

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2020

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
(State or other jurisdiction
of incorporation or organization)

06-1713274
(I.R.S. Employer
Identification No.)

525 Almanor Avenue, Suite 200, Sunnyvale, California 94085
(Address of principal executive offices)

(650) 566-6600
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$0.0001	OOMA	The New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of May 31, 2020, there were 22.1 million shares of the registrant's common stock outstanding.

TABLE OF CONTENTS

	<u>Page</u>
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1.	3
Financial Statements (unaudited):	3
Condensed Consolidated Balance Sheets	4
Condensed Consolidated Statements of Operations	5
Condensed Consolidated Statements of Cash Flows	6
Condensed Consolidated Statements of Stockholders' Equity	7
Notes to Condensed Consolidated Financial Statements	18
Item 2.	18
Item 3.	27
Item 4.	27
Management's Discussion and Analysis of Financial Condition and Results of Operations	27
Quantitative and Qualitative Disclosures About Market Risk	27
Controls and Procedures	27
<u>PART II. OTHER INFORMATION</u>	
Item 1.	28
Item 1A.	28
Item 2.	56
Item 6.	56
Legal Proceedings	56
Risk Factors	58
Unregistered Sales of Equity Securities and Use of Proceeds	58
Exhibits	58
Signatures	58

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

OOMA, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited, amounts in thousands, except share and per share data)

	April 30, 2020	January 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,036	\$ 11,680
Short-term investments	14,251	14,384
Accounts receivable, net	5,421	4,591
Inventories	10,293	8,369
Other current assets	9,059	8,992
Total current assets	48,060	48,016
Property and equipment, net	5,006	5,270
Operating lease right-of-use assets	7,557	8,057
Intangible assets, net	6,491	6,818
Goodwill	4,264	4,264
Other assets	8,712	8,186
Total assets	<u>\$ 80,090</u>	<u>\$ 80,611</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 11,355	\$ 8,499
Accrued expenses and other current liabilities	17,439	22,576
Deferred revenue	15,374	15,797
Total current liabilities	44,168	46,872
Long-term operating lease liabilities	4,566	5,150
Other liabilities	148	174
Total liabilities	48,882	52,196
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common stock \$0.0001 par value: 100 million shares authorized; 22.1 million and 21.7 million shares issued and outstanding, respectively	4	4
Additional paid-in capital	156,840	152,993
Accumulated other comprehensive income	26	14
Accumulated deficit	(125,662)	(124,596)
Total stockholders' equity	31,208	28,415
Total liabilities and stockholders' equity	<u>\$ 80,090</u>	<u>\$ 80,611</u>

See notes to condensed consolidated financial statements

OOMA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, amounts in thousands, except share and per share data)

	Three Months Ended	
	April 30, 2020	April 30, 2019
Revenue:		
Subscription and services	\$ 37,616	\$ 31,112
Product and other	2,690	2,895
Total revenue	40,306	34,007
Cost of revenue:		
Subscription and services	11,341	9,811
Product and other	3,790	3,763
Total cost of revenue	15,131	13,574
Gross profit	25,175	20,433
Operating expenses:		
Sales and marketing	12,446	11,459
Research and development	8,846	8,882
General and administrative	5,028	5,112
Total operating expenses	26,320	25,453
Loss from operations	(1,145)	(5,020)
Interest and other income, net	79	258
Loss before income taxes	(1,066)	(4,762)
Income tax benefit	—	22
Net loss	\$ (1,066)	\$ (4,740)
Net loss per share of common stock:		
Basic and diluted	\$ (0.05)	\$ (0.23)
Weighted-average shares of common stock outstanding:		
Basic and diluted	21,897,694	20,479,739

See notes to condensed consolidated financial statements

OOMA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, amounts in thousands)

	Three Months Ended	
	April 30, 2020	April 30, 2019
Cash flows from operating activities:		
Net loss	\$ (1,066)	\$ (4,740)
Adjustments to reconcile net loss to net cash used in by operating activities:		
Stock-based compensation expense	3,008	2,982
Depreciation and amortization of capital expenditures	713	652
Amortization of intangible assets	326	207
Non-cash operating lease expense	794	446
Other	30	(126)
Changes in operating assets and liabilities:		
Accounts receivable, net	(830)	62
Inventories and deferred inventory costs	(1,698)	(651)
Prepaid expenses and other assets	(670)	(1,005)
Accounts payable and other liabilities	(3,006)	(3,141)
Deferred revenue	(449)	(430)
Net cash used in operating activities	(2,848)	(5,744)
Cash flows from investing activities:		
Purchases of short-term investments	(9,015)	(15,345)
Proceeds from maturities and sales of short-term investments	9,186	16,969
Capital expenditures	(762)	(602)
Net cash (used in) provided by investing activities	(591)	1,022
Cash flows from financing activities:		
Proceeds from issuance of common stock	1,267	1,454
Shares repurchased for tax withholdings on vesting of restricted stock units ("RSU")	(472)	(730)
Net cash provided by financing activities	795	724
Net decrease in cash and cash equivalents	(2,644)	(3,998)
Cash and cash equivalents at beginning of period	11,680	15,370
Cash and cash equivalents at end of period	<u>\$ 9,036</u>	<u>\$ 11,372</u>

See notes to condensed consolidated financial statements

OOMA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited, amounts in thousands)

	Common stock and APIC ⁽¹⁾	AOCI ⁽²⁾	Accumulated Deficit	Stockholders' Equity
BALANCE - February 1, 2020	\$ 152,997	\$ 14	\$ (124,596)	\$ 28,415
Issuance of common stock under equity-based plans	1,311	—	—	1,311
Shares repurchased for tax withholdings on RSU vesting	(472)	—	—	(472)
Stock-based compensation	3,008	—	—	3,008
Changes in comprehensive income	—	12	—	12
Net loss	—	—	(1,066)	(1,066)
BALANCE - April 30, 2020	<u>\$ 156,844</u>	<u>\$ 26</u>	<u>\$ (125,662)</u>	<u>\$ 31,208</u>
BALANCE - February 1, 2019	\$ 138,852	\$ (10)	\$ (105,795)	\$ 33,047
Issuance of common stock under equity-based plans	1,454	—	—	1,454
Shares repurchased for tax withholdings on RSU vesting	(730)	—	—	(730)
Stock-based compensation	2,982	—	—	2,982
Changes in comprehensive income	—	11	—	11
Net loss	—	—	(4,740)	(4,740)
BALANCE - April 30, 2019	<u>\$ 142,558</u>	<u>\$ 1</u>	<u>\$ (110,535)</u>	<u>\$ 32,024</u>

(1) Additional paid-in capital

(2) Accumulated other comprehensive income (loss)

See notes to condensed consolidated financial statements

Note 1: Overview and Basis of Presentation

Ooma, Inc. and its wholly-owned subsidiaries (collectively, "Ooma" or the "Company") create new communications experiences for businesses and consumers, delivered from its smart cloud-based software-as-a-service ("SaaS") and unified-communications-as-a-service ("UCaaS") platforms. The Company is headquartered in Sunnyvale, California.

Fiscal Year. The Company's fiscal year ends on January 31. References to fiscal 2021 and fiscal 2020 refer to the fiscal year ending January 31, 2021 and the fiscal year ended January 31, 2020, respectively.

Principles of Presentation and Consolidation

These unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission (the "SEC") regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, the information included in this Quarterly Report on Form 10-Q should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended January 31, 2020 ("Annual Report").

These financial statements have been prepared on the same basis as the Company's annual financial statements and, in the opinion of management, reflect all normal recurring adjustments necessary to present fairly the Company's financial position, its results of operations, and cash flows for the interim periods presented, but are not necessarily indicative of the results of operations to be anticipated for the full fiscal year ending January 31, 2021. The condensed consolidated balance sheet as of January 31, 2020 included herein was derived from the audited financial statements as of that date.

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

Use of Estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the Company's condensed consolidated financial statements and notes thereto. Significant estimates include, but are not limited to, those related to revenue recognition, inventory valuation, deferred commissions, valuation of goodwill and intangible assets, operating lease assets and liabilities, regulatory fees and indirect tax accruals, loss contingencies, stock-based compensation, income taxes (including valuation allowances) and fair value measurements. The Company bases its estimates and assumptions on historical experience, where applicable, and other factors that it believes to be reasonable under the circumstances, including but not limited to the potential impacts arising from the COVID-19 pandemic. 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.

Significant Accounting Policies. The Company's significant accounting policies are disclosed in its Annual Report.

Comprehensive Loss. For all periods presented, comprehensive loss approximated net loss in the condensed consolidated statements of operations and differences were not material. Therefore, the condensed consolidated statements of comprehensive loss have been omitted.

Adopted Accounting Standards

Financial Instruments-Credit Losses. On February 1, 2020, the Company adopted Accounting Standard Update (“ASU”) 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaced the legacy *incurred loss* impairment model with an *expected credit loss* model. The Company’s accounts receivable, convertible note receivable and available-for-sale debt securities are subject to this standard. The standard was adopted using the modified retrospective transition method, with no adjustment to accumulated deficit. Adoption did not have a material impact on the Company’s condensed consolidated financial statements and related disclosures. The Company will continue to actively monitor the impact of the COVID-19 pandemic on its estimate of expected credit losses.

Fair Value Measurement. On February 1, 2020, the Company adopted ASU 2018-13, *Changes to Disclosure Requirements for Fair Value Measurements (Topic 820)*, which improved the effectiveness of disclosure requirements for recurring and nonrecurring fair value measurements. The standard removes, modifies, and adds certain disclosure requirements. Adoption did not have an impact on the Company’s condensed consolidated financial statements and related disclosures.

Accounting Standards Not Yet Adopted

Income Taxes. In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which simplifies certain aspects of the accounting for income taxes as well as clarifies and amends existing guidance to improve consistent application. The amendment is effective for the Company beginning fiscal 2022. The Company is evaluating the impact of the new guidance on its consolidated financial statements.

Note 2: Revenue and Deferred Revenue

The Company's revenue for the three months ended April 30, 2020 and 2019 are presented in accordance with the provisions under Topic 606. The Company derives its revenue from two sources:

Subscription and Services Revenue is derived primarily from recurring subscription fees related to service plans such as Ooma Business, Ooma Residential and other communications services. Subscription revenue is generally recognized ratably over the contractual service term. Service plans are generally sold as monthly subscriptions; however, certain plans are also offered as annual or multi-year subscriptions.

