UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended January 31, 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 charter)

Delaware	**06-1713274**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

525 Almanor Avenue, Suite 200, Sunnyvale, California 94085

(Address of principal executive offices and zip code)

Registrant's telephone number **(650) 566-6600**

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

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

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

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

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the Registrant has submitted electronically 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, or a smaller reporting company or 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	☐	Accelerated filer	☒
Non-accelerated filer	☐	Small reporting company	☐
		Emerging growth company	☒

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. ☒

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of July 31, 2019 was approximately $254 million based upon the closing price reported for such date on the New York Stock Exchange.

22.1 million shares of common stock were issued and outstanding as of March 31, 2020.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2020 Annual Meeting of Stockholders are incorporated by reference in Part III of this Annual Report on Form 10-K. Such Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates. Except with respect to information specifically incorporated by reference in this Form 10-K, the Proxy Statement is not deemed to be filed as part of this Form 10-K.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K for the fiscal year ended January 31, 2020 ("Form 10-K") contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). 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, which may include, but are not limited to, statements concerning the following:

- our ability to effectively manage any disruptions to our business and/or any negative impact to our financial performance caused by the economic and social effects of the COVID-19 pandemic;
- our future financial performance, including trends in revenue, cost of revenue, operating expenses and income taxes;
- our estimates of the size of our market opportunity and forecasts of market growth;
- changes to our business resulting from increased competition or changes in market trends;
- our ability to develop, launch or acquire new products and services, improve our existing products and services and increase the value of our products and services;
- our ability to increase our revenue and our revenue growth rate, anticipate demand for our products, and effectively manage our future growth;
- our ability to successfully maintain our relationships with our resellers;
- our ability to attract and retain customers, including our ability to maintain adequate customer care and manage increases in our churn rate;
- our ability to improve local number portability provisioning and obtain direct inward dialing numbers;
- our ability to maintain, protect and enhance our brand and intellectual property;
- government regulation, including compliance with regulatory requirements and changes in market rules, rates and tariffs;
- our ability to comply with applicable FCC regulations, including those regarding E-911 services;
- increasing regulation of our services and the imposition of federal, state and municipal sales and use taxes, fees or surcharges on our services;
- the effects of industry trends on our results of operations;
- server or system failures that could affect the quality or disrupt the services we provide and our ability to maintain data security;
- our ability to borrow additional funds and access capital markets, as well as our ability to comply with the terms of our indebtedness and the possibility that we may incur additional indebtedness in the future;
- the differences between our services, including emergency calling, compared to traditional phone services;
- the sufficiency of our cash, cash equivalents and short-term investments to meet our working capital and capital expenditure requirements;
- our ability to successfully enter new markets, manage our international expansion, and identify, evaluate and consummate acquisitions;
- the future trading prices of our common stock; and
- other risk factors included under the section titled "Risk Factors"

You should not rely upon forward-looking statements as predictions of future events. 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, in particular the substantial risks and uncertainties related to the ongoing COVID-19 pandemic. Such risks and uncertainties include those described throughout this report and particularly in the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. Readers are urged to carefully review and consider all of the information in this Form 10-K and in other documents we file from time to time with the Securities and Exchange Commission ("SEC"). We undertake no obligation to update any forward-looking statements made in this Form 10-K to reflect events or circumstances after the date of this filing 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.

When we use the terms "Ooma," the "Company," "we," "us" or "our" in this report, we are referring to Ooma, Inc. and its consolidated subsidiaries unless the context requires otherwise. Ooma, Ooma Premier, Ooma Telo, Ooma Office, Ooma Home, Broadsmart, Talkatone and the Ooma logo referred to or displayed herein are trademarks of Ooma, Inc. and its consolidated subsidiaries. All other company and product names referred to herein may be trademarks of the respective companies with which they are associated.

PART I

ITEM 1. Business

Overview

Ooma creates powerful connected experiences for businesses and consumers. Our smart cloud-based software-as-a-service (“SaaS”) and unified-communications-as-a-service (“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 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 on a monthly basis. We believe we have achieved high levels of customer retention and loyalty by delivering exceptional quality and customer satisfaction.

