether the net neutrality rules will be upheld by courts or modified by legislative action.

On March 12, 2015 the FCC released new network neutrality and open internet rules that it had adopted on February 26, 2015. In that order, the FCC reclassified broadband Internet access services as a telecommunications service subject to some elements of common carrier regulation, including the obligation to provide service on just and reasonable terms, requirements related to customer privacy and requirements for accessibility for people with disabilities. The order also prohibits blocking or discriminating against lawful services and applications and prohibits "paid prioritization," or providing faster speeds or other benefits in return for compensation. The order went into effect

on June 12, 2015 and is the subject of pending appeals by several parties. The net neutrality rules could affect the market for broadband internet access service in a way that impacts our business, for example by increasing the cost of broadband internet service and thereby depressing demand for our services or by increasing the costs of services we purchase.

Our quarterly and annual results of operations have fluctuated in the past and may continue to do so in the future. As a result, we may fail to meet or to exceed the expectations of research analysts or investors, which could cause our stock price to fluctuate.

Our quarterly and annual results of operations have varied historically from period to period, and we expect that they will continue to fluctuate due to a variety of factors, many of which are outside of our control, including:

- our ability to retain existing customers and attract new customers;
- our ability to sell premium solutions to our existing customers;
- our ability to introduce new solutions;



- the actions of our competitors, including pricing changes or the introduction of new solutions;
- our ability to effectively manage our growth;
- our ability to successfully penetrate the communications and connected services markets for small businesses, home, and mobile;
- the number of monthly and annual subscriptions at any given time;
- the timing, cost and effectiveness of our advertising and marketing efforts;
- the timing, operating cost and capital expenditures related to the operation, maintenance, and expansion of our business;
- the timing of our decisions with regard to product resource allocation;
- seasonality of consumers' purchasing patterns and seasonality of advertising patterns;
- service outages or security breaches and any related impact on our reputation;
- our ability to accurately forecast revenue and appropriately plan our expenses;
- costs associated with defending and resolving intellectual property infringement and other claims;
- changes in tax laws, regulations, or accounting rules;
- the timing and cost of developing or acquiring technologies, services or businesses and our ability to successfully manage any such acquisitions; and
- the impact of worldwide economic, industry, and market conditions.

Any one of the factors above, or the cumulative effect of some or all of the factors referred to above, may result in significant fluctuations in our quarterly and annual results of operations. This variability and unpredictability could result in our failure to meet our internal operating plan or the expectations of securities analysts or investors for any period, which could cause our stock price to decline. In addition, a significant percentage of our operating expenses is fixed in nature and is based on forecasted revenue trends. Accordingly, in the event of revenue shortfalls, we may not be able to mitigate the negative impact on net income (loss) and margins in the short term. If we fail to meet or exceed the expectations of research analysts or investors, the market price of our shares could fall substantially and we could face costly lawsuits, including securities class-action suits.

We may require additional capital to pursue our business objectives and to respond to business opportunities, challenges or unforeseen circumstances. If capital is not available to us or only under unfavorable terms, our business, results of operations and financial condition may be adversely affected.

We intend to continue making expenditures and investments to support the growth of our business and may require additional capital to pursue our business objectives and respond to business opportunities, challenges or unforeseen circumstances, including the need to develop new solutions or enhance our existing solutions, enhance our operating infrastructure, and acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. However, additional funds may not be available when we need them on terms acceptable to us, or at all. Our credit agreements include restrictive covenants and any debt financing we secure in the future could involve further restrictive covenants, which may make it more difficult for us to obtain additional capital and to pursue business opportunities.

In addition, volatility in the credit markets may have an adverse effect on our ability to obtain debt financing. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences, and privileges superior to those of holders of our common stock. If we are unable to obtain adequate financing or financing on terms satisfactory to us, our ability to continue pursuing our business objectives and to respond to business opportunities, challenges or unforeseen circumstances could be significantly limited, and our business, results of operations, financial condition and prospects could be materially and adversely affected.

Growth may place significant demands on our management and our infrastructure.

We have recently experienced substantial growth in our business, including an increase in the number of customers we consider to be our core users. This growth has placed and may continue to place significant demands on our management and our operational and financial infrastructure. As our operations grow in size, scope and complexity, we will need to increase our sales and marketing efforts and add additional sales and marketing personnel worldwide and to improve and upgrade our systems and infrastructure to attract, service, and retain an increasing number of users. For example, we expect the volume of simultaneous calls to increase significantly as our user base grows. Our network hardware and software may not be able to accommodate this additional simultaneous call volume. The expansion of our systems and infrastructure will require us to commit substantial financial, operational and technical resources in advance of an increase in the volume of business, with no assurance that the volume of business will increase. Any such additional capital investments will increase our cost base. Continued growth could also strain our ability to maintain reliable service levels for our users, develop and improve our operational, financial and management controls, enhance our reporting systems and procedures and recruit, train, and retain highly skilled personnel. If we fail to achieve the necessary level of efficiency in our organization as we grow, our business, results of operations, and financial condition could be materially and adversely affected.

Shifts in trends or the emergence of new technologies may render our solutions obsolete or require us to expend significant resources to develop, license, or acquire new services or applications on a timely and cost-effective basis in order to remain competitive.

The cloud-based communications and connected services industries are emerging markets characterized by rapid changes in customer requirements, frequent introductions of new and enhanced services, and continuing and rapid technological advancement. We cannot predict the effect of technological changes on our business. To compete successfully in these emerging markets, we must anticipate and adapt to technological changes and evolving industry standards and continue to design, develop, manufacture and sell new and enhanced services that provide increasingly higher levels of performance and reliability at lower cost. We derived approximately 72% of our revenue from Ooma Telo for the fiscal year ended January 31, 2017. We expect Ooma Telo will continue to account for a majority of our revenue for the foreseeable future. However, our future success will also depend on our ability to introduce and sell new services, features and functionality that enhance or are beyond the voice, fax, text and connected services we currently offer, as well as to improve usability and support and increase customer satisfaction. Our failure to develop solutions that satisfy customer preferences in a timely and cost-effective manner may harm our ability to renew our subscriptions with existing customers and to create or increase demand for our services and may materially and adversely impact our results of operations.

The introduction of new services by competitors or the development of entirely new technologies to replace existing offerings could make our solutions obsolete or adversely affect our business and results of operations. Announcements of future releases and new services and technologies by our competitors or by us could cause customers to defer purchases of our existing services, which also could have a material adverse effect on our business, financial condition or results of operations. We may experience difficulties with software development, operations, design or marketing that could delay or prevent our development, introduction or implementation of new or enhanced services and applications. We have in the past experienced delays in the planned release dates of new features and upgrades, and have discovered defects in new services and applications after their introduction. We cannot assure you that new features or upgrades will be released according to schedule, or that, when released, they will not contain defects. Either of these situations could result in adverse publicity, loss of revenue, delay in market acceptance or claims by customers brought against us, all of which could harm our reputation, business, results of operations, and financial condition. Moreover, the development of new or enhanced services or applications may require substantial investment, and we must continue to invest a significant amount of resources in our research and development efforts to develop these services and applications to remain competitive. We do not know whether these investments will be

successful. If customers do not widely adopt any new or enhanced services and applications, we may not be able to realize a return on our investment. If we are unable to develop, license or acquire new or enhanced services and applications on a timely and cost effective basis, or if such new or enhanced services and applications do not achieve market acceptance, our business, financial condition and results of operations may be materially and adversely affected.

Our success depends on the public acceptance of our connected services and applications.

Our future growth depends on our ability to significantly increase revenue generated from our communications solutions and other connected services that integrate voice communications technology with other functions, such as business promotion, automation, security and others. The markets for cloud-based communications and connected services are evolving rapidly and are characterized by an increasing number of market entrants. As is typical of a rapidly evolving industry, the demand for, and market acceptance of, these applications is uncertain. If the markets for cloud-based communications solutions or for other connected services fail to develop, develop more slowly than we anticipate or develop in a manner different than we expect, our services could fail to achieve market acceptance, which in turn could materially and adversely affect our business.

Our future growth in the small business market depends on the continued use of voice communications by businesses, as compared to e-mail and other data-based methods. A decline in the overall rate of voice communications by businesses would harm our business. Furthermore, our continued growth depends on future demand for and adoption of internet voice communications systems and services and on future demand for connected communications services. Although the number of broadband subscribers worldwide has grown significantly in recent years, only a small percentage of businesses have adopted internet voice communications services to date. For demand and adoption of internet voice communications services by businesses to increase, internet voice communications networks must improve the quality of their service for real-time communications by managing the effects of and reducing packet loss, packet delay, and packet jitter, as well as unreliable bandwidth, so that high-quality service can be consistently provided. Additionally, the cost and feature benefits of internet voice communications must be sufficient to cause customers to switch from traditional phone service providers. We must devote substantial resources to educate potential customers about the benefits of internet voice communications solutions, in general, and of our services in particular. If any or all of these factors fail to occur, our business may be materially and adversely affected.

Our Ooma Telo product and services are being sold to individuals and families. With the growth in cellular and other mobile technologies, many consumers have chosen to eliminate altogether their home telephone service. Our ability to continue growing our user base depends on our ability to convince our customers and potential customers that our service is sufficiently useful and cost-effective, such that it makes sense to maintain or reestablish home telephone services with us. Our growth could slow and our financial condition could be adversely affected if the trend of eliminating home telephone service continues or accelerates.

Our mobile platform, available to any consumer with a Wi-Fi or cellular data connected mobile device, operates in a market that is fragmented and difficult to get noticed by consumers. Many of our competitors in this market have been able to establish a significant user base and reputation in the market, which may make it more difficult for our products to be adopted. Furthermore, as new mobile devices are released, we may encounter difficulties supporting these devices and services, and we may need to devote significant resources to the creation, support, and maintenance of our mobile applications. Additionally, our competitors may allocate additional resources to marketing and promotion of their products, making it even more difficult to be noticed. It is also unclear how the adoption of “over-the-top” based communications will continue to grow. If the number of consumers using “over-the-top” based communications stagnates or declines, such movement may result in an intensified competition for consumers in this space.

Accusations of infringement of third-party intellectual property rights could materially and adversely affect our business.

There has been substantial litigation in the areas in which we operate regarding intellectual property rights. In the past, we have been sued by third parties claiming infringement of their intellectual property rights and we may be sued for infringement from time to time in the future. In the past, we have settled infringement litigation brought against us; however, we cannot assure you that we will be able to settle any future claims or, if we are able to settle any such claims, that the settlement will be on terms favorable to us. Our broad range of technology may increase the likelihood that third parties will claim that we infringe their intellectual property rights.

We have in the past received, and may in the future receive, notices of claims of infringement, misappropriation or misuse of other parties’ proprietary rights, such as the Deep Green Wireless Litigation described in Part II, Item 1 (Legal Proceedings). Notwithstanding their merits, accusations and lawsuits like these often require significant time and expense to defend, may negatively affect customer relationships, may divert management’s attention away from other aspects of our operations and, upon resolution, may have a material adverse effect on our business, results of operations, financial condition and cash flows.

Certain technology necessary for us to provide our services may, in fact, be patented by other parties either now or in the future. If such technology were validly patented by another person, we would have to negotiate a license for the use of that technology. We may not be able to negotiate such a license at a price that is acceptable to us or at all. The existence of such a patent, or our inability to negotiate a license for any such technology on acceptable terms, could force us to cease using the technology and cease offering products and services incorporating the technology, which could materially and adversely affect our business and results of operations.

If we were found to be infringing on the intellectual property rights of any third party, we could be subject to liability for such infringement, which could be material. We could also be prohibited from using or selling certain products or services, prohibited from using certain processes, or required to redesign certain products or services, each of which could have a material adverse effect on our business and results of operations.

These and other outcomes may:

- result in the loss of a substantial number of existing customers or prohibit the acquisition of new customers;
- cause us to pay license fees for intellectual property we are deemed to have infringed;
- cause us to incur costs and devote valuable technical resources to redesigning our services;

- cause our cost of goods sold to increase;
- cause us to accelerate expenditures to preserve existing revenue;
  - cause existing or new vendors to require prepayments or letters of credit;
- materially and adversely affect our brand in the marketplace and cause a substantial loss of goodwill;
- cause us to change our business methods or services;
- require us to cease certain business operations or offering certain products, services or features; and
- lead to our bankruptcy or liquidation.

Our limited ability to protect our intellectual property rights could materially and adversely affect our business.

We rely, in part, on patent, trademark, copyright and trade secret law to protect our intellectual property in the U.S. and abroad. We cannot assure you that the particular forms of intellectual property protection we seek, including business decisions about when to file patents and when to maintain trade secrets, will be adequate to protect our business. We seek to protect our technology, software, documentation and other information under trade secret and copyright law, which afford only limited protection. For example, we typically enter into confidentiality agreements with our employees, consultants, third-party contractors, customers and vendors in an effort to control access to use and distribution of our technology, software, documentation and other information. These agreements may not effectively prevent unauthorized use or disclosure of confidential information and may not provide an adequate remedy in the event of such unauthorized use or disclosure, and it may be possible for a third party to legally reverse engineer, copy or otherwise obtain and use our technology without authorization. In addition, improper disclosure of trade secret information by our current or former employees, consultants, third-party contractors, customers or vendors to the public or others who could make use of the trade secret information would likely preclude that information from being protected as a trade secret.

We also rely, in part, on patent law to protect our intellectual property in the U.S. and internationally. Our intellectual property portfolio includes 13 issued U.S. patents, which we expect to expire between 2028 and 2036. We also have 15 patent applications pending for examination in the U.S. and five patent applications pending for examination in foreign jurisdictions, all of which are related to U.S. applications. We cannot predict whether such pending patent applications will result in issued patents or whether any issued patents will effectively protect our intellectual property. Even if a pending patent application results in an issued patent, the patent may be circumvented or its validity may be challenged in various proceedings in U.S. District Court, before the U.S. Patent and Trademark Office or before their foreign equivalents, such as reexamination, which may require legal representation and involve substantial costs and diversion of management time and resources. In addition, we cannot assure you that every significant feature of our solutions is protected by our patents, or that we will mark our products with any or all patents they embody. As a result, we may be prevented from seeking damages in whole or in part for infringement of our patents.

The unlicensed use of our brand, including domain names, by third parties could harm our reputation, cause confusion among our customers and impair our ability to market our products and services. To that end, we have registered numerous trademarks and service marks, have applied for registration of additional trademarks and service marks and have acquired a number of domain names in and outside the U.S. to establish and protect our brand names as part of our intellectual property strategy. If our applications receive objections or are successfully opposed by third parties, it will be difficult for us to prevent third parties from using our brand without our permission. Moreover, successful opposition to our applications might encourage third parties to make additional oppositions or commence trademark infringement proceedings against us, which could be costly and time consuming to defend against. There have been in the past, and may be in the future, instances where third parties have used our trade names, or have adopted confusingly similar trade names to ours. We have been successful in asserting our rights in our trade names and causing such third parties to cease such use, but we may not be successful in the future. If we are not successful in protecting our trademarks, our trademark rights may be diluted and subject to challenge or invalidation, which could

materially and adversely affect our brand.

29

---

Despite our efforts to implement our intellectual property strategy, we may not be able to protect or enforce our proprietary rights in the U.S. or internationally (where effective intellectual property protection may be unavailable or limited). For example, we have entered into agreements containing confidentiality and invention assignment provisions in connection with the outsourcing of certain software development, quality assurance and development activities to third-party contractors located in Canada, India, New Zealand, Russia, Serbia and Ukraine. We have also entered into an agreement containing a confidentiality provision with a third-party contractor located in the Philippines, where we have outsourced a significant portion of our customer support function. We cannot assure you that agreements with these third-party contractors or their agreements with their employees and contractors will adequately protect our proprietary rights in the applicable jurisdictions and foreign countries, as their respective laws may not protect proprietary rights to the same extent as the laws of the U.S. In addition, our competitors may independently develop technologies similar or superior to our technology, duplicate our technology in a manner that does not infringe our intellectual property rights or design around any of our patents. Furthermore, detecting and policing unauthorized use of our intellectual property is difficult and resource-intensive. Moreover, litigation may be necessary in the future to enforce our intellectual property rights, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Such litigation, whether successful or not, could result in substantial costs and diversion of management time and resources and could have a material adverse effect on our business, financial condition and results of operations.

We license technology from third parties we do not control and cannot be assured of retaining such licenses.

We rely upon certain technology, including hardware and software, licensed from third parties. There can be no assurance that the technology licensed by us will continue to provide competitive features and functionality or that the licenses for technology currently utilized by us or other technology which we may seek to license in the future, will be available to us on commercially reasonable terms or at all. The loss of, or inability to maintain, existing licenses could result in shipment delays or reductions until equivalent technology or suitable alternative products are developed, identified, licensed and integrated, and could harm our business. These licenses are typically offered on standard commercial terms made generally available by the companies providing the licenses. The cost and terms of these licenses individually are not material to our business.



If we experience excessive fraudulent activity or cannot meet evolving credit card association merchant standards, we could incur substantial costs and lose the right to accept credit cards for payment, which could cause our customer base to decline significantly.

Nearly all of our customers authorize us to bill their credit card accounts directly for service fees that we charge. If people pay for our services with stolen credit cards, we could incur substantial third-party vendor costs for which we may not be reimbursed. Further, our customers provide us with credit card billing information online or over the phone, and we do not review the physical credit cards used in these transactions, which increases our risk of exposure to fraudulent activity. We also incur charges, which we refer to as chargebacks, from the credit card companies' claims that the customer did not authorize the credit card transaction to purchase our service, something we have experienced in the past. If the number of unauthorized credit card transactions becomes excessive, we could be assessed substantial fines for excess chargebacks and we could lose the right to accept credit cards for payment. We have also been affected by the credit card breaches at various retail stores, which have caused millions of consumers to cancel credit cards as a result of the breach. We have found that some consumers do not renew their services after a card cancellation, which can have a material negative impact on our revenue. In addition, credit card issuers may change merchant standards, including data protection and documentation standards, required to utilize their services from time to time. We are currently not in compliance with all of the applicable technical requirements of the Payment Card Industry Data Security Standard, or PCI, but we are working to become fully compliant as soon as is practicable. If we fail to become compliant or maintain compliance with current merchant standards, such as PCI, or fail to meet new standards, the credit card associations may fine us or, while unusual, may impose certain restrictions on our ability to accept credit cards or terminate our agreements with them, rendering us unable to accept credit cards as payment for our services. Our services have been in the past, and may also be in the future, subject to fraudulent or abusive usage in violation of applicable law or our acceptable use policies, including but not limited to revenue share fraud, domestic traffic pumping, subscription fraud, premium text message scams, and other fraudulent schemes, any of which could result in our incurring substantial costs for the completion of calls. Although our customers are required to set passwords and Personal Identification Numbers, or PINs, to protect their accounts and may configure in which destinations international calling is enabled from their extensions, third parties have accessed and used our customers' accounts and extensions through fraudulent means in the past, and they may do so in the future, which also could result in substantial call completion and other costs for us. In addition, third parties may have attempted in the past, and may attempt in the future, to fraudulently induce domestic and international employees or consultants into disclosing customer credentials and other account information. Communications fraud can result in unauthorized access to customer accounts and customer data, unauthorized use of customers' services, and charges to customers for fraudulent usage and expenses we must pay to carriers. We may be required to pay for these charges and expenses with no reimbursement from the customer, and our reputation may be harmed if our services are subject to fraudulent usage. Although we implement multiple fraud prevention and detection controls, we cannot assure you that these controls will be adequate to protect against fraud. Substantial losses due to fraud or our inability to accept credit card payments, which could cause our paid customer base to significantly decrease, could have a material adverse effect on our results of operations, financial condition and ability to grow our business.

Potential problems with our information systems could interfere with our business and operations.

We rely on our information systems and those of third parties for processing customer orders, distribution of our services, billing our customers, processing credit card transactions, customer relationship management, supporting financial planning and analysis, accounting functions and financial statement preparation and otherwise running our business. Information systems may experience interruptions, including interruptions of related services from third-party providers, which may be beyond our control. Such business interruptions could cause us to fail to meet customer requirements. All information systems, both internal and external, are potentially vulnerable to damage or interruption from a variety of sources, including without limitation, computer viruses, security breaches, energy blackouts, natural disasters, terrorism, war, telecommunication failures and employee or other theft, as well as

third-party provider failures. Any disruption in our information systems and those of the third parties upon which we rely could have a significant impact on our business.

We may implement enhanced information systems in the future to meet the demands resulting from our growth and to provide additional capabilities and functionality. The implementation of new systems and enhancements is frequently disruptive to the underlying business of an enterprise, and can be time-consuming and expensive, increase management responsibilities and divert management attention. Any disruptions relating to our systems enhancements or any problems with the implementation, particularly any disruptions impacting our operations or our ability to accurately report our financial performance on a timely basis during the implementation period, could materially and adversely affect our business. Even if we do not encounter these material and adverse effects, the implementation of these enhancements may be much costlier than we anticipated. If we are unable to successfully implement the information systems enhancements as planned, our financial position, results of operations and cash flows could be negatively impacted.

Our use of open source technology could impose limitations on our ability to commercialize our services.

We use open source software in our platform on which our services operate. There is a risk that the owners of the copyrights in such software may claim that such licenses impose unanticipated conditions or restrictions on our ability to market or provide our services. If such owners prevail in such claim, we could be required to make the source code for our proprietary software (which contains our valuable trade secrets) generally available to third parties, including competitors, at no cost, to seek licenses from third parties in order to continue offering our services, to re-engineer our technology, or to discontinue offering our services in the event re-engineering cannot be accomplished on a timely basis or at all, any of which could cause us to discontinue our services, harm our reputation, result in customer losses or claims, increase our costs or otherwise materially and adversely affect our business and results of operations. If a copyright holder of such open source software were to allege we had not complied with the conditions of one or more of these licenses, we could be required to incur significant legal expenses defending against such allegations and could be subject to significant damages, enjoined from the sale of our solutions that contained the open source software and required to comply with the foregoing conditions, which could disrupt the distribution and sale of some of our solutions.

We depend largely on the continued services of our senior management and other key employees, the loss of any of whom could adversely affect our business, results of operations and financial condition.

Our future performance depends on the continued services and contributions of our senior management and other key employees to execute on our business plan, and to identify and pursue opportunities and services innovations. The loss of services of senior management or other key employees could significantly delay or prevent the achievement of our development and strategic objectives. In particular, we depend to a considerable degree on the vision, skills, experience and effort of our Chief Executive Officer, Eric B. Stang. All of our executive officers and senior management may terminate employment with us at any time with no advance notice. The replacement of any of these senior management personnel would likely involve significant time and costs, and such loss could significantly delay or prevent the achievement of our business objectives. Many members of our senior management have been our employees for many years and therefore have significant experience and understanding of our business that would be difficult to replace. Our inability to attract and retain the necessary personnel could adversely affect our business, financial condition or results of business. We do not maintain key person insurance for any of our personnel.

If we are unable to hire, retain and motivate qualified personnel, our business will suffer.

Our future success depends, in part, on our continued ability to attract and retain highly skilled personnel. We believe there is, and will continue to be, intense competition for highly skilled technical and other personnel with experience in our industry in the San Francisco Bay Area, where our headquarters is located, and in other locations where we may maintain offices in the future. We must provide competitive compensation packages and a high-quality work environment to hire, retain and motivate employees. If we are unable to retain and motivate our existing employees or attract qualified personnel to fill key positions, we may be unable to manage our business effectively, including the development, marketing and sale of existing and new services, which could have a material adverse effect on our business, financial condition, and results of operations. To the extent we hire personnel from competitors, we may be subject to allegations such personnel have been improperly solicited or divulged proprietary or other confidential information.

We may expand through acquisitions of, or investments in, other companies, each of which may divert our management's attention, result in additional dilution to our stockholders, increase expenses, disrupt our operations and harm our results of operations.

Our business strategy may, from time to time, include acquiring or investing in complementary services, technologies or businesses. We cannot assure you we will successfully identify suitable acquisition candidates, integrate or manage disparate technologies, lines of business, personnel and corporate cultures, realize our business strategy or the expected return on our investment, or manage a geographically dispersed company. Any such acquisition or investment could materially and adversely affect our results of operations. Acquisitions and other strategic investments involve significant risks and uncertainties, including:

- the potential failure to achieve the expected benefits of the combination or acquisition;
- unanticipated costs and liabilities;
- difficulties in integrating new products and services, software, businesses, operations and technology infrastructure in an efficient and effective manner;
- difficulties in maintaining customer relations;
- the potential loss of key employees of the acquired businesses;
  - the diversion of the attention of our senior management from the operation of our daily business;

- the potential adverse effect on our cash position to the extent that we use cash for the purchase price;
- the potential significant increase of our interest expense, leverage, and debt service requirements if we incur additional debt to pay for an acquisition;
- the potential issuance of securities that would dilute our stockholders' percentage ownership;
  - the potential to incur large and immediate write-offs and restructuring and other related expenses; and
- the inability to maintain uniform standards, controls, policies and procedures.

Any acquisition or investment could expose us to unknown liabilities. Moreover, we cannot assure you that we will realize the anticipated benefits of any acquisition or investment. In addition, our inability to successfully operate and integrate newly acquired businesses appropriately, effectively, and in a timely manner could impair our ability to take advantage of future growth opportunities and other advances in technology, as well as on our revenue, gross margins and expenses.

We are expanding our international operations, which may expose us to significant risks.