Product and Other Revenue is generated from the sale of on-premise appliances and end-point devices, including shipping and handling fees for direct customers, and to a lesser extent from porting fees that enable customers to transfer their existing phone numbers. The Company recognizes revenue from sales to direct end-customers and channel partners at the point-in-time that control transfers, which is typically when it delivers the product or when all customer contractual provisions have been met, if any.

Refer to the Company's Annual Report for additional information regarding its revenue recognition policy.

Revenue disaggregated by revenue source consisted of the following (in thousands):

	Three Months Ended	
	April 30, 2020	April 30, 2019
Subscription and services revenue	\$ 37,616	\$ 31,112
Product and other revenue	2,690	2,895
Total revenue	\$ 40,306	\$ 34,007

The Company derived approximately 55% and 64% of its total revenue from Ooma Residential and approximately 43% and 33% from Ooma Business for the three months ended April 30, 2020 and 2019, respectively. No individual country outside of the United States represented 10% or more of total revenue for the periods presented. No single customer accounted for 10% or more of total revenue for the periods presented.

As of April 30, 2020, one customer accounted for 22% of the Company's net accounts receivable balance. As of January 31, 2020, no single customer accounted for 10% or more of net accounts receivable.

Deferred Revenue. Deferred revenue primarily consists of billings or payments received in advance of meeting revenue recognition criteria. Deferred services revenue is recognized 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 in long term liabilities on the condensed consolidated balance sheets.

Deferred revenue consisted of the following (in thousands):

	As of	
	April 30, 2020	January 31, 2020
Subscription and services	\$ 15,430	\$ 15,892
Product and other	92	79
Total deferred revenue	\$ 15,522	15,971
Less: current deferred revenue	15,374	15,797
Non-current deferred revenue included in other long-term liabilities	\$ 148	\$ 174

During the three months ended April 30, 2020, the Company recognized revenue of approximately \$9.3 million pertaining to amounts deferred as of January 31, 2020. As of April 30, 2020, the Company's deferred revenue balance was primarily composed of subscription contracts that were invoiced during the first quarter of fiscal 2021, as well as amounts recorded during fiscal 2020 for annual contracts.

Remaining Performance Obligations. As of April 30, 2020, contract revenue that has not yet been recognized for open contracts with an original expected length of greater than one year was approximately \$6.0 million. The Company expects to recognize revenue on approximately 55% of this amount over the next 12 months, with the balance to be recognized thereafter.

Note 3: Fair Value Measurements

The Company records its financial assets and liabilities at fair value. The Company estimates and categorizes fair value by applying the following hierarchy:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets.

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

Level 3: Unobservable inputs that are supported by little or no market activity.

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

	Balance as of April 30, 2020			Balance as of January 31, 2020		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Cash and cash equivalents:						
Money market funds	\$ 5,038	\$ —	\$ 5,038	\$ 4,822	\$ —	\$ 4,822
Total cash equivalents	<u>\$ 5,038</u>	<u>\$ —</u>	<u>\$ 5,038</u>	<u>\$ 4,822</u>	<u>\$ —</u>	<u>\$ 4,822</u>
Cash			3,998			6,858
Total cash and cash equivalents			<u>\$ 9,036</u>			<u>\$ 11,680</u>
Short-term investments:						
U.S. treasury securities	\$ 9,995	\$ —	\$ 9,995	\$ 4,492	\$ —	\$ 4,492
Corporate debt securities	—	2,127	2,127	—	3,504	3,504
Commercial paper	—	1,522	1,522	—	5,482	5,482
Asset-backed securities	—	607	607	—	906	906
Total short-term investments	<u>\$ 9,995</u>	<u>\$ 4,256</u>	<u>\$ 14,251</u>	<u>\$ 4,492</u>	<u>\$ 9,892</u>	<u>\$ 14,384</u>

The Company classifies its cash equivalents and short-term investments within Level 1 or Level 2 because it uses quoted market prices or alternative pricing sources and models utilizing market observable inputs to determine their fair value. At April 30, 2020 and January 31, 2020, cash equivalents and short-term investments approximated their fair value and there were no material realized or unrealized gains or losses, either individually or in the aggregate. The Company had no Level 3 assets or liabilities for the periods presented.

The following table classifies the Company's short-term investments by contractual maturities (in thousands):

	As of	
	April 30, 2020	January 31, 2020
Due in one year or less	\$ 13,922	\$ 13,145
Due after one year to two years	329	1,239
Total	<u>\$ 14,251</u>	<u>\$ 14,384</u>

Note 4: Balance Sheet Components

The following sections and tables provide details of selected balance sheet items (in thousands):

Inventories

	As of	
	April 30, 2020	January 31, 2020
Finished goods	\$ 8,714	\$ 6,988
Raw materials	1,579	1,381
Total inventory	<u>\$ 10,293</u>	<u>\$ 8,369</u>

Acquired intangible assets

	As of	
	April 30, 2020	January 31, 2020
Customer relationships	\$ 5,587	\$ 5,841
Developed technology	571	622
Trade names	333	355
Total intangible assets	<u>\$ 6,491</u>	<u>\$ 6,818</u>

Amortization expense for acquired intangible assets was \$0.3 million and \$0.2 million for the three months ended April 30, 2020 and 2019, respectively.

Other assets

	As of	
	April 30, 2020	January 31, 2020
Prepaid expenses	\$ 3,039	\$ 2,739
Deferred sales commissions, current	3,060	2,525
Convertible note receivable, including accrued interest	1,489	1,453
Deferred inventory costs	641	867
Other current assets	830	1,408
Total other current assets	<u>\$ 9,059</u>	<u>\$ 8,992</u>
Deferred sales commissions, non-current	\$ 8,005	\$ 7,412
Other non-current assets	707	774
Total other non-current assets	<u>\$ 8,712</u>	<u>\$ 8,186</u>

Deferred Sales Commissions. Amortization expense for deferred sales commissions was \$0.8 million and \$0.4 million for the three months ended April 30, 2020 and 2019, respectively. To date, there have been no material impairment losses related to the costs capitalized.

Global Telecomm Corporation. In December 2018, the Company invested \$1.3 million in cash to Global Telecomm Corporation, a small privately-held technology company, in exchange for an 18-month convertible promissory note, bearing interest at 10% annually, that will convert to shares of GTC common or preferred stock upon the occurrence of certain future events. The Company has partnered with GTC on certain research and development and inventory procurement activities. GTC is considered a variable interest entity ("VIE") for accounting purposes. However, the Company is not required to consolidate GTC into its financial statements because the Company is not the primary beneficiary. As of April 30, 2020 and January 31, 2020, the Company's maximum exposure to loss was equal to the carrying value of its convertible note receivable and associated interest receivable. For all periods presented, the Company had no other variable interests in VIEs.

GTC is a related party of Ooma as a result of the convertible note. As of April 30, 2020 and January 31, 2020, the Company recorded inventory prepayments to GTC of \$0.8 million and \$0.5 million, respectively, included in other current assets on the consolidated balance sheet. As of April 30, 2020 and January 31, 2020, the Company's non-cancelable purchase commitments with GTC were \$1.9 million and \$2.2 million, respectively.

Accrued expenses and other current liabilities

	As of	
	April 30, 2020	January 31, 2020
Regulatory fees and taxes	\$ 4,804	\$ 4,777
Payroll and related expenses	4,443	8,942
Short-term operating lease liabilities	3,819	3,263
Customer sales incentives	1,079	1,293
Other	3,294	4,301
Total accrued expenses	<u>\$ 17,439</u>	<u>\$ 22,576</u>

Note 5: Operating Leases

The Company leases its headquarters located in Sunnyvale, California, as well as office and data center space in various locations under non-cancelable operating lease agreements.

Supplemental balance sheet information related to leases was as follows (in thousands):

	As of	
	April 30, 2020	January 31, 2020
Assets		
Operating lease right-of-use assets	\$ 7,557	\$ 8,057
Total leased assets	<u>\$ 7,557</u>	<u>\$ 8,057</u>
Liabilities		
Short-term operating lease liabilities	\$ 3,819	\$ 3,263
Long-term operating lease liabilities	4,566	5,150
Total lease liabilities	<u>\$ 8,385</u>	<u>\$ 8,413</u>

Operating lease right-of-use assets and long-term operating lease liabilities are included on the face of the condensed consolidated balance sheet. Short-term operating lease liabilities are included in other current liabilities.

During the three months ended April 30, 2020 and 2019, the Company incurred total lease costs of \$1.2 million and \$0.8 million, respectively, in its consolidated statements of operations.

Supplemental cash flow information related to leases was as follows (in thousands):

	Three Months Ended	
	April 30, 2020	April 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 431	\$ 526
Right-of-use assets recognized in exchange for new operating lease obligations	\$ 303	\$ 120

As of April 30, 2020, maturities of lease liabilities under non-cancelable operating leases were as follows (in thousands):

Fiscal Years Ending January 31,	April 30, 2020
2021 - remainder of fiscal year	\$ 2,917
2022	3,949
2023	1,565
2024	314
2025	<u>200</u>
Total lease payments	8,945
Less: imputed interest	<u>(560)</u>
Present value of lease liabilities	<u>\$ 8,385</u>

Note 6: Stockholders' Equity

The Company has a stock-based compensation plan pursuant to which it has granted stock options and RSUs. The Company also maintains its 2015 Employee Stock Purchase Plan (the "ESPP") for all eligible employees.

Stock Options. Stock option activity for the three months ended April 30, 2020 was as follows:

	Shares (in thousands)	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value (in thousands)
Balance as of January 31, 2020	1,416	\$ 7.35	\$ 8,530
Granted	129	\$ 10.52	
Exercised	(44)	\$ 1.57	
Canceled	(9)	\$ 3.19	
Balance as of April 30, 2020	<u>1,492</u>	\$ 7.82	\$ 6,340
Vested and exercisable as of April 30, 2020	<u>1,234</u>	\$ 6.97	\$ 6,155

The aggregate intrinsic value of vested options exercised during the three months ended April 30, 2020 and 2019 was \$0.4 million and \$0.3 million, respectively. The weighted average grant date fair value of options granted during the three months ended April 30, 2020 and 2019 was \$4.68 and \$7.13 per share, respectively.