Our services run on our unique platforms consisting of four proprietary elements: our multi-tenant cloud service, custom on-premise appliance, mobile applications and end-point devices. Ooma’s cloud provides a high-quality, secure, managed, and reliable connection integrating every element of our platform. Our on-premise appliances incorporate both a custom-designed, Linux-based computer and a high-speed network router, with several key features, including wireless connectivity to end-point devices and custom firmware and software applications that are remotely upgradable and extensible to new services. Our mobile applications enable customers to access our product features from anywhere, and our end-point devices enable additional functionality and services. Our platforms power all aspects of our business, providing the infrastructure for the communications portion of our business and enabling a number of other current and future productivity, automation, monitoring, safety, security and networking infrastructure applications and services.

We primarily offer our solutions in the U.S. and Canada. We believe that our differentiated platforms and our long-term customer relationships uniquely position us to add new connected services and exploit adjacent markets, all without significant capital investment or high customer acquisition costs to drive their adoption. We believe that our platforms are particularly well-suited to enable the delivery of connected services because it is always on, monitored and interactive.

We have experienced strong revenue and user growth in recent periods, growing our Ooma Business and Ooma Residential core users from approximately 929,000 as of January 31, 2018 to approximately 1,048,000 as of January 31, 2020, representing growth of approximately 13% over two fiscal years. Our average annual core user churn rate was approximately 11% for the year ended January 31, 2020. Our total revenue was $151.6 million, $129.2 million and $114.5 million in fiscal 2020, 2019 and 2018, respectively. Subscription and services revenue, which primarily includes the recurring portion of our total revenue, has increased as a percentage of our total revenue over the last three years, from approximately 89% in fiscal 2018 to 92% in fiscal 2020. We have continued to make significant investments in our operations, incurring net losses of ($18.8) million, ($14.6) million and ($13.1) million in fiscal 2020, 2019 and 2018, respectively. Our Adjusted Earnings Before Interest Tax and Depreciation and Amortization and other non-GAAP measures (“Adjusted EBITDA”) was $1.0 million, ($1.9) million and ($0.2) million in fiscal 2020, 2019 and 2018, respectively. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” below for additional information, including non-GAAP reconciliations.

We were incorporated in 2003 as a Delaware corporation and our stock is listed on the New York Stock Exchange under the symbol “OOMA.” Our corporate headquarters is located in Sunnyvale, California.

Our Products and Services

Ooma Business

Small Business Phone Service

Ooma Office is a fully-featured multi-user communications system for small and medium-sized businesses to manage communications in and out of the office with a suite of powerful features at an affordable price. Unlike pure cloud-based phone services that only work with IP phones, our unique hybrid SaaS office platform allows for the use of standard analog phones, mobile phones and fax machines, as well as select IP phones and internet fax. Ooma Office analog desktop extensions work wirelessly with no wiring infrastructure, making setup intuitive and simple for the user to install and manage without assistance from an IT professional.

Ooma Office provides a variety of configurations to meet our customers' specific needs. Ooma Office can be configured as a cloud-based phone system using our mobile app to run on the user's smart phone, or it can employ a variety of IP phones for desktop use, or the customer can choose our on-premise appliance (base unit) and wireless end-point devices (DP1 desk phone or Linx) for simple, wireless installation of desk phones and fax machines to the user's high-speed internet connection. The user can configure the system online, using the Ooma Office Manager web portal.

Ooma Office provides advanced features including a virtual receptionist, remote extension dialing, call groups, conferencing and music-on-hold, as well as mobility features, such as voicemail forwarding to a designated e-mail address. Our Ooma Office Mobile HD app allows users to make, receive and transfer phone calls, listen to voicemails and manage their Ooma account on the go with any iOS or Android device.

Ooma Office Pro, which we introduced in November 2019, provides a set of premium features that are designed for businesses whose needs are above and beyond our standard service, including call recording, enhanced call blocking, voicemail transcription and support for overhead paging systems.

We also refer to Ooma Office as our Small Business Solution and we may refer to them interchangeably.