To date, we have not generated significant revenue from outside of the U.S. and Canada, but we expect to grow our international revenue in the future. The future success of our business will depend, in part, on our ability to expand our operations and customer base worldwide. Operating in international markets requires significant resources and management attention and will subject us to regulatory, economic and political risks different from those in the U.S. Because of our limited experience with international operations and developing and managing sales and distribution channels in international markets, our international expansion efforts may not be successful. In addition, we will face risks in doing business internationally that could materially and adversely affect our business, including:

- our ability to comply with differing technical and environmental standards, data privacy and telecommunications regulations, and certification requirements outside the U.S.;
- potential contractual and other liability to our business partners if we fail to meet their aggressive expansion schedules in new locations;
- difficulties and costs associated with staffing and managing foreign operations;
- potentially greater difficulty collecting accounts receivable and longer payment cycles;
- the need to adapt and localize our services for specific countries;
- the need to offer customer care in various native languages;
- reliance on third parties over which we have limited control, including international resellers, for marketing and reselling our services;
- availability of reliable broadband connectivity and wide area networks in targeted areas for expansion;
- lower levels of adoption of credit or debit card usage for internet related purchases by foreign customers and compliance with various foreign regulations related to credit or debit card processing and data privacy requirements;
- difficulties in understanding and complying with local laws, regulations, and customs in foreign jurisdictions;
- export controls and trade and economic sanctions administered by the Department of Commerce Bureau of Industry and Security and the Treasury Department's Office of Foreign Assets Control;
- tariffs and other non-tariff barriers, such as quotas and local content rules and the possibility of additional import tariffs imposed by the new administration;
- compliance with various anti-bribery and anti-corruption laws such as the U.S. Foreign Corrupt Practices Act of 1977, as amended, or the FCPA;
- limited protection for intellectual property rights in some countries;
- adverse tax consequences;
- fluctuations in currency exchange rates, which could increase the price of our services outside of the U.S., increase the expenses of our international operations, including expenses related to foreign contractors, and expose us to foreign currency exchange rate risk;
- exchange control regulations, which might restrict or prohibit our conversion of other currencies into U.S. Dollars;



restrictions on the transfer of funds;  
deterioration of political relations between the U.S. and other countries; and  
political or social unrest or economic instability in a specific country or region, which could have an adverse impact on our third-party software development and quality assurance operations there.  
Our failure to manage any of these risks successfully could harm our future international operations and our overall business.

We may not be able to manage our inventory levels effectively, which may lead to excess inventory or inventory obsolescence that would force us to incur inventory write-downs.

Our vendor-supplied on-premise appliances and end-point devices have lead times of up to 32 weeks for delivery and are built to satisfy our demand forecasts that are necessarily imprecise. It is likely that from time to time we will have either excess or insufficient product inventory. In addition, because we rely on third-party vendors for the supply of our devices, our inventory levels are subject to the conditions regarding the timing of purchase orders and delivery dates not within our control. Excess inventory levels would subject us to the risk of inventory obsolescence, while insufficient levels of inventory may negatively affect relations with customers. For instance, our customers rely upon our ability to meet committed delivery dates, and any disruption in the supply of our services could result in loss of customers or harm to our ability to attract new customers. Retailers may elect to return any unsold inventory without any penalty, which could result in a write down for excess inventory. Any of these factors could have a material adverse effect on our business, financial condition or results of operations.

Our corporate headquarters, one of our data center and co-location facilities and our third-party customer service and support facility are located near known earthquake fault zones, and the occurrence of an earthquake, tsunami or other catastrophic disaster could damage our facilities or the facilities of our contractors, which could cause us to curtail our operations. Increased energy costs, power outages and limited availability of electrical resources may adversely affect our operating results.

Our corporate headquarters, one of our data center and our customer service call center for Ooma office are located in Northern California, our other customer service call center operated by our contractor is located in the Philippines, and our contract manufacturer facilities are located near the coast in China. All of these locations are on the Pacific Rim near known earthquake fault zones and, therefore, are vulnerable to damage from earthquakes and tsunamis. Additionally, our sole third-party customer service and support facility in the Philippines are located in areas subject to typhoons. We and our contractors are also vulnerable to other types of disasters, such as power loss, fire, floods, pandemics, cyber-attack, war, political unrest and terrorist attacks and similar events that are beyond our control. If any disasters were to occur, our ability to operate our business could be seriously impaired, and we may endure system interruptions, reputational harm, loss of intellectual property, delays in our services development, lengthy interruptions in our services, breaches of data security and loss of critical data, all of which could harm our future results of operations. In addition, we do not carry earthquake insurance and we may not have adequate insurance to cover our losses resulting from other disasters or other similar significant business interruptions. Any significant losses not recoverable under our insurance policies could seriously impair our business and financial condition.

Changes in effective tax rates, or adverse outcomes resulting from examination of our income or other tax returns, could adversely affect our results of operations and financial condition.

Our future effective tax rates could be subject to volatility or adversely affected by a number of factors, including:

- changes in the valuation of our deferred tax assets and liabilities;
- expiration of, or lapses in, the research and development tax credit laws;
- expiration or non-utilization of net operating loss carryforwards;

tax effects of share-based compensation;  
certain non-deductible expenses as a result of acquisitions;  
expansion into new jurisdictions;  
potential challenges to and costs related to implementation and ongoing operation of our intercompany arrangements;  
and  
changes in tax laws and regulations and accounting principles, or interpretations or applications thereof.



As we expand our operations outside the U.S. and Canada, certain changes to U.S. tax laws, including limitations on the ability to defer U.S. taxation on earnings outside of the U.S. until those earnings are repatriated to the U.S. could affect the tax treatment of our foreign earnings. Any changes in our effective tax rate could adversely affect our results of operations.

We may be unable to use some or all of our net operating loss carryforwards, which could materially and adversely affect our reported financial condition and results of operations.

As of January 31, 2017, we had federal and state net operating loss carryforwards, or NOLs, of \$72.9 million and \$57.5 million, respectively, available to offset future taxable income. If not utilized, both the federal and California NOLs will begin to expire in 2030. We also have federal and California research and development tax credit carryforwards that will begin to expire in 2030. Realization of these net operating loss and research tax credit carryforwards depends on future income, and there is a risk that our existing carryforwards could expire unused and be unavailable to offset future income tax liabilities, which could materially and adversely affect our results of operations.

Under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, our ability to utilize net operating loss carryforwards or other tax attributes, such as research tax credits, in any taxable year may be limited if we experience an “ownership change.” A Section 382 “ownership change” generally occurs if one or more stockholders or groups of stockholders, who own at least 5% of our stock, increase their ownership by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. Similar rules may apply under state tax laws. We completed a Section 382 analysis through January 31, 2017 and determined that an ownership change, as defined under Section 382 of the Internal Revenue Code, occurred in prior years. Based on the analysis, we determined that we had undergone four ownership changes. The first and second ownership changes occurred in April 2005, the third change occurred in February 2009 and the fourth change occurred in January 2017. NOLs presented account for any limited and potential lost attributes due to the ownership changes and their respective expiration dates.

No deferred tax assets have been recognized on our balance sheet related to these NOLs, as they are fully reserved by a valuation allowance. If we have previously had, or have in the future, one or more Section 382 “ownership changes”, or if we do not generate sufficient taxable income, we may not be able to utilize a material portion of our NOLs, even if we achieve profitability. If we are limited in our ability to use our NOLs in future years in which we have taxable income, we will pay more taxes than if we were able to fully utilize our NOLs. This could materially and adversely affect our results of operations.

The estimates of market opportunity and forecasts of market growth included in this report may prove to be inaccurate, and even if the market in which we compete achieves the forecasted growth, our business could fail to grow at similar rates, if at all.

Market opportunity estimates and growth forecasts are subject to significant uncertainty and are based on assumptions and estimates that may not prove to be accurate. The estimates and forecasts in this report relating to the size and expected growth of our market, including our estimated annual recurring revenue based on various assumptions, may prove to be inaccurate. Even if the market in which we compete meets the size estimates and growth forecasted in this report, our business could fail to grow at similar rates, if at all.

#### Risks Related to Federal, State and International Regulation

Our services are subject to regulation and future legislative or regulatory actions could adversely affect our business and expose us to liability.

## Federal Regulation

Our business is regulated by the Federal Communications Commission, or FCC. As a communications services provider, we are subject to FCC regulations relating to privacy, disability access, porting of numbers, Federal Universal Service Fund, or USF, contributions, E 911, and other matters. If we do not comply with FCC rules and regulations, we could be subject to FCC enforcement actions, fines, loss of licenses, and possibly restrictions on our ability to operate or offer certain of our services. Any enforcement action by the FCC, which may include a public process, would hurt our reputation in the industry, possibly impair our ability to sell our services to customers and could have a materially adverse impact on our revenue.

If the FCC classifies interconnected VoIP service as a telecommunications service subject to common carrier regulation, we could be subject to additional regulation under federal and state telecommunications laws. Compliance with such laws could increase our cost of doing business.

## State Regulation

We are also subject to state consumer protection laws, as well as U.S. state, municipal and local sales, use, excise, utility user and ad valorem taxes, fees or surcharges. The imposition of such regulatory obligations or the imposition of additional taxes on our services could increase our cost of doing business and limit our growth.

## International Regulation

As we expand internationally, we may be subject to telecommunications, consumer protection, data privacy and other laws and regulations in the foreign countries where we offer our services. For example, we are a provider of internet voice telecommunications services in Canada. As a provider of internet voice communications services, we are subject to regulation in Canada by the CRTC. We are also subject to Canadian federal privacy laws and provincial consumer protection legislation.

In addition, our international operations are potentially subject to country-specific governmental regulation and related actions that may increase our cost or impact our product and service offerings or prevent us from offering or providing our products and services in certain countries. Certain of our services may be used by customers located in countries where VoIP and other forms of IP communications may be illegal or require special licensing. In countries where local laws and regulations prohibit (or come to prohibit) the use of our products, users may continue to use our products and services, which could subject us to costly penalties or governmental action adverse to our business and damaging to our brand and reputation, our international expansion efforts, or our business and operating results.

The FCC continues to consider additional 911 requirements, including requiring us to deploy an E-911 service that automatically determines the location of our customers. The adoption of such requirements could increase our costs that could make our service more expensive, decrease our profit margins, or both.

The FCC is actively considering additional 911 requirements for interconnected VoIP providers, non-interconnected VoIP providers and texting providers. The outcome of the FCC's proceedings cannot be determined at this time and we may or may not be able to comply with any such obligations that may be adopted. At present, we have no means to automatically identify the physical location of our customers on the internet. Changes to the FCC's VoIP E 911 rules may adversely affect our ability to deliver our service to new and existing customers in all geographic regions or to nomadic customers who move to a location where emergency calling services compliant with the FCC's mandates are unavailable. Our compliance with the FCC's VoIP E-911 order and related costs puts us at a competitive disadvantage to VoIP service providers who are either not subject to the requirements or have chosen not to comply with the FCC's mandates. We cannot guarantee emergency calling service consistent with the VoIP E 911 order will be available to all of our customers, especially those accessing our services on a mobile device or from outside of the U.S. The FCC's current VoIP E-911 order or follow-on orders or clarifications, the impact on our customers due to service price increases or other factors could have a material adverse effect on our business, financial condition or operating results.

The FCC order reforming the system of payments between regulated carriers we partner with to interface with the public switched telephone network, or PSTN, could increase our costs of providing service, which could result in increased rates for service, making our offerings less competitive than others in the marketplace, or reduce our profitability.

In 2011, the FCC reformed the system under which regulated providers of telecommunications services compensate each other for various types of traffic, including VoIP traffic that terminates on the PSTN and applied new call signaling requirements to VoIP and other service providers. The FCC's rules concerning charges for transmission of VoIP traffic could result in an increased cost to terminate the traffic, could reduce the availability of services or increase the price of services from our underlying providers, or could otherwise impact the wholesale

telecommunications market in a way that adversely impacts our business. To the extent that we transmit traffic not subject to a specific intercarrier compensation arrangement and another provider were to assert that the traffic we exchange with them is subject to higher levels of compensation than what we, or the third parties terminating our traffic to the PSTN, pay today (if any), our termination costs could increase.

If we cannot comply with the FCC's rules imposing call signaling requirements on VoIP providers like us, we may be subject to fines, cease and desist orders, or other penalties.

The FCC order reforming the system of compensation for various types of traffic also included rules to address calls for which identifying information is missing or masked in ways that impede billing for such traffic. The FCC's rules require, among other things, interconnected VoIP providers like us, who originate interstate or intrastate traffic destined for the PSTN, to transmit the telephone number associated with the calling party to the next provider in the call path. Intermediate providers must pass unaltered calling party number or charge number signaling information they receive from other providers to subsequent providers in the call path. To the extent that we pass traffic that does not have appropriate calling party number or charge number information, we could be subject to fines, cease and desist orders, or other penalties.

We may not be able to comply with FCC rules governing completion of calls to rural areas and related reporting requirements.

On November 8, 2013, the FCC issued a Report and Order and Further Notice of Proposed Rulemaking adopting rules to address problems with rural call completion and proposing additional requirements. The new rules apply to interconnected VoIP providers like us. The Commission imposed recording, retention, and reporting requirements to increase its ability to monitor and redress rural call completion problems. These new rules also support the Commission's efforts to enforce restrictions on blocking, choking, reducing, or restricting calls. Under the rules, a covered provider must record and retain, for at least nine months, information about calls attempts to rural areas and must report that data to the FCC on a quarterly basis. If we cannot comply with these rules, we could be subject to investigation and enforcement action and could be exposed to substantial liability. In addition, complying with these rules may increase our cost of doing business and may also increase the cost of services we purchase from our underlying telecommunications providers. The FCC also has increased enforcement activity related to completion of calls to rural customers, and we could be subject to substantial fines and to conduct requirements that could increase our costs if we are the subject of an enforcement proceeding and cannot demonstrate calls from our customers to rural customers are completed at a satisfactory rate.

The FCC has continued to increase regulation of interconnected VoIP services and may at any time determine certain VoIP services are telecommunications services subject to traditional common carrier regulation.

The FCC is considering, in various proceedings, issues arising from the transition from traditional copper networks to IP networks. It has, among other things, launched a series of trials and experiments designed to gather data about this transition, and to support the FCC's effort to ensure public safety, enable universal access, and protect consumers and competition. The FCC is also considering whether interconnected VoIP services should be treated as telecommunications services, which could subject interconnected VoIP services to additional common carrier regulation. The FCC's efforts may result in additional regulation of IP network and service providers, which may negatively affect our business.

The FCC adopted rules concerning disabilities access requirements that may expand disabilities access requirements to additional services we offer.

In October 2010, the Twenty-First Century Communications and Video Accessibility Act, or the CVAA, was signed into law. The CVAA and the FCC's implementing rules imposes disability access, recordkeeping, certification, and other compliance obligations on interconnected VoIP providers and on providers of other Advanced Communications services, including non-interconnected VoIP and electronic messaging services. In addition, the CVAA and the FCC's implementing rules include complaint filing procedures to address accessibility complaints. These new obligations could increase our expenses, which would have an adverse effect on our operating results. Failure to comply with

these obligations could expose us to FCC enforcement actions and liability.

Reform of federal and state Universal Service Fund programs could increase the cost of our service to our customers, diminishing or eliminating our pricing advantage.

The FCC and a number of states are considering reform or other modifications to Universal Service Fund programs. The way we calculate our contribution may change if the FCC or certain states engage in reform or adopt other modifications. In April 2012, the FCC released a Further Notice of Proposed Rulemaking to consider reforms to the manner in which companies, like us, contribute to the federal Universal Service Fund program, and in August 2014, the FCC ordered the Federal-State Joint Board on Universal Service to make a recommendation on how to reform the universal service contribution rules by April 7, 2015, although the recommendation has not been released as of the date hereof. In addition, the FCC is considering whether non-interconnected VoIP providers, texting providers, and broadband providers, among others, should contribute to the USF. We cannot predict the outcome of this proceeding nor its impact on our business at this time.

Should the FCC or certain states adopt new contribution mechanisms or otherwise modify contribution obligations that increase our contribution burden, we will either need to raise the amount we currently collect from our customers to cover this obligation or absorb the costs, which would reduce our profit margins. Furthermore, the FCC has ruled that states can require us to contribute to state Universal Service Fund programs. A number of states already require us to contribute, while others are actively considering extending their programs to include the services we provide. We currently pass through Universal Service Fund contributions to our customers which may result in our services becoming less competitive as compared to those provided by others.

Our products must comply with industry standards, FCC regulations, state, local, country specific and international regulations, and changes may require us to modify existing products and/or services.

In addition to reliability and quality standards, the market acceptance of telephony over broadband IP networks is dependent upon the adoption of industry standards so that products from multiple manufacturers are able to communicate with each other. Our unique hybrid SaaS connectivity platform relies on communication standards such as SIP, SRTP and network standards such as TCP/IP and UDP to interoperate with other vendors' equipment. There is currently a lack of agreement among industry leaders about which standard should be used for a particular application and about the definition of the standards themselves. These standards, as well as audio and video compression standards, continue to evolve. We also must comply with certain rules and regulations of the FCC regarding electromagnetic radiation and safety standards established by Underwriters Laboratories, as well as similar regulations and standards applicable in other countries. Standards are frequently modified or replaced. As standards evolve, we may be required to modify our existing products or develop and support new versions of our products. We must comply with certain federal, state and local requirements regarding how we interact with our customers, including marketing practices, consumer protection, privacy, and billing issues, the provision of 9-1-1 emergency service and the quality of service we provide to our customers. The failure of our products and services to comply, or delays in compliance, with various existing and evolving standards could delay or interrupt volume production of our VoIP telephony products, subject us to fines or other imposed penalties, or harm the perception and adoption rates of our service, any of which would have a material adverse effect on our business, financial condition or operating results.

Failure to comply with communications and telemarketing laws could result in significant fines or place significant restrictions on our business.

We rely on a variety of marketing techniques, including telemarketing and email marketing campaigns. We also record certain telephone calls between our customers or potential customers and our sales and service representatives for training and quality assurance purposes. These activities are subject to a variety of state and federal laws such as the Telephone Consumer Protection Act of 1991 (also known as the Federal Do-Not-Call law, or the TCPA), the Telemarketing Sales Rule, the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 (also known as the CAN-SPAM Act) and various U.S. state laws regarding telemarketing and telephone call recording. These laws are subject to varying interpretations by courts and governmental authorities and often require subjective interpretation, making it difficult to predict their application and therefore making our compliance efforts more challenging. We cannot be certain our efforts to comply with these laws, rules and regulations will be successful, or, if they are successful, that the cost of such compliance will not be material to our business. Changes to these or similar laws, or to their application or interpretation, or new laws, rules and regulations governing our communication and marketing activities could adversely affect our business. In the event that any of these laws, rules or regulations significantly restricts our business, we may not be able to develop adequate alternative communication and marketing strategies. Further, non-compliance with these laws, rules and regulations carries significant financial penalties and the risk of class action litigation, which would adversely affect our financial performance and significantly harm our reputation and our business.





We process, store, and use personal information and other data, which subjects us and our customers to a variety of evolving governmental regulation, industry standards and self regulatory schemes, contractual obligations, and other legal obligations related to privacy, which may increase our costs, decrease adoption and use of our products and services, and expose us to liability.

There are a number of U.S. federal, state and local, and foreign laws and regulations, as well as contractual obligations and industry standards, that provide for certain obligations and restrictions with respect to data privacy and security, and the collection, storage, retention, protection, use, processing, transmission, sharing, disclosure, and protection of personal information and other customer data. The scope of these obligations and restrictions is changing, subject to differing interpretations, and may be inconsistent among countries or conflict with other rules, and their status remains uncertain. Within the European Union, or EU, strict laws already apply in connection with the collection, storage, retention, protection, use, processing, transmission, sharing, disclosure, and protection of personal information and other customer data. The EU model has been replicated in many jurisdictions outside the U.S., including Asia Pacific Economic Cooperation countries. Regulators have the power to impose significant fines on non-compliant organizations. As internet commerce, communication technologies and the Internet of Things continue to evolve, increasing online service providers' and network users' capacity to collect, store, retain, protect, use, process and transmit large volumes of personal information, increasingly restrictive regulation by federal, state or foreign agencies becomes more likely. For example, a variety of regulations that would increase restrictions on online service providers in the area of data privacy are currently being proposed, both in the U.S. and in other jurisdictions, and we believe that the adoption of increasingly restrictive regulation in the field of data privacy and security is likely. In Canada, new anti-spam legislation prescribing certain rules regarding the use of electronic messages for commercial purposes took effect on July 1, 2014. This new law also contains provisions that took effect in January 2015, which impose certain restrictions on a service provider's ability to electronically automatically update or change software used in a customer's service without the customer's consent. Penalties for non-compliance with the new Canadian anti-spam legislation are considerable, including administrative monetary penalties of up to \$10 million and a private right of action. Obligations and restrictions imposed by current and future applicable laws, regulations, contracts and industry standards may affect our ability to provide all the current features of our small business, home and mobile products and services and our customers' ability to use our products and services, and could require us to modify the features and functionality of our products and services. Such obligations and restrictions may limit our ability to collect, store, process, use, transmit and share data, and to allow our customers to collect, store, retain, protect, use, process, transmit, share and disclose data with others through our products and services. Compliance with such obligations and restrictions could increase the cost of our operations. Failure to comply with obligations and restrictions related to data privacy and security could subject us to lawsuits, fines, criminal penalties, statutory damages, consent decrees, injunctions, adverse publicity and other losses that could harm our business.

Our customers can use our services to store contact and other personal or identifying information, and to process, transmit, receive, store and retrieve a variety of communications and messages, including, for our Ooma Office customers, information about their own customers and other contacts. In addition, customers may use our services to transmit and store protected health information, or PHI, that is protected under the Health Insurance Portability and Accountability Act, or HIPAA. Noncompliance with laws and regulations relating to privacy such as HIPAA, as amended, and the HIPAA regulations, may lead to significant fines, penalties or liabilities. Our actual compliance, our customers' perception of our compliance, costs of compliance with such regulations and customer concerns regarding their own compliance obligations (whether factual or in error) may limit the use and adoption of our service and reduce overall demand. Furthermore, privacy concerns, including the inability or impracticality of providing advance notice to customers of privacy issues related to the use of our services, may cause our customers' customers to resist providing the personal data necessary to allow our customers to use our services effectively. Even the perception of privacy concerns, whether or not valid, may inhibit market adoption of our service in certain industries.

In addition to government activity, privacy advocacy groups and industry groups have adopted and are considering the adoption of various self-regulatory standards and codes of conduct that may place additional burdens on us and our customers, which may further reduce demand for our services and harm our business.

While we try to comply with all applicable data protection laws, regulations, standards, and codes of conduct, as well as our own posted privacy policies and contractual commitments to the extent possible, any failure by us to protect our users' privacy and data, including as a result of our systems being compromised by hacking or other malicious or surreptitious activity, could result in a loss of user confidence in our services and ultimately in a loss of users, which could materially and adversely affect our business. Our customers may also accidentally disclose their passwords, store them on a mobile device that is lost or stolen, or otherwise fall prey to attacks outside our system, creating the perception that our systems are not secure against third-party access. Additionally, our third-party contractors in Canada, China, India, Philippines, New Zealand, Russia, Serbia and Ukraine may have access to customer data. If these or other third-party vendors violate applicable laws or our policies, such violations may also put our customers' information at risk and could in turn have a material and adverse effect on our business.

Use or delivery of our services may become subject to new or increased regulatory requirements, taxes or fees.

The increasing growth and popularity of internet voice communications heighten the risk that governments will regulate or impose new or increased fees or taxes on internet voice communications services. To the extent the use of our services continues to grow, regulators may be more likely to seek to regulate or impose new or additional taxes, surcharges or fees on our services. Similarly, advances in technology, such as improvements in locating the geographic origin of internet voice communications, could cause our services to become subject to additional regulations, fees or taxes, or could require us to invest in or develop new technologies, which may be costly. In addition, as we continue to expand our user base and offer more services, we may become subject to new regulations, taxes, surcharges or fees. Increased regulatory requirements, taxes, surcharges or fees on internet voice communications services, which could be assessed by governments retroactively or prospectively, would substantially increase our costs, and, as a result, our business would suffer. In addition, the tax status of our services could subject us to conflicting taxation requirements and complexity with regard to the collection and remittance of applicable taxes. Any such additional taxes could harm our results of operations.

We are subject to anti-corruption and anti-money laundering laws with respect to our operations and non-compliance with such laws can subject us to criminal and/or civil liability and harm our business.

We are subject to the FCPA, the U.S. domestic bribery statute contained in 18 U.S.C. § 201, the U.S. Travel Act, the USA PATRIOT Act, and possibly other anti-bribery and anti money laundering laws in countries in which we conduct activities. Anti-corruption laws are interpreted broadly and prohibit companies and their employees and third-party intermediaries from authorizing, offering, or providing, directly or indirectly, improper payments or benefits to recipients in the public or private sector. We use third-party representatives for product testing, customs, export, and import matters outside of the U.S. In addition, as we increase our international sales and business, we may engage with business partners and third party intermediaries to sell our products and services abroad and to obtain necessary permits, licenses, and other regulatory approvals. We or our third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities. We can be held liable for the corrupt or other illegal activities of these third-party intermediaries, our employees, representatives, contractors, partners, and agents, even if we do not explicitly authorize such activities.

Noncompliance with anti-corruption and anti-money laundering laws could subject us to whistleblower complaints, investigations, sanctions, settlements, prosecution, other enforcement actions, disgorgement of profits, significant fines, damages, other civil and criminal penalties or injunctions, suspension and/or debarment from contracting with certain persons, the loss of export privileges, reputational harm, adverse media coverage, and other collateral consequences. If any subpoenas or investigations are launched, or governmental or other sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation, our business, results of operations and financial condition could be materially harmed. In addition, responding to any action will likely result in a materially significant diversion of management's attention and resources, significant defense costs and other professional fees. Enforcement actions and sanctions could further harm our business, results of operations, and financial condition.

We are subject to governmental export and import controls, economic embargoes and trade sanctions that could impair our ability to expand our business to, and compete in, international markets and could subject us to liability if we are not in compliance with applicable laws.

Our products and services are subject to export and import laws and regulations, including the U.S. Export Administration Regulations, U.S. Customs regulations and various economic and trade sanctions regulations administered by the U.S. Treasury Department's Office of Foreign Assets Controls. Exports of our products and services must be made in compliance with these laws and regulations. Obtaining the necessary authorizations, including any required license, for a particular sale may be time-consuming, is not guaranteed and may result in the

delay or loss of sales opportunities. If we fail to comply with these laws and regulations, we and certain of our employees could be subject to substantial civil or criminal penalties, including the possible loss of export or import privileges, fines which may be imposed on us and responsible employees or managers, and, in extreme cases, the incarceration of responsible employees or managers.

Moreover, U.S. export control laws and economic sanctions programs generally prohibit the export of certain products and services to countries, governments and persons subject to U.S. economic embargoes and trade sanctions unless a license, approval, or other authorization is obtained from the U.S. Government. Obtaining such licenses and authorizations may be time consuming and is not guaranteed. Any violations of such economic embargoes and trade sanctions regulations could have negative consequences, including government investigations, penalties and reputational harm.