Restricted Stock Units. RSU activity for the three months ended April 30, 2020 was as follows:

	Shares (in thousands)	Weighted Average Grant-Date Fair Value Per Share
Balance as of January 31, 2020	1,657	\$ 12.82
Granted	644	\$ 10.55
Vested	(224)	\$ 10.94
Canceled	(29)	\$ 13.04
Balance as of April 30, 2020	<u>2,048</u>	\$ 12.31

Employee Stock Purchase Plan. During each of the three months ended April 30, 2020 and 2019, employees purchased 0.1 million shares at a weighted purchase price of \$9.98 and \$9.86 per share, respectively.

Note 7: Stock-Based Compensation

Total stock-based compensation recognized for stock-based awards in the condensed consolidated statements of operations was as follows (in thousands):

	Three Months Ended	
	April 30, 2020	April 30, 2019
Cost of revenue	\$ 254	\$ 285
Sales and marketing	481	446
Research and development	1,051	1,096
General and administrative	1,222	1,155
Total stock-based compensation expense	<u>\$ 3,008</u>	<u>\$ 2,982</u>

As of April 30, 2020, there was \$26.5 million of unrecognized stock-based compensation expense related to unvested RSUs, stock options and stock purchase rights under the Company's ESPP that will be recognized on a straight-line basis over the remaining weighted-average vesting period of approximately 3 years.

Note 8: Income Taxes

The Company recorded no income tax expense during the three months ended April 30, 2020 and an income tax benefit of \$22,000 during the three months ended April 30, 2019, primarily associated with state taxes and the Company's acquisition of Voxter in March 2018. The Company continues to maintain a full valuation allowance against its deferred tax assets.

As of April 30, 2020, the Company had unrecognized tax benefits of \$6.4 million, none of which would currently affect the Company's effective tax rate if recognized due to the Company's deferred tax assets being fully offset by a valuation allowance. The Company does not anticipate that the amount of unrecognized tax benefits relating to tax positions existing at April 30, 2020 will significantly increase or decrease within the next twelve months. There were no interest expense or penalties related to unrecognized tax benefits recorded through April 30, 2020.

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

On March 27, 2020, the "Coronavirus Aid, Relief and Economic Security (CARES) Act" was signed into law. The CARES Act included provisions relating to refundable payroll tax credits, deferral of the employer portion of certain payroll taxes, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property. These provisions are not expected to have a material effect on the Company's consolidated financial statements.

Note 9: Basic and Diluted Net Loss Per Share

Basic and diluted net loss per share is calculated by dividing the net loss 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 as the Company reported net losses for all periods presented.

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

	Three Months Ended	
	April 30, 2020	April 30, 2019
Numerator		
Net loss	\$ (1,066)	\$ (4,740)
Denominator		
Weighted-average common shares	21,897,694	20,479,739
Basic and diluted net loss per share	<u>\$ (0.05)</u>	<u>\$ (0.23)</u>

Potentially dilutive securities of approximately 3.8 million and 4.4 million were excluded from the computation of diluted net loss per share for the three months ended April 30, 2020 and 2019, respectively. These shares included the Company's outstanding RSUs, outstanding stock options and stock purchase rights under the ESPP at the end of the respective period. In the event the Company reported net income for the periods presented, a portion of these outstanding securities would be reflected in weighted-average shares outstanding for diluted earnings per share by application of the treasury method.

Note 10: Commitments and Contingencies

Purchase Commitments. As of April 30, 2020 and January 31, 2020, non-cancelable purchase commitments with the Company's contract manufacturers and other parties were \$5.9 million and \$4.0 million, respectively.

Legal Proceedings

In addition to the litigation matters described below, from time to time, the Company 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, the Company 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.

The Company determines whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. The Company assesses its potential liability by analyzing specific litigation and regulatory matters using reasonably available information. The Company develops its 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.

As of April 30, 2020, the Company did not have any accrued liabilities recorded for loss contingencies in its consolidated financial statements.

Deep Green Wireless Litigation

On June 8, 2016, plaintiff Deep Green Wireless LLC ("Deep Green") 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 Patent", and such litigation, the "Deep Green Wireless Litigation"). The complaint seeks unspecified monetary damages, costs, attorneys' fees and other appropriate relief. In February 2017, the Court granted the Company's motion to transfer the case to the Northern District of California, which proceeding has been stayed pending the outcome of an inter partes review of the Deep Green Wireless Patent by the United States Patent Trial and Appeal Board ("PTAB"). On December 17, 2018, the PTAB issued its final decision regarding the claims at issue in the Deep Green Wireless Litigation, in which it determined that all challenged claims of the Deep Green Wireless Patent are obvious and unpatentable. On February 19, 2019, the plaintiff filed a Notice of Appeal to the Court of Appeals for the Federal Circuit. The matter was fully briefed and oral argument was held on February 7, 2020. On March 31, 2020, the Federal Circuit affirmed the final decision by the PTAB with respect to all asserted claims of the Deep Green Wireless Patent. On April 30, 2020, Deep Green filed a Combined Petition for Panel Rehearing and Rehearing En Banc in the Federal Circuit, and on June 2, 2020, the Federal Circuit denied Deep Green's petition. Deep Green has 90 days to petition the Supreme Court to hear the case.

Based on the Company's current knowledge, the Company has 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 estimable.

Oregon Tax 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 between January 1, 2013 and March 31, 2016 (collectively, the "Assessments").

The Company believes that the Commerce Clause of the United States Constitution bars the application of the Tax and the Assessments to the Company, since the Company has no employees, property or other indicia of a "substantial nexus" with the State of Oregon. On January 17, 2019, the Regular Division of the Oregon Tax Court heard oral arguments on the parties' cross motions for summary judgment. On March 2, 2020, Oregon Tax Court issued a decision upholding the Assessments. On April 1, 2020, the Company filed a Notice of Appeal with the Supreme Court of the State of Oregon. However, litigation is unpredictable and there can be no assurances that the Company will obtain a favorable final outcome or that it will be able to avoid further unfavorable interim rulings in the course of litigation that may significantly add to the expense of its defense and could result in substantial costs and diversion of resources.

Through January 31, 2020, the Company has recorded cumulative charges of \$0.6 million as its best estimate of probable loss related to the Assessments. No additional charges were recorded during the three months ended April 30, 2020.

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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A")

The following discussion should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and with our audited financial statements included in our Annual Report on Form 10-K for the year ended January 31, 2020 filed with the SEC on April 14, 2020. In addition to historical financial information, the following discussion contains "forward-looking statements" within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and other legal authority. These forward-looking statements concern our operations, economic performance, financial condition, goals, beliefs, future growth strategies, objectives, plans and current expectations. The words "believe," "will," "may," "estimate," "continue," "anticipate," "intend," "should," "plan," "expect," "predict," "could," "potentially" and variations of such words and similar expressions are intended to identify such forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. Such statements are based on management's expectations as of the date of this filing and involve many risks and uncertainties that could cause our actual results, events or circumstances to differ materially from those expressed or implied in our forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Item 2. MD&A, as well as the section titled "Risk Factors" included under Part II, Item 1A below. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect new information or the occurrence of unanticipated events, except as required by law. 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.

Executive Overview

Ooma creates powerful connected experiences for businesses and consumers. Our smart cloud-based SaaS and UCaaS platforms serve as a communications hub, which offers cloud-based communications solutions, smart security and other connected services. Our business and residential solutions deliver our proprietary PureVoice high-definition voice quality, advanced functionality and integration with mobile devices, at competitive pricing and value. Our platforms help create smart workplaces and homes by providing communications, monitoring, security, automation, productivity and networking infrastructure applications.

We drive the adoption of our platforms by providing communications solutions to the large and growing markets for business, residential and mobile users, and then accelerate growth by offering new and innovative connected services to our user base. Our customers adopt our platforms 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 subscription fees on a monthly basis. We believe we have achieved high levels of customer retention and loyalty by delivering exceptional quality and customer satisfaction.

We generate subscription and services revenue by selling subscriptions and other services for our communications services, as well as other connected services. We generate our product and other revenue from the sale of our on-premise appliances and our end-point devices, as well as from porting fees to enable customers to transfer their existing phone numbers to the Ooma service. We primarily offer our solutions in the U.S. and Canada.

We refer to Ooma Office and Ooma Enterprise collectively as Ooma Business. Ooma Residential includes Ooma Telo basic and premier services as well as our Smart Security solutions.

First Quarter Fiscal 2021 Financial Performance

- Total revenue was \$40.3 million, up 19% year-over-year, primarily driven by the growth of Ooma Business.
- Subscription and services revenue from Ooma Business grew 54% year-over-year, reflecting both organic and acquisition-related growth of our business.
- Total gross margin was 62%, up from 60% in the prior year quarter.
- Net loss was \$1.1 million, improved from a loss of \$4.7 million in the prior year quarter, reflecting our continued focus on controlling costs and improving operational efficiencies.
- Adjusted EBITDA was \$3.0 million, compared to a loss of \$0.5 million in the prior year quarter.
- As of April 30, 2020, we had total cash, cash equivalents and short-term investments of \$23.3 million, compared to \$26.1 million as of January 31, 2020. Cash usage was largely driven by the timing of payments.

COVID-19 Update

In December 2019, a novel coronavirus disease known as COVID-19 was reported and on March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. The worldwide spread of COVID-19 has resulted in authorities implementing numerous measures to contain the virus, including travel bans and restrictions, quarantines, shelter-in-place orders, and business limitations and shutdowns.

During the first quarter of fiscal 2021, we have remained focused on executing our growth strategy, while also adapting to the changes in our market environment and business activities driven by the global pandemic. Most of our employees have transitioned to work-from-home operations and we have canceled all non-essential business travel by our employees, which have changed how we operate our business. Inside sales and online sales functions were less affected, but sales through face-to-face channels and through retailers became more challenging.

Our financial results for the first quarter were not significantly impacted by the COVID-19 pandemic; however, the severity and duration of the pandemic and its impact on our operations remains uncertain and may not be fully reflected in our results of operations and overall financial performance until future periods. For example, during March and April 2020, we saw our customer churn rate increase slightly, which we believe was primarily due to the impact of the COVID-19 pandemic on the economy. While we have seen some stabilization in churn rates in May 2020, customer churn could further increase in future quarters as a result of the effects of the pandemic.