Enterprise Communications

Ooma Enterprise is a highly customizable and scalable UCaaS offering that complements our Ooma Office solution and allows us to meet the needs of organizations of all sizes. Ooma Enterprise features include a number of communication/collaboration applications and services across multiple channels, including: mobile and softphone telephony; instant and presence messaging; and multiparty audio conferencing, video conferencing and web conferencing capabilities. Our advanced contact center platform, powered by Talkdesk, can extend contact center functionality across an entire enterprise, including sales. Ooma Enterprise CRM Integration unifies a cloud-based enterprise phone system and hosted call center platform with popular CRM systems including Salesforce and Microsoft Dynamics. Our enterprise network is also globally distributed and kept in sync around the world, allowing users or devices to connect to the facilities closest to them to ensure the most reliable and efficient connectivity. All functionality on our Enterprise platform is leveraged by an Application Programming Interface ("API") driven architecture enabling integrations and customization either internally or via third party developers.

Ooma Residential

Home Phone Service

Ooma Telo is a complete home communications solution designed to serve as the primary phone line in the home, delivering high-quality voice communications, advanced calling features and connected services that are not offered by traditional landlines. Users make a one-time purchase of an Ooma Telo and plug it into a high-speed internet connection and standard home phone devices. Users have the option to transfer their existing phone number for a one-time fee or to select a new number at no cost. Once set up, users have access to free nationwide calling, international calling with low rates and standard features such as: voicemail, call waiting, caller ID, network address book and 911 calling, with text alerts when 911 is dialed from the home.

Ooma Telo 4G provides a home phone and internet service that runs on a high-speed wireless LTE network. The Ooma Telo 4G combines the Ooma Telo base station with the Ooma 4G Adapter and battery back-up to deliver an always-on home phone solution with all of the advanced features provided by our unique cloud-based residential platform.

Ooma Telo Air is an Ooma Telo with built-in Wi-Fi and Bluetooth connectivity that connects to the Internet wirelessly using the home's Wi-Fi network and can be paired with mobile phones to answer incoming mobile calls from any phone in the home.

Our Ooma HD3 cordless handset delivers smart features, such as the ability to sync the phone book with online contacts and display picture caller ID by syncing with social media. One-touch voicemail access lets users check messages anywhere in the home and the intercom button allows them to talk between handsets or transfer calls.

Ooma Premier Service is a suite of over 25 advanced calling features that have been designed to enhance the capabilities of Ooma Telo on a monthly or annual subscription basis. Ooma Premier helps our users enhance their privacy, personalize their home phone, stay connected on the go, better manage and access their voicemail, expand calling options, and connect with a variety of devices and services to enable new functionality and automation. We also offer other premium subscription services to our customers, independent of Ooma Premier, including an international calling plan and voicemail transcription service.

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

Our residential platform enables an ecosystem for connected services by integrating with other automation solutions. For example, we have integrated Ooma Telo with products from Amazon including the Amazon Echo, Amazon Echo Connect and other products enabled with Amazon Alexa voice service, and a variety of products integrated through the If-This-Then-That platform ("IFTTT"). By combining Ooma's communications intelligence with these products' functions, we enable innovative and valuable features.

Smart Security

Ooma Smart Security is an innovative security and monitoring platform that utilizes the Ooma Telo device to provide do-it-yourself home security and awareness through a range of sensors including door/window, motion, garage door, water, siren, smoke and keypad. Ooma Smart Security also offers professional monitoring in most U.S. states, remote 911 – the ability to call your home's local emergency service from anywhere in the world – as well as multi-user geofencing capabilities to automatically arm and disarm the security system. Our smart security platform offers activity alerts via phone call, text, email and in-app notifications. The Ooma Smart Security app is the interface through which users interact with the system to pair sensors, toggle between home, away and vacation modes, check activity logs and manage and receive notifications.

Talkatone

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

Sales and Marketing

Our sales and marketing objective is to grow our customer base, and sell to our existing customers additional services using an integrated and multi-channel marketing approach. We continually test and refine our marketing and sales tactics to drive sales at a low customer acquisition cost. Our sales and marketing expenses were $50.5 million, $40.8 million and $37.3 million in fiscal 2020, 2019 and 2018, respectively.