In addition, any changes in our products or services, or changes in applicable export, import, embargo and trade sanctions regulations, may create delays in the introduction and sale of our products and services in international markets or, in some cases, prevent the export or import of our products and services to certain countries, governments, or persons altogether. Any change in export, import, embargo, or trade sanctions regulations, shift in the enforcement or scope of existing regulations, or change in the countries, governments, persons or technologies targeted by such regulations, could also result in decreased use of our products and services, or in our decreased ability to export or sell our products and services to existing or potential customers with international operations. Any decreased use of our products and services or limitation on our ability to export or sell our products and services would likely adversely affect our business.

We may be subject to liabilities on past services for taxes, surcharges and fees.

We collect and remit state or municipal sales, use, excise, utility user and ad valorem taxes, fees, or surcharges on the charges to our customers for our services or goods in only those jurisdictions where we believe we have a legal obligation to do so or for business reasons to reduce risk. In addition, we have historically substantially complied with the collection of certain California sales/use taxes and financial contributions to the California 9-1-1 system (the Emergency Telephone Users Surcharge) and federal USF. With limited exception, we believe we are generally not subject to taxes, fees, or surcharges imposed by other state and municipal jurisdictions or that such taxes, fees, or surcharges do not apply to our service. There is uncertainty as to what constitutes sufficient “in state presence” for a state or local municipality to levy taxes, fees and surcharges for sales made over the internet. Taxing authorities have in the past, and likely will in the future, challenge our position on the lack of enforceability of such taxes, fees and surcharges where we have no relevant presence, and audit our business and operations with respect to sales, use, telecommunications and other taxes, which could result in increased tax liabilities for us or our customers, which could materially and adversely affect our results of operations and our relationships with our customers. We have seen an increase recently in the number and frequency of such state and local tax authority challenges, audits and related demands, which we are defending against vigorously. Complaints were filed by the County of Berks, Pennsylvania and the State of Alabama on January 21, 2016 and November 12, 2015, respectively, alleging that we are subject to their taxes, fees and surcharges and have failed to remit the required 911 charges. In addition, on November 28, 2016, Ooma filed a complaint against the Oregon Department of Revenue contesting a tax assessment against the Company for the Oregon Emergency Communications Tax, to which the Department of Revenue alleges we are subject.

Finally, the application of other indirect taxes (such as sales and use tax, value added tax, or VAT, goods and services tax, business tax, and gross receipt tax) to e-commerce businesses, such as ours, is a complex and evolving area. In November 2007, the U.S. federal government enacted legislation extending the moratorium on states and other local authorities imposing access or discriminatory taxes on the internet through November 2014. This moratorium does not prohibit federal, state, or local authorities from collecting taxes on our income or from collecting taxes due under existing tax rules. The application of existing, new, or future laws, whether in the U.S. or internationally, could have adverse effects on our business, prospects, and results of operations. There have been, and will continue to be, substantial ongoing costs associated with complying with the various indirect tax requirements in the numerous markets in which we conduct or will conduct business.

#### Risks Related to Being a Public Company

If we fail to develop and maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results in a timely manner, which may adversely affect investor confidence in our company and, as a result, the value of our common stock.

We are required, pursuant to Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting as of January 31, 2017. This assessment

includes disclosure of any material weaknesses identified by our management in our internal control over financial reporting. A “material weakness” is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

If we identify one or more material weaknesses in our internal control over financial reporting in the future, we will be unable to assert that our internal controls are effective. If we are unable to conclude that our internal control over financial reporting is effective, or if we are required to restate our financial statements as a result of ineffective internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, which would cause the price of our common stock to decline.

We are required to disclose material changes made in our internal control and procedures on a quarterly basis. To comply with the requirements of being a public company, we have undertaken various actions, such as implementing new internal controls and procedures and hiring of an internal audit firm. Our independent registered public accounting firm is not required to formally attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act until the later of the year following our first annual report required to be filed with SEC, or the date we are no longer an “emerging growth company,” as defined by the Jumpstart Our Business Startups Act (“JOBS Act”). At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating. Our remediation efforts may not enable us to avoid a material weakness in the future.

Our actual operating results may differ significantly from our guidance.

From time to time, we plan to release guidance in our quarterly earnings conference calls, quarterly earnings releases, or otherwise, regarding our future performance that represents our management’s estimates as of the date of release. This guidance, which will include forward looking statements, will be based on projections prepared by our management. These projections will not be prepared with a view toward compliance with published guidelines of the American Institute of Certified Public Accountants, and neither our registered public accountants nor any other independent expert or outside party compiles or examines the projections. Accordingly, no such person will express any opinion or any other form of assurance with respect to the projections.

Projections are based upon a number of assumptions and estimates that, while presented with numerical specificity, are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. We intend to state possible outcomes as high and low ranges which are intended to provide a sensitivity analysis as variables are changed but are not intended to imply that actual results could not fall outside of the suggested ranges. The principal reason that we release guidance is to provide a basis for our management to discuss our business outlook with analysts and investors. We do not accept any responsibility for any projections or reports published by any such third parties.

Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the guidance furnished by us will not materialize or will vary significantly from actual results. Accordingly, our guidance is only an estimate of what management believes is realizable as of the date of release. Actual results may vary from our guidance and the variations may be material. In light of the foregoing, investors are urged not to rely upon our guidance in making an investment decision regarding our common stock.

Any failure to successfully implement our operating strategy or the occurrence of any of the events or circumstances set forth in this “Risk Factors” section in this report could result in the actual operating results being different from our guidance, and the differences may be adverse and material.

The requirements of being a public company may strain our resources and divert management’s attention.

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, the Dodd Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, the listing requirements of the New York Stock Exchange and other applicable securities rules and regulations. Compliance with these rules and regulations has increased and will continue to increase our legal and financial compliance costs, and has made and will continue to make some activities more difficult, time-consuming or costly, and increase demand on our systems and resources, particularly after we are no longer an “emerging growth company.” The Exchange Act requires, among other things, that we file annual, quarterly, and current reports with respect to our business and results of operations. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures

and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could harm our business and results of operations. Although we have already hired additional employees to comply with these requirements, we may need to hire more employees in the future or engage outside consultants, which will increase our costs and expenses.



The expenses incurred by public companies for reporting and corporate governance purposes have increased dramatically over the past several years. We expect these rules and regulations to increase our legal and financial compliance costs substantially and to make some activities more time consuming and costly. However, for as long as we remain an “emerging growth company” as defined in the JOBS Act, we will take advantage of certain exemptions from various reporting requirements applicable to other public companies that are not “emerging growth companies,” including, but not limited to, exemption from the requirement to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We will take advantage of these reporting exemptions until we are no longer an “emerging growth company.”

We will cease to be an “emerging growth company” upon the earliest of (i) January 31, 2021, (ii) the last day of the first fiscal year in which our annual gross revenue exceeds \$1.0 billion, (iii) the date on which we have, during the previous three-year period, issued more than \$1.0 billion in non-convertible debt securities or (iv) as of the end of any fiscal year in which the market value of our common stock held by non-affiliates exceeded \$700 million as of the end of the second quarter of that fiscal year.

As a result of filings required of a public company, our business and financial condition has become more visible, which we believe may result in more litigation, including by competitors and other third parties. If such claims are successful, our business and results of operations could be materially and adversely affected, even if the claims do not result in litigation or are resolved in our favor. These claims, and the time and resources necessary to resolve them, could divert the resources of our management and materially and adversely affect our business and results of operations.

We are an “emerging growth company,” and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We are an “emerging growth company,” as defined in the JOBS Act, and are taking advantage of certain exemptions from various reporting requirements that are applicable to public companies that are not “emerging growth companies,” including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock, and our stock price may be more volatile and may decline.

#### Risks Related to Owning Our Common Stock

Sales of a substantial number of shares of our common stock in the public market, or the perception these sales might occur, could cause our stock price to decline.

Sales of a substantial number of shares of our common stock in the public market, or the perception these sales might occur, could cause the market price of our common stock to decline and could impair our ability to raise capital through the sale of additional equity securities. At January 31, 2017, we had 17,995,555 shares of common stock outstanding of which 13,227,717 shares were freely tradable.

In addition, we have registered shares of common stock which we may issue under our 2015 Stock Plan and 2015 Employee Stock Purchase Plan and they may be sold freely in the public market upon issuance.

We may issue our shares of common stock or securities convertible into our common stock from time to time in connection with a financing, acquisition, and investments or otherwise. Any such issuance could result in substantial dilution to our existing stockholders and cause the trading price of our common stock to decline.

Worldview Technology Partners and its affiliates own a significant portion of our stock and may limit your ability to influence corporate matters.

As of January 31, 2017, Worldview Technology Partners beneficially owned approximately 19% of our outstanding voting securities. This significant concentration of share ownership may adversely affect the trading price for our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders. Also, Worldview Technology Partners will be able to control our management and affairs and matters requiring stockholder approval, including the election of directors and the approval of significant corporate transactions, such as mergers, consolidations or the sale of substantially all of our assets. Consequently, this concentration of ownership may have the effect of delaying or preventing a change of control, including a merger, consolidation or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if that change of control would benefit our other stockholders. In March 2017, Worldview Technology Partners sold an aggregate of 3,290,483 shares of our common stock in a secondary offering and thus owned less than 1% of our outstanding voting securities after this offering.

If securities analysts do not publish or cease publishing research or reports about our business or if they publish negative evaluations of our stock, the price of our stock could decline.

We expect that the trading price for our common stock will be affected by any research or reports that industry or financial analysts publish about us or our business. If one or more of the analysts who elect to cover us downgrade their evaluations of our stock or provide more favorable relative recommendations about our competitors, the price of our stock could decline. If one or more of these analysts cease coverage of our company, our stock may lose visibility in the market, which in turn could cause its price to decline.

We have never paid cash dividends and do not anticipate paying any cash dividends on our common stock.

We do not anticipate paying any cash dividends on our common stock in the foreseeable future. If we do not pay cash dividends, you would receive a return on your investment in our common stock only if the market price of our common stock increases before you sell your shares. Furthermore, we are party to credit agreements which contain negative covenants that limit our ability to pay dividends.

Our charter documents and Delaware law could prevent a takeover that stockholders consider favorable and could also reduce the market price of our stock.

Our Amended and Restated Certificate of Incorporation and our Amended and Restated Bylaws contain provisions that could delay or prevent a change in control of our company. These provisions could also make it more difficult for stockholders to elect directors and take other corporate actions. These provisions include:

- providing for a classified board of directors with staggered, three year terms;
- authorizing the issuance of “blank check” preferred stock that our board of directors could issue to increase the number of outstanding shares to discourage a takeover attempt;
- prohibiting cumulative voting in the election of directors;
- providing that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum;
- prohibiting stockholder action by written consent;
- limiting the persons who may call special meetings of stockholders; and
- requiring advance notification of stockholder nominations and proposals.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is

responsible for appointing the members of our management. In addition, the provisions of Section 203 of the Delaware General Corporate Law govern us. These provisions may prohibit large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us for a certain period of time without the consent of our board of directors.

These and other provisions in our amended and restated certificate of incorporation and our bylaws and under Delaware law could discourage potential takeover attempts, reduce the price investors might be willing to pay in the future for shares of our common stock and result in the market price of our common stock being lower than it would be without these provisions.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware will be the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or other employees.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the sole and exclusive forum for any derivative action or proceeding brought on our behalf, any action asserting a breach of fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, any action asserting a claim against us arising pursuant to any provisions of the General Corporation Law of the State of Delaware, our amended and restated certificate of incorporation or our amended and restated bylaws, or any action asserting a claim against us that is governed by the internal affairs doctrine. The choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and other employees. If a court were to find the choice of forum provision contained in our amended and restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions.

The market price of our common stock is likely to be volatile and could fluctuate or decline, resulting in a substantial loss of your investment.

The market price of our common stock could be subject to wide fluctuations in response to, among other things, the factors described in this "Risk Factors" section or otherwise, and other factors beyond our control, such as fluctuations in the valuations of companies perceived by investors to be comparable to us.

Furthermore, the stock markets have experienced price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market fluctuations, as well as general economic, systemic, political and market conditions, such as recessions, interest rate changes or international currency fluctuations, may negatively affect the market price of our common stock.

Factors that could cause the market price of our common stock to fluctuate significantly include:

- our operating and financial performance and prospects and the performance of other similar companies;
- our quarterly or annual earnings or those of other companies in our industry;
- conditions that impact demand for our services;
- the public's reaction to our press releases, financial guidance, and other public announcements, and filings with the Securities and Exchange Commission, or SEC;
- changes in earnings estimates or our failure to meet earnings estimates or the expectations of investors,
- failure of securities analysts to cover or track our common stock;
- market and industry perception of our success, or lack thereof, in pursuing our growth strategy;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- changes in government and other regulations;
- changes in accounting standards, policies, guidance, interpretations or principles;
- arrival and departure of key personnel;
- the number of shares to be publicly traded after the lock-up agreements expire;
  - sales of common stock by us, our investors or members of our management team; and
- changes in general market, economic, and political conditions in the U.S. and global economies or financial markets, including those resulting from natural disasters, telecommunications failure, cyber-attack, civil unrest in various parts

of the world, acts of war, terrorist attacks, or other catastrophic events. In the past, many companies that have experienced volatility in the market price of their stock have become subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could harm our business.

We are currently subject to securities class action litigation in connection with our initial public offering and may be subject to similar litigation in the future. If the outcome of this litigation is unfavorable, it could have a material adverse effect on our financial condition, results of operations and cash flows.

The Company, its directors, and certain officers have been named as defendants in a consolidated securities class actions (“the Securities Litigation”). See Item 3 (“Legal Proceedings”) for a detailed description of the Securities Litigation and the allegations currently made therein. The Company is vigorously defending itself against the allegations in the Securities Litigation. However, as with all litigation, the Company cannot predict the outcome of the proceedings or estimate the losses that it may incur in connection with the Securities Litigation. The Company will, however, incur certain costs and fees associated with its defense, including costs related to its obligation to indemnify certain parties named in the action. While the Company carries insurance that may offset some of the costs associated with the Securities Litigation, the Company may incur substantial costs, expenses and burdens not covered by insurance. In addition, the pendency of the Securities Litigation may cause burdens and distractions to the Company’s management. Any adverse judgments, settlements, or consequences of the Securities Litigation could have a material, adverse effect on the Company’s business and financial condition.

In the future, especially following periods of volatility in the market price of our shares, other purported class action or derivative complaints may be filed against us. The outcome of the pending and potential future litigation is difficult to predict and quantify and the defense of such claims or actions can be costly. In addition to diverting financial and management resources and general business disruption, we may suffer from adverse publicity that could harm our brand or reputation, regardless of whether the allegations are valid or whether we are ultimately held liable. A judgment or settlement that is not covered by or is significantly in excess of our insurance coverage for any claims, or our obligations to indemnify the underwriters and the individual defendants, could materially and adversely affect our financial condition, results of operations and cash flows.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None

## ITEM 2. PROPERTIES

Our corporate headquarters are located in Palo Alto, California and consist of approximately 18,000 square feet of office space pursuant to a lease agreement that expires November 30, 2017. We lease additional office space in Palo Alto consisting of approximately 2,379 square feet pursuant to a lease agreement that expires April 30, 2017 and a multi-use industrial space consisting of 13,800 square feet pursuant to a lease agreement that expires February 28, 2018. Outside of Palo Alto, we lease warehouse and office space totaling 16,200 square feet in Newark, California, and pursuant to co-location agreements, we lease space from third-party datacenter hosting facilities in Northern California and Virginia that support our cloud infrastructure. We believe that we will be able to obtain additional space at other locations at commercially reasonable terms to support our continuing expansion.

## ITEM 3. LEGAL PROCEEDINGS

### Oregon Litigation

On August 30, 2016 the Oregon Department of Revenue (the “DOR”) issued tax assessments against the Company for the Oregon Emergency Communications Tax (the “Tax”), which the DOR alleges Ooma should have collected from its subscribers in Oregon and remitted to the DOR during the period starting on January 1, 2013 and ending on March 31, 2016 (collectively, the “Assessments”). On November 28, 2016 the Company filed a complaint in the Oregon Tax Court, asserting that the Assessments against Ooma are in violation of applicable Oregon law and are barred by the United States Constitution, and asking the Oregon Tax Court to abate the Assessments in full (the “Complaint”, and such dispute, the “Oregon Tax Litigation”). On February 10, 2016 the DOR filed an answer to the Complaint. The Company believes that the Commerce Clause of the United States Constitution bars the application of the Tax to the Company, since the Company has no employees, property or other indicia of a “substantial nexus” with the State of Oregon, and therefore the application of the Tax against Ooma and the Assessments are barred by the United States Constitution. The Company will continue to vigorously litigate the Complaint in pursuit of the full abatement of the Assessments. However, litigation is unpredictable and there can be no assurances that we will obtain a favorable final outcome or that we will be able to avoid unfavorable preliminary or interim rulings in the course of litigation that may significantly add to the expense of our defense and could result in substantial costs and diversion of resources. Based on our current knowledge, we have determined that the amount of any material loss or range of material losses that is reasonably possible to result from the Oregon Tax Litigation is not reasonably estimable.

### Deep Green Wireless Litigation

On June 8, 2016, plaintiff Deep Green Wireless LLC filed a complaint in the U.S. District Court for the Eastern District of Texas against Ooma, Inc., alleging infringement of U.S. Patent No. RE42,714 (the “Deep Green Wireless Litigation”). The complaint seeks unspecified monetary damages, costs, attorneys’ fees and other appropriate relief. On July 29, 2016 we filed our answer, affirmative defenses and counterclaims, on August 2, 2016 we filed a motion to transfer the case to the Northern District of California, and on February 21, 2017 magistrate judge Roy S. Payne granted our motion to transfer the case. Based upon our investigation, we do not believe that our products infringe any valid or enforceable claim of the aforementioned patent, and we plan to continue vigorously defending against the plaintiff’s claim. However, litigation is unpredictable and there can be no assurances that we will obtain a favorable final outcome or that we will be able to avoid unfavorable preliminary or interim rulings in the course of litigation that may significantly add to the expense of our defense and could result in substantial costs and diversion of resources. Based on our current knowledge, we have determined that the amount of any material loss or range of any losses that



is reasonably possible to result from the Deep Green Wireless Litigation is not reasonably estimable.

### Securities Litigation

On January 14, 2016, Michael Barnett filed a purported stockholder class action in the San Mateo County Superior Court of the State of California (Case No. CIV536959) against Ooma, certain of its officers and directors, and certain of the underwriters of our Initial Public Offering on July 17, 2015 (the “IPO”). Since that time two additional purported class actions making substantially the same allegations against the same defendants were filed, and on May 18, 2016 all three complaints were combined into a “consolidated complaint” filed in the same court (the “Securities Litigation”). The consolidated complaint purports to be brought on behalf of all persons who purchased shares of common stock in our IPO in reliance upon the Registration Statement and Prospectus we filed with the Securities and Exchange Commission (the “SEC”). The consolidated complaint alleges that Ooma and the other defendants violated the Securities Act of 1933, as amended (the “Securities Act”) by issuing the Registration Statement and Prospectus, which the plaintiffs allege contained material misstatements and omissions in violation of Sections 11, 12(a)(2) and 15 of the Securities Act. The plaintiffs seek class certification, compensatory damages, attorneys’ fees and costs, rescission or a rescissory measure of damages, equitable and/or injunctive relief, and such other relief as the court may deem proper. On July 1, 2016 Ooma filed its answer to the complaint, and on August 26, 2016 Ooma filed a motion for judgment on the pleadings. Ooma believes that the plaintiffs’ claims are without merit and we are vigorously defending against the Securities Litigation and will continue to do so. However, litigation is unpredictable and there can be no assurances that we will obtain a favorable final outcome or that we will be able to avoid unfavorable preliminary or interim rulings in the course of litigation that may significantly add to the expense of our defense and could result in substantial costs and diversion of resources. Based on our current knowledge, we have determined that the amount of any material loss or range of any losses that is reasonably possible to result from the Securities Litigation is not reasonably estimable.

### Berks County Litigation

On January 21, 2016 the County of Berks, Pennsylvania filed a lawsuit in the Berks County Court of Common Pleas naming the Company and 113 other telephone service providers as defendants (the “Berks County Litigation”), alleging breach of fiduciary duty, fraud, and negligent misrepresentation in connection with alleged violations of the Pennsylvania 911 Emergency Communication Services Act, 35 Pa.C.S.A. §5301 et seq. (“PA 911 Act”) for failure to collect from subscribers and remit certain fees pursuant to the PA 911 Act. The plaintiff seeks a declaratory judgment that we must comply with the PA 911 Act, compensatory and punitive damages, attorneys’ fees and costs, equitable and/or injunctive relief and such other relief as the court may deem proper. On May 17, 2016 the court issued an order overruling the defendants’ joint preliminary objections, which are, in essence, the Pennsylvania equivalent of a motion to dismiss. Notwithstanding such adverse order, the Company believes that the Commerce Clause of the United States Constitution bars the application of the PA 911 Act to the Company, since the Company has no employees, property or other indicia of a “substantial nexus” with the State of Pennsylvania, and therefore the plaintiff’s claims are without merit. The Company intends to continue vigorously defending this lawsuit. However, litigation is unpredictable and there can be no assurances that we will obtain a favorable final outcome or that we will be able to avoid unfavorable preliminary or interim rulings in the course of litigation that may significantly add to the expense of our defense and could result in substantial costs and diversion of resources. Based on our current knowledge, we have determined that the amount of any material loss or range of material losses that is reasonably possible to result from the Berks County Litigation is not reasonably estimable.

### Alabama Litigation

On November 12, 2015 the Alabama Statewide 9-1-1 Board filed a lawsuit in the Circuit Court of Montgomery, Alabama against the Company (the “Alabama Litigation”). The lawsuit alleges that the Company has failed to collect from its subscribers and remit certain fees pursuant to the Alabama Emergency Telephone Services Act (the “AETS Act”). The plaintiff seeks a declaratory judgment that we must comply with the AETS Act, compensatory and

punitive damages, attorneys' fees and costs, equitable and/or injunctive relief and such other relief as the court may deem proper. The Company believes that the Commerce Clause of the United States Constitution bars the application of the AETS Act to the Company, since the Company has no employees, property or other indicia of a "substantial nexus" with the State of Alabama, and therefore the plaintiff's claims are without merit. On January 31, 2017 the Alabama Litigation was dismissed with prejudice pursuant to a confidential settlement agreement between the parties, without resulting in a material loss to the Company.

In addition to the litigation matters described above, from time to time, we may be involved in a variety of other claims, lawsuits, investigations, and proceedings relating to contractual disputes, intellectual property rights, employment matters, regulatory compliance matters, and other litigation matters relating to various claims that arise in the normal course of business. Defending such proceedings is costly and can impose a significant burden on management and employees, we may receive unfavorable preliminary or interim rulings in the course of litigation, and there can be no assurances that favorable final outcomes will be obtained.

We determine whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. We assess our potential liability by analyzing specific litigation and regulatory matters using reasonably available information. We develop our views on estimated losses in consultation with inside and outside counsel, which involves a subjective analysis of potential results and outcomes, assuming various combinations of appropriate litigation and settlement strategies. Legal fees are expensed in the period in which they are incurred.

Other than the Oregon Tax litigation, Deep Green Wireless Litigation, Securities Litigation and the Berks County Litigation we currently are not a party to any material litigation or other proceedings, and as of January 31, 2017, we did not have any material accrued liabilities recorded for loss contingencies in the condensed consolidated financial statements.

#### ITEM 4. MINE SAFETY DISCLOSURES

None

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

## Market Information

Our common stock has been trading on the New York Stock Exchange, or the NYSE under the symbol "OOMA" since July 17, 2015.

## Price Range of Our Common Stock

The following table sets forth for the periods indicated the high and low sales prices per share of our common stock as quoted on the NYSE:

	High	Low
Fiscal Year Ended January 31, 2017		
Fourth Quarter	\$9.90	\$8.40
Third Quarter	\$9.92	\$8.03
Second Quarter	\$8.67	\$6.22
First Quarter	\$7.30	\$5.43
Fiscal Year Ended January 31, 2016		
Fourth Quarter	\$8.45	\$5.66
Third Quarter	\$11.45	\$6.18
Second Quarter (from July 17, 2015)	\$12.44	\$9.84

## Holders of Record

As of January 31, 2017, there were approximately 107 holders of record of our common stock. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

## Dividend Policy

We have never declared or paid, and do not anticipate declaring or paying in the foreseeable future, any cash dividends on our capital stock. Any future determination to declare cash dividends will be made at the discretion of our board of directors, subject to applicable laws, and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors may deem relevant.

### Stock Price Performance Graph

This performance graph shall not be deemed “filed” for purposes of Section 18 of the Exchange Act, or incorporated by reference into any filing of Ooma, Inc. under the Securities Act of 1933, as amended, or the Securities Act, except as shall be expressly set forth by specific reference in such filing. The stock price performance on this performance graph is not necessarily indicative of future stock price performance.

### Recent Sales of Unregistered Securities

During the year ended January 31, 2017, we did not issue equity securities that were not registered under the Securities Act of 1933.

### Use of Proceeds from Public Offering of Common Stock

On July 17, 2015, our registration statement on Form S-1 was declared effective by the Securities and Exchange Commission for the IPO of our common stock. In connection with the IPO, we issued 5,000,000 shares of our common stock at an offering price of \$13.00 per share for aggregate net proceeds of \$56.9 million, after deducting the underwriters’ discounts, commissions and offering costs. We used approximately \$10.3 million of the proceeds to repay outstanding debt and \$0.6 million to cash settle a warrant to purchase 70,287 shares of our convertible preferred stock. The remaining proceeds have been invested in money market funds and short-term marketable securities as of January 31, 2017.

## ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated statements of operations data for the years ended January 31, 2017, 2016 and 2015 and the consolidated balance sheet data as of January 31, 2017 and 2016 are derived from our audited consolidated financial statements included elsewhere in this report and should be read together with “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, and Item 8, “Consolidated financial statements and Supplementary Data”. We derived selected consolidated statement of operations data for the years ended January 31, 2014 and 2013 and the consolidated balance sheet data as of January 31, 2015 and 2014 from audited financials not included in this report. Our historical results are not necessarily indicative of our results in any future period.