A prolonged pandemic could adversely impact the efficiency and effectiveness of our organization, further impact our global supply chain network, result in delays or decreases in customer collections, reduce demand for our products and services, increase churn, and inhibit our sales efforts, any of which will likely materially impact our revenues, results of operations, cash flows and liquidity. For more information on risks associated with the COVID-19 pandemic, please see "Risk Factors" in Part II, Item 1A below.

Key Business Metrics

We review the key metrics below to evaluate our business, measure our performance, identify trends affecting our business, formulate financial projections and make strategic decisions. Key business metrics include combined data for our core offerings.

The following table sets forth our key customer metrics for each of the periods indicated (in thousands, except percentages):

	Three Months Ended	
	April 30, 2020	April 30, 2019
Core users	1,049	985
Annualized exit recurring revenue (AERR)	\$ 145,551	\$ 121,200
Net dollar subscription retention rate	100%	99%

Core Users increased year-over-year, which was primarily driven by growth in business 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 total number of active residential user accounts and business user extensions.

Annualized Exit Recurring Revenue grew 20% year-over-year due to an increase in the average revenue per core user, which was largely driven by an increase in business users. We believe that AERR is an indicator of recurring subscription and services revenue for near-term future periods.

Net Dollar Subscription Retention Rate was 100% for the first quarter of fiscal 2021, driven by growth in average revenue per user and retention rate. We believe that our net dollar subscription 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.

Adjusted EBITDA

In addition, 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 our operating performance, because it contains adjustments for unusual events or factors that do not directly affect what management considers being the core operating performance, and are used by our management for that purpose. We also believe this measure enables us to better evaluate our performance by facilitating a meaningful 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 income (loss) before interest and other income, non-cash income tax benefit, depreciation and amortization, stock-based compensation and related taxes, amortization of acquired intangible assets and other acquisition-related charges, and certain costs that are not representative of the ordinary course of our business.

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 our business;
- Adjusted EBITDA does not consider the impact of non-cash income tax benefits, stock-based compensation and related taxes, amortization of acquired intangible assets and other acquisition-related charges, and certain litigation costs that are not recurring in nature;
- Adjusted EBITDA does not reflect other non-operating expenses, net of other non-operating income, including net interest and other income/expense; 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):

	Three Months Ended	
	April 30, 2020	April 30, 2019
GAAP net loss	\$ (1,066)	\$ (4,740)
Reconciling items:		
Interest and other income, net	(79)	(258)
Income tax benefit	—	(22)
Depreciation and amortization of capital expenditures	713	652
Amortization of acquired intangible assets and acquisition-related costs	326	243
Stock-based compensation and related taxes	3,134	3,123
Litigation costs	—	534
Adjusted EBITDA	\$ 3,028	\$ (468)

Components of Results of Operations

Revenue

Subscription and services revenue is derived primarily from recurring subscription fees related to service plans such as Ooma Business, Ooma Residential and other communications services, and to a lesser extent from payments associated with our Talkatone mobile application, prepaid international calls and installation-related services. We expect our subscription and services revenue to grow as we expand our core user base, driven primarily by growth in Ooma Business.

Product and other revenue consists primarily of sales of our on-premise appliances and end-point devices used in connection with our services, including shipping and handling fees for our direct customers, and to a lesser extent from porting fees we charge our customers to enable them to transfer their existing phone numbers to Ooma Business or Residential. We expect our product and other revenue to decline on a year-over-year basis.

Cost of revenue and gross margin

Cost of subscription and services revenue includes payments made for third-party network operations and telecommunications services, Federal USF contributions, credit card processing fees, costs to maintain third-party data centers, including co-location fees for the right to place our servers in third-party data centers, depreciation and maintenance of servers and equipment, personnel costs associated with customer care and network operations support, and allocated costs of facilities and information technology.

Cost of product and other revenue includes 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, shipping and handling costs, and allocated costs of facilities and information technology.

Subscription and services gross margin may fluctuate from period-to-period based on the interplay of 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 our headcount. We expect our subscription and services gross margin to increase over the long-term, primarily as we achieve scale efficiencies and as our business revenue becomes a larger portion of total subscription revenue.

Product and other gross margin may fluctuate from period-to-period based on a number of factors, including total units shipped during a period as compared to the direct costs of production and relatively fixed personnel costs incurred during the period, as well as potential changes in tariffs imposed on imported product. We sell our on-premise appliances at an aggressive price point to facilitate the adoption of our platforms and services. We 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 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 be impacted.

Operating expenses

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 sales and marketing activities; internet, television, radio advertising fees; public relations expenses; amortization of sales commissions we pay to internal sales personnel, third-party sales entities and resellers; trade show expenses; travel expenses; marketing and promotional activities and allocated costs of facilities and information technology. We expect our sales and marketing expenses to increase in absolute dollars as we continue to grow our business.

Research and development expenses are focused on developing new and expanded features for our services and improvements to our platforms and backend architecture. Research and development is expensed as incurred and consists primarily of personnel costs for employees and contractors, allocated costs of facilities and information technology, software tools and product certification. We expect our research and development expenses to remain relatively unchanged as a percentage of total revenue.

General and administrative expenses consist of personnel costs for our finance, legal, human resources and other administrative employees and contractors. In addition, it includes professional service fees, legal fees, acquisition-related transaction costs and earn-outs, and allocated costs of facilities and information technology. We expect our general and administrative expenses to remain relatively unchanged as a percentage of total revenue.

Consolidated Results of Operations

The following table sets forth selected consolidated statements of operations data for each of the periods indicated (in thousands):

	Three Months Ended	
	April 30, 2020	April 30, 2019
Revenue:		
Subscription and services	\$ 37,616	\$ 31,112
Product and other	2,690	2,895
Total revenue	40,306	34,007
Cost of revenue:		
Subscription and services	11,341	9,811
Product and other	3,790	3,763
Total cost of revenue	15,131	13,574
Gross profit	25,175	20,433
Operating expenses:		
Sales and marketing	12,446	11,459
Research and development	8,846	8,882
General and administrative	5,028	5,112
Total operating expenses	26,320	25,453
Loss from operations	(1,145)	(5,020)
Interest and other income, net	79	258
Loss before income taxes	(1,066)	(4,762)
Income tax benefit	—	22
Net loss	\$ (1,066)	\$ (4,740)

Costs and expenses included stock-based compensation expense and related payroll taxes as follows (in thousands):

	Three Months Ended	
	April 30, 2020	April 30, 2019
Cost of revenue	\$ 270	\$ 304
Sales and marketing	505	475
Research and development	1,095	1,155
General and administrative	1,264	1,189
Total stock-based compensation and related taxes	\$ 3,134	\$ 3,123

Comparison of the three months ended April 30, 2020 and 2019 (dollars in tables are in thousands):

Revenue

	Three Months Ended		Change	
	April 30, 2020	April 30, 2019		
Revenue:				
Subscription and services	\$ 37,616	\$ 31,112	\$ 6,504	21%
Product and other	2,690	2,895	(205)	(7)%
Total revenue	<u>\$ 40,306</u>	<u>\$ 34,007</u>	<u>\$ 6,299</u>	<u>19%</u>
Percentage of revenue:				
Subscription and services	93%	91%		
Product and other	7%	9%		
Total	<u>100%</u>	<u>100%</u>		

We derived approximately 55% and 64% of our total revenue from Ooma Residential and approximately 43% and 33% from Ooma Business for the three months ended April 30, 2020 and 2019, respectively.

Subscription and services revenue increased \$6.5 million or 21% year-over-year, primarily driven by a 6% increase in our core users to approximately 1,049,000 as of April 2020 from approximately 985,000 as of April 2019. Ooma Business revenue grew 54% year-over-year, reflecting both organic and acquisition-related growth of our business. Ooma Residential revenue grew 4% year-over-year with combined subscription and services revenue from both Ooma Business and Residential growing 22% year-over-year.

Product and other revenue decreased \$0.2 million or 7% year-over-year, primarily driven by a decline in sales of Ooma Residential accessories, reflecting the discontinuation of Smart Cam in the third quarter of fiscal 2020, that was offset in part by growth in Ooma Business products.

Cost of Revenue and Gross Margin

	Three Months Ended		Change	
	April 30, 2020	April 30, 2019		
Cost of revenue:				
Subscription and services	\$ 11,341	\$ 9,811	\$ 1,530	16%
Product and other	3,790	3,763	27	1%
Total cost of revenue	<u>\$ 15,131</u>	<u>\$ 13,574</u>	<u>\$ 1,557</u>	<u>11%</u>
Gross profit:				
Subscription and services	\$ 26,275	\$ 21,301	\$ 4,974	23%
Product and other	(1,100)	(868)	(232)	27%
Total	<u>\$ 25,175</u>	<u>\$ 20,433</u>	<u>\$ 4,742</u>	<u>23%</u>
Gross margin:				
Subscription and services	70%	68%		
Product and other	(41)%	(30)%		
Total	62%	60%		

Subscription and services gross margin of 70% increased year-over-year from 68%, primarily due to the continued growth of Ooma Business and associated benefits of economies of scale. Cost of subscription and services revenue for the three months ended April 30, 2020 increased \$1.5 million year-over-year, reflecting a \$1.0 million increase in telecom and network infrastructure costs and a \$0.4 million increase in employee and consultant related costs. Overall, the year-over-year increase in the cost of subscription and services reflects both organic and acquisition-related growth of our business.

Product and other revenue gross margin of negative 41% declined year-over-year from negative 30% primarily due to an increase in freight and other charges. We have increased our inventory levels during the quarter to meet our customer's and partner's needs in the current socio-economic environment.

Operating Expenses

	Three Months Ended			
	April 30, 2020		April 30, 2019	Change
Sales and marketing	\$ 12,446	\$	11,459	\$ 987 9%
Research and development	8,846		8,882	(36) NM
General and administrative	5,028		5,112	(84) (2)%
Total operating expenses	<u>\$ 26,320</u>	<u>\$</u>	<u>25,453</u>	<u>\$ 867</u> 3%

NM = not meaningful

Sales and marketing expenses for the three months ended April 30, 2020 increased \$1.0 million or 9% year-over-year, primarily due to a \$0.7 million increase in commissions expense, a \$0.4 million increase in personnel related costs, driven by higher headcount, and a \$0.2 million increase in intangible asset amortization associated with acquired Broadsmart customer relationships, which were offset in part by a decrease in spending for marketing and advertising activities as we managed costs in response to the COVID-19 pandemic.