Marketing and Advertising

Online. We use online marketing including search engine marketing, search engine optimization, online video, digital display advertising and social media to attract customers as they do online research for the products and services we offer. We continue to reach out to our prospect leads over time using e-mail and telemarketing until they purchase or the lead is retired.

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

Word-of-mouth. We actively mobilize our customers and brand advocates to spread word-of-mouth marketing by sharing Ooma news and information through social media and e-mail. We sell additional services to our existing customer base by offering free trials and promotional offers, as well as sending e-mail communications and leaving messages on their Ooma voicemail service.

Sales, Customers and Backlog

Our business and residential products are sold through direct channels, retail, value-added resellers and other resellers. The direct channel and value-added resellers are our primary distribution channels for business customers and the direct and retail channel is our primary distribution channel for residential customers. Our direct sales force is focused on business sales and includes highly trained sales representatives located in the U.S. and Canada responding to inbound telephone calls and sales leads generated through marketing activity and our website and third-party web sites.

Our retail distribution includes national and regional consumer electronics, big box retailers and leading online retailers, including Amazon, Best Buy, Costco.com, Walmart and others. No single customer accounted for 10% or more of our total revenue for fiscal 2020, 2019 and 2018.

Our service plans are generally sold as monthly subscriptions; however, certain plans are also offered as annual and multi-year subscriptions. Products are generally shipped and billed shortly after receipt of an order. We do not believe that our product backlog at any particular time is meaningful because it is not necessarily indicative of future revenue in any given period as such orders may be rescheduled or cancelled without penalty prior to shipment. The majority of our product revenue comes from orders that are received and shipped in the same quarter.

Customer Support

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

We maintain two customer contact centers: one operated by us in Newark, California, which primarily supports our small business customers, and the other operated by a third-party provider in Manila, Philippines, which primarily supports our residential customers. In addition, our offices located in Vancouver, British Columbia and Boca Raton, Florida support our enterprise customers. We utilize a variety of communication media to serve the needs of our customers including telephone, online chat, online tutorials and e-mail.

Engineering, Research and Development

We take an integrated approach to the development of our technology. Our extensive engineering resources span both hardware and software and our business scope encompasses the entire platform from user devices such as handsets to cloud infrastructure, giving us the ability to create unique features and services for our customers. We believe our integrated engineering and business strategy is a significant competitive advantage and makes it feasible for us to leverage our platforms to deliver a broad range of productivity, automation and infrastructure connected services.

We have invested significant time and resources into developing our engineering, research and development team, resulting in a group with diverse skills, ranging from digital and radio frequency hardware design to embedded software, network software, telecommunications, database architecture, operations support systems, billing, security, web design and mobile app development. Because our team develops and manages all aspects of our solutions, we are able to offer an integrated solution that works seamlessly between software and hardware and respond to customer feedback to add in additional features and services that work across our platforms. Our team consists of a core set of engineers located primarily in the San Francisco Bay Area, augmented by development teams in a number of international locations.

Our research and development expenses were $37.8 million, $33.9 million and $29.3 million in fiscal 2020, 2019 and 2018, respectively.

Cloud Infrastructure

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

On-Premise Appliances

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

Mobile Applications

We have made significant investments in developing mobile applications for the iOS and Android operating systems. As a result, nearly every connected service and feature we deploy enhances or can be enhanced through integration with our customer’s mobile device. We plan to continue enhancing our mobile apps to incorporate features related to our partners’ services and other connected services.

Operations and Manufacturing

We currently serve the majority of our customers from three separate data center facilities located in Northern California, Texas and Virginia, where we lease space from Equinix, Inc. While our service operations are partially redundant, account provisioning and billing are operated out of the San Jose facility. Our network operations and carrier operations teams are responsible for designing our core routing and switching infrastructure, managing growth and maintenance (including the introduction of new services) and orchestrating vendor relationships for hosted services, IP transit and carrier services and daily operation of our cloud and other services. The design of these services, and the tools for monitoring and managing them, are developed in combination with our engineering team.