	Fiscal Year Ended January 31,				
	2017	2016	2015	2014	2013
	(in thousands, except share and per share data)				
Consolidated Statements of Operations Data:					
Revenue:					
Subscription and services	\$91,127	\$73,064	\$53,828	\$35,377	\$24,107
Product and other	13,397	15,711	18,373	18,288	15,126
Total revenue	104,524	88,775	72,201	53,665	39,233
Cost of revenue:					
Subscription and services	29,650	25,715	18,284	15,894	13,899
Product and other	15,545	16,150	18,440	15,573	11,590
Total cost of revenue (1)	45,195	41,865	36,724	31,467	25,489
Gross profit	59,329	46,910	35,477	22,198	13,744
Operating expenses:					
Sales and marketing (1)	33,768	28,534	22,276	13,192	7,471
Research and development (1)	24,239	18,502	12,290	7,888	7,023
General and administrative (1)	14,598	12,561	6,650	2,573	2,508
Total operating expenses	72,605	59,597	41,216	23,653	17,002
Loss from operations	(13,276 )	(12,687 )	(5,739 )	(1,455 )	(3,258 )
Other income (expense):					
Interest income (expense), net	370	(881 )	(323 )	(269 )	(550 )
Change in fair value of warrants	—	(442 )	(795 )	(250 )	153
Other expense, net	(43 )	(42 )	(55 )	(26 )	(8 )
Loss before income taxes	(12,949 )	(14,052 )	(6,912 )	(2,000 )	(3,663 )
Income tax benefit	—	—	502	—	—
Net loss	\$(12,949 )	\$(14,052 )	\$(6,410 )	\$(2,000 )	\$(3,663 )
Net loss per share of common stock:					
Basic and diluted	\$(0.74 )	\$(1.38 )	\$(2.81 )	\$(1.18 )	\$(3.54 )
Weighted-average number of shares used in per share					
amounts:					
Basic and diluted	17,490,448	10,173,095	2,284,241	1,688,846	1,035,957

(1) Stock-based compensation and related taxes are included in our results of operations as follows (in thousands):

Edgar Filing: OOMA INC - Form 10-K

	Fiscal Year Ended January 31,				
	2017	2016	2015	2014	2013
Total cost of revenue	\$1,038	\$437	\$36	\$ 7	\$11
Sales and marketing	1,455	611	41	6	1
Research and development	3,619	1,683	169	26	50
General and administrative	3,754	1,922	180	33	111
Total	\$9,866	\$4,653	\$426	\$ 72	\$173

52

---



	As of January 31,			
	2017	2016	2015	2014
	(in thousands)			
Consolidated Balance Sheet Data:				
Cash and cash equivalents	\$3,990	\$27,413	\$9,133	\$6,364
Short-term investments	49,211	27,991	—	—
Working capital (deficit)	34,299	35,891	(5,863 )	(6,959 )
Total assets	73,338	76,536	31,277	17,716
Convertible preferred stock warrant liability, current and				
non-current	—	—	1,217	361
Debt and lease obligations, current and non-current	—	632	11,960	2,415
Deferred revenue, current and non-current	16,030	15,072	14,383	10,356
Total liabilities	33,518	33,646	42,785	24,034
Convertible preferred stock (1)	—	—	33,637	33,541
Total stockholders' equity (deficit)	39,820	42,890	(45,145 )	(39,859 )

(1) All of the outstanding convertible preferred stock was converted to common stock following the close of the Company's IPO in July 2015.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULT OF OPERATION

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes to those statements included elsewhere in this Annual Report on Form 10-K. In addition to historical financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed under "Risk Factors" and elsewhere in this Annual Report on Form 10-K. The last day of our fiscal year is January 31, and we refer to our fiscal year ended January 31, 2015 as fiscal 2015, our fiscal year ended January 31, 2016 as fiscal 2016, and our fiscal year ended January 31, 2017 as fiscal 2017. All other references to years are references to calendar years.

### 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 have experienced significant revenue and user growth in recent periods, growing our core users from approximately 645,000 as of January 31, 2015 to approximately 933,000 as of January 31, 2017, representing a compound annual growth rate of approximately 20%. We define 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. We derive our subscription and services revenue primarily from recurring monthly and annual payments related to our services, such as Ooma Premier, Ooma Office, international calling plans and other subscriptions. Our subscription and services revenue also includes revenue generated from payments for qualified lead generation, prepaid minutes for international calling and directory assistance, and the display of advertisements through our Talkatone mobile app. We believe that our recurring subscription and services revenue is reliable and predictable, and provides us with visibility into our near-term results. Our subscription and services revenue has increased as a percentage of our total revenue in recent periods, from 75% for fiscal 2015 to 87% for fiscal 2017. We expect our subscription and services revenue to continue to increase for the foreseeable future as we add new users, retain a high proportion of our existing user base and introduce subscriptions to new 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 Office or Telo. Our product and other revenue has decreased as a percentage of our total revenue in recent periods, from 25% for fiscal 2015 to 13% for fiscal 2017. We expect our product and other revenue to remain relatively flat on a year-over-year basis.

We believe that our integrated multi-channel sales and marketing strategy enables us to effectively grow our sales at a relatively low cost of customer acquisition. Our sales and marketing strategy utilizes multiple retail and online channels, our direct sales organization, and select reseller partners. We support our retail, online and direct sales channels through a combination of television, print and online advertising that builds brand awareness amongst small business, home and mobile customers. We maintain retail channel relationships with online and traditional retailers in the U.S. and Canada, including national retailers such as Amazon.com, Best Buy, Costco.com, Staples, OfficeMax, and Walmart and various regional retailers.

We have experienced significant growth in recent periods, with total revenues of \$104.5 million, \$88.8 million and \$72.2 million in fiscal 2017, 2016 and 2015, respectively, generating year-over-year increases of 18% and 23%, respectively. We have made significant investments in research and development, brand marketing and channel development and incurred net losses of \$12.9 million, \$14.1 million and \$6.4 million in fiscal 2017, 2016 and 2015, respectively.

## Key Factors Affecting Our Performance

Our historical financial performance and key business metrics have been, and we expect that our financial performance and key business metrics in the future will be, primarily driven by the following factors.

• **Core user growth.** Our core user growth is a key indicator of our market penetration, the growth of our business and our anticipated future subscription and services revenue.

• **Low core user churn.** We believe that maintaining our current low core user churn is an important factor in our ability to continue to improve our financial performance and is a distinguishing advantage over many of our competitors. We focus on providing high-quality services and support to our users so they are motivated to remain with us. Our core user churn rate is higher for Ooma Small Business customers than Ooma Residential customers, which is driven in part by the failure rate of small businesses. Accordingly, we expect that our overall core user churn rate will increase if sales of Ooma Small Business products increase relative to sales of Ooma Residential products, or if churn rate of our Business Promoter customers increases.

• **Growth in additional services.** We believe that there is a significant opportunity for us to increase the additional subscription services that our customers purchase from us. Customers who purchase additional subscription services from us generate more value to us over the life of our customer relationship. In order to drive adoption of additional subscription services, we will need to continually add valuable new features to our existing solutions and develop new connected services.

• **Investing in growth.** We intend to continue focusing on long-term revenue growth. We believe that our market opportunity is large and we intend to continue investing in sales and marketing to grow our user base. We also expect to continue investing in research and development to enhance our platform and develop additional connected services. We also may acquire complementary technologies or additional connected services. To support our expected growth and our operation as a public company, we intend to invest in other operational and administrative functions.

## Key Business Metrics

We regularly review a number of metrics, including the following key business 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. We believe that the relationship that we establish with our core users positions us to sell additional premium communications services and other new connected services to them.

	As of January 31,		
	2017	2016	2015
Core Users	933,000	800,000	645,000

### Annualized Exit Recurring Revenue

## Edgar Filing: OOMA INC - Form 10-K

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. We estimate our AERR as of the end of a quarter by dividing our recurring revenue (which is defined as total subscription and service revenue, excluding Talkatone revenue) for a quarter by the average of the number of core users at the beginning and end of that quarter, and annualize by multiplying by four. We then multiply that result by the number of core users at the end of the period to calculate AERR. We have generally experienced a year-over-year increase in AERR due to an increase in the number of core users.

	As of January 31,		
	2017	2016	2015
	(in thousands)		
Annualized Exit Recurring Revenue	\$89,425	\$76,938	\$61,907

## Annual Net Dollar Subscription Retention Rate

We believe that our annual net dollar subscription retention rate for our core users, or our annual net dollar retention rate, 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. Our annual net dollar retention rate measures the percentage year-over-year change in our recurring revenue (which is defined as total subscription and service revenue, excluding Talkatone revenue) for the period per core user, which is then adjusted by factoring in the percentage of our core users we have retained during the same period. Our annual net dollar retention rate is affected by changes in average amounts that our core users pay to us, fluctuations in the number of our core users, and our core user churn rate.

We calculate our estimated annual net dollar subscription retention rate for our core users by multiplying:

- (i) our year-over-year percentage change in annual recurring revenue per core user, which is calculated by:
  - determining the annual recurring revenue per core user by dividing annual recurring revenue for the period ended by the number of core users at the end of that particular period; and
  - calculating the year-over-year percentage change in annual recurring revenue per core user by dividing the current period recurring revenue per core user by the annual recurring revenue per core user for the same period in the prior year.
- by:
- (ii) our core user annual retention rate, which is calculated by:
  - determining our core user churn, by identifying the number of paying core users who terminate service during a month, excluding infant churn, which we define as office extensions and home users who terminate service prior to the end of the second full calendar month after their activation date;
  - calculating our monthly churn rate by dividing our churn in a month by the number of core users at the beginning of that month; and
  - calculating our annual retention rate as one minus the sum of our monthly churn rates for the preceding 12-month period.

	As of January 31,		
	2017	2016	2015
Annual Net Dollar Subscription Retention Rate	91%	94%	102%

Net Dollar Subscription Retention Rate decreased year over year primarily due to decline in average revenue per user from our Business Promoter users on a year-over-year basis.

## Adjusted EBITDA

We use Adjusted EBITDA to manage our business, evaluate our performance and make planning decisions. We consider this measure to be a useful measure of the operating performance of the Company, because it contains adjustments for unusual events or factors that do not directly affect what management considers to be the core operating performance, and are used by the management for that purpose. We also believe that this measure enables us to better evaluate our performance by facilitating a meaning comparison of our core operating results in a given period to those in prior and future periods. In addition, investors often use similar measures to evaluate the operating performance with competitors. Adjusted EBITDA represents net loss before interest and other (income) expense, net,

write-off of non-cash deferred debt issuance costs, depreciation and amortization, stock-based compensation and related taxes, income tax benefit, change in the fair value of our warrants and change in fair value of our acquisition-related contingent consideration.

Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not consider any expenses for assets being depreciated and amortized that are necessary to operate our business;
- Adjusted EBITDA does not consider the impact of stock-based compensation and related taxes, change in fair value of warrants, change in fair value of acquisition-related contingent consideration or write-off of non-cash deferred debt issuance costs;
- Adjusted EBITDA does not reflect other non-operating expenses, net of other non-operating income, including net interest expense (income); and
- Other companies, including companies in our industry, may calculate Adjusted EBITDA differently, which reduces its usefulness as a comparative measure.

Because of these limitations, you should consider Adjusted EBITDA alongside other financial performance measures, including net loss and our other GAAP results.

The following table provides a reconciliation of net loss (the most directly comparable GAAP financial measure) to Adjusted EBITDA for each of the periods indicated (in thousands):

	Fiscal Year Ended January 31,		
	2017	2016	2015
<b>Reconciliation of net loss to Adjusted EBITDA:</b>			
Net loss	\$(12,949)	\$(14,052)	\$(6,410)
<b>Reconciling items:</b>			
Interest and other (income) expense, net	(327 )	591	378
Write-off of non-cash deferred debt issuance costs	—	332	—
Depreciation and amortization	1,648	1,410	896
Amortization of intangibles	348	393	306
Stock-based compensation and related taxes	9,866	4,653	426
Income tax benefit	—	—	(502 )
Change in fair value of warrant liability	—	442	795
Change in fair value of acquisition-related contingent consideration	—	(281 )	656
Adjusted EBITDA	\$(1,414 )	\$(6,512 )	\$(3,455)

## 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. We also earn revenue from the display of advertisements through our Talkatone mobile application, primarily based on advertisement impressions displayed. We expect our subscription and services revenue to continue to increase as we expand 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 expect our product and other revenue to remain relatively flat on a year-over-year basis.

## Cost of Revenue

Our cost of revenue consists of the cost of our subscription and services revenue and the cost of our product and other 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

Our gross margin consists of our subscription and services gross margin and our product and other gross margin.

Subscription and services gross margin. Subscription and services gross margin, which we define as subscription and services revenue minus cost of subscription and services revenue expressed as a percentage of subscription and services revenue, 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 to continue investing in our network infrastructure and customer support function to support our growth and maintain quality of service and security. We expect our subscription and services gross margin to increase over the long term in part as our small business revenue becomes a significant portion of the overall subscription revenue. We also expect the subscription and services gross margin to increase as users adopt additional connected services we introduce in the future, although our subscription and services gross margin may fluctuate from period to period depending on the interplay of all of these factors.

Product and other gross margin. Product and other gross margin, which we define as product and other revenue minus cost of product and other revenue expressed as a percentage of product and other revenue, 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 aggressive price point to our customers to facilitate the adoption of our platform. We therefore expect our product and other gross margin to continue to be negative for 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, we would expect our total gross margin to decline.

## 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 continue increasing in absolute dollars and as a percentage of total revenue as we continue to actively grow our core users and expand our operations internationally.

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 in absolute dollars and increase slightly as a percentage of total revenue 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 our general and administrative expenses to remain relatively flat or decrease slightly as a percentage of total revenue going forward.

## Consolidated Results of Operations

The following table sets forth selected consolidated statements of operations data and such data as a percentage of total revenue for each of the periods indicated (in thousands):

	Fiscal Year Ended January 31,		
	2017	2016	2015
Revenue:			
Subscription and services	\$91,127	\$73,064	\$53,828
Product and other	13,397	15,711	18,373
Total revenue	104,524	88,775	72,201
Cost of revenue:			
Subscription and services	29,650	25,715	18,284
Product and other	15,545	16,150	18,440
Total cost of revenue (1)	45,195	41,865	36,724
Gross profit	59,329	46,910	35,477
Operating expenses:			
Sales and marketing (1)	33,768	28,534	22,276
Research and development (1)	24,239	18,502	12,290
General and administrative (1)	14,598	12,561	6,650
Total operating expenses	72,605	59,597	41,216
Loss from operations	(13,276 )	(12,687 )	(5,739 )
Interest income (expense), net	370	(881 )	(323 )
Change in fair value of warrants	—	(442 )	(795 )
Other expense, net	(43 )	(42 )	(55 )
Loss before income taxes	(12,949 )	(14,052 )	(6,912 )
Income tax benefit	—	—	502
Net loss	\$(12,949 )	\$(14,052 )	\$(6,410 )

(1) Includes stock-based compensation and related taxes as follows (in thousands):

	Fiscal Year Ended January 31,		
	2017	2016	2015
Total cost of revenue	\$1,038	\$437	\$36
Sales and marketing	1,455	611	41
Research and development	3,619	1,683	169
General and administrative	3,754	1,922	180
Total	\$9,866	\$4,653	\$426



The following table sets forth selected consolidated statements of operations, expressed as a percentage of total revenue, for each of the periods indicated:

	Fiscal Year Ended January 31,		
	2017	2016	2015
<b>Revenue:</b>			
Subscription and services	87 %	82 %	75 %
Product and other	13	18	25
Total revenue	100	100	100
<b>Cost of revenue:</b>			
Subscription and services	28	29	25
Product and other	15	18	26
Total cost of revenues	43	47	51
Gross profit	57	53	49
<b>Operating expenses:</b>			
Sales and marketing	32	32	31
Research and development	23	21	17
General and administrative	14	14	9
Total operating expenses	69	67	57
Loss from operations	(12 )	(14 )	(8 )
Interest income (expense), net	—	(1 )	—
Change in fair value of warrants	—	—	(2 )
Other expense, net	—	—	—
Loss before income taxes	(12 )	(15 )	(10 )
Income tax benefit	—	—	1
Net loss	(12 %)	(15 %)	(9 %)

#### Consolidated Statement of Operations:

Comparison of years ended January 31, 2017 and 2016 (in thousands):

#### Revenue

	Fiscal Year Ended January 31,		2017 to 2016 %		
	2017	2016	\$ Change	Change	
<b>Revenue:</b>					
Subscription and services	\$91,127	\$73,064	\$18,063	25	%
Product and other	13,397	15,711	(2,314 )	(15	%)
Total revenue	\$104,524	\$88,775	\$15,749	18	%
<b>Percentage of revenue:</b>					

Edgar Filing: OOMA INC - Form 10-K

Subscription and services	87	%	82	%
Product and other	13	%	18	%
Total	100	%	100	%

Our total revenue increased by \$15.7 million due to an increase in subscription and services revenue, offset by a decline in product and other revenue.

Our subscription and services revenue increased by \$18.1 million in fiscal 2017 as compared to fiscal 2016, primarily due to a growth in our core users which increased to approximately 933,000 core users as of January 31, 2017 from approximately 800,000 core users as of January 31, 2016. The increase in subscription and services revenue was also in part due to an increase in our small business revenue driven by growth in Ooma Office.

Our product and other revenue decreased by \$2.3 million in fiscal 2017 as compared to fiscal 2016, primarily due to a decrease in the volume of units sold and lower average selling prices as we continued to sell our on-premises appliances at an aggressive price to our customers.

## Cost of Revenue and Gross Margin

	Fiscal Year Ended		2017 to 2016		
	January 31,				
	2017	2016	\$ Change	% Change	
Cost of revenue:					
Subscription and services	\$29,650	\$25,715	\$3,935	15	%
Product and other	15,545	16,150	(605 )	(4	%)
Total cost of revenue	\$45,195	\$41,865	\$3,330	8	%
Gross profit:					
Subscription and services	\$61,477	\$47,349	\$14,128	30	%
Product and other	(2,148 )	(439 )	(1,709 )	389	%
Total	\$59,329	\$46,910	\$12,419	26	%
Gross margin:					
Subscription and services	67	%	65	%	
Product and other	(16	%)	(3	%)	
Total	57	%	53	%	

Total gross margin increased to 57% in fiscal 2017 as compared to 53% in fiscal 2016, primarily due to higher growth of subscription and services revenue as compared to product and other revenue, as subscription and services revenue carries higher gross margin. The improvement in subscription and services revenue gross margin was primarily due to increase in revenue from Ooma Office and also due to economies of scale as our subscriber base increased.

The total gross profit increased by \$12.4 million in fiscal 2017 as compared to fiscal 2016, due to an increase in subscription and services gross profit of \$14.1 million which was offset by a decrease in product and other gross profit of \$1.7 million.

The increase in cost of subscription and services revenue of \$3.9 million was primarily attributable to an increase in telecom and hosting fees of \$1.6 million driven by a growth in our core users, an increase in credit card processing fee of \$0.9 million, an increase in personnel and consultant costs of \$0.7 million driven by increased headcount and growth in business, and an increase in stock-based compensation of \$0.5 million.

The decrease in cost of product and other revenue of \$0.6 million was primarily due to a decrease in the number of on-premise appliances sold in fiscal 2017 as compared to fiscal 2016, offset by an increase in the number of end-point devices sold to both our residential and small business customers.

## Operating Expenses

	Fiscal Year Ended		2017 to 2016	
	January 31,			
	2017	2016	\$ Change	% Change



Edgar Filing: OOMA INC - Form 10-K

Sales and marketing	\$33,768	\$28,534	\$5,234	18	%
Research and development	24,239	18,502	5,737	31	%
General and administrative	14,598	12,561	2,037	16	%
Total operating expenses	\$72,605	\$59,597	\$13,008	22	%

Sales and marketing expenses increased by \$5.2 million in fiscal 2017 as compared to fiscal 2016. The increase was primarily due to an increase in personnel and consultant related costs of \$3.2 million driven by increased headcount and growth in business, an increase in stock-based compensation of \$0.8 million, an increase in marketing activities of \$0.7 million and an increase in facilities and equipment related costs of \$0.4 million.

Research and development expenses increased by \$5.7 million in fiscal 2017 as compared to fiscal 2016. The increase was primarily attributable to an increase in personnel and consultant related costs of \$3.2 million driven by increased headcount primarily to support our growth of our Ooma Office, an increase in stock-based compensation of \$1.9 million and an increase in facilities and equipment related costs of \$0.5 million.

General and administrative expenses increased by \$2.0 million in fiscal 2017 as compared to fiscal 2016. The increase was primarily attributable to an increase in stock-based compensation of \$1.8 million and an increase in legal and professional services fees of \$0.4 million, offset by a decrease in consultant costs of \$0.3 million.

#### Other Income (Expense), net

	Fiscal Year Ended January 31,		2017 to 2016 \$	
	2017	2016	Change	% Change
Interest income (expense), net	\$370	\$(881 )	\$1,251	NM*
Change in fair value of warrants	—	(442 )	442	NM*
Other expense, net	(43 )	(42 )	(1 )	NM*
Total other income (expense)	\$327	\$(1,365 )	\$1,692	

\* Not meaningful

Other income (expense) is comprised mainly of interest income related to our short-term investments, interest expense related to the outstanding debt and change in fair value of warrants. Other income (expense), net increased by \$1.7 million in fiscal 2017 as compared to fiscal 2016. The increase was primarily attributed to a decrease in interest expense of \$0.9 million due to the payoff of our outstanding debt in July 2015 and an increase in interest income related to short-term investments of \$0.4 million. In addition, due to the conversion and cash settlement of preferred stock warrants during the second quarter of fiscal 2016, change in fair value of warrants was zero and \$(0.4) million in fiscal 2017 and fiscal 2016, respectively.

Comparison of years ended January 31, 2016 and 2015 (in thousands):

#### Revenue

	Fiscal Year Ended January 31,		2016 to 2015 %	
	2016	2015	\$ Change	Change
<b>Revenue:</b>				
Subscription and services	\$73,064	\$53,828	\$19,236	36 %
Product and other	15,711	18,373	(2,662 )	(14 %)
Total revenue	\$88,775	\$72,201	\$16,574	23 %
<b>Percentage of revenue:</b>				
Subscription and services	82 %	75 %		
Product and other	18 %	25 %		

Total	100	%	100	%
-------	-----	---	-----	---

Our subscription and services revenue increased by \$19.2 million, primarily due to a 24% growth in our core users, which increased to approximately 800,000 as of January 31, 2016 from approximately 645,000 core users as of January 31, 2015. In addition to the increase in our core users, our average annual subscription and services revenue per core user increased year-over-year.

Our product and other revenue decreased by \$2.7 million due to a decrease in sales of our on-premise appliances and end-point devices in fiscal 2016 as compared to fiscal 2015. In fiscal 2015, we experienced a large, non-recurring order by one of our reseller partners, which was not repeated by that partner in fiscal 2016 and was the primary driver for the decrease in product revenue. In addition, the decrease in product and other revenue was also due to lower average selling prices as we continued to sell our on-premise appliances at an attractive price to facilitate the adoption of our platform.

## Cost of Revenue and Gross Margin

	Fiscal Year Ended		2016 to 2015		
	January 31,				
	2016	2015	\$ Change	% Change	
<b>Cost of Revenue:</b>					
Subscription and services	\$25,715	\$18,284	\$7,431	41	%
Product and other	16,150	18,440	(2,290 )	(12	%)
Total cost of revenue	\$41,865	\$36,724	\$5,141	14	%
<b>Gross profit:</b>					
Subscription and services	\$47,349	\$35,544	\$11,805	33	%
Product and other	(439 )	(67 )	(372 )	555	%
Total	\$46,910	\$35,477	\$11,433	32	%
<b>Gross margin:</b>					
Subscription and services	65	%	66	%	
Product and other	(3	%)	—		
Total	53	%	49	%	

Total gross margin increased to 53% for fiscal 2016 from 49% for fiscal 2015 primarily due to higher growth of subscription and other services revenue as compared to product and other revenue, as subscription and services revenue carries higher gross margin.

The total gross profit increased by \$11.4 million for fiscal 2016, as compared to fiscal 2015, due to an increase in subscription and services gross profit of \$11.8 million, which was offset in part by a decrease in product and other gross profit of \$0.4 million.

The increase in cost of subscription and services revenue of \$7.4 million was primarily attributable to an increase in personnel and consultant costs of \$2.6 million as we increased headcount to support our growth, an increase in telecommunication provider fees and hosting and bandwidth fees of \$2.1 million, an increase in information technology and facilities costs allocation of \$1.1 million due to additional facilities leased during the year to support growth, an increase in credit processing fees of \$0.7 million and an increase in stock-based compensation of \$0.3 million.

The decrease in cost of product and other revenue of \$2.3 million was primarily attributable to a \$2.1 million decrease in the product costs which was due to a decrease in the number of units sold and in part also attributable to a decrease in the manufacturing costs of our on-premise appliances with our contract manufacturers as well as a decrease in freight costs of \$0.3 million. The decrease in the product and other costs was offset in part by an increase of \$0.3 million in personnel and consulting related costs.

## Operating Expenses

Fiscal Year Ended		2016 to 2015	
January 31,			
2016	2015		

Edgar Filing: OOMA INC - Form 10-K

			\$	%	
			Change	Change	
Sales and marketing	\$28,534	\$22,276	\$6,258	28	%
Research and development	18,502	12,290	6,212	51	%
General and administrative	12,561	6,650	5,911	89	%
Total operating expenses	\$59,597	\$41,216	\$18,381	45	%

The increase in sales and marketing expenses of \$6.3 million was mainly due to an increase in advertising and marketing expenses of \$2.0 million, as we expanded customer and partner programs and lead generation activities, an increase in personnel-related costs of \$1.7 million as we increased sales and marketing headcount to support growth and an increase in consulting costs of \$1.3 million to supplement our direct sales team. The increase was also attributable to an increase in facilities-related costs of \$0.6 million and an increase in stock-based compensation of \$0.6 million.