Research and development expenses for the three months ended April 30, 2020 were comparable to the prior year quarter.

General and administrative expenses for the three months ended April 30, 2020 decreased \$0.1 million or 2% year-over-year, due to a \$0.5 million decrease in legal costs, that was offset in part by a \$0.3 million increase in personnel related costs, driven by higher headcount. The decrease in legal costs was primarily attributable to the absence of costs associated with certain litigation proceedings that were settled in fiscal 2020.

Liquidity and Capital Resources

As of April 30, 2020, we had \$23.3 million of total cash, cash equivalents and investments, which we believe 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, the introduction of new and enhanced offerings, the timing and extent of our sales and marketing activities and research and development expenditures, and the impact of COVID-19 pandemic on these or other factors.

We may in the future make investments in or acquisitions of businesses or technologies, which may require the use of cash. For example, in the second quarter of fiscal 2020, we completed the acquisition of Broadsmart for approximately \$7.1 million, net of cash acquired of \$0.6 million.

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

	Three Months Ended	
	April 30, 2020	April 30, 2019
Net cash used in operating activities	\$ (2,848)	\$ (5,744)
Net cash (used in) provided by investing activities	(591)	1,022
Net cash provided by financing activities	795	724
Net decrease in cash and cash equivalents	<u>\$ (2,644)</u>	<u>\$ (3,998)</u>

Operating Activities

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

	Three Months Ended	
	April 30, 2020	April 30, 2019
Net loss	\$ (1,066)	\$ (4,740)
Non-cash charges	4,871	4,161
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(830)	62
Increase in inventories and deferred inventory costs	(1,698)	(651)
Increase in other assets	(670)	(1,005)
Decrease in accounts payable and other liabilities	(3,006)	(3,141)
Decrease in deferred revenue	(449)	(430)
Net cash used in operating activities	<u>\$ (2,848)</u>	<u>\$ (5,744)</u>

For the three months ended April 30, 2020, our net loss of \$1.1 million included non-cash charges of \$4.9 million primarily related to stock-based compensation, operating lease expense, and depreciation and amortization expense. Operating asset and liability changes for the three months ended April 30, 2020 included:

- an increase of \$1.7 million in inventories to scale our business and mitigate the risk of supplier shortages related to the COVID-19 pandemic
- an increase of \$0.7 million in other current and non-current assets due to the timing of certain payments and capitalization of sales commissions
- a net decrease of \$3.0 million in accounts payable, accrued expenses and other liabilities due to the timing of payments

Cash used in operating activities for the three months ended April 30, 2020 decreased \$2.9 million year-over-year, which primarily reflected a decrease in net loss as well as working capital impacts resulting from the timing of payments.

Investing Activities

For the three months ended April 30, 2020, cash used in investing activities was \$0.6 million, which consisted of purchases of short-term investments of \$9.0 million and capital expenditures of \$0.8 million, which were offset in part by proceeds of \$9.2 million from maturities and sales of short-term investments. Cash used in investing activities for the three months ended April 30, 2020 increased by \$1.6 million year-over-year, which primarily reflected a decrease in net proceeds associated with short-term investments and higher capital expenditures.

Financing Activities

For the three months ended April 30, 2020, cash provided by financing activities was \$0.8 million, which consisted of proceeds of \$1.3 million from the issuance of common stock related to our ESPP and stock option exercises, offset by payments of \$0.5 million related to shares repurchased for tax withholdings on vesting of RSUs. Cash provided by financing activities for the three months ended April 30, 2020 was comparable to the respective prior year period.

Contractual Obligations and Commitments

As of April 30, 2020, our total future expected payment obligations under non-cancelable operating leases with terms longer than one year were approximately \$8.9 million. See Note 5: *Operating Leases* in the notes to our condensed consolidated financial statements for a table of contractual obligations, including payments due by period.

As of April 30, 2020, non-cancelable purchase commitments with our contract manufacturers and other parties totaled approximately \$5.9 million.

Off-Balance Sheet Arrangements

We do not have any material 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

There were no material changes to our use of estimates or other critical accounting policies from those disclosed in our Annual Report on Form 10-K for the fiscal year ended January 31, 2020.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to the Company's market risk during the first quarter of fiscal 2021. Refer to our market risk disclosures set forth in Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" of our Annual Report.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Our management is responsible for establishing and maintaining adequate disclosure controls and procedures. 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 April 30, 2020. 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 April 30, 2020 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.

As of April 30, 2020, we have not experienced any significant impact to our internal controls over financial reporting despite the fact that most of our employees who are involved in our financial reporting processes and controls are working remotely due to the COVID-19 pandemic. We are continually monitoring and assessing the COVID-19 situation on our internal controls to minimize the impact on their design and operating effectiveness.

Changes in Internal Control over Financial Reporting. There was no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 1. Legal Proceedings

For a discussion of legal proceedings, see “Note 10: Commitments and Contingencies” of the notes to the condensed consolidated financial statements in this Form 10-Q.

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 Quarterly Report on Form 10-Q, including our condensed 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***The ongoing COVID-19 pandemic could disrupt and cause harm to our business, operating results, or financial condition.***

The ongoing COVID-19 pandemic could materially impact our business in a number of ways. Many state and local governments in the U.S. have issued “shelter in place” or “stay at home” orders that generally require residents remain in their homes, subject to certain exceptions for essential services. For example, in California, where our corporate headquarters, local sales office and warehouse are located, a “stay at home” order is currently in effect that requires the majority of our employees to work from home until further notice, which could adversely impact the efficiency and effectiveness of our organization. Additional states have implemented similar orders, and while some states are in the process of gradually relaxing these orders, it remains possible that the ongoing pandemic could force these states to re-issue such orders in the coming weeks and months. We cannot anticipate the extent to which the pandemic and government mandates will affect our operations.

The pandemic has impacted, and could continue to impact, our global supply chain network and cause extended shutdowns of businesses. In addition, current or potential customers may delay or decrease spending with us, or may not pay us or may delay paying us for previously performed services, given the impact that the COVID-19 pandemic may have on their business. Given that a significant portion of our revenues today comes from small and medium-sized businesses, these customers may be especially susceptible to negative economic impact stemming from the pandemic and government mandates, which could reduce their demand for our products and services. Furthermore, the rate of customer terminations or service cancellations or failures to renew, which we refer to as churn, has increased and could continue to increase as a result of the effects of the pandemic such as increased price competition or a reduction in customer or partner spending. Current or potential customers and partners may also not be interested in taking sales meetings or cancel existing sales meetings with our sales representatives, which could materially lengthen our sales cycle and slow our sales growth. Traditional “brick-and-mortar” retailers have reduced, and could continue to reduce, purchase orders for our products as retailers shift focus to online channels, and reduced foot traffic in their stores may continue to negatively affect sales.

Although on March 27, 2020, the U.S. President signed into law the Coronavirus Aid, Relief and Economic Security Act, which contains provisions intended to mitigate the adverse macroeconomic effects of the pandemic, we cannot assure you that this legislation, or any other subsequent legislation intended to provide financial relief or assistance, would be effective or mitigate the risks that we face. The pandemic, the effects of which are rapidly evolving and highly unpredictable, may result in a severe and prolonged global economic downturn. Any of these factors could have a material adverse effect on our business, financial condition and results of operations.

Please see “Management’s Discussion and Analysis of Financial Position and Results of Operations” for additional information regarding the potential impact of the COVID-19 pandemic and associated economic disruptions.

If we are unable to attract new users of our services on a cost-effective basis, including as a result of the COVID-19 pandemic, 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, Apple and Google app stores and highly regarded publications such as *PCMag*. 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 businesses and households. Some of these business customers and 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 customers 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. In addition, factors such as the ongoing COVID-19 pandemic could cause these customers to delay or cancel buying decisions. If these customers choose not to adopt our services, our ability to grow our business will be limited.

Our customers may terminate their subscriptions for our service in most cases 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 services, could materially and adversely affect our financial performance.

Our service plans are generally sold as monthly subscriptions and our customers may terminate their monthly subscription for convenience without any penalty. Certain of our service plans are also sold as annual and multi-year subscriptions, typically ranging up to 3 years. However, our customers have no obligation to renew their subscriptions for such services and may elect to terminate their subscription for any number of reasons. As a result, we have no assurance that the revenue stream associated with a particular customer account will continue beyond the initial subscription term. Additionally, our Ooma Business customers may choose to reduce the number of lines or remove some of the solutions to which they subscribe. Ooma Business customers generally pay more for their subscriptions than residential or mobile customers, so any increased churn in 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 significantly in the future if customers are not satisfied with our service, the value proposition of our services, our ability to otherwise meet their needs and expectations, and/or other factors beyond our control. In addition, any economic downturn resulting from the COVID-19 pandemic could cause financial hardship for our customers, decrease technology spending and materially and negatively impact our customers' willingness to enter into or renew subscriptions with us, or cause our customers to seek a decrease in the number of users or solutions for which they subscribe. As a result, we may have to acquire new customers or new users within our existing customer base on an ongoing basis simply to maintain our existing level of 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 anticipated to maintain or increase our revenue, which could harm our business and results of operations.

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 address 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 functionalities to our current customer base, which may require increasingly sophisticated, 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. Such increased costs could cause us to increase our subscription rates, which could increase our customer turnover rate. If our efforts to convince customers to add users and, in the future, to purchase additional functionalities are not successful, our business may suffer.

We face competition in our markets by our competitors and may lack sufficient financial or other resources to compete successfully. Mergers or other strategic transactions involving our competitors could adversely affect our ability to compete effectively and harm our results of operations.

The cloud-based communications and connected services industries are highly competitive and may increase in the future. We face continued competition from established communications providers, such as AT&T Inc., Comcast Corporation, Verizon Communications Inc. and Rogers Communications Inc; traditional on-premise, hardware business communications providers, mobile communications app companies providing “over-the-top” solutions, large internet companies that offer services with features that compete with some of what we offer, as well as certain other communications companies. All of these companies currently or may in the future host their solutions through the cloud.

In addition, some of our competitors have been acquired, and may in the future consolidate with or be acquired by, other companies and competitors. 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.

Furthermore, increased competition may result in aggressive business tactics by our competitors, including: offering products similar to our platforms 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.