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

Competition

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

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

We believe that we compete favorably on the basis of the factors listed above. We face competition from a broad range of providers of communications solutions and other connected services for business, home and mobile users. Some of these competitors include:

- Established communications providers, such as AT&T Inc., Comcast Corporation, Verizon Communications Inc. and Rogers Communications Inc;
- Other cloud-based communications companies such as 8x8 Inc., Coredial LLC, Evolve IP LLC, Intermedia.net Inc., RingCentral Inc., Vonage Holdings Corp and Dialpad Inc;
- Traditional on-premise, hardware business communications providers such as Avaya Inc., Cisco Systems, Inc. and Mitel, Inc.;
- Mobile communications app companies providing “over-the-top” solutions, such as LINE Corporation, Pinger Inc., Viber (Rakuten, Inc.) and WhatsApp Inc.; and
- Large internet companies offer services with features that compete with some of what we offer. These include Amazon, through its platform and Alexa free calling service, as well as Google through its free calling service, Google Voice, and the Google Home personal assistant device, for which Google launched a free outbound calling service.

All of these companies currently or may in the future host their solutions through the cloud. We also face competition in the home security market from several established providers.

Intellectual Property

We rely on a combination of patents, trade secrets, copyrights, trademarks, confidentiality and proprietary rights agreements with our employees, consultants and other third parties, as well as other contractual protections to establish and protect our intellectual property rights. We control access to our software, documentation and other proprietary information, and our software is protected by U.S. and international copyright laws.

As of January 31, 2020, we had 22 issued patents and 16 patent applications pending in the U.S. and 8 patent applications pending in foreign jurisdictions, all of which are associated with U.S. applications. Our issued patents will expire approximately between 2030 and 2036. We cannot assure you whether any of our patent applications will result in the issuance of a patent or whether the examination process will require us to narrow our claims. Any issued patents may be contested, circumvented, found unenforceable or invalidated, and we may not be able to prevent third parties from infringing them. We are also a party to various license agreements with third parties who typically grant us the right to use certain third-party technology in conjunction with our products and services, or to integrate software into our products, including open source software and other software available on commercially reasonable terms. Despite the foregoing protections, unauthorized parties may attempt to misappropriate our rights or to copy or obtain and use our proprietary technology to develop products and services with the same functionality as ours. Policing unauthorized use of our technology and intellectual property rights is difficult and enforcing our intellectual property rights is expensive and uncertain.

Although our success depends, in part, on our ability to protect our proprietary technology and other intellectual property rights, we believe the technological and creative skills of our personnel, the development of new features and functionality and frequent enhancements to our products and services are the primary methods of establishing and maintaining our technology leadership position.

Employees and Contractors

As of January 31, 2020, we had 848 full-time employees and third-party contractors. None of our employees are either represented by a labor union or subject to a collective bargaining agreement. We have not experienced any work stoppages and we believe that our employee relations are good.

Regulatory Matters

Traditional telephone service historically has been subject to extensive federal and state regulation, while Internet services generally have been subject to less regulation. Because some elements of VoIP resemble the services provided by traditional telephone companies and others resemble the services provided by internet service providers, the VoIP industry has not fit easily within the existing framework of telecommunications law and until recently has developed in an environment largely free from regulation. The Federal Communications Commission ("FCC"), the U.S. Congress, and various regulatory bodies in the states and in foreign countries have begun to assert regulatory authority over VoIP providers and are continuing to evaluate how VoIP will be regulated in the future.

Federal Regulation

As a provider of internet communications services, we are subject to a number of FCC regulations. Among others, these regulatory obligations include: contributing to the Federal Universal Service Fund ("USF"), the Telecommunications Relay Service Fund and federal programs related to phone number administration; providing access to E-911 services; protecting customer information; and porting phone numbers upon a valid customer request. If we do not comply with any current or future rules or regulations that apply to our business, we could be subject to substantial fines and penalties, may have to restructure our service offerings, exit certain markets or raise the price of our services, any of which could ultimately harm our business and results of operations.