The increase in research and development expenses of \$6.2 million was primarily attributable to an increase in personnel-related costs of \$3.1 million due to an increased headcount, an increase in stock-based compensation of \$1.5 million, an increase in consultant costs of \$1.0 million and an increase in facilities-related costs of \$0.3 million.

The increase in general and administrative expenses of \$5.9 million was primarily attributable to an increase in personnel and consultant related costs of \$2.8 million due to an increased headcount, an increase in stock-based compensation of \$1.7 million and an increase in professional services fees of \$1.3 million to support the growth of our business and in preparing to be and subsequently becoming a publicly held company.

#### Other Income (Expense), net

	Fiscal Year Ended January 31,		2016 to 2015	
	2016	2015	\$	%
			Change	Change
Interest (expense) income, net	\$(881 )	\$(323 )	\$(558)	173 %
Change in fair value of warrants	(442 )	(795 )	353	(44 %)
Other expense, net	(42 )	(55 )	13	NM*
Total other income (expense)	\$(1,365)	\$(1,173)	\$(192)	

\* Not meaningful

Interest expense increased by \$0.6 million due to the increase in our outstanding debt in the later part of fiscal 2015. Included in interest expense was \$0.3 million of non-cash deferred issuance costs that was written-off due to the repayment of all outstanding debt in July 2015.

The change in fair value of the convertible preferred stock warrants of \$0.4 million resulted from an expense associated with the change in fair value of convertible preferred stock warrants, which resulted from a change in the fair value of the warrants period over period. On the closing of our initial public offering, the warrants to purchase preferred stock were either exercised and converted to common stock or converted to common warrants to purchase common stock or settled in cash. We reclassified the fair value of the warrants from liabilities to additional paid-in capital and ceased to record any additional fair value adjustments.

#### Income Tax Benefit

	Fiscal Year Ended January 31,		2016 to 2015	
	2016	2015	\$	%
			Change	Change
Income tax benefit	\$—	\$502	\$(502)	NM*

\* Not meaningful

In fiscal 2015, we acquired Talkatone, Inc., or Talkatone, a privately held provider of telephony and texting services over Wi-Fi networks. We recorded a tax benefit of \$0.5 million arising from the release of deferred tax valuation

allowances subsequent to the acquisition of Talkatone. The release of the valuation allowances was triggered by the recognition of \$0.5 million of net deferred tax liabilities that were primarily related to the acquired intangible assets and R&D credits recorded upon the acquisition of Talkatone.

#### Non-GAAP Financial Measures

In addition to disclosing financial measures prepared in accordance with GAAP, this Form 10-K contains certain non-GAAP financial measures, including non-GAAP net loss and non-GAAP net loss per share.

These non-GAAP financial measures exclude non-cash or non-recurring expenses including stock-based compensation expense and related taxes, amortization of intangibles, change in fair value of our acquisition-related contingent consideration, change in fair value of warrants and write-off of non-cash deferred debt issuance costs and income tax benefit.

These non-GAAP financial measures are presented to provide investors with additional information regarding our financial results and core business operations. Ooma considers these non-GAAP financial measures to be useful measures of the operating performance of the Company, because they contain adjustments for unusual events or factors that do not directly affect what management considers to be Ooma's core operating performance, and are used by the Company's management for that purpose. Management also believes that these non-GAAP financial measures allow for a better evaluation of the Company's performance by facilitating a meaningful comparison of the Company's core operating results in a given period to those in prior and future periods. In addition, investors often use similar measures to evaluate the operating performance of a company.

Non-GAAP financial measures are presented for supplemental informational purposes only to aid an understanding of the Company's operating results. The non-GAAP financial measures should not be considered a substitute for financial information presented in accordance with GAAP, and may be different from non-GAAP financial measures presented by other companies. A limitation of the non-GAAP financial measures presented is that the adjustments relate to items that the Company generally expects to continue to recognize. The adjustment of these items should not be construed as an inference that the adjusted gains or expenses are unusual, infrequent or non-recurring. Therefore, both GAAP financial measures of Ooma's financial performance and the respective non-GAAP measures should be considered together.

Reconciliations of our GAAP and non-GAAP financial measures were as follows (in thousands, except per share amounts):

	Fiscal Year Ended January		
	2017	2016	2015
GAAP Net Loss	\$(12,949)	\$(14,052)	\$(6,410)
Stock-based compensation and related taxes	9,866	4,653	426
Amortization of intangibles	348	393	306
Change in fair value of acquisition-related contingent consideration	—	(281 )	656
Change in fair value of warrant liability	—	442	795
Write-off of non-cash deferred debt issuance costs	—	332	—
Income tax benefit	—	—	(502 )
Non-GAAP Net Loss	\$(2,735 )	\$(8,513 )	\$(4,729)
Basic and Diluted Net Loss per share on a GAAP basis	\$(0.74 )	\$(1.38 )	\$(2.81 )
Stock-based compensation and related taxes	0.56	0.46	0.19
Amortization of intangibles	0.02	0.04	0.13
Change in fair value of acquisition-related contingent consideration	—	(0.03 )	0.29
Change in fair value of warrant liability	—	0.04	0.35
Write-off of non-cash deferred debt issuance costs	—	0.03	—
Income tax benefit	—	—	(0.22 )
Basic and Diluted Net Loss per share on a Non-GAAP basis	\$(0.16 )	\$(0.84 )	\$(2.07 )



## Quarterly Results of Operations

The following table sets forth our unaudited quarterly statements of operations for each of the eight quarters ended January 31, 2017. In our opinion the data has been prepared on a basis consistent with our audited annual financial statements included in this Annual Report on Form 10-K and include, in our opinion, all normal recurring adjustments necessary for the fair statement of the financial information contained in those statements. Our historical results are not necessarily indicative of the results that may be expected in the future for a full year or any other period. The following quarterly financial data should be read in conjunction with our audited financial statements and the related notes included elsewhere in this Annual Report on Form 10-K.

The following table sets forth our results of operations for the periods presented (in thousands):

	Three Months Ended							
	January 31, 2017	October 31, 2016	July 31, 2016	April 30, 2016	January 31, 2016	October 31, 2015	July 31, 2015	April 30, 2015
Revenue:								
Subscription and services	\$24,041	\$23,179	\$22,417	\$21,490	\$20,569	\$19,470	\$17,449	\$15,576
Product and other	3,523	3,828	3,077	2,969	3,742	4,006	3,687	4,276
Total revenue	27,564	27,007	25,494	24,459	24,311	23,476	21,136	19,852
Cost of revenue:								
Subscription and services	7,547	7,388	7,444	7,271	7,066	6,715	6,310	5,624
Product and other	4,229	4,276	3,501	3,539	4,083	4,277	3,583	4,207
Total cost of revenue	11,776	11,664	10,945	10,810	11,149	10,992	9,893	9,831
Gross profit	15,788	15,343	14,549	13,649	13,162	12,484	11,243	10,021
Operating expenses:								
Sales and marketing	8,793	8,302	8,578	8,095	8,287	7,539	6,813	5,895
Research and development	6,415	6,244	5,839	5,741	5,173	4,948	4,284	4,097
General and administrative	3,493	3,705	3,545	3,855	2,895	3,499	3,206	2,961
Total operating expenses	18,701	18,251	17,962	17,691	16,355	15,986	14,303	12,953
Loss from operations	(2,913 )	(2,908 )	(3,413 )	(4,042 )	(3,193 )	(3,502 )	(3,060 )	(2,932 )
Other income (expense):								
Interest income (expense), net	111	95	100	64	21	(10 )	(607 )	(285 )
Change in fair value of warrants	—	—	—	—	—	—	274	(716 )
Other (expense) income, net	(30 )	(8 )	(27 )	22	(11 )	(19 )	(10 )	(2 )
Total other income (expense)	81	87	73	86	10	(29 )	(343 )	(1,003 )
Net loss	\$(2,832 )	\$(2,821 )	\$(3,340 )	\$(3,956 )	\$(3,183 )	\$(3,531 )	\$(3,403 )	\$(3,935 )

## Quarterly Trends

## Revenue

Our subscription and service revenue has grown quarter-over-quarter primarily due to the continued growth in our subscriber base driven by an increase in our core users. Our product revenue ranged from \$3.0 million to \$4.3 million

during the periods presented and generally declined as a percentage of total revenue. We believe that comparisons of our quarterly product revenue on a year-over-year basis are more meaningful than comparisons of our quarterly product revenue on a sequential basis due to factors such as seasonality and the timing of product purchases by our reseller partners. During the first quarter of fiscal 2017, we experienced a decrease in product revenue year over year mainly due to a large, non-recurring order by one of our customers in the first quarter of fiscal 2016, which was not repeated during the first quarter of 2017. In addition, the decrease in our product and other revenue was also in part due to lower average selling prices as we continued to sell our on-premise appliances at an aggressive price to our customers.

#### Gross Profit and Gross Margin

Our gross profit has increased quarter-over-quarter in absolute dollars and our gross margin has increased from 51% to 57% during the periods presented, as a result of the increasing mix of subscription and services revenue as a percentage of total revenue.

## Operating Expenses

Quarterly operating expenses in absolute dollars increased sequentially for all the periods presented, primarily driven by an increase in headcount and personnel-related expenses, including stock-based compensation and consultant expenses, and marketing and advertising expenses associated with our efforts to increase our overall subscriber base and product sales. During the fourth quarter of fiscal 2016, we experienced a reduction in the general and administrative expense due to the fair value remeasurement of acquisition related earn-out provisions for Talkatone.

## Liquidity and Capital Resources

As of January 31, 2017, we had \$53.2 million of cash and cash equivalents and short-term investments. To date we have funded our operations through sales to our customers, proceeds from issuance of common stock in the initial public offering, borrowings under the credit facilities and issuance of convertible preferred stock. In April 2015, we raised \$5.0 million in proceeds from the sale of our Series Beta convertible preferred stock. In July 2015, we completed our IPO and sold 5,000,000 shares of our common stock at \$13.00 per share for an aggregate net proceeds of \$56.9 million, after deducting underwriters' discounts, commissions and offering costs. We used approximately \$10.3 million of the IPO proceeds to repay our outstanding debt and \$0.6 million to cash settle a warrant to purchase 70,287 shares of our convertible preferred stock.

We believe that our existing cash and cash equivalents and short-term investments will be sufficient to meet our cash needs for at least the next 12 months. Our future capital requirements will depend on many factors, including our growth rate, our needs for increased data center capacity to support our expanding customer base, the timing and extent of our sales and marketing and research and development expenditures, and the continuing market acceptance of our solutions.

The table below provides selected cash flow information, for the periods indicated (in thousands):

	Fiscal Year Ended January 31,		
	2017	2016	2015
Net cash provided by (used in) operating activities	\$385	\$(470 )	\$(4,067)
Net cash used in investing activities	(22,969)	(30,962)	(1,858)
Net cash (used in) provided by financing activities	(839 )	49,712	8,694
Net (decrease) increase in cash and cash equivalents	\$(23,423)	\$18,280	\$2,769

## Net Cash Provided by (Used in) Operating Activities

The table below provides selected cash flow information, for the periods indicated (in thousands):

	Fiscal Year Ended January 31,		
	2017	2016	2015
Net loss	\$(12,949)	\$(14,052)	\$(6,410)
Add back non-cash charges	11,979	7,013	2,634
Net loss before non-cash charges	(970 )	(7,039 )	(3,776)
(Increase) decrease in inventories	(819 )	3,070	(3,206)

Edgar Filing: OOMA INC - Form 10-K

Decrease (increase) in deferred inventory costs	393	235	(751 )
(Decrease) increase in accounts payable and accrued expenses	(99 )	4,392	1,212
Decrease (increase) in accounts receivable	895	(1,215 )	(2,095)
Increase in deferred revenue	958	689	4,014
Others	27	(602 )	535
Net cash provided by (used in) operating activities	\$385	\$(470 )	\$(4,067)

For the fiscal year ended January 31, 2017, our net loss of \$12.9 million included non-cash charges of \$12.0 million primarily related to stock-based compensation of \$9.8 million and depreciation and amortization of \$2.2 million. Operating asset and liability changes for the fiscal year ended January 31, 2017 included:

- an increase of \$0.8 million in our raw material and finished goods inventory to scale our business
- a decrease of \$0.4 million of deferred inventory costs due to lower inventory levels at channel partners
- a decrease of \$0.1 million of accounts payable and accrued liabilities primarily due to the timing of payments

67

---

a decrease of \$0.9 million in accounts receivable primarily due to timing of billing and our collection efforts  
 an increase of \$1.0 million in deferred revenue due to an increase of \$1.8 million in deferred revenue from subscription and other driven by a growth in our core users, offset by a decrease of \$0.8 million in deferred product revenue associated with lower inventory levels at channel partners.

For the fiscal year ended January 31, 2016, our net loss of \$14.1 million included non-cash charges of \$7.0 million primarily related to \$4.7 million of stock-based compensation, \$1.8 million of depreciation and amortization expense, \$0.3 million of write-off of non-cash deferred debt issuance costs due to the repayment of debt and \$0.2 million of expense due to change in fair value of preferred warrant liability and acquisition-related contingent consideration. Operating asset and liability changes for the fiscal year ended January 31, 2016 included:

a decrease of \$3.1 million in inventory primarily due to usage of raw material and finished goods  
 a decrease of \$0.2 million of deferred inventory costs due to lower inventory levels at channel partners  
 an increase of \$4.4 million of accounts payable and accrued liabilities due to the timing of payments and invoices primarily in advertising expenses  
 an increase of \$1.2 million in accounts receivable primarily due to the timing of billings to our channel partners and also due to increase in receivables related to services  
 an increase of \$0.7 million in deferred revenue resulting from an increase of \$2.1 million increase in deferred revenue from subscription and other services due to an increase in core users primarily in part driven by the growth in the premium users offset in part by a decrease of \$1.4 million in deferred product revenue associated with lower inventory levels at channel partners.

For the fiscal year ended January 31, 2015, our net loss of \$6.4 million included non-cash charges of \$2.6 million primarily related to \$1.2 million of depreciation and amortization expense, \$1.5 million of expense due to change in fair value of preferred warrant liability and acquisition-related earn out, \$0.4 million of stock-based compensation offset by \$0.5 million in income tax benefit due to the acquisition of Talkatone, Inc. Operating asset and liability changes for the fiscal year ended January 31, 2015 included:

an increase of \$3.2 million in our raw material and finished goods inventory to scale our business  
 an increase of \$0.8 million in deferred inventory costs due to increased inventory levels at our channel partners  
 an increase of \$1.2 million of accounts payable and accrued liabilities due to the timing of payments
 

- an increase of \$2.1 million in accounts receivable due to the timing of shipments and billings to our channel partners and also due to increase in receivables related to services

 an increase of \$4.0 million in deferred revenue primarily due to an increase of \$1.9 million of deferred product revenue associated with increased inventory levels at our channel partners and \$2.1 million increase in deferred revenue from subscription and other services due to an increase in our core users primarily driven by growth in our premium users

#### Net Cash Used in Investing Activities

Our investing activities include purchases of short-term investments, capital expenditures for property and equipment purchases and business acquisitions. Our capital expenditures have primarily been for general business purposes, including expansion of our network operations centers, computer equipment used internally, and leasehold improvements as we have expanded our office space to accommodate our growth in headcount.

During the fiscal year ended January 31, 2017, we used \$23.0 million in investing activities for purchases of short-term investments of \$59.0 million and purchases of property and equipment of \$1.6 million, offset by proceeds from maturity and sale of short-term investments of \$37.6 million.

During the fiscal year ended January 31, 2016 we used \$28.1 million for purchases of short-term investments and \$2.9 million for purchases of property and equipment in investing activities.

During the fiscal year ended January 31, 2015 we used \$1.2 million for purchases of property and equipment and \$0.7 million in connection with a business acquisition in investing activities.

## Net Cash (Used in) Provided by Financing Activities

Cash generated from financing activities includes proceeds from borrowings under our credit facilities, proceeds from issuance of common stock related to warrants and employee stock benefit plans, proceeds from the issuance of preferred stock and proceeds from the sale of common stock in our IPO in July 2015. Cash used in financing activities includes payment of shares repurchased for tax withholdings on vesting of restricted stock units, repayment of debt and capital leases, payment of preferred warrant liability and payment of acquisition related earn-out.

During fiscal 2017, financing activities used \$0.8 million of cash, which consisted of payment of \$1.6 million related to shares repurchased for tax withholdings on vesting of restricted stock units, repayment of \$0.6 million of capital lease obligations and payment of \$0.1 million of acquisition-related earn-out, offset by proceeds of \$1.5 million from the exercise of options and issuance of common stock related to employee stock purchase plan.

During fiscal 2016, financing activities provided \$49.7 million of cash. During fiscal 2016, we generated net cash proceeds of \$57.0 million from the issuance of common stock from our IPO, after adjusting for underwriting discounts and commissions of \$4.5 million and offering costs of \$3.6 million, all of which were paid as of January 31, 2016. Cash provided from financing activities also included \$5.0 million from issuance of Series Beta preferred stock and \$0.2 million in proceeds from the exercise of options and warrants and issuance of common stock under employee stock purchase plan, offset by repayment of \$11.6 million of outstanding debt, payment of \$0.6 million of preferred warrant liability and payment of \$0.3 million of acquisition-related earn-out.

During fiscal 2015, we had net proceeds of \$8.7 million from financing activities, primarily due to \$9.9 million from borrowings under our credit facility and \$0.4 million from our issuance of common stock in connection with employee stock option exercises, offset by \$1.5 million in repayment of debt and capital leases, and payment of \$0.1 million in deferred offering costs.

## Contractual Obligations and Commitments

Set forth below is information concerning our contractual commitments and obligations as of January 31, 2017 (in thousands):

		Less Than	1-3 Years	3-5 Years
	Total	1 Year	Years	Years
Operating lease obligations	\$ 1,401	\$ 1,297	\$ 94	\$ 10
Total	\$ 1,401	\$ 1,297	\$ 94	\$ 10

The contractual commitment amounts in the table above are associated with enforceable and legally binding agreements.

As of January 31, 2017, non-cancelable purchase commitments with our contract manufacturers were \$4.0 million.

As of January 31, 2017, we had no tax liabilities related to uncertainty in income tax positions.

## Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, including entities such as structured finance or special purpose entities that were established for the purpose of facilitating off-balance sheet arrangements.

#### Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP which requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, cash flows and related disclosures of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances. Actual results may differ from these estimates. Our future consolidated financial statements will be affected to the extent that our actual results materially differ from these estimates. Our most critical accounting policies are summarized below. For further information on our significant accounting policies, see Note 1 in the accompanying notes to our consolidated financial statements.

#### Revenue Recognition

We derive revenue from two sources: (1) subscription and services revenue, which is generated from the sale of subscription plans and other services; and (2) product and other revenue. Products and services are sold directly to end-customers via our website and through distributors and retailers.



We recognize revenue when the following criteria are met:

- persuasive evidence of an arrangement exists;
- delivery has occurred;
- collection of the fees is reasonably assured and
- the fee is fixed or determinable

#### Subscription and Services Revenue

We generate subscription and services revenue by selling subscriptions for communications solutions, as well as other connected services. Subscription revenue is derived primarily from recurring monthly and annual payments related to service plans such as Ooma Office, Ooma Basic and Premier, international calling plans, and other subscriptions. Subscription revenue is recognized on a straight-line basis over the applicable contractual service term. Subscription and services revenue also includes revenue generated from payments for qualified lead generation, prepaid international calling and directory assistance, which are recognized 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 recognize revenue from mobile advertising on a net basis, because we are not the primary obligor to advertisers.

Deferred revenue primarily consists of billings or payments received in advance of meeting revenue recognition criteria. Our telephony services are sold as monthly or annual subscriptions, payable in advance. We recognize deferred telephony services revenue on a ratable basis over the term of the contract as the services are provided. For all arrangements, any revenue that has been deferred and is expected to be recognized beyond one year is classified as long-term deferred revenue in other long-term liabilities in our consolidated balance sheets.

#### Product and Other Revenue

We generate product revenue from the sale of on-premise appliances and end-point devices, including shipping and handling fees. We generate other revenue from porting fees to enable customers to transfer their existing phone numbers. Product and other revenue for direct end-customers is billed to our customer's credit card at the time an online order is submitted by the customer via our website and is recognized when the product has been shipped to the customer. We also generate product revenue from sales through distributors, retailers and resellers, or our channel partners, which are based on written purchase authorizations. Our distribution agreements with our channel partners typically contain clauses for price protection and rights of return, which results in prices for these transactions not being fixed or determinable, and increases the difficulty of estimating returns from our channel partners. Accordingly, we record shipments to our channel partners, where the right of return exists, as deferred revenue and we defer recognition of revenue on these sales until the title transfers to the end-customer. We assess the ability to collect from our channel partners based on a number of factors, including credit worthiness and payment history of the channel partner. We record revenue net of any sales-related taxes that are billed to our customers.

Substantially all of our arrangements are multiple-element arrangements, which consist of an on-premise appliance and communication services. The arrangement may also contain a bundled end-point device and a subscription plan for communication services. Monthly communication services and end-point devices purchased after the original multi-element arrangement are optional purchases that are accounted for as separate arrangements and are not considered a deliverable in the sale of the on-premise appliance.

We have determined that each unit of accounting has stand-alone value and account for each separately. We allocate revenue to each unit of accounting based on an estimated selling price at the inception of the arrangement. The total arrangement consideration is allocated to each separate unit of accounting using the relative selling price of each unit.

We determine the estimated selling price for each deliverable using vendor-specific objective evidence, or VSOE, of selling price or third-party evidence, or TPE, of selling price, if it exists. If neither VSOE nor TPE of selling price exists for a deliverable, we use the best estimate of selling price, or BESP, of each deliverable in its allocation of arrangement consideration. Revenue allocated to each deliverable, limited to the amount not contingent on future performance, is then recognized when the basic revenue recognition criteria are met for the respective deliverable.

We determine VSOE of selling price for telephony services and end-point devices based on historical standalone sales to customers. In determining VSOE of selling price, we require that a substantial majority of the selling prices for a product or service fall within a reasonably narrow pricing range of the median selling price. We do not have VSOE or TPE for our on-premise appliances; we estimate BEBP by considering company-specific factors such as pricing strategies, direct product and other costs, and bundling and discounting practices.

We record reductions to revenue for estimated sales returns from end users and customer credits at the time the related revenue is recognized. Sales returns and customer credits are estimated based on historical experience, current trends and expectations regarding future experience. We monitor the accuracy of our sales reserve estimates by reviewing actual returns and credits and adjusts them for future expectations to determine the adequacy of current reserve needs. If actual future returns and credits differ from past experience, additional reserves may be required.

#### Inventories

Inventories, which consist of raw materials and finished goods, are stated at the lower of cost to purchase or the market value of such inventory. Cost is determined on a first-in, first-out basis.

We regularly review inventory quantities in consideration of actual loss experiences, projected future demand, and remaining shelf life to record a provision for excess and obsolete inventory when appropriate. Inventory write downs are recorded for excess and obsolete inventory. We periodically assess the recoverability of all inventory to determine whether write downs for impairment are required. We evaluate the projected future demand as compared to the remaining shelf life and other obsolescence and excess criteria in assessing the recoverability of our inventory. In determining the adequacy of reserves, we analyze the following, among other things:

- current inventory quantity on hand;
- product acceptance in the marketplace;
- customer demand;
- historical sales;
- forecast sales;
- product obsolescence and
- technological innovations

Any inventory write downs are recorded in cost of goods sold within the consolidated statement of operations during the period in which such write-downs are determined as necessary by management.

If actual future demand or market conditions are less favorable than those projected by management, additional inventory write-downs may be required. We recorded inventory write downs of \$0.1 million, \$0.2 million and \$0.3 million for fiscal 2017, 2016 and 2015, respectively.

#### Stock-Based Compensation

We grant stock-based awards which include stock options and restricted stock units (“RSUs”) under the 2015 Equity Incentive Plan, and purchase rights under the employee stock purchase plan (“ESPP”). Stock-based compensation expense for all stock-based awards granted to employees is measured at the grant date based on the fair value of the equity award and is recognized as expense over the requisite service period, which is generally the vesting period. The fair value of options granted is estimated on the date of grant using the Black-Scholes option pricing model. The fair value of each RSU granted is determined using the fair value of our common stock on the date of grant. The fair value of each stock purchase right under our ESPP is calculated based on the closing price of our stock on the date of grant and the value of put and call options estimated using the Black-Scholes option pricing model. The Black-Scholes pricing model requires assumptions including the market value of our common stock, expected term of the award,

expected volatility of the price of our common stock, risk-free interest rates, and expected dividend yield.

Stock-based compensation expense for options granted to non-employees is calculated using the Black-Scholes option pricing model and is recognized in the consolidated statements of operations over the service period. Compensation expense for non-employee stock options subject to vesting is remeasured as of each reporting date until the stock options are vested, and any change in value is recognized in the consolidated statement of operations during the period the related services are performed.

We adopted Accounting Standards Update (“ASU”) 2016-09, Improvements to Employee Share-Based Payment Accounting in the third quarter of fiscal 2017 and elected to account for forfeitures as they occur rather than estimate expected forfeiture. See Note 1 in the accompanying notes to our consolidated financial statements for more information.

We recognize stock-based compensation expense on the straight-line method for our equity awards. Determining the fair value of stock-based awards at the grant date requires judgment, including estimating the expected volatility, expected term, risk-free interest rate, and expected dividends.

#### Income Taxes

We account for income taxes in accordance with ASC Topic 740, Income Taxes, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between financial statement carrying amounts and the tax basis of assets and liabilities and net operating loss and tax credit carryforwards. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. As of January 31, 2017 and January 31, 2016, we have recorded a full valuation allowance against our deferred tax assets, respectively.

We use a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. A tax position is recognized when it is more likely than not that the tax position will be sustained upon examination, including resolution of any related appeals or litigation processes. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement with a taxing authority. The standard also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure and transition.

#### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We had cash and cash equivalents and short-term investments of \$53.2 million and \$55.4 million as of January 31, 2017 and 2016, respectively. We hold our cash and cash equivalents and short-term investments for working capital purposes. Our cash and cash equivalents are held in cash and short-term money market funds. Our investments are held in U.S. treasury securities, U.S. agency debt securities, commercial papers, corporate debt securities and asset-backed securities. Due to the short-term nature of these instruments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. Declines in interest rates, however, would reduce our future interest income. The effect of a hypothetical 100 basis point increase or decrease in interest rates would not have had a material impact on the fair value of our available-for-sale securities as of January 31, 2017 and 2016, or our interest income for fiscal 2017, 2016 and 2015. We did not hold any outstanding debt with variable interest rates as of January 31, 2017 and 2016.