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

We currently sell Ooma Residential and Ooma Business through a combination of direct sales and leading retailers such as Amazon, Costco.com, Best Buy and Walmart, as well as reseller partnerships, such as Sprint. A significant portion of our product sales are made through our retail and reseller partnership channels. Our future success depends on our ability to effectively maintain, develop and expand our retail channel and reseller partnership sales as we seek to grow and 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. 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. Furthermore, if any of these retailers or reseller partners are negatively impacted by the effects of the COVID-19 pandemic, including declaring bankruptcy, or otherwise affected by strategic transactions, such as the merger between Sprint and T-Mobile, our sales may also be adversely impacted as a result.

In addition, our Talkatone application relies significantly on the Apple and Google app stores for distribution. Its future success depends on our continued ability to distribute Talkatone through these app stores and increase its visibility therein. 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, which could adversely affect our revenue.

We depend on a sole supplier to provide the components for, and a small number of vendors to manufacture, certain on-premise appliances, end-point devices and 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 contract with manufacturers in China to produce our on-premise appliances and end-point devices and our results of operations could be affected by slowdowns in manufacturing due to external factors such as the spread of the COVID-19 pandemic. We also contract with a manufacturer in Israel to produce components of our smart security solutions. We currently do not have long-term contracts with these vendors and they 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 products 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. We may also decide to switch to or bring on additional contract manufacturers in order to better meet our needs. Switching to or bringing on a new contract manufacturer and commencing production is expensive and time-consuming and may cause delays in order fulfillment at our existing contract manufacturers or cause other disruptions.

Additionally, several components used in our on-premise appliances and end-point devices are “single sourced” and any interruption in the supplier of such components could cause our business to suffer as we identify alternative sources of components. For example, public health crises, such as the COVID-19 pandemic, or the occurrence of other events outside our control, such as natural disasters, could impact our suppliers’ facilities and component providers, many of which are located in China, Japan, South Korea and other countries. If our supply chain is disrupted, this could also materially and adversely impact the availability or cost of components used in our on-premise appliances and end-point devices, and to the extent these challenges continue for a prolonged period, we may not be able to provide our customers and channel partners with a sufficient supply of products and devices at price points or with functional characteristics and reliability that meet our customers’ needs. 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 expect that we will continue to rely on third-party service providers for hosting, internet access and other services that are vital to our service offering for the foreseeable future. Equinix, Inc. and others provide data center facilities; Comcast, NTT Inc. and others provide backbone internet access; and Bandwidth.com, Inteliquent 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 primary provider of 911 services. 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. 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. These third-party network or service providers could be adversely impacted or overloaded by the large increase in traffic caused by the COVID-19 pandemic, which could increase our exposure to damage from service interruptions. 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 platforms. 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 one or more 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 platforms are complex, incorporate a variety of new computer hardware, and the platforms continue 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. Furthermore, the costs incurred in correcting root causes for service outages may be substantial and these and other related consequences could negatively impact our results of operations.

We currently serve the majority of our customers from data centers located in Northern California, Texas and Virginia, where we lease space from Equinix, Inc. These facilities and the procedures we have implemented to restore services quickly in the event of a service outage, 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. In addition, due to shelter in place orders issued in connection with the COVID-19 pandemic, many of our technical specialists tasked with managing disruptions are operating under work-from-home arrangements, which could increase the time necessary to remedy service outages. 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 platforms 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.

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, and our ability to detect any such events. In the past, we may have been subject to undetected distributed denial-of-service, or DDOS cyberattacks, or other forms of attacks by hackers intent on bringing down our services or accessing confidential information, and we may be subject to DDOS and other forms of attacks in the future, especially as a result of a reported increase in the incidents of cybersecurity attacks in connection with the COVID-19 pandemic. 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 detect or 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, or their mobile phone, 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 our connected Smart Security sensors and our partner's connected devices, such as Nest's devices, 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 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 transmission of confidential customer 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 compromise or perceived compromise of our security could damage our reputation with our end-customers, and could subject us to significant liability, as well as regulatory action, including financial penalties, which would materially adversely affect our brand, results of operations, financial condition, business and prospects.

We have incurred, and expect to continue to incur, significant costs to protect against security breaches. We may incur significant additional costs in the future to address problems caused by any actual or perceived security breaches.

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' 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. If any of these events occurs, or is believed to occur, our reputation and brand could be damaged, our business may suffer, we could be required to expend significant capital and other resources to alleviate problems caused by such actual or perceived breaches, we could be exposed to a risk of loss, litigation or regulatory action and possible liability, and our ability to operate our business, including our ability to provide maintenance and support services to our channel partners and end-customers, may be impaired. If current or prospective channel partners and end-customers believe that our systems and solutions do not provide adequate security for their businesses' needs, our business and our financial results could be harmed. Additionally, actual, potential or anticipated attacks may cause us to incur increasing costs, including costs to deploy additional personnel and protection technologies, train employees and engage third-party experts and consultants.

Although we maintain privacy, data breach and network security liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all. Any actual or perceived compromise or breach of our security measures, or those of our third-party service providers, or any unauthorized access to, misuse or misappropriation of personally identifiable information, channel partners' or end-customers information, or other information, could violate applicable laws and regulations, contractual obligations or other legal obligations and cause significant legal and financial exposure, adverse publicity and a loss of confidence in our security measures, any of which could have a material adverse effect on our business, financial condition and operating results.

We rely on third parties for some of our software development, quality assurance and operations, and anticipate we will continue to do so for the foreseeable future.

We outsource certain of our software development and design, quality assurance and operations activities to third-party contractors that have employees and consultants in a number of international locations. Our dependence on third-party contractors creates numerous 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. 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 and our business will be harmed, and we may be exposed to significant liability.

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. The ability to support our customers has been hampered by the ongoing COVID-19 pandemic, and may be in the future disrupted by the COVID-19 pandemic as well as other natural disasters, inclement weather conditions, civil unrest, strikes, acts of terrorism, breaches of data security, 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. In addition, a significant service outage may cause a high volume of customer support inquiries, and our third-party customer service center may not be able to respond to such inquiries in a timely manner. Industry consolidation among providers of services to us may impact our ability to obtain these services or increase our costs for these services.

We may not be able to effectively manage our growth and the increased complexity of our business, which could negatively impact our brand, financial performance and increase the risk of investing in our stock.

We have 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, and if the current and future members of our management team do not effectively scale with this growth, our business, results of operations and financial condition could be materially and adversely affected.

Our rates of growth may decline in the future.

Our user growth and revenue growth rates may decline over time as the size of our active user base increases, and it is possible that the size of our active user base may fluctuate or decline in one or more markets, particularly as we achieve greater market penetration. Our revenue growth rate may generally decline over time as our revenue increases to higher levels. As our growth rates decline, investors' perceptions of our business may be adversely affected and the trading price of our common stock could 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 and the customer bases of our competitors will increase 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 services. During the number transfer process, our new customers must maintain both our service and their existing phone service. We depend on third-party carriers to transfer phone 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.

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

We became a public company following our initial public offering or, IPO, in July 2015 and our business has experienced significant growth in recent fiscal years. Total revenue for fiscal 2020 was \$151.6 million, up 17% year-over-year. Because we have only a limited history operating our business at its current scale, it is difficult to evaluate our current business and future prospects, including 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;
- our ability to effectively manage any disruptions to our business and sales efforts and/or any negative impact to our financial performance caused by the COVID-19 pandemic;
- continue to innovate and expand our service offerings;
- continue our relationships with strategic partners 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 may 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 \$18.8 million in fiscal 2020. We have expended significant resources to develop, market, promote, and sell our products and solutions and we expect to continue investing for future growth. We used cash in operations of \$7.6 million for fiscal 2020 and may continue to have negative operating cash flow in the future as a result of our increased expenditures and the adverse impact from the COVID-19 pandemic. 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.

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.

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 and were able to restore service without incurring material expenses. Outages to date have not materially affected our results of operations. However, the costs incurred in correcting root causes for service outages may be substantial and these and other related consequences could negatively impact our results of operations.

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 block or degrade 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, market and sell products and services to our current and potential customers that directly compete with our own offerings, which can potentially give such providers a competitive advantage. Broadband providers also 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. In the past, actions like these taken by U.S. providers would violate the net neutrality rules adopted by the FCC and described below, however the FCC recently reversed the net neutrality rules, and most foreign countries have not adopted formal net neutrality or open internet rules, creating an increased risk broadband providers will engage in such anti-competitive measures against the Company in the United States and elsewhere.

In 2015, the FCC reclassified broadband internet access services as a "telecommunications service" subject to new open internet regulations which included, in part, "net neutrality" rules that prohibited blocking or discriminating against lawful services and applications and prohibited "paid prioritization," or providing faster speeds or other benefits in return for compensation.

In December 2017, the FCC largely reversed the existing net neutrality rules, including the classification of broadband Internet service as a telecommunications service subject to certain common carrier regulations. This FCC order is the subject of pending legal challenges. In addition, in January 2018, the FCC reclassified broadband internet access as an "information service" that is not subject to the "net neutrality" rules. This order was affirmed by a federal three-judge panel, although certain parties have requested rehearing by the full court.

Also, a number of states have enacted or are considering legislation or executive actions that would regulate the conduct of broadband providers. We cannot predict whether the FCC orders or state initiatives will be modified, overturned, or vacated by legal action of the court, federal or state legislation, or the FCC. The FCC's orders 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, by increasing the costs of services we purchase or by creating tiers of internet access service and by either charging us for or prohibiting us from being available through these tiers, and we cannot predict the impact of these events upon our business and results of operations.

Our quarterly and annual results 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 and cash flows, 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, sell premium solutions to our existing customers and introduce new solutions;
- the actions of our competitors, including pricing changes or the introduction of new solutions;
- our ability to effectively manage our growth and successfully penetrate the communications and connected services markets for businesses, residential 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;

- quarantines, travel limitations, or business disruptions in regions affecting our operations, including our field sales teams, or the operations of third parties upon which we rely, stemming from the actual, imminent or perceived outbreaks of epidemics or pandemics, including the COVID-19 pandemic;
- 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;
- how well we execute on our strategy and operating plans and the impact of changes in our business model that could adversely impact our results of operations and financial condition; 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 and cash flows. 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.