State Regulation

The FCC has preempted much regulation of internet voice communications services. However, a number of states have ruled that non-nomadic internet voice communications services may or do fall within the definition of "telecommunications services" or are otherwise within state telecommunications regulatory jurisdiction and therefore those states assert that they have authority to regulate the service. Although no states currently require certification for nomadic internet voice communications service providers, a number of states have imposed certain traditional telecommunications requirements on such services. For example, a number of states require us to contribute to state USF and E-911 and pay other surcharges, which are passed through to our customers, while others are actively considering extending their public policy programs to include the services we provide. We expect that state public utility commissions will continue their attempts to apply state telecommunications regulations to internet voice communications services like ours.

International Regulation

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

See “Risks Related to Federal, State and International Regulation” in Item 1A. Risk Factors below for more information.

Available Information

Our headquarters are located at 525 Almanor Avenue Suite 200, Sunnyvale, California 94085, and our telephone number is (650) 566-6600. Our corporate website address is www.ooma.com. We use the Investor Relations page of our website for purposes of compliance with Regulation FD and as a routine channel for distribution of important information, including news releases, analyst presentations, financial information and corporate governance practices. Our filings with the SEC such as our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports are posted on our website and available free of charge as soon as reasonably practical after they are electronically filed with, or furnished to, the SEC. The SEC’s website, www.sec.gov, contains reports, proxy statements and other information regarding issuers that file electronically with the SEC. The content on any website referred to in this Form 10-K is not incorporated by reference in this Form 10-K unless expressly noted.

ITEM 1A. Risk Factors

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

Risks Related to Our Business and Our Industry

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 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 may implement similar orders, if they have not already done so. 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 come 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, could also increase as a result of the effects of the pandemic such as increased price competition or a reduction in customer spending. Current or potential customers 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. We expect traditional "brick-and-mortar" retailers to reduce purchase orders for our products as retailers shift focus to online channels, and we also expect reduced foot traffic in their stores 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.

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 customers generally do not have long-term contracts with us and may terminate their subscription for our service in most cases without penalty or early termination charges. We cannot accurately predict our customer churn. Our Ooma Residential customers subscribing to Premium Services have no obligation to renew their subscriptions for such services and may elect to terminate their subscription for any number of reasons. 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. 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, leading retailers such as Amazon, Costco.com, Best Buy and Walmart, and our reseller partnerships and 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.

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. 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, incorporates 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. 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 an 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 may be disrupted by natural disasters, inclement weather conditions, civil unrest, strikes, acts of terrorism and other adverse events in the Philippines. Furthermore, as we expand our operations internationally, we may need to make significant expenditures and investments in our customer service and support to adequately address the complex needs of international customers, such as support in multiple foreign languages. 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. 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.

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. For example, our product gross margins in recent quarters were negatively impacted by imposed tariffs. On August 23, 2019, the U.S. President announced new and increased tariffs on certain Chinese imported goods beginning September 1, 2019. Such actions subject an even wider range of our products to tariffs and increase existing tariffs on certain of our products, which could negatively impact our gross margins. 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. 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 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 do 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 11: *Commitments and Contingencies* in the accompanying notes to our 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. 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 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. A complaint was filed by the County of Berks, Pennsylvania on January 21, 2016 alleging that we are subject to their taxes, fees and surcharges and have failed to remit the required 911 charges. In addition, on November 28, 2016, Ooma filed a complaint against the Oregon Department of Revenue contesting a tax assessment against the Company for the Oregon Emergency Communications Tax, to which the Department of Revenue alleges we are subject. See Note 11: *Commitments and Contingencies* of the accompanying notes of our 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 develop and maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results in a timely manner, which may adversely affect investor confidence in our company and, as a result, the value of our common stock.

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and the rules and regulations of the applicable listing standards of the New York Stock Exchange. Compliance with these rules and regulations has increased and will continue to increase our legal and financial compliance costs, and has made and will continue to make some activities more difficult, time-consuming or costly, and increase demand on our systems and resources, particularly after we are no longer an "emerging growth company."

The Sarbanes-Oxley Act requires, among other things, that we make a formal assessment and provide an annual management report on the effectiveness of our internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could harm our business and results of operations.

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

Our independent registered public accounting firm will be 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"); see below. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating. Our remediation efforts may not enable us to avoid a material weakness in the future.

Our actual operating results may differ significantly from our guidance.