To date, all of our revenue has been denominated in U.S. and Canadian dollars. As a result some of our revenue is subject to fluctuations due to changes in the Canadian dollar relative to the US dollar. Additionally, fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our statements of operations. To date, foreign currency transaction realized gains and losses have not been material to our consolidated financial statements, and we have not engaged in any foreign currency hedging transactions. A hypothetical 10% increase or decrease in overall foreign currency rates would not have had a material impact on our consolidated financial statements. As our international operations grow, we will continue to reassess our approach to managing the risks relating to fluctuations in currency rates.



ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

<u>Report of Independent Registered Public Accounting Firm</u>	74
<u>Consolidated Balance Sheets</u>	75
<u>Consolidated Statements of Operations</u>	76
<u>Consolidated Statements of Comprehensive Loss</u>	77
<u>Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity (Deficit)</u>	78
<u>Consolidated Statements of Cash Flows</u>	79
<u>Notes to Consolidated Financial Statements</u>	81

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors

Ooma, Inc.

Palo Alto, California

We have audited the accompanying consolidated balance sheets of Ooma, Inc. and its subsidiary (the “Company”) as of January 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive loss, convertible preferred stock and stockholders’ equity (deficit), and cash flows for each of the three years in the period ended January 31, 2017. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit includes considerations of internal control over financial reporting as basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Ooma, Inc. and its subsidiary as of January 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

San Jose, California

April 11, 2017



OOMA, INC.

## CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share and per share data)

	January 31, 2017	January 31, 2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$3,990	\$27,413
Short-term investments	49,211	27,991
Accounts receivable, net	4,714	5,609
Inventories	5,830	5,011
Deferred inventory costs	1,620	2,013
Prepaid expenses and other current assets	1,891	1,318
Total current assets	67,256	69,355
Property and equipment, net	4,176	4,291
Intangible assets, net	537	885
Goodwill	1,117	1,117
Other assets	252	888
Total assets	\$73,338	\$76,536
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$5,857	\$4,786
Accrued expenses	11,579	13,010
Short-term capital lease	—	632
Deferred revenue	15,521	15,036
Total current liabilities	32,957	33,464
Other liabilities	561	182
Total liabilities	33,518	33,646
Commitments and contingencies (Note 13)		
<b>Stockholders' equity:</b>		
Preferred stock \$0.0001 par value: 10,000,000 shares authorized; no shares issued and outstanding on January 31, 2017 and January 31, 2016, respectively	—	—
Common stock \$0.0001 par value: 100,000,000 shares authorized; 17,995,555 and 16,916,250 shares issued and outstanding on January 31, 2017 and January 31, 2016, respectively	2	2
Additional paid-in capital	117,639	107,679
Accumulated other comprehensive (loss) income	(11 )	17
Accumulated deficit	(77,810 )	(64,808 )
Total stockholders' equity	39,820	42,890
Total liabilities and stockholders' equity	\$73,338	\$76,536

See notes to consolidated financial statements.

Ooma, Inc.

## Consolidated Statements of Operations

(Amounts in thousands except per share data)

	Fiscal Year Ended January 31,		
	2017	2016	2015
Revenue:			
Subscription and services	\$91,127	\$73,064	\$53,828
Product and other	13,397	15,711	18,373
Total revenue	104,524	88,775	72,201
Cost of revenue:			
Subscription and services	29,650	25,715	18,284
Product and other	15,545	16,150	18,440
Total cost of revenue	45,195	41,865	36,724
Gross profit	59,329	46,910	35,477
Operating expenses:			
Sales and marketing	33,768	28,534	22,276
Research and development	24,239	18,502	12,290
General and administrative	14,598	12,561	6,650
Total operating expenses	72,605	59,597	41,216
Loss from operations	(13,276 )	(12,687 )	(5,739 )
Other income (expense):			
Interest income (expense), net	370	(881 )	(323 )
Change in fair value of warrants	—	(442 )	(795 )
Other expense, net	(43 )	(42 )	(55 )
Loss before income taxes	(12,949 )	(14,052 )	(6,912 )
Income tax benefit	—	—	502
Net loss	\$(12,949 )	\$(14,052 )	\$(6,410 )
Net loss per share of common stock:			
Basic and diluted	\$(0.74 )	\$(1.38 )	\$(2.81 )
Weighted-average number of shares used in per share amounts:			
Basic and diluted	17,490,448	10,173,095	2,284,241

See notes to consolidated financial statements.

Ooma, Inc.

Consolidated Statements of COMPREHENSIVE LOSS

(Amounts in thousands)

	Fiscal Year Ended January 31,		
	2017	2016	2015
Net loss	\$(12,949)	\$(14,052)	\$(6,410)
Other comprehensive (loss) income			
Unrealized (loss) gain on short-term investment	(28 )	17	—
Comprehensive loss	\$(12,977)	\$(14,035)	\$(6,410)

See notes to consolidated financial statements.

Ooma, Inc.

## Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity (Deficit)

(Amounts in thousands, except share data)

Series Alpha-1												
	Series Alpha Convertible		Convertible Preferred		Series Beta Convertible		Additional		Accumulated		Total	
	Preferred Stock		Stock		Preferred Stock		Common Stock		Paid-In	Other Comprehensive	Accumulated	Stock
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Income	Deficit	Equity (Deficit)
Balance - January 31,	7,848,198	\$30,536	485,143	\$3,005	—	\$—	1,927,177	\$—	\$4,487	\$—	\$(44,346)	\$(39,859)
Issuance of non stock												
Stock option												
Exercises	—	—	—	—	—	—	135,564	—	19	—	—	19
Issuance of preferred stock												
Warrant												
Exercise	20,407	96	—	—	—	—	—	—	—	—	—	—
Issuance of non stock												
Warrant												
Exercise	—	—	—	—	—	—	2,326	—	11	—	—	11
Issuance of non stock												
Conversion	—	—	—	—	—	—	90,246	—	338	—	—	338
Exercising of												
Options												
Restricted												
	—	—	—	—	—	—	359,752	—	68	—	—	68
Issuance of non stock												
Debt												
	—	—	—	—	—	—	—	—	262	—	—	262
Share-based												
Compensation	—	—	—	—	—	—	—	—	426	—	—	426
Loss	—	—	—	—	—	—	—	—	—	—	(6,410 )	(6,410 )
	7,868,605	30,632	485,143	3,005	—	—	2,515,065	—	5,611	—	(50,756)	(45,145)

ANCE -  
ry 31,

ance of s Beta ferred stock,	—	—	—	—	241,469	5,000	—	—	—	—	—	—
ersion of ertible ferred stock mmon												
n initial c offering	(7,868,605)	(30,632)	(485,143)	(3,005)	(241,469)	(5,000)	8,878,857	1	38,636	—	—	38,
ance of non stock initial c offering,												
ssuance	—	—	—	—	—	—	5,000,000	1	56,878	—	—	56,
cognition ferred nt ity to onal												
d-in al	—	—	—	—	—	—	—	—	1,075	—	—	1,0
ance of non stock njunction												
sition-												
ted out	—	—	—	—	—	—	49,159	—	451	—	—	451
ng of exercised options restricted	—	—	—	—	—	—	327,349	—	154	—	—	154
ance of non stock d to oyee stock ase plan	—	—	—	—	—	—	15,569	—	111	—	—	111
ise of non stock	—	—	—	—	—	—	30,573	—	31	—	—	31

nts to non stock													
ise of rred stock													
nts to non stock	—	—	—	—	—	—	16,521	—	13	—	—	13	
nce of non stock													
stock option													
ises	—	—	—	—	—	—	83,157	—	66	—	—	66	
-based													
ensation	—	—	—	—	—	—	—	—	4,653	—	—	4,653	
, prehensive													
ne	—	—	—	—	—	—	—	—	—	17	—	17	
oss	—	—	—	—	—	—	—	—	—	—	(14,052)	(14,052)	
ANCE - ry 31,													
	—	—	—	—	—	—	16,916,250	2	107,679	17	(64,808)	42,808	
nce of non stock													
njunction													
sition-													
ted out	—	—	—	—	—	—	26,375	—	165	—	—	165	
ng of exercised													
options													
restricted	—	—	—	—	—	—	123,221	—	81	—	—	81	
nce of non stock													
d to													
oyee stock													
ase plan	—	—	—	—	—	—	234,792	—	1,176	—	—	1,176	
nce of non stock													
vesting of													
ected stock	—	—	—	—	—	—	657,034	—	—	—	—	—	
s chased for													
holdings													
isting of													
ected stock	—	—	—	—	—	—	(170,281 )	—	(1,588 )	—	—	(1,588 )	
nce of non stock	—	—	—	—	—	—	208,164	—	301	—	—	301	

stock option													
ises													
-based													
ensation	—	—	—	—	—	—	—	—	9,772	—	—	9,772	
.													
prehensive													
	—	—	—	—	—	—	—	—	—	(28)	—	(28)	
ulative													
-based													
ensation													
ture													
tment	—	—	—	—	—	—	—	—	53	—	(53)	—	
oss	—	—	—	—	—	—	—	—	—	—	(12,949)	(12,949)	
ANCE -													
ry 31,	—	\$—	—	\$—	—	\$—	17,995,555	\$2	\$117,639	\$(11)	\$(77,810)	\$39,824	

See notes to consolidated financial statements.



Ooma, Inc.

## Consolidated Statements of Cash Flows

(Amounts in thousands)

	Fiscal Year Ended January 31,		
	2017	2016	2015
Cash flows from operating activities:			
Net loss	\$(12,949)	\$(14,052)	\$(6,410)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Stock-based compensation expense	9,772	4,653	426
Depreciation and amortization	1,849	1,410	896
Amortization of intangible assets	348	393	306
Deferred income taxes	—	—	(502 )
Others	10	64	57
Write-off of non-cash deferred debt issuance costs	—	332	—
Change in fair value of acquisition related contingent consideration	—	(281 )	656
Change in fair value of warrant liability	—	442	795
Changes in operating assets and liabilities:			
Accounts receivable, net	895	(1,215 )	(2,095)
Inventories	(819 )	3,070	(3,206)
Deferred inventory costs	393	235	(751 )
Prepaid expenses and other assets	84	(470 )	331
Accounts payable and accrued expenses	(99 )	4,392	1,212
Other liabilities	(57 )	(132 )	204
Deferred revenue	958	689	4,014
Net cash provided by (used in) operating activities	385	(470 )	(4,067)
Cash flows from investing activities:			
Purchases of short-term investments	(59,007)	(28,078)	—
Proceeds from maturity of short-term investments	32,330	—	—
Proceeds from sale of short-term investments	5,266	—	—
Purchases of property and equipment	(1,558 )	(2,884 )	(1,186)
Business acquisition, net of cash assumed	—	—	(672 )
Net cash used in investing activities	(22,969)	(30,962)	(1,858)
Cash flows from financing activities:			
Proceeds from initial public offering, net	—	57,021	(142 )
Proceeds from Series Beta preferred stock, net	—	5,000	—
Repayment of debt and capital leases	(628 )	(11,620)	(1,508)
Proceeds from issuance of debt	—	—	9,921
Payment of preferred warrant liability	—	(584 )	—
Payment of acquisition related earn-out	(100 )	(326 )	—
Shares repurchased for tax withholdings on vesting of restricted stock units	(1,588 )	—	—

Proceeds from issuance of common stock related to warrants and employee stock

benefit plans	1,477	221	423
Net cash (used in) provided by financing activities	(839 )	49,712	8,694
Net (decrease) increase in cash and cash equivalents	(23,423)	18,280	2,769
Cash and cash equivalents at beginning of period	27,413	9,133	6,364
Cash and cash equivalents at end of period	\$3,990	\$27,413	\$9,133

See notes to consolidated financial statements.

Ooma, Inc.

Consolidated Statements of Cash Flows

(Amounts in thousands)

	Fiscal Year Ended January 31,		
	2017	2016	2015
Supplemental disclosure of cash flow information			
Income taxes paid	\$3	\$2	\$1
Interest paid	\$18	\$573	\$173
Non-cash investing and financing activities:			
Unpaid portion of property and equipment purchases	\$122	\$78	\$162
Shares issued as consideration in business acquisition and related earn-out	\$165	\$451	\$338
Conversion of preferred stock to common stock	\$—	\$38,637	\$—
De-recognition of warrant liability to additional paid-in capital	\$—	\$1,075	\$—
Unpaid offering costs	\$—	\$—	\$351
Issuance of warrants in connection with long-term debt	\$—	\$—	\$323
Purchase of equipment acquired on capital lease	\$—	\$—	\$1,321

See notes to consolidated financial statements.

OOMA, Inc.

Notes to Consolidated Financial Statements

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 and is headquartered in Palo Alto, California.

**Principles of Consolidation**—The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) and includes the accounts of the Company and its wholly owned subsidiary. All intercompany transactions and balances have been eliminated upon consolidation.

**Fiscal Year End**—The last day of Company’s fiscal year is January 31, fiscal year end January 31, 2017 is referred as fiscal 2017, fiscal year end January 31, 2016 is referred as fiscal 2016 and fiscal year end January 31, 2015 is referred as fiscal 2015.

**Use of Estimates**—The preparation of the Company’s 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates include, but are not limited to, those related to revenue recognition, the allowance for returns, stock-based compensation and warrants, valuation of goodwill and intangible assets, inventory valuation, regulatory fees and indirect tax accruals, and accounting for income taxes, including valuation allowances and fair value measurements. Estimates are based on historical experience, where applicable, and other assumptions believed to be reasonable by management. Actual results could differ from those estimates. 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.

**Reverse Stock Split**—Effective July 6, 2015, the Company completed 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 (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**—In July 2015, the Company completed its initial public offering (the “IPO”) and 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 \$56.9 million after deducting the underwriters’ discounts and commissions of \$4.5 million and \$3.6 million of offering costs. See “Note 7. Convertible Preferred Stock Warrant Liability” and “Note 8. Common Stock and Preferred Stock” for more information related to the IPO.

**Secondary Offering**—In January 2017, the Company completed a secondary offering, in which certain stockholders of the Company affiliated with Worldview Technology Partners (the “Selling Stockholders”) sold an aggregate of 3,275,000 shares of our common stock at a public offering price of \$8.65 per share, including 425,000 shares of common stock sold upon the underwriters’ exercise of the overallotment option. The Company did not receive any of

the proceeds from the offering.

Revenue Recognition—The Company derives revenue from two sources: (1) subscription and services revenue, which are generated from the sale of subscription plans and other services; and (2) product and other revenue. Products and services are sold directly to end-customers via the Company's website and through distributors and retailers.

The Company recognizes revenue when the following criteria are met:

- Persuasive evidence of an arrangement exists.
- Delivery has occurred.
- Collection of the fees is reasonably assured.
- The fee is fixed or determinable.

81

---

## Subscription and Services Revenue

The Company generates subscription and services revenue by selling subscriptions for communications solutions, as well as other connected services. Subscription revenue is derived primarily from recurring monthly and annual payments related to service plans such as Ooma Basic, Ooma Office and Premier, international calling plans, and other subscriptions. Subscription revenue is recognized on a straight-line basis over the contractual service term. Subscription and services revenue also includes revenue generated from payments for qualified lead generation, prepaid international calls and directory assistance, which are recognized based on actual usage. The Company also earns revenue from the display of advertisements through the Talkatone mobile application, primarily based on advertisement impressions displayed. The Company recognizes revenue from mobile advertising on a net basis, because it is not the primary obligor to advertisers.

Deferred revenue primarily consists of billings or payments received in advance of meeting revenue recognition criteria. The Company's telephony services are sold as monthly or annual subscriptions, payable in advance. The Company recognizes deferred telephony services revenue on a ratable basis over the term of the contract as the services are provided. For all arrangements, any revenue that has been deferred and is expected to be recognized beyond one year is not significant and is included in long term liabilities in the consolidated balance sheets.

## Product and Other Revenue

The Company generates product revenue from the sale of on-premise appliances and end-point devices, including shipping and handling fees. The Company also generates other revenue from porting fees to enable customers to transfer their existing phone numbers. Product and other revenue for direct end-customers are billed to the customer's credit card at the time an on-line order is submitted by the customer via the Company's website and recognized when the product has been shipped to the customer. The Company also generates product revenue from sales through distributors, retailers and resellers (collectively the "channel partners") which are based on written purchase authorizations. The Company's distribution agreements with its channel partners typically contain clauses for price protection and rights of return, which result in prices for these transactions not being fixed or determinable and increases the difficulty of estimating returns from the channel partners. Accordingly, the Company records shipments to the channel partners, where the right of return exists, as deferred revenue and defers recognition of revenue on these sales until the title transfers to the end-customer. The Company assesses the ability to collect from its channel partners based on a number of factors, including credit worthiness and payment history of the distributor or retail partner. The Company records revenue net of any sales-related taxes that are billed to its customers.

Substantially all of the Company's arrangements are multiple-element arrangements, which consist of an on-premise appliance and telephony services. The arrangement may also contain a bundled end-point device and a subscription plan for telephony services. Monthly telephony services and end-point devices purchased after the original multi-element arrangement are optional purchases that are accounted for as separate arrangements and are not considered a deliverable in the sale of the on-premise appliance.

The Company has determined that each unit of accounting has stand-alone value and accounts for each separately. The Company allocates revenue to each unit of accounting based on an estimated selling price at the inception of the arrangement. The total arrangement consideration is allocated to each separate unit of accounting using the relative selling price of each unit.

The Company determines the estimated selling price for each deliverable using vendor-specific objective evidence, or VSOE, of selling price or third-party evidence, or TPE, of selling price, if it exists. If neither VSOE nor TPE of selling price exists for a deliverable, the Company uses the best estimate of selling price, or BEBP, of each deliverable in its allocation of arrangement consideration. Revenue allocated to each deliverable, limited to the amount not contingent

on future performance, is then recognized when the basic revenue recognition criteria are met for the respective deliverable.

The Company determines VSOE of selling price for telephony services and end-point devices based on historical standalone sales to customers. In determining VSOE of selling price, the Company requires that a substantial majority of the selling prices for a product or service fall within a reasonably narrow pricing range of the median selling price. The Company does not have VSOE or TPE for its on-premise appliance and estimates BSP by considering company-specific factors such as pricing strategies, direct product and other costs, and bundling and discounting practices.

The Company records reductions to revenue for estimated sales returns from end-users and customer credits at the time the related revenue is recognized. Sales returns and customer credits are estimated based on historical experience, current trends and expectations regarding future experience. The Company monitors the accuracy of its sales reserve estimates by reviewing actual returns and credits and adjusts them for future expectations to determine the adequacy of current reserve needs. If actual future returns and credits differ from past experience, additional reserves may be required.

**Cash Equivalents and Short-term investments**—The Company considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents. Short-term investments are classified as available-for-sale for use in current operations, if required, and are reported at fair value, with unrealized gains and losses, net of tax, presented as a separate component of stockholders' equity (deficit) within accumulated other comprehensive (loss) income. All realized gains and losses and unrealized losses resulting from declines in fair value that are other-than-temporary are recorded in other expense, net in the period of occurrence. The Company uses the specific identification method to determine the realized gains and losses on investments. For all investments in marketable securities, the Company assesses whether the impairment is other-than-temporary. If the fair value of a security is less than its amortized cost basis, an impairment is considered other-than-temporary if (i) the Company has the intent to sell the security or it is more likely than not that the Company will be required to sell the security before recovery of its entire amortized cost basis, or (ii) the Company does not expect to recover the entire amortized cost of the security. If an impairment is considered other-than-temporary based on condition (i), the entire difference between the amortized cost and the fair value of the security is recognized in earnings. If an impairment is considered other-than-temporary based on condition (ii), the amount representing credit losses, defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis of the security, will be recognized in earnings, and the amount relating to all other factors will be recognized in other comprehensive income. The Company evaluates both qualitative and quantitative factors such as duration and severity of the unrealized losses, credit ratings, default and loss rates of the underlying collateral, structure and credit enhancements to determine if a credit loss may exist.

**Fair Value of Financial Instruments**—The Company records its financial assets and liabilities at fair value. The accounting guidance for fair value provides a framework for measuring fair value, clarifies the definition of fair value, and expands disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The accounting guidance establishes a three-tiered hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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.

The Company recognizes transfers among Level 1, Level 2 and Level 3 classifications as of the actual date of the events or change in circumstances that caused the transfers.

The carrying value of certain of the Company's financial instruments, including cash equivalents, accounts receivable, inventory, accounts payable and other current assets and current liabilities approximates fair value due to their short maturities.

**Segment Reporting**—The chief operating decision maker for the Company is the Chief Executive Officer. The Chief Executive Officer reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. Accordingly, management has determined that the Company operates in one reportable segment.



The Company markets its products and services in the United States and in foreign countries through its direct sales force and indirect distribution channels. Substantially all of the Company's revenue, based on the customer's billing address, was derived from customers in the United States for the years ended January 31, 2017, 2016 and 2015.

All of the Company's long-lived assets were attributable to operations in the United States as of January 31, 2017 and 2016.

**Comprehensive Income (Loss)**—The purpose of reporting comprehensive income (loss) is to report a measure of all changes in equity of an entity that result from recognized transactions and other economic events of the period resulting from transactions from non-owner sources. In fiscal 2017 and 2016, the Company's other comprehensive loss includes unrealized (loss) gain of \$(28,000) and \$17,000, respectively, from its available-for-sale securities. The Company did not have any components of other comprehensive income (loss) in fiscal 2015, as such the net loss for fiscal 2015 reported equaled the comprehensive loss.

**Net Loss per Share of Common Stock**—Basic net loss per common share is calculated by dividing the net loss by the weighted-average number of common shares outstanding during the period, without consideration for potentially dilutive securities. Diluted net loss per share is computed by dividing the net loss by the weighted-average number of common shares and potentially dilutive securities outstanding for the period determined using the treasury-stock and if-converted methods. Prior to the completion of the Company's initial public offering, the Company applied the two-class method for calculating and presenting earnings per share as Series Alpha, Series Alpha -1 and Series Beta convertible preferred stock was considered participating securities due to the rights of cumulative preferred return. The Company's participating securities did not have a contractual obligation to share in the Company's losses. As such, the net loss was attributed entirely to common stockholders. Because the Company has reported a net loss for all periods presented, diluted net loss per common share is the same as basic net loss per common share for those periods.

**Concentration of Credit Risk**—Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash and cash equivalents, short-term investments and accounts receivables. Substantially all of the Company's cash and cash equivalents and short-term investments are held by financial institutions that management believes are of high-credit quality. Such investments and deposits may, at times, exceed federally insured limits.

The Company performs credit evaluations of its channel partners' financial condition and generally does not require collateral for sales made on credit. One customer accounted for more than 10% of the Company's accounts receivable balances at January 31, 2017 and January 31, 2016, respectively. The concentration of accounts receivable was as follows:

	As of January 31, 2017 2016	
Customer A	11 %	*
Customer B	*	13 %

\*represents less than 10% during the period

There were no customers that individually exceeded 10% of revenue during fiscal 2017, 2016 and 2015.

**Accounts Receivable and Allowance for Returns**—The Company's receivables are recorded when billed. The carrying value of the accounts receivable, net of the allowance for returns represents their estimated net realizable value. The Company determines allowances for returns based on its historical experience. As of January 31, 2017 and January 31, 2016, the Company recorded allowance for doubtful accounts and allowance for returns of \$0.2 million and \$0 on the consolidated balance sheets, respectively.

**Inventories**—Inventories, which consist of raw materials and finished goods, are stated at the lower of cost to purchase or the market value of such inventory, and include the cost to purchase manufactured products, allocated labor and overhead. Inventory is valued using the first-in, first-out method for all inventories. The Company writes down the inventory value for estimated excess and obsolete inventory based on management's assessment of future demand and market conditions, and establishes a new cost basis for the inventory.

**Deferred Inventory Costs**—Deferred inventory cost represents the inventory that has been shipped to a channel partner for which the retailer or distributor has a right of return. The cost of the product sold is recognized contemporaneously

with the recognition of revenue, when the end customer has purchased the on-premise appliance or end-point device.

**Website Development Costs**—The Company capitalizes certain costs to develop its websites when preliminary development efforts are successfully completed, management has authorized and committed project funding, and it is probable that the project will be completed and the software will be used as intended. Such costs are amortized on a straight-line basis over the estimated useful life of the related assets, which approximates two years. Costs related to preliminary project activities and post-implementation activities are expensed as incurred. The Company capitalized approximately \$0.4 million and \$0.5 million of website development costs in fiscal 2017 and 2016, respectively.

**Property and Equipment**—Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed over the estimated useful lives of the assets, using the straight-line method, generally three to five years. Leasehold improvements are amortized over the shorter of the lease term or estimated useful lives of the respective assets. Repairs and maintenance costs that do not extend the life or improve the asset are expensed as incurred.

**Goodwill and Intangible Assets**—The Company records the excess of the acquisition purchase price over the fair value of the tangible and identifiable intangible assets acquired as goodwill. Goodwill of \$1.1 million was recognized following the acquisition of Talkatone in fiscal 2015. The Company performs an impairment test of its goodwill in the fourth quarter of its fiscal year, or more frequently if indicators of potential impairment arise. The Company has a single reporting unit and consequently evaluates goodwill for impairment based on an evaluation of the fair value of the Company as a whole. No impairment has been recognized related to the goodwill balance as of January 31, 2017 and January 31, 2016. The Company records purchased intangible assets at their respective estimated fair values at the date of acquisition. Purchased intangible assets are being amortized using the straight-line method over their remaining estimated useful lives, which range from one to seven years.

**Impairment of Long-Lived Assets**—Long-lived assets, such as property and equipment, capitalized website development costs, and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. The Company did not record any impairment charges in any of the periods presented.

**Convertible Preferred Stock**—The Company recorded convertible preferred stock at fair value on the dates of issuance, net of issuance costs. The convertible preferred stock was recorded outside of stockholders' equity because the shares contained liquidation features that were not solely within the Company's control. The Company had elected not to adjust the carrying values of the convertible preferred stock to the liquidation preferences of such shares because it was uncertain whether or when an event would occur that would obligate the Company to pay the liquidation preferences to holders of shares of convertible preferred stock. Upon the completion of the IPO all shares of the convertible preferred stock were converted to shares of common stock.