If additional tariffs or other restrictions are placed on our goods imported from other countries, or if the United States were to withdraw from or modify existing trade agreements or regulations, our revenue, gross margin, and results of operations may be materially harmed.

During 2019, the U.S. Administration announced new and increased tariffs on certain Chinese imported goods, and China has imposed tariffs in response to the actions of the U.S. Such actions subject a wide range of our products to tariffs and increased existing tariffs on certain of our products, which have negatively impacted, and could continue to negatively impact our gross margins. If additional tariffs or other restrictions are placed on goods imported into the United States from China or other countries, or any related counter-measures are taken by China or other countries, our revenue and results of operations may be materially harmed. Although the U.S. Administration announced on January 15, 2020 the reduction of certain tariffs on Chinese imported goods and delayed certain other related tariffs, we cannot assure you that the U.S. Administration will not continue to increase tariffs on imports from China or alter trade agreements and terms between China and the United States, which may include limiting trade with China.

Trade restrictions, including tariffs, quotas, embargoes, safeguards and customs restrictions, could increase the cost or reduce the supply of products available to us, or could increase the lead times of certain raw material and equipment that we may purchase from foreign vendors located in China and other countries, or may require us to modify our supply chain organization or other current business practices, any of which could harm our business, financial condition and results of operations. For example, the U.S. federal government passed the National Defense Authorization Act for Fiscal Year 2019, which imposed a ban on the use of certain surveillance, telecommunications, and other equipment manufactured in China, to help protect critical infrastructure and other sites deemed to be sensitive for national security purposes in the U.S. While this ban has no immediate direct effect on our supply chain, any expansion to this ban or imposition of any similar bans by the U.S. federal government may require us to find new sources of system assembly, which may result in higher costs and disruption to our business.

We are dependent on international trade agreements and regulations, such as the North American Free Trade Agreement, or NAFTA, and the pending United States-Mexico-Canada Agreement, or USMC. If the United States were to withdraw from or materially modify certain international trade agreements or regulations, our business and operating results could be materially and adversely affected and our customer relationships in Canada and other countries could be harmed.

A significant portion of our revenues today come from small and medium-sized businesses, which may have fewer financial resources to weather an economic downturn.

A significant portion of our revenues today come from small and medium-sized businesses. These customers may be more susceptible to negative impact from economic downturns (including short- to intermediate-term economic disruption caused by catastrophic events such as the COVID-19 pandemic) than larger, more established businesses as these businesses typically have more limited financial resources than larger entities. The COVID-19 pandemic has had adverse effects on economies and financial markets globally, which have particularly impacted many small and medium sized businesses. Any economic downturn resulting from the COVID-19 pandemic could decrease technology spending and adversely affect demand for our offerings and harm our business and results of operations. Although the U.S.

government and others throughout the world have taken steps to provide monetary and fiscal assistance to individuals and businesses affected by the pandemic, it is unclear whether government actions will successfully avert or mitigate any economic downturn. As the majority of our customers pay for our subscriptions through credit and debit cards, weakness in certain segments of the credit markets and in the U.S. and global economies has resulted in and may in the future result in increased numbers of rejected credit and debit card payments and business failures, which could materially affect our business by increased customer default or cancellations. If small and medium-sized businesses experience financial hardship or declare bankruptcy as a result of a weak economy or for any other reason, the overall demand for our subscriptions could be materially and adversely affected.

If we are not able to manage our inventory levels effectively, we may experience excess inventory levels, inventory obsolescence, or shortages of inventory that could adversely affect our results of operations.

Our vendor-supplied on-premise appliances and end-point devices have lead times of up to several months for delivery and are built based on our estimates of future demand. Our ability to accurately forecast demand is affected by many factors, including an increase or decrease in customer demand for our products and services, changes in consumer preferences, market acceptance of new product and service introductions by us and our competitors, levels of inventory held by channel partners, sales promotional activities by us or our competitors, and unanticipated changes in general market demand and macro-economic conditions. In addition, because we rely on third-party contract manufacturers and other 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.

It is likely that from time to time we will have either an excess or shortage of product inventory. Inventory levels in excess of customer demand may result in inventory write-down charges, the sale of inventory at discounted prices, and other actions, which may cause our gross margin to decline and harm our reputation and brand.

Conversely, 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, including any disruptions caused by the ongoing COVID-19 pandemic, 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 excess inventory charges. Any of these factors could have a material adverse effect on our business, financial condition or results of operations.

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 may not be able to find suitable acquisition candidates, and we may not be able to complete acquisitions on favorable terms, if at all. If we complete acquisitions, we may not ultimately strengthen our competitive position or achieve our goals, and any acquisitions we complete could be viewed negatively by users, customers or investors. If we fail to successfully integrate such acquisitions, or the technologies associated with such acquisitions, the revenue and operating results of the combined company could be adversely affected. Acquisitions may disrupt our ongoing operations, divert management from their primary responsibilities, subject us to additional liabilities, increase our expenses and adversely impact our business, financial condition, operating results and cash flows. We may not successfully evaluate or utilize the acquired technology and accurately forecast the financial impact of an acquisition transaction, including accounting charges.

We may have to pay cash, incur debt or issue equity securities to pay for any such acquisition, each of which could affect our financial condition or the value of our capital stock. The sale of equity to finance any such acquisitions could result in dilution to our stockholders. If we incur debt it would result in increased fixed obligations and could also subject us to covenants or other restrictions that would impede our ability to manage our operations. In addition, our future operating results may be impacted by performance earnouts or contingent payments. Furthermore, acquisitions may require large one-time charges and can result in increased debt or contingent liabilities, adverse tax consequences, additional stock-based compensation expense and the recording and subsequent amortization or impairments of amounts related to certain purchased intangible assets, any of which could negatively impact our future results of operations.

When we enter into 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, that we will retain existing key customer and partner relationships, that we will be successful in leveraging such strategic transactions into increased business for our products, or that we will otherwise be able to achieve the intended results of the acquisitions.

We may not be able to secure additional financing on favorable terms, or at all, to meet our future capital needs.

We intend to continue making expenditures and investments to support the growth of our business. In the future, we may require additional capital to pursue our business objectives and to 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 decide 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. Any debt financing, we secure in the future could involve 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 the trading price of our common stock would likely decline. Additionally, 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, and the trading price of our common stock would likely decline.

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 products, 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. To compete successfully in these emerging markets, we must anticipate and adapt to unpredictable technological changes and evolving industry standards and continue to design, develop, manufacture and sell new and enhanced services and products that provide increasingly higher levels of performance and reliability at lower cost. We derived approximately 58% of our revenue from Ooma Residential for fiscal 2020 and expect it 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, products, 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 products and may materially and adversely impact our results of operations.

The introduction or announcement of new services and technologies by our competitors could make our existing solutions obsolete, cause customers to defer purchases of our products and services, or otherwise adversely affect our business and results of operations. Further, we may experience higher product returns from retailers or reseller partners and may face challenges managing the inventory of new or existing products, which could lead to excess inventory charges and/or discounting of such products. In addition, new products may have varying selling prices and costs compared to legacy products, which could negatively impact our gross margins and operating results.

We may experience difficulties with software development, operations, design or marketing that could delay or prevent the introduction or implementation of new or enhanced products, 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 products, or new features or upgrades to existing products and services, 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, higher than expected costs, 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 products, 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 remain competitive. We do not know whether these investments will be successful. If we are unable to develop, license or acquire new or enhanced products, services and applications on a timely and cost-effective basis, or if such new or enhanced products, services and applications do not achieve adequate market acceptance, we may not be able to realize a return on our investments and our business, financial condition and results of operations may be materially and adversely affected.

Our success depends, in part, on increased public acceptance of our connected services, applications and products.

Our future growth depends on our ability to significantly increase revenue generated from our communications solutions, our Ooma Smart Security services and other connected services. The markets for cloud-based communications, smart security services and connected services are evolving rapidly and are characterized by an increasing number of market entrants. If these markets 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 and medium-sized business and enterprise markets 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 Residential product and services are being sold to individuals and families. With the growth of mobile technologies, many consumers have chosen to eliminate 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, that it makes sense to maintain or establish 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 Ooma Smart Security products and services face significant competition in a market segment where the Ooma brand is relatively unknown, and where there are several established large providers, such as SimpliSafe and ADT, as well as new market entrants with significantly greater resources than ours, such as Google and its Nest Secure home security system and service. If we fail to create sufficient recognition of the Ooma brand in the smart security market, fail to provide features or benefits in our Smart Security products and services seen as desirable by consumers, or fail to convince consumers of the relative benefits of our Smart Security products and services when compared to those of our competitors, our products and services could fail to achieve market acceptance and therefore not generate significant increases to our revenue.

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 where it is difficult to gain consumer awareness. 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.

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.

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 Note 10: *Commitments and Contingencies* in the accompanying notes to our condensed consolidated financial statements. 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. We cannot predict whether our 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. 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.

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 in a number of international locations. 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. Such agreements may not 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. These licenses are typically offered on standard commercial terms made generally available by the companies providing the licenses. 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.

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. Our exposure to these vulnerabilities may be increased due to the effects of the COVID-19 pandemic. 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 platforms 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. 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, such as Vancouver, Canada and Boca Raton, Florida where we maintain offices. 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 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 have expanded operations outside North America as we ramp up to provide services in certain countries internationally. For example, our subsidiary Voxter Communications, Inc. (“Voxter”) operates in Canada, and its customers have operations in Canada and certain other countries outside of the U.S. 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;
- tariffs imposed by the U.S. on goods from other countries and tariffs imposed by other countries on U.S. goods, including the tariffs recently implemented and additional tariffs that have been proposed by the U.S. government on various imports from China, Canada, Mexico and the EU, and by the governments of these jurisdictions on certain U.S. goods, and any other possible tariffs that may be imposed on services such as ours, the scope and duration of which, if implemented, remain uncertain;
- 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;

- public health crises, such as the COVID-19 pandemic, could cause a slowdown in the global economy and demand for our products and services and limit the ability of our field sales teams to conduct sales efforts;
- 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.

Catastrophic events or political instability could disrupt and cause harm to our business, operating results, or financial condition.