**Convertible Preferred Stock Warrant Liability**—The Company did not have outstanding warrants to purchase convertible preferred stock as of January 31, 2017 and January 31, 2016. Prior to the completion of the IPO in July 2015, the Company had recorded freestanding warrants to purchase convertible preferred stock as derivative financial liabilities as the terms of the warrants are not fixed due to potential adjustments in the exercise price and the number of shares issuable under the warrants. Some of the warrants issued in connection with debt financing provided for adjustment of the exercise price and the number of shares upon an equity financing at a lower price and also provided for a contingent cash settlement, both of which preclude equity classification of the warrants.

The convertible preferred stock warrants were initially recorded at fair value when issued, with gains and losses arising from changes in fair value recognized in other expense in the consolidated statements of operations at each period end while such instruments were outstanding and classified as liabilities. The estimated fair values of outstanding preferred stock warrant liabilities were measured using Monte-Carlo simulation and Black-Scholes valuation models. The fair value of the convertible preferred stock warrants issued in connection with debt agreements was recorded as a debt discount that was amortized as non-cash interest expense in the consolidated statement of operations over the expected repayment period of the debt agreement. The Company adjusted the liability for changes in fair value until the completion of the IPO in July 2015. Upon conversion of the underlying preferred stock to common stock, the related warrant liability was remeasured to fair value and the remaining liability was reclassified to additional paid-in capital. The warrant that was subject to contingent cash settlement was settled and the warrant holder was paid \$0.6 million.

**Shipping and Handling Costs**—Shipping and handling costs are expensed as incurred and are included in cost of product and other revenue.

**Research and Development**—Research and development costs, including new product development, are charged to operating expenses as incurred in the consolidated statements of operations. Such costs included personnel-related costs, including stock-based compensation, supplies, services, depreciation, and allocated facilities costs.

**Advertising**—The Company expenses all advertising costs as incurred, except for the cost of producing television advertising, which is expensed on the first date of airing. Advertising costs included in sales and marketing expenses were \$16.5 million, \$13.9 million and \$14.8 million for the years ended January 31, 2017, 2016 and 2015, respectively.

Advertising costs incurred by channel partners are recorded as reduction of revenue. These costs totaled \$0.3 million, \$0.5 million and \$0.8 million for the years ended January 31, 2017, 2016 and 2015, respectively.

**Stock-Based Compensation**—Stock-based compensation expense is recognized under ASC 718, Compensation—Stock Compensation. ASC 718 requires companies to recognize the cost of employee services received in exchange for awards of equity instruments based upon the fair value of those awards on the grant date.

The Company's stock-based awards include stock options, restricted stock units ("RSUs") and purchase rights under the employee stock purchase plan ("ESPP"). Stock-based compensation expense for all stock-based awards granted to employees is measured at the grant date based on the fair value of the equity award and is recognized as expense over the requisite service period, which is generally the vesting period. The fair value of options granted is estimated on the date of grant using the Black-Scholes option pricing model. The fair value of each RSU granted is determined using the fair value of the Company's common stock on the date of grant. The fair value of each stock purchase right under the Company's ESPP is calculated based on the closing price of the Company's stock on the date of grant and the value of a call and put option estimated using the Black-Scholes pricing model. The Black-Scholes pricing model requires assumptions including the market value of the Company's common stock, expected term of the award, expected volatility of the price of the Company's common stock, risk-free interest rates, and expected dividend yield.

Stock-based compensation expense for options granted to non-employees is calculated using the Black-Scholes option pricing model and is recognized in the consolidated statements of operations over the service period. Compensation expense for non-employees' stock options subject to vesting is remeasured as of each reporting date until the stock options are vested, and the change in value, if any, is recognized in the consolidated statement of operations during the period the related services are performed.

The Company adopted Accounting Standards Update ("ASU") 2016-09, Improvements to Employee Share-Based Payment Accounting in the third quarter of fiscal 2017 and elected to account for forfeitures as they occur rather than estimate expected forfeiture. Refer to "Recently Adopted Accounting Standard" for more information.

The Company recognizes stock-based compensation expense on the straight-line method for its equity awards. Determining the fair value of stock-based awards at the grant date requires judgment, including estimating the expected volatility, expected term, risk-free interest rate, and expected dividends.

**Income Taxes**—The Company accounts for income taxes in accordance with ASC 740, Income Taxes, under which deferred tax liabilities and assets are recognized for the expected future tax consequences of temporary differences between financial statement carrying amounts and the tax basis of assets and liabilities and net operating loss and tax credit carryforwards. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

A tax position is recognized when it is more likely than not that the tax position will be sustained upon examination, including resolution of any related appeals or litigation processes. A tax position that meets the more likely than not recognition threshold is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement with a taxing authority.

#### Recently Adopted Accounting Standard

In July 2015, the Financial Accounting Standard Board ("FASB") issued ASU 2015-11 (ASC 330), Simplifying the Measurement of Inventory. This guidance 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. Early adoption is permitted. The Company adopted ASU 2015-11 as of January 31, 2017 on a prospective basis and there was no impact of this guidance on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. This ASU is designed to simplify several aspects of accounting for share-based payment award transactions which include the income tax consequences, classification of awards as either equity or liabilities, classification on the statement of cash flows and forfeiture rate calculations. The Company early adopted ASU 2016-09 during the third quarter of fiscal 2017. The Company has elected to account for forfeitures as they occur rather than estimate expected forfeiture using

a modified retrospective transition method. As a result of this the Company recorded a cumulative-effect adjustment of \$0.1 million to accumulated deficit and additional paid-in capital. Additionally, under ASU 2016-09, excess tax benefits and deficiencies are required to be recognized prospectively as part of provision for income taxes rather than additional paid-in capital. The adoption did not have any material impact on our accounting of provision for income taxes. Finally, ASU 2016-09 requires excess tax benefits to be presented as a component of operating cash flows rather than financing cash flows. The Company has adopted this requirement prospectively and accordingly, prior periods have not been adjusted. Excess tax benefits were not material for all periods presented.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes, which simplifies the presentation of deferred income taxes. The ASU requires that deferred tax assets and liabilities be classified as non-current in a statement of financial position, thereby simplifying the current guidance that requires an entity to separate deferred assets and liabilities into current and noncurrent amounts. The Company early adopted ASU 2015-17 as of January 31, 2016 on a prospective basis. The statement of financial position as of January 31, 2016 reflects the classification of deferred tax assets and liabilities as noncurrent.

#### Recent Accounting Pronouncements Not Yet Adopted

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350) that will eliminate the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, impairment charge will be based on the excess of a reporting unit's carrying amount over its fair value. The guidance is effective for the Company in the first quarter of fiscal 2023. Early adoption is permitted. The Company does not anticipate the adoption of this guidance to have a material impact on its consolidated financial statements, absent any goodwill impairment.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments, which provides guidance to reduce diversity in practice for eight cash flow classification issues, such as debt prepayment or debt extinguishment cost, contingent consideration payment made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies and distributions received from equity method investees. ASU 2016-15 will become effective for the Company in the first quarter of fiscal 2019. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on its condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. This ASU requires assets and liabilities arising from leases, including operating leases, to be recognized on the balance sheet. ASU 2016-02 will become effective for the Company in the first quarter of fiscal 2020, and requires adoption using a modified retrospective approach. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In August 2014, the FASB issued ASU 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 its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), 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, and requires expanded qualitative and quantitative disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, including significant judgments and estimates used by management.

In August 2015, the FASB issued ASU 2015-14 and approved a one-year deferral of the effective date of ASU 2014-09. In March 2016, April 2016 and May 2016, the FASB issued ASU 2016-08, ASU 2016-10 and ASU 2016-12, respectively that clarify the implementation guidance on principal versus agent considerations, identification of performance obligations, collectability criterion and noncash consideration of the new standard. ASU 2014-09 will



become effective for the Company in the first quarter of fiscal 2019. Early adoption is permitted and the new standard can be adopted by using (i) a full retrospective approach for all periods presented in the period of adoption or (ii) a modified retrospective approach with the cumulative effect of initially applying the new standard recognized at the date of initial application and providing certain additional disclosures. The Company does not plan to early adopt the new standard. The Company is in the early stages of evaluating the impact of the new standard on its accounting policies, processes, and system requirements and has not made a final decision regarding the adoption method. The Company's final determination will depend on a number of factors, such as the significance of the impact of the new standard on its financial results, system readiness, including that of software procured from third-party providers, and its ability to accumulate and analyze the information necessary to assess the impact on prior period financial statements, as necessary. While the Company continues to assess the potential impacts of the new standard, the Company cannot reasonably estimate quantitative information related to the impact of the new standard on its financial statements at this time.

## 2. FAIR VALUE MEASUREMENT

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

As of January 31, 2017				
	Level			
	Level 1	Level 2	3	Total
<b>Assets:</b>				
Cash and cash equivalents:				
Money market funds	\$951	\$—	\$ —	\$951
Total cash equivalents	\$951	\$—	\$ —	\$951
Cash				3,039
Total cash and cash equivalents				\$3,990
Short-term investments:				
U.S. government securities	\$17,798	\$—	\$ —	\$17,798
Corporate debt securities	—	18,436	—	18,436
Commercial paper	—	5,386	—	5,386
U.S. agency securities	—	5,777	—	5,777
Asset-backed securities	—	1,814	—	1,814
Total short-term investments	\$17,798	\$31,413	\$ —	\$49,211

As of January 31, 2016				
	Level		Level	
	1	Level 2	3	Total
<b>Assets:</b>				
Cash and cash equivalents:				
Money market funds	\$3,462	\$—	\$—	\$3,462
Commercial paper	—	3,499	—	3,499
Total cash equivalents	\$3,462	\$3,499	\$—	\$6,961
Cash				20,452
Total cash and cash equivalents				\$27,413
Short-term investments:				
U.S. government securities	\$7,494	\$—	\$—	\$7,494
Corporate debt securities	—	7,845	—	7,845
Commercial paper	—	4,986	—	4,986
U.S. agency securities	—	7,666	—	7,666
Total short-term investments	\$7,494	\$20,497	\$—	\$27,991
<b>Liabilities:</b>				
Acquisition-related contingent consideration	\$—	\$—	\$288	\$288

Edgar Filing: OOMA INC - Form 10-K

Total liabilities	\$—	\$—	\$288	\$288
-------------------	-----	-----	-------	-------

There were no transfers into or out of the Level 3 category during fiscal 2017 and 2016.

As of January 31, 2016, the Level 3 liabilities consisted of acquisition-related contingent consideration of \$0.3 million, which the Company paid out using \$0.1 million in cash and \$0.2 million in shares of common stock during fiscal 2017. The Company did not hold Level 3 assets and liabilities as of January 31, 2017.

The Company estimated the fair value of the acquisition-related contingent consideration using a probability-weighted discounted cash flow model. Key assumptions include the level and timing of expected future revenue and expenses of the acquired business, and discount rates consistent with the level of risk and economy in general. This fair value measure was based on significant inputs not observed in the market and thus represented a Level 3 instrument. The change in fair value of acquisition-related contingent consideration is included in general and administrative expenses in the consolidated statements of income, and the contingent consideration is included in accrued liabilities on the consolidated balance sheets. The Company remeasured the contingent consideration in fiscal 2016 and recorded a \$0.3 million reduction in the previously recorded expense.

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

	Acquisition-Related
	Contingent
	Consideration
Balance at January 31, 2016	\$ 288
Payout of consideration	(123 )
Issuance of shares	(165 )
Balance at January 31, 2017	\$ —

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

### 3. SHORT-TERM INVESTMENTS

Short-term investments consisted of the following (in thousands):

	As of January 31, 2017				
	Amortized Cost	Grossed	Unrealized Losses	Unrealized Gains	Fair Value
Corporate debt securities	\$18,455	\$ (20 )	\$ 1		\$ 18,436
Commercial paper	5,386	—	—		5,386
U.S. agency securities	5,774	—	3		5,777
U.S. government securities	17,793	(2 )	7		17,798
Asset-backed securities	1,814	—	—		1,814
Total short-term investments	\$49,222	\$ (22 )	\$ 11		\$ 49,211

  

	As of January 31, 2016				
	Amortized Cost	Grossed	Unrealized Losses	Unrealized Gains	Fair Value
Corporate debt securities	\$7,851	\$ (6 )	\$ —		\$ 7,845
Commercial paper	4,985	—	1		4,986
U.S. agency securities	7,661	—	5		7,666
U.S. government securities	7,477	—	17		7,494
Total short-term investments	\$27,974	\$ (6 )	\$ 23		\$ 27,991

The gross realized gains and losses related to the Company's short-term investments were not material for the year ended January 31, 2017. The Company did not have any gross realized gains and gross realized losses for the years ended January 31, 2016 and 2015.

The cost basis and fair value of the short-term investments by contractual maturity were as follows (in thousands):

	As of January 31, 2017		As of January 31, 2016	
	Amortized Value	Fair Value	Amortized Value	Fair Value
One year or less	\$44,806	\$44,794	\$19,143	\$19,145
Over one year and less than two years	4,416	4,417	8,831	8,846
Total	\$49,222	\$49,211	\$27,974	\$27,991

Investments in an unrealized loss position consisted of the following (in thousands):

	As of January 31, 2017		As of January 31, 2016	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate debt securities	\$18,436	\$ (20 )	\$7,845	\$ (6 )
U.S. government securities	17,798	(2 )	—	—
Total	\$36,234	\$ (22 )	\$7,845	\$ (6 )

The Company reviews the individual securities in its portfolio to determine whether a decline in a security's fair value below the amortized cost basis is other-than-temporary. The Company determined that as of January 31, 2017 and 2016 there were no investments in its portfolio that were other-than-temporarily impaired. The Company does not intend to sell any of these investments, and it is not more likely than not that the Company would be required to sell these investments before recovery of their amortized cost basis, which may be at maturity.

#### 4. GOODWILL AND INTANGIBLE ASSETS

The Company recognized \$1.5 million in intangibles and \$1.1 million in goodwill following the acquisition of Talkatone, Inc. in fiscal 2015. There was no change to goodwill subsequent to the acquisition.

The carrying values of intangible assets other than goodwill were as follows (in thousands):

	As of January 31, 2017				As of January 31, 2016			
	Estimated	Net				Net		
	Life	Gross	Accumulated	Carrying	Gross	Accumulated	Carrying	
	(in years)	Value	Amortization	Amount	Value	Amortization	Amount	
Developed technology	5	\$815	\$ (448)	) \$ 367	\$815	\$ (285)	) \$ 530	
User relationships	3.5	458	(360)	) 98	458	(229)	) 229	
Trade name	5	103	(56)	) 47	103	(36)	) 67	
Non-compete agreement	2	118	(118)	) —	118	(104)	) 14	
Patents and licenses	3.8-7	714	(689)	) 25	714	(669)	) 45	
Total		\$2,208	\$ (1,671)	) \$ 537	\$2,208	\$ (1,323)	) \$ 885	

At January 31, 2017 the estimated amortization expense related to the intangible assets is as follows (in thousands):

Fiscal Years Ending January 31,	
2018	\$291
2019	190
2020	53
2021	3
2022 and thereafter	—
Total	\$537

## 5. BALANCE SHEET COMPONENTS

Inventories consist of the following (in thousands):

	As of January 31,	
	2017	2016
Finished goods	\$4,847	\$4,633
Raw material	983	378
Total inventory	\$5,830	\$5,011

Deferred revenue, consists of the following (in thousands):

	As of January 31,	
	2017	2016
Deferred revenue:		
Subscription and services	\$13,770	\$11,954
Product and other	2,260	3,118
Total deferred revenue	16,030	15,072
Less: current portion of deferred revenue	15,521	15,036
Deferred revenue, noncurrent portion included in other		
long-term liabilities	\$509	\$36

Property and equipment, net consists of the following (in thousands):

	Estimated Life (in years)	As of January 31,	
		2017	2016
Software and computer equipment	3-4	\$5,605	\$6,615
Website development costs	2	1,973	1,675
Machinery and equipment	3	1,304	1,207
Office furniture and fixtures	5	62	57
Leasehold improvements	shorter of estimated life of asset or remaining lease term	518	372
Total property and equipment		\$9,462	\$9,926
Less: accumulated depreciation and amortization		(5,286)	(5,635)
Property and equipment, net		\$4,176	\$4,291

Depreciation and amortization of property and equipment totaled \$1.6 million, \$1.4 million and \$0.9 million for the years ended January 31, 2017, 2016 and 2015, respectively. During fiscal 2017 the Company wrote off certain computer equipment and software with original cost and accumulated depreciation of \$1.9 million and \$1.9 million, respectively, and recorded a loss of \$14,000 in other expense, net in the consolidated statements of operations.

Computer equipment under a capital lease agreement and the related accumulated depreciation at January 31, 2016 was \$1.5 million and \$0.5 million, respectively. The Company did not have any outstanding capital lease as of January 31, 2017.

Accrued expenses consist of the following (in thousands):

	As of January 31,	
	2017	2016
Accrued regulatory fees and taxes	\$4,315	\$5,216
Accrued payroll and related expenses	4,546	3,559
Acquisition-related contingent consideration	—	288
Other accrued expenses	2,718	3,947
Total accrued expenses	\$11,579	\$13,010

## 6. DEBT

As of January 31, 2016, short-term debt of \$0.6 million on the consolidated balance sheets related to equipment acquired under capital lease. The Company repaid this outstanding debt in April 2016 and did not have any debt as of January 31, 2017.



In April 2012, (amended in October 2012), the Company entered into a secured debt agreement (“Term Debt”) in the amount of \$4.0 million, with an original maturity date in September 2015 and a fixed interest rate of 5.75%. 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”) with original maturity of December 2014. The interest rate on the Revolver is 2.75% above the prime rate. In July 2014, the Company entered into an amended agreement to extend the maturity date of the Revolver until July 2016. In July 2015, the Company repaid the outstanding balance of \$5.3 million under the Term Debt and the Revolver using a portion of the IPO proceeds. In July 2016, the Company entered into an amended agreement to extend the maturity of the Revolver to August 2016. The Revolver matured in August 2016.

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. 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%. 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. As of January 31, 2017, these warrants remained outstanding.

The Company has certain non-financial covenants in connection with the borrowings. As of January 31, 2016 the Company was in compliance with all the covenants under the Revolver agreement.

Total interest expense recognized was \$18,000, \$0.9 million and \$0.3 million in each year ended January 31, 2017, 2016 and 2015, respectively. Total amortization of debt issuance costs recognized was zero, \$0.1 million and \$0.1 million in each year ended January 31, 2017, 2016 and 2015, respectively. Total interest expense recognized in fiscal 2016 included \$0.3 million related to the write-off of non-cash deferred issuance costs due to the repayment of all of the outstanding debt in July 2015.

## 7. CONVERTIBLE PREFERRED STOCK WARRANT LIABILITY

The Company did not have any outstanding warrants to purchase convertible preferred stock as of January 31, 2017 and January 31, 2016.

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. 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 model or IPO pricing on payout. The Company recorded a remeasurement loss of \$0.1 million and \$0.3 million, respectively, in other expense, net in the consolidated statement of operations during fiscal 2016 and 2015, respectively. Upon completion of the IPO in July 2015, the fair value of the warrant was determined to be \$0.6 million at the IPO price of \$13.00 per share. The warrant was cash settled and the Company paid \$0.6 million to the warrant holder upon the closing of the IPO.

In May and June 2009, the Company issued warrants to purchase 55,696 shares of Series Alpha convertible preferred stock. These warrants were initially measured at their fair value and recorded as a derivative liability. On each reporting date the change in fair value of the warrants were determined using the Black Scholes model. The Company recorded a remeasurement loss of \$0.1 million and \$0.3 million, respectively, in other expense, net in the consolidated statement of operations during fiscal 2016 and 2015. Upon the completion of the IPO in July 2015, the total aggregate liability of \$0.4 million related to these warrants was derecognized and reclassified to additional paid-in capital which then automatically converted these warrants to purchase shares of Series Alpha convertible stock into warrants to purchase shares of common stock.

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 in connection with a debt agreement with a lender. 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 loss of \$0.3 million and \$0.2 million, respectively, in the consolidated statement of operations during fiscal 2016 and 2015. Upon completion of the IPO in July, 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 these warrants to purchase shares of Series Alpha convertible stock into warrants to purchase shares of common stock on a 1:1 basis. During the fourth quarter of fiscal 2016, the lender net exercised warrants to purchase 66,026 shares of Series Alpha convertible stock at an exercise price of \$4.70 per share to 21,421 shares of common stock.

## 8. COMMON STOCK AND PREFERRED STOCK

### Convertible Preferred Stock

Upon the closing of the IPO in July 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

In July 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.

## Common Stock Reserved for Future Issuance

The Company had shares of common stock reserved for issuance as follows:

	Fiscal Year Ended January 31,	
	2017	2016
Warrants to purchase common stock	97,931	97,931
Options to purchase common stock	1,777,365	2,087,584
Shares available for future issuance under stock plans	918,260	1,254,404
Shares reserved under Employee Stock Purchase Plan	532,597	425,596
Restricted stock units outstanding	1,859,196	1,056,905
Total shares reserved for issuance	5,185,349	4,922,420

## Early Exercise of Common Stock

During the years ended January 31, 2017, 2016 and 2015, 1,771, 0 and 131,810 shares of stock options were early exercised prior to their vesting dates. The amounts received from all such early exercises is recorded in accrued expenses and other liabilities on the consolidated balance sheets and reclassified to stockholders' equity 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 January 31, 2017 and 2016, there were 53,821 and 173,404 shares, respectively, legally outstanding, but not included within common stock outstanding for accounting purposes as a result of the early exercise of common stock options that were not yet vested. As of January 31, 2017 and 2016, the aggregate price of shares subject to repurchase recorded in accrued expenses and other liabilities totaled \$0.1 million and \$0.2 million, respectively.

## 9. STOCKHOLDERS' EQUITY

## Equity Award Plans

## 2015 Equity Incentive Plan

In June 2015, the Company amended and restated its 2005 Stock Plan (the "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 terms of the 2005 Plan will continue to govern the terms and conditions of the outstanding awards previously granted thereunder.

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 6,638,930. In addition, pursuant to the terms of the 2015 Plan, 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 lesser 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 may determine. In the first quarter of fiscal 2017, the Company's Board approved an increase of 854,483 shares of common stocks for future issuance under the 2015 Plan.

As of January 31, 2017, the Company had 918,260 shares of common stock 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") and 441,165 shares of common stock were initially authorized for issuance. The number of authorized shares under the ESPP is subject to increase on an annual basis. In the first quarter of fiscal 2017, the Company's Board approved an increase of 341,793 shares for future issuance pursuant to the terms of the ESPP. 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 fiscal 2017 and 2016, there were ESPP purchases that resulted in the issuance of 234,792 shares and 15,569 shares of common stock at a weighted purchase price of \$5.01 and \$7.12 per share, respectively.

The Company recorded stock-based compensation expense of \$1.0 million and \$0.4 million related to the ESPP during the years ended January 31, 2017 and 2016, respectively.

### 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 ten 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.

The following table summarizes the Company's stock option activities:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Balance as of January 31, 2016	2,087,584	\$ 5.59	7.9	\$ 4,843
Options exercised	(213,164 )	1.43		
Options canceled	(97,055 )	12.06		
Balance as of January 31, 2017	1,777,365	\$ 5.74	7.0	\$ 7,864
Vested and exercisable - January 31, 2017	1,069,258	\$ 4.63	6.4	\$ 5,776
Vested and expected to vest - January 31, 2017	1,777,365	\$ 5.74	7.0	\$ 7,864

The aggregate intrinsic value of vested options exercised during the years ended January 31, 2017, 2016 and 2015 was \$1.3 million, \$0.8 million and \$0.5 million, respectively.

The weighted average grant date fair value of options granted during the years ended January 31, 2016 and 2015 was \$6.92 and \$5.20 per share, respectively. The Company did not grant any stock options during fiscal 2017.

### Restricted Stock Units

Restricted Stock Units ("RSUs") were granted to employees, non-employee board members and consultants. These RSUs vest ratably over a period of time which ranges from one to four years, and are subject to the participant's continuing service to the Company over that period. Until vested, RSUs do not have the voting and dividend participation rights of common stock and the shares underlying the awards are not considered issued and outstanding.

The following table summarizes the Company's RSUs activities:

Number of Shares	Weighted Average Grant-Date Fair Value Per Share	Weighted Average Remaining Vesting Period (in years)	Aggregate Intrinsic Value
---------------------	---	--	---------------------------------

				(in thousands)
Balance as of January 31, 2016	1,056,905	\$ 9.60	1.4	\$ 7,176
RSUs granted	1,596,750	7.25		
RSUs vested	(657,034 )	8.76		
RSUs canceled	(137,425 )	8.01		
Balance as of January 31, 2017	1,859,196	\$ 7.65	1.4	\$ 17,941

The Company did not grant any RSUs prior to fiscal 2016. The number of RSUs vested includes shares that the Company withheld on behalf of certain employees to satisfy the minimum statutory tax withholding requirements, as defined by the Company. During fiscal 2017, the Company withheld 170,281 shares of stock for an aggregate amount of \$1.6 million and classified such amount as financing cash outflows in the consolidated statements of cash flows. The Company canceled and returned these shares to the 2015 Plan, which are available under the plan terms for future issuance.

#### Common Stock Warrants

As of January 31, 2017, the Company had warrants to purchase 97,931 shares of common stock outstanding with exercise prices ranging from \$4.70 to \$6.04 per share. These warrants have expiration dates through January 2025.

## 10. Stock-Based Compensation

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

	Fiscal Year Ended January 31,		
	2017	2016	2015
Total cost of revenue	\$1,026	\$437	\$36
Sales and marketing	1,438	611	41
Research and development	3,586	1,683	169
General and administrative	3,722	1,922	180
Total stock-based compensation expense	\$9,772	\$4,653	\$426

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

	Fiscal Year Ended January 31,		
	2017	2016	2015
Stock options	\$2,468	\$2,607	\$426
Restricted stock units	6,272	1,644	—
Employee stock purchase plan	1,032	402	—
Total stock-based compensation expense	\$9,772	\$4,653	\$426

As of January 31, 2017, there was \$3.2 million, \$12.5 million and \$1.0 million of unrecognized share-based compensation expense 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 1.6 years, 2.7 years and 0.9 years, respectively.

Total outstanding non-employee stock options were 109,315 and 70,199 at January 31, 2017 and 2016, respectively. The total outstanding non-employee RSUs were 73,453 and 70,500 at January 31, 2017 and 2016, respectively. The non-employee stock-based compensation expense for stock options and RSUs was \$0.1 million and \$0.2 million, respectively for fiscal year ended January 31, 2017. The non-employee stock-based compensation expense for stock options and RSUs was \$0.2 million and \$0.1 million, respectively for fiscal year ended January 31, 2016. The non-employee stock-based compensation expense for stock options and RSUs was not material for fiscal year ended January 31, 2015.

The fair value of the shares of common stock underlying stock options is based on the closing price of the Company's 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.

The Company did not grant any stock options during fiscal 2017. For the years ended January 31, 2016 and 2015, the fair value of employee stock options grants was estimated using the Black–Scholes model with the following assumptions:

	Fiscal Year Ended January 31,	
	2016	2015
Stock Options:		
Expected volatility	54%-62%	69%-81%
Expected term (in years)	5.3-6.1	5.4-6.3
Risk-free interest rate	1.6%-1.9%	1.5%-2.0%
Dividend yield	—%	—%

The Company did not offer ESPP prior to fiscal 2016. For the years ended January 31, 2017 and 2016, the fair value of the Company's ESPP was estimated using the Black-Scholes model with the following assumptions:

	Fiscal Year Ended January 31,	
	2017	2016
<b>ESPP:</b>		
Expected volatility	37%-50%	35%-44%
Expected term (in years)	0.5-2.0	0.5-2.2
Risk-free interest rate	0.5%-1.0%	0.1%-0.8%
Dividend yield	—%	—%

## 11. INCOME TAXES

Income tax expense differed from the amount computed by applying the federal statutory income tax rate of 34% to pretax loss as a result of the following (in thousands):

	Fiscal Year Ended January 31,					
	2017	Rate	2016	Rate	2015	Rate
Federal tax at statutory rate	\$(4,403)	34 %	\$(4,787)	34 %	\$(2,350)	34 %
Change in valuation allowance	4,881	(38 )%	4,502	(32 )%	2,132	(31 )%
State taxes	(230 )	2 %	(261 )	2 %	(437 )	6 %
Stock-based compensation	387	(3 )%	691	(5 )%	92	(1 )%
Research and development credit	(738 )	6 %	(273 )	2 %	(192 )	3 %
Permanent tax adjustment	103	(1 )%	128	(1 )%	23	—
Other	—	—	—	—	230	(3 )%
Total	\$—	—	\$—	—	\$(502 )	8 %

Income tax expense differs from the amount computed by applying the statutory federal income tax rate primarily as the result of changes in the valuation allowance.

The tax effects of temporary differences that give rise to significant portions of the Company's deferred tax assets and liabilities related to the following (in thousands):

	As of January 31,	
	2017	2016
<b>Deferred tax assets:</b>		
Accruals and reserves	\$2,623	\$2,297
Stock-based compensation	1,887	1,334

Edgar Filing: OOMA INC - Form 10-K

Intangible assets amortization	101	110
Deferred revenue	182	13
Net operating loss carry forwards	28,120	24,869
Tax credit carryover	2,296	1,558
Gross deferred tax assets	35,209	30,181
Valuation allowance	(34,900)	(29,868)
Net deferred tax assets	\$309	\$313
Deferred tax liabilities:		
Acquired intangible assets	\$(183 )	\$(301 )
Fixed assets depreciation	(126 )	(12 )
Gross deferred tax liabilities	\$(309 )	\$(313 )
Total deferred tax assets	\$—	\$—

Income taxes are recorded using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income (or loss) in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for the amount of deferred tax assets that, based on available evidence, is not more likely than not to be realized.

Management believes that, based on available evidence, both positive and negative, it is more likely than not that the deferred tax assets will not be utilized, such that a full valuation allowance has been recorded. The valuation allowance for deferred tax assets was \$34.9 million, \$29.9 million and \$25.8 million as of January 31, 2017, 2016 and 2015, respectively. The net change in the total valuation allowance for the year ended January 31, 2017 was an increase of \$5.0 million.

On January 31, 2017, the Company had approximately \$72.9 million and \$57.5 million of net operating loss (NOL) carryforwards available to offset future taxable income for both federal and state purposes, respectively. If not utilized, these available carryforward losses will expire in various amounts for federal and state tax purposes beginning in 2030.

In addition, the Company had approximately \$2.4 million and \$2.1 million of federal and state research and development tax credits, respectively, available to offset future taxes. If not utilized, the available federal credits will begin to expire in 2030. California state research and development tax credits can be carried forward indefinitely.

Under Section 382 of the Internal Revenue Code of 1986, as amended, utilization of the NOL carryforwards and credits may be subject to substantial annual limitation due to the ownership change limitations and similar state provisions. If there should be an additional ownership change, the annual limitation may result in the expiration of NOLs and credits before utilization.

The Company completed a Section 382 analysis through January 31, 2017 and determined that an ownership change, as defined under Section 382 of the Internal Revenue Code, occurred in prior years. Based on the analysis, the Company determined that it has undergone four ownership changes. The first and second ownership changes occurred in April 2005, the third change occurred in February 2009 and the fourth change occurred in January 2017. NOLs presented account for any limited and potential lost attributes due to such ownership changes and their respective expiration dates.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. This ASU affects entities that issue share-based payment awards to their employees. The ASU is designed to simplify several aspects of accounting for share-based payment award transactions which include the income tax consequences, classification of awards as either equity or liabilities, classification on the statement of cash flows and forfeiture rate calculations. The Company early adopted ASU 2016-09 during the third quarter of fiscal 2017. Under ASU 2016-09, excess tax benefits and deficiencies are required to be recognized prospectively as part of provision for income taxes rather than additional paid-in capital. The adoption did not have any material impact on our accounting of provision for income taxes. The Company has adopted this requirement prospectively and accordingly; prior periods have not been adjusted. Excess tax benefits were not material for all periods presented and is fully offset by valuation allowance.

The Company had unrecognized tax benefits (“UTBs”) of approximately \$1.8 million as of January 31, 2017. All of the deferred tax assets associated with these UTBs are fully offset by a valuation allowance. The following table

summarizes the activity related to UTBs (in thousands):

Balance at January 31, 2015	\$1,029
(Decrease) related to prior year positions	(16 )
Increase related to current year tax positions	204
Balance at January 31, 2016	1,217
(Decrease) related to prior year positions	—
Increase related to current year tax positions	598
Balance at January 31, 2017	\$1,815

All of these UTBs, if recognized, would not affect the effective tax rate before consideration of the valuation allowance.

The Company's policy is to classify interest and penalties associated with unrecognized tax benefits as income tax expense. The Company had no interest or penalty accruals associated with uncertain tax benefits in its balance sheets and statements of operations for both fiscal 2017 and 2016.

The Company does not have any tax positions for which it is reasonably possible the total amount of gross unrecognized benefits will increase or decrease within 12 months of the year ended January 31, 2017.

Because the Company has net operating loss and credit carryforwards, there are open statutes of limitations in which federal, state and foreign taxing authorities may examine the Company's tax returns for all years from 2005 through the current period.

## 12. RETIREMENT PLAN

The Company offers a qualified 401(k) plan to eligible employees. The plan allows for discretionary employer matching and profit-sharing contributions. The plan covers all full-time employees over the age of 21 and provides employees with tax deferred salary deductions. Employees may contribute up to a maximum of \$18,000 per year, or \$24,000 for employees over 50 years of age, and the Company matches 50% of the contribution of the employee up to 6% of the deferred salary amount. Contributions made by the Company vest 100% upon contribution. The Company's contributions to the 401(k) defined contribution plan, which are expensed immediately as compensation costs, were \$0.4 million, \$0.3 million and \$0.2 million for the years ended January 31, 2017, 2016 and 2015, respectively.

## 13. COMMITMENTS AND CONTINGENCIES

**Leases and Purchase Commitments**—The Company leases office space in Palo Alto and Newark, California and office equipment under operating leases with lease periods expiring through November 2020. As of January 31, 2017, future minimum rental commitments under non-cancelable operating leases were as follows (in thousands):

Fiscal Year Ending January 31,	Operating Leases
2018	\$ 1,297
2019	71
2020	23
2021	10
Total	\$ 1,401

In January 2015, the Company entered into a capital lease for computer equipment that was scheduled to mature in December 2016 with the right to purchase the equipment at maturity for one dollar. The Company paid the outstanding balance of \$0.6 million in fiscal 2017.

Rent expense was \$2.0 million, \$1.7 million, and \$0.9 million for the years ended January 31, 2017, 2016 and 2015, respectively.

As of January 31, 2017, non-cancelable purchase commitments were \$4.0 million.

**Legal Proceedings**—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.

#### Oregon Litigation

On August 30, 2016 the Oregon Department of Revenue (the “DOR”) issued tax assessments against the Company for the Oregon Emergency Communications Tax (the “Tax”), which the DOR alleges Ooma should have collected from its subscribers in Oregon and remitted to the DOR during the period starting on January 1, 2013 and ending on March 31, 2016 (collectively, the “Assessments”). On November 28, 2016 the Company filed a complaint in the Oregon Tax Court, asserting that the Assessments against Ooma are in violation of applicable Oregon law and are barred by the United States Constitution, and asking the Oregon Tax Court to abate the Assessments in full (the “Complaint”, and such dispute, the “Oregon Tax Litigation”). On February 10, 2016 the DOR filed an answer to the Complaint. The Company believes that the Commerce Clause of the United States Constitution bars the application of the Tax to the Company, since the Company has no employees, property or other indicia of a “substantial nexus” with the State of Oregon, and therefore the application of the Tax against Ooma and the Assessments are barred by the United States Constitution. The Company will continue to vigorously litigate the Complaint in pursuit of the full abatement of the Assessments.

### Deep Green Wireless Litigation

On June 8, 2016, plaintiff Deep Green Wireless LLC filed a complaint in the U.S. District Court for the Eastern District of Texas against Ooma, Inc., alleging infringement of U.S. Patent No. RE42,714 (the “Deep Green Wireless Litigation”). The complaint seeks unspecified monetary damages, costs, attorneys’ fees and other appropriate relief. On July 29, 2016 the Company filed its answer, affirmative defenses and counterclaims, on August 2, 2016 the Company filed a motion to transfer the case to the Northern District of California, and on February 21, 2017 magistrate judge Roy S. Payne granted the Company’s motion to transfer the case. Based upon its investigation, the Company does not believe that its products infringe any valid or enforceable claim of the aforementioned patent, and plans to continue vigorously defending against the plaintiff’s claim.

### Securities Litigation

On January 14, 2016, Michael Barnett filed a purported stockholder class action in the San Mateo County Superior Court of the State of California (Case No. CIV536959) against Ooma, certain of its officers and directors, and certain of the underwriters of our Initial Public Offering on July 17, 2015 (the “IPO”). Since that time two additional purported class actions making substantially the same allegations against the same defendants were filed, and on May 18, 2016 all three complaints were combined into a “consolidated complaint” filed in the same court (the “Securities Litigation”). The consolidated complaint purports to be brought on behalf of all persons who purchased shares of common stock in our IPO in reliance upon the Registration Statement and Prospectus the Company filed with the Securities and Exchange Commission (the “SEC”). The consolidated complaint alleges that Ooma and the other defendants violated the Securities Act of 1933, as amended (the “Securities Act”) by issuing the Registration Statement and Prospectus, which the plaintiffs allege contained material misstatements and omissions in violation of Sections 11, 12(a)(2) and 15 of the Securities Act. The plaintiffs seek class certification, compensatory damages, attorneys’ fees and costs, rescission or a rescissory measure of damages, equitable and/or injunctive relief, and such other relief as the court may deem proper. On July 1, 2016 Ooma filed its answer to the complaint, and on August 26, 2016 Ooma filed a motion for judgment on the pleadings. Ooma believes that the plaintiffs’ claims are without merit and is vigorously defending against the Securities Litigation.

### Berks County Litigation

On January 21, 2016 the County of Berks, Pennsylvania filed a lawsuit in the Berks County Court of Common Pleas naming the Company and 113 other telephone service providers as defendants (the “Berks County Litigation”), alleging breach of fiduciary duty, fraud, and negligent misrepresentation in connection with alleged violations of the Pennsylvania 911 Emergency Communication Services Act, 35 Pa.C.S.A. §5301 et seq. (“PA 911 Act”) for failure to collect from subscribers and remit certain fees pursuant to the PA 911 Act. The plaintiff seeks a declaratory judgment that we must comply with the PA 911 Act, compensatory and punitive damages, attorneys’ fees and costs, equitable and/or injunctive relief and such other relief as the court may deem proper. On May 17, 2016 the court issued an order overruling the defendants’ joint preliminary objections, which are, in essence, the Pennsylvania equivalent of a motion to dismiss. Notwithstanding such adverse order, the Company believes that the Commerce Clause of the United States Constitution bars the application of the PA 911 Act to the Company, since the Company has no employees, property or other indicia of a “substantial nexus” with the State of Pennsylvania, and therefore the plaintiff’s claims are without merit. The Company intends to continue vigorously defending this lawsuit.

### Alabama Litigation

On November 12, 2015 the Alabama Statewide 9-1-1 Board filed a lawsuit in the Circuit Court of Montgomery, Alabama against the Company (the “Alabama Litigation”). The lawsuit alleges that the Company has failed to collect from its subscribers and remit certain fees pursuant to the Alabama Emergency Telephone Services Act (the “AETS



Act”). The plaintiff seeks a declaratory judgment that we must comply with the AETS Act, compensatory and punitive damages, attorneys’ fees and costs, equitable and/or injunctive relief and such other relief as the court may deem proper. The Company believes that the Commerce Clause of the United States Constitution bars the application of the AETS Act to the Company, since the Company has no employees, property or other indicia of a “substantial nexus” with the State of Alabama, and therefore the plaintiff’s claims are without merit. On January 31, 2017 the Alabama Litigation was dismissed with prejudice pursuant to a confidential settlement agreement between the parties, without resulting in a material loss to the Company.

In connection with the Oregon Litigation, Deep Green Wireless Litigation, Securities Litigation and the Berks County Litigation proceedings, the Company has determined that the amount of any material loss or range of any material losses that is reasonably possible to result from each such proceeding is not reasonably estimable. Accordingly, no material reserves have been recorded in the Company’s consolidated financial statements with respect to any of such litigations.

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.

#### 14. ACQUISITIONS

Talkatone, Inc.—In fiscal 2015, the Company acquired all of the issued and outstanding securities of Talkatone, Inc. (“Talkatone”) a privately held provider of telephony services over Wi-Fi networks in order to expand its service offerings in the mobile application marketplace. The total consideration for this transaction was approximately \$2.3 million on the acquisition date and consisted of the following (dollars in thousands):

Cash consideration paid at closing	\$887
Common stock (90,426 shares)	338
Contingent consideration	1,039
Total consideration	\$2,264

At the time of the Talkatone acquisition, the Company was obligated to pay additional amounts for certain deferred earn-out payments based upon the achievement of certain performance targets. The Company determined the fair market value of these earn-outs based on probability analysis. The fair market value and gross amount of these earn-out payments were \$1.0 million and \$2.2 million, respectively. The fair value measurement is based on significant inputs not observed in the market and thus represents a Level 3 measurement.

Transaction costs associated with the acquisition were \$12,000 and are included in general and administrative expense in the accompanying consolidated statement of operations.

The Company accounted for the Talkatone acquisition under the acquisition method of accounting as a business combination. The assets acquired and liabilities assumed were recorded at fair market value determined by management. The excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired was recorded as goodwill. The goodwill generated from the business combination is primarily related to the employee workforce and the expected synergies. Goodwill is not subject to any amortization and is not tax deductible.

During fiscal 2017 and 2016, the Company paid \$0.1 million and \$0.7 million in cash and issued 26,375 shares and 49,159 shares as earn-out consideration, respectively.

The purchase price was allocated as follows (in thousands):

Cash	\$215
Net liabilities assumed	(60 )
Intangible assets:	
Trade name	103
Developed technology	815
Non-compete agreement	118
User relationships	458
Non-current deferred tax liabilities	(502 )
Goodwill	1,117
Net assets acquired	\$2,264

The intangible assets acquired are reported, net of accumulated amortization, in the accompanying consolidated balance sheets as of January 31, 2017 and 2016. Amortization expense related to the acquired intangible assets was \$0.3 million, \$0.4 million and \$0.2 million for fiscal 2017, 2016 and 2015, respectively, which was included as a component of operating expenses and cost of revenue in the consolidated statement of operations. The operating results of Talkatone have been included in the accompanying consolidated financial statements from the date of acquisition.

Pro forma results of operations for the acquisition completed have not been presented because the effect of the acquisition was not material to the Company's financial results.

## 15. NET LOSS PER SHARE

Basic and diluted net loss per share of common stock 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 because the effects of potentially dilutive securities are antidilutive. Upon completion of the IPO in July 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):

	Fiscal Year Ended January 31,		
	2017	2016	2015
Numerator			
Net loss	\$(12,949 )	\$(14,052 )	\$(6,410 )
Denominator			

Edgar Filing: OOMA INC - Form 10-K

Weighted-average common shares for basic and diluted net loss per share	17,490,448	10,173,095	2,284,241
Basic and diluted net loss per share	\$(0.74 )	\$(1.38 )	\$(2.81 )

The following table sets forth the potentially dilutive securities excluded from the computation of diluted net loss per share because such securities have an anti-dilutive impact due to losses reported:

	Fiscal Year Ended January 31,		
	2017	2016	2015
Options to purchase common stock	1,777,365	2,087,584	1,893,239
Employee stock purchase plan	338,756	381,066	—
Convertible preferred stock	—	—	8,353,748
Restricted stock units	1,859,196	1,056,905	—
Warrants to purchase convertible preferred stock	—	—	192,009
Warrants to purchase common stock	97,931	97,931	87,828
Common stock subject to repurchase	53,821	173,404	502,359
Potential shares excluded from diluted net loss per share	4,127,069	3,796,890	11,029,183

## 16. RELATED PARTY TRANSACTION

One of the Company's board of director is affiliated with a professional firm that provides public relations service to the Company. In fiscal 2017, the Company incurred expenses of approximately \$0.3 million for the service provided by the firm.

## 17. SUBSEQUENT EVENTS

In March 2017, the Company completed a secondary offering, in which certain stockholders of the Company affiliated with Worldview Technology Partners (the "Selling Stockholders") sold an aggregate of 3,290,483 shares of our common stock at a public offering price of \$8.85 per share, including 429,193 shares of common stock sold upon the underwriters' exercise of the overallotment option. After this offering, Worldview Technology Partners owned less than 1% of the Company's outstanding voting securities. The Company did not receive any of the proceeds from the offering.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our Management, with the participation of our chief executive officer and our chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of January 31, 2017. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of January 31, 2017, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Management conducted an assessment of the effectiveness of our internal control over financial reporting based on the criteria set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on the assessment, management has concluded that its internal control over financial reporting was effective as of January 31, 2017 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. GAAP. This annual report does not include an attestation report of our registered public accounting firm due to a transition period established by rules of the SEC for newly public companies under the JOBS Act.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended January 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None





## PART III

### Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item will be included under the caption “Directors, Executive Officers and Corporate Governance” in our Proxy Statement for the 2017 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended January 31, 2017, which we refer to as our 2017 Proxy Statement, and is incorporated herein by reference.

The Company has a “Code of Ethics and Business Conduct for Employees, Officers and Directors” that applies to all of our employees, including our Principal Executive Officer, Principal Financial Officer, Principal Accounting Officer and our Board of Directors. A copy of this code is available on our website at <http://investors.ooma.com>. We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding amendment to, or waiver from, a provision of our Code of Ethics and Business Conduct for Employees, Officers and Directors by posting such information on our investor relations website under the heading “Governance—Governance Documents” at <http://investors.ooma.com>.

### Item 11. Executive Compensation

The information required by this item will be included under the captions “Executive Compensation” and under the subheadings “Board’s Role in Risk Oversight,” “Outside Director Compensation,” and “Compensation Committee Interlocks and Insider Participation” under the heading “Directors, Executive Officers and Corporate Governance” in the 2017 Proxy Statement and is incorporated herein by reference.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item will be included under the captions “Security Ownership of Certain Beneficial Owners and Management” and under the subheading “Potential Payments upon Termination or Change in Control” and “Equity Compensation Plan Information” under the heading “Executive Compensation” in the 2017 Proxy Statement and is incorporated herein by reference.

### Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item will be included under the captions “Certain Relationships and Related Transactions” and “Directors, Executive Officers and Corporate Governance—Director Independence” in the 2017 Proxy Statement and is incorporated herein by reference.

### Item 14. Principal Accounting Fees and Services

The information required by this item will be included under the caption “Proposal Two: Ratification of Selection of Independent Registered Public Accountants” in the 2017 Proxy Statement and is incorporated herein by reference.

## PART IV

### Item 15. Exhibits, Financial Statement Schedules

Documents filed as part of this report are as follows:

(a) Consolidated Financial Statements

Our Consolidated Financial Statements are listed in the “Index to Consolidated Financial Statements” Under Part II, Item 8 of this Annual Report on Form 10-K

(b) Consolidated Financial Statement Schedules

All financial statement schedules are omitted because the information called for is not required or is shown either in the consolidated financial statements or in the notes thereto.

(c) Exhibits

The exhibits filed or incorporated by reference as part of this Annual Report on Form 10-K are listed in the Exhibit Index immediately preceding the exhibits. We have identified in the Exhibit Index each management contract and compensation plan filed as an exhibit to this Annual Report on Form 10-K in response to Item 15(a)(3) of Form 10-K.

The documents listed in the Exhibit Index of this report are incorporated by reference or are filed with this Annual Report on Form 10-K, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K).

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

April 11, 2017 Ooma, Inc.

By: /s/ Eric B. Stang  
Eric B. Stang  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Eric B. Stang	President and Chief Executive Officer and Chairman of the	April 11, 2017
Eric B. Stang	Board of Directors (Principal Executive Officer)	
/s/ Ravi Narula	Chief Financial Officer	April 11, 2017
Ravi Narula	(Principal Financial Officer and Principal Accounting Officer)	
/s/ Susan Butenhoff	Director	April 11, 2017
Susan Butenhoff		
/s/ Alison Davis	Director	April 11, 2017
Alison Davis		
/s/ Andrew H. Galligan	Director	April 11, 2017
Andrew H. Galligan		
/s/ Peter J. Goettner	Director	April 11, 2017
Peter J. Goettner		
/s/ Russell Mann	Director	April 11, 2017
Russell Mann		

/s/ William D. Pearce      Director

April 11, 2017

William D. Pearce

/s/ James Wei      Director

April 11, 2017

James Wei

## EXHIBITS

Exhibit Number	Description	Reference from Form	Incorporated by	Date Filed
			Reference from Exhibit	
3.1	Amended and Restated Certificate of Incorporation	10-Q	3.1	9/11/2015
3.2	Amended and Restated Bylaws	10-Q	3.2	9/11/2015
4.1	Form of common stock certificate.	S-1/A	4.1	7/6/2015
4.2	Fourth Amended and Restated Investors' Rights Agreement, by and among the Registrant and certain of its stockholders dated as of April 24, 2015.	S-1	4.2	6/15/2015
4.3	Form of Indenture	S-3	4.2	12/16/2016
10.1+	2005 Stock Incentive Plan and forms of agreements thereunder.	S-1	10.1	6/15/2015
10.2+	2015 Equity Incentive Plan and forms of agreements thereunder.	S-1/A	10.2	7/6/2015
10.3+	2015 Employee Stock Purchase Plan and form of agreement thereunder.	S-1/A	10.3	7/6/2015
10.4+	Executive Incentive Bonus Plan.	S-1	10.4	6/15/2015
10.5+	Executive Change in Control and Severance Agreement by and between the Company and Eric B. Stang, dated June 9, 2015.	S-1	10.5	6/15/2015
10.6+	Form of Executive Change in Control and Severance Agreement	S-1	10.6	6/15/2015
10.7+	Offer Letter by and between the Company and James A. Gustke, dated July 30, 2010.	S-1	10.7	6/15/2015
10.8	Change in Control Letter Agreement between the Company and James A. Gustke, dated August 31,	Filed herewith.		

2016.

10.9	Form of Indemnification Agreement between the Registrant and each of its directors and executive officers.	S-1	10.8	6/15/2015
10.10	Amended and Restated Loan and Security Agreement, dated December 17, 2012, by and between the Company and Silicon Valley Bank.	S-1	10.9	6/15/2015
10.11.1	First Amendment to Amended and Restated Loan and Security Agreement, dated July 21, 2014, by and between the Company and Silicon Valley Bank.	S-1	10.10.1	6/15/2015
10.11.2	Second Amendment to Amended and Restated Loan and Security Agreement, dated January 5, 2015, by and between the Company and Silicon Valley Bank.	S-1	10.10.2	6/15/2015

107

---

Exhibit Number	Description	Filed / Furnished / Incorporated by	Incorporated by	Date Filed
			Reference from Exhibit	
Exhibit Number	Description	Reference from Form	Number	
10.12	Mezzanine Loan and Security Agreement, dated January 5, 2015, by and between the Company and Silicon Valley Bank.	S-1	10.11	6/15/2015
10.13	Office Lease, effective December 1, 2012, by and between DP Ventures, LLC and the Company.	S-1	10.12	6/15/2015
21.1	List of subsidiaries of the Registrant.	S-1	21.1	6/15/2015
23.1	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm.	Filed herewith.		
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, Rule 13(a) 14(a)/15d-14(a), by President and Chief Executive Officer.	Filed herewith.		
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, Rule 13(a) 14(a)/15d-14(a), by President and Chief Financial Officer.	Filed herewith.		
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by President and Chief Executive Officer.	Furnished herewith.		
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by President and Chief Executive Officer.	Furnished herewith.		
101.INS	XBRL Instance Document	Filed herewith.		
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith.		
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith.		

Edgar Filing: OOMA INC - Form 10-K

101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith.

+ Indicates a management contract or compensatory plan.