Our corporate headquarters, offices and one of our data center facilities are located in Northern California, a region that frequently experiences earthquakes. We also maintain an office in Boca Raton, Florida, an area that has been prone to severe weather events, such as hurricanes. In addition, our third-party contract manufacturer facilities in China and our sole third-party customer service and support facility in the Philippines are located on the Pacific Rim near known earthquake fault zones that are vulnerable to damage from earthquakes, tsunamis, volcanic eruptions and/or typhoons. We and our contractors are also vulnerable to other types of disasters, such as power loss, fire, floods, pandemics (including the ongoing COVID-19 pandemic, which has disrupted and is expected to continue to disrupt our operations, including our sales activities), cyber-attack, war, political or civil 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. Such events may also reduce demand for our products and services because of reduced global or national economic activity and can cause disruptions and extreme volatility in global financial markets, increase rates of default and bankruptcy, and impact levels of business and consumer spending. 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, 2020, we had federal and state net operating loss carryforwards, or NOLs, of \$121.5 million and \$70.6 million, respectively, available to offset future taxable income, which will begin to expire in 2030 if not utilized. We also have federal and research and development tax credit carryforwards that will begin to expire in 2030 and California research and development tax credit carryforwards with no expiration date. 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. 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.

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 FCC. As a communication services provider, we are subject to FCC regulations relating to privacy, disability access, law enforcement access, porting of numbers, revenue reporting, Federal USF contributions and other regulatory assessments, E-911, and other matters. If we do not comply with FCC rules and regulations, we could be subject to FCC enforcement actions, substantial 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.

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 subject to regulation in Canada by the CRTC, subject to Canadian federal privacy laws and provincial consumer protection legislation. Our international operations are potentially subject to country-specific governmental regulation and related actions that may increase our costs and 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 adoption of additional 911 requirements by the FCC could increase our costs that could make our service more expensive, decrease our profit margins, or both.

The FCC recently adopted additional 911 requirements for interconnected VoIP providers, providers of enterprise telephone services, non-interconnected VoIP providers and texting providers. We may or may not be able to comply with these obligations. At present, we have no means to automatically identify the physical location of our customers. These 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 E-911 requirements and changes to those requirements, including their 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.

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's rules regarding the system of compensation for various types of traffic 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. In addition, on December 31, 2019, President Trump signed into law the Pallone-Thune Telephone Robocall Abuse Criminal Enforcement and Deterrence Act (TRACED Act), which requires the FCC to implement regulations for interconnected VoIP providers to implement the "STIR/SHAKEN" framework to authenticate caller-ID information. 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. Additionally, as a VoIP provider we rely on the FCC to design rules that do not disadvantage our service relative to those of incumbent local exchange carriers and competitive local exchange carriers. Should the FCC decide to do so, it could result in an inferior user experience for Ooma's service, which may negatively impact our business.

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

In April 2018, the FCC adopted rules governing the completion of calls to rural areas and related reporting requirements. The new rules retain the existing rural call completion data recording and retention requirements on VoIP providers like us, but dropped the related reporting requirements. These new rules require us to monitor the performance of our intermediate providers – telecom companies we use to help complete telephone calls to rural areas and take steps to prevent rural call completion problems that may be caused by our intermediate providers, such as persistent low answer or completion rates, unexplained anomalies in performance, or repeated complaints to the FCC. Under certain circumstances, if our routing choices, meaning the intermediate providers we chose to help us complete calls to rural areas, result in lower quality service, we may be held liable for the actions taken by our intermediate providers. If we cannot comply with these rules, we could be subject to investigation and enforcement action and could be exposed to substantial liability. 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.

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 in connection with our sales efforts, 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.

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. 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.

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, including the manner in which companies, like us, contribute to the federal USF program, and whether non-interconnected VoIP providers, texting providers and broadband providers, among others, should contribute to the USF. If 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. A number of states require us to contribute funds to state USF programs, while others are actively considering extending their programs to include the services we provide. We currently charge our customers certain fees and other surcharges, which may result in our services becoming less competitive as compared to those provided by others. If our pricing advantage is diminished or eliminated, or if we are required to absorb these increased costs and not pass-through to our customers, our results of operations would be negatively impacted.

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 platforms rely 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. 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. 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.

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

There are numerous 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.

For example, in the U.S. and in other jurisdictions, a variety of regulations are currently being proposed that would increase restrictions on online service providers in the field of data privacy and security, and we believe that the adoption of such increasingly restrictive regulation is likely. In Canada, penalties for non-compliance with certain Canadian anti-spam legislation are considerable, including administrative monetary penalties of up to \$10 million and a private right of action. Within the EU, strict laws already apply in connection with the collection, storage, retention, use, processing, transmission, sharing, disclosure and protection of personal information, and other customer data. Data protection regulators within the EU and other jurisdictions have the power to fine non-compliant organizations significant amounts and seek injunctive relief, including the cessation of certain data processing activities. Furthermore, the California Consumer Privacy Act became effective on January 1, 2020 and regulates the processing of personal data, which could result in civil penalties for violations.

The EU's General Data Protection Regulation, or GDPR, became effective in May 2018 and comprehensively regulates the processing of personal data of any individual residing in the EU. The GDPR provides for significant penalties in the event of violations, including fines of up to 4% of the violating company's worldwide revenue. We have taken administrative, contractual and other measures designed to achieve compliance with the GDPR, but we cannot guarantee these measures are sufficient.

Obligations and restrictions imposed by current and future applicable laws, regulations, contracts and industry standards may increase the cost of our operations, affect our ability to provide all the current features of our business, residential 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 Business 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. If our third-party contractors or 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. 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. 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 the necessary authorizations and licenses 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, government investigations, reputational harm, fines which may be imposed on us and responsible employees or managers, and, in extreme cases, the incarceration of responsible employees or managers.

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 in the number and frequency of such state and local tax authority challenges, audits and related demands, which we are defending against vigorously. For example, 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. See Note 10: *Commitments and Contingencies* of the accompanying notes of our condensed consolidated financial statements.

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 2016, the U.S. federal government enacted legislation indefinitely extending the moratorium on states and other local authorities imposing access or discriminatory taxes. 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 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.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to make a formal assessment and provide an annual management report on the effectiveness of our internal control over financial reporting. Compliance with these rules and regulations has increased and will continue to increase our compliance costs, and has made and will continue to make some activities more difficult, time-consuming or costly, and place significant demands on our financial and operational resources, as well as IT systems.

Our control environment may not be sufficient to remediate or prevent future material weaknesses or significant deficiencies from occurring. A control system, no matter how well designed and operated, can provide only reasonable assurance that the control system's objectives will be met. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and all instances of fraud will be detected.

Our independent registered public accounting firm is required to formally attest to the effectiveness of our internal control over financial reporting as of January 31, 2021, which is 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. If we are unable to conclude that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting, investors could lose confidence in the accuracy and completeness of our financial reports, which would cause the price of our common stock to decline, and we could be subject to sanctions or investigations by regulatory authorities, including the SEC and NYSE.

Our actual operating results may differ significantly from our guidance.

From time to time, we plan to release earnings 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. 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. Accordingly, 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.

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. In addition, we have registered shares of common stock which we may issue under our employee stock plans 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.

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.

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. While the Delaware Supreme Court recently determined that such choice of forum provisions are facially valid, a stockholder may nevertheless seek to bring such a claim arising under the Securities Act of 1933, as amended, against us, our directors, officers, or other employees in a venue other than in the federal district courts of the United States of America. In such instance, we would expect to vigorously assert the validity and enforceability of the exclusive forum provisions of our amended and restated certificate of incorporation, and this may require significant additional costs associated with resolving such action in other jurisdictions.

Our stock price has been and will likely continue to be volatile and could fluctuate or decline, resulting in a substantial loss of your investment.

Our stock price may fluctuate in response to a number of events and factors, such as quarterly operating results; changes in our financial projections provided to the public or our failure to meet those projections; our operating and financial performance and prospects and the performance of other similar companies; the public's reaction to our press releases, other public announcements and filings with the SEC; significant transactions, or new features, products or services by us or our competitors; changes in financial estimates and recommendations by securities analysts; failure of securities analysts to cover or track our common stock; media coverage of our business and financial performance; trends in our industry; any significant change in our management; 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 as a result of public health crises, such as the ongoing COVID-19 pandemic.

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. In addition, the stock market in general, and the market prices for companies in our industry, have experienced volatility that often has been unrelated to operating performance. These broad market and industry fluctuations may adversely affect the price of our stock, regardless of our operating performance. In the past, many companies that have experienced volatility in their stock price have become subject to securities class action litigation. We have been subject to this type of litigation in the past and may continue to be a target in the future. Securities litigation against us has resulted and could result in substantial costs and has and would divert our management's attention from other business concerns, any of which could harm our business.

If we fail to meet expectations related to future growth, profitability, or other market expectations, our stock price may decline significantly, which could have a material adverse impact on investor confidence and employee retention.

We were subject to a securities class action litigation in connection with our initial public offering and may be subject to similar securities litigation in the future.

The Company, its directors, and certain officers were named as defendants in a consolidated securities class action. On May 30, 2019, the parties filed with the Court a Stipulation of Settlement, and on October 18, 2019, the Court entered final approval of the settlement. As part of the final settlement approval, the Court dismissed the class action lawsuit with prejudice and the plaintiff released all claims against the Company and all other defendants relating to the allegations in the class action.

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 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None

Item 6. Exhibits.

The exhibits listed in the accompanying Exhibit Index are filed or incorporated by reference as part of this Quarterly Report.

EXHIBIT INDEX

Exhibit Number	Description	Incorporated by Reference From Form	Incorporated by Reference From Exhibit Number	Date Filed
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.	Filed herewith		
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.	Filed herewith		
32.1*	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act.	Furnished herewith		
32.2*	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act.	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		
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		

* The certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. Such certifications will not be deemed to be incorporated by reference into any filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates it by reference.

SIGNATURES

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

Date: June 9, 2020

Ooma, Inc.

By: /s/ Ravi Narula

Ravi Narula
Chief Financial Officer
(Principal Financial and Accounting Officer)

**CERTIFICATION OF
CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Ooma, Inc. (the “Company”) on Form 10-Q for the quarterly period ended April 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Eric Stang, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 9, 2020

By: /s/ Eric B. Stang
Eric B. Stang
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF
CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Ooma, Inc. (the "Company") on Form 10-Q for the quarterly period ended April 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ravi Narula, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 9, 2020

By: _____ /s/ Ravi Narula
Ravi Narula
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)