From time to time, we plan to release 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.

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

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

We will cease to be an "emerging growth company" as of January 31, 2021.

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. If a court were to find the choice of forum provision contained in our amended and restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions.

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.

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 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

Our corporate headquarters are located in Sunnyvale, California and consists of lease space aggregating approximately 33,400 square feet. We lease additional office and warehouse space in the San Francisco Bay Area for various product development, operational and customer support purposes. We also lease offices in several other locations throughout the U.S. as well as Vancouver, British Columbia.

In addition, we lease space from third-party data centers under co-location agreements in Northern California, Texas and Virginia that support our cloud infrastructure.

We believe our existing facilities are adequate to meet our current requirements. We believe that we will be able to obtain additional space at other locations at commercially reasonable terms to support our continuing expansion.

ITEM 3. Legal Proceedings

For a discussion of legal proceedings, see Note 11: *Commitments and Contingencies – Legal Proceedings* in the notes to our consolidated financial statements included in Part II, Item 8, "Financial Statements and Supplementary Data" of this Form 10-K, which information is incorporated herein by reference.

ITEM 4. Mine Safety Disclosures

Not applicable.

PART II

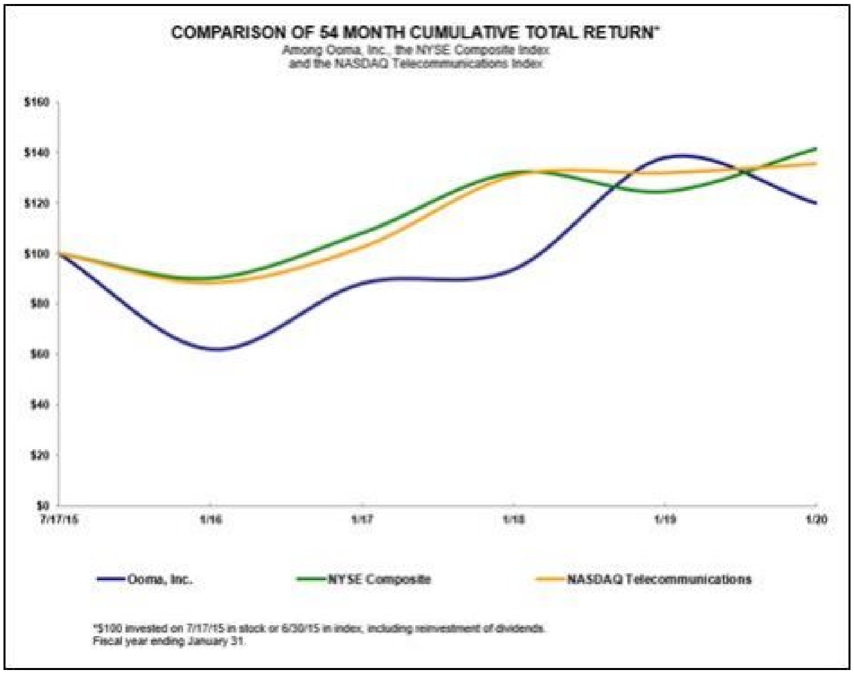
ITEM 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information for Common Stock. Our common stock has been trading on the NYSE under the symbol “OOMA” since July 17, 2015.

Holders of Record. As of January 31, 2020, there were approximately 78 holders of record of our common stock. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

Dividend Policy. We have not declared or paid, and do not anticipate declaring or paying in the foreseeable future, any cash dividends on our capital stock.

Stock Price Performance Graph. The following graph compares the cumulative total return on our common stock with that of the NASDAQ Telecommunications Index and the NYSE. The period shown commences on July 17, 2015, our initial public offering date, and ends on January 31, 2020, the end of our last fiscal year. The graph assumes $100 was invested at the close of market on July 17, 2015 in our common stock, the NASDAQ Telecommunications Index and the NYSE. The stock price performance on the following graph is not intended to forecast or be indicative of future stock price performance of our common stock.



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

Sales of Unregistered Securities. In accordance with the terms of a share purchase agreement, between us and Voxter Communications, on March 12, 2018, we issued 35,513 shares of our common stock to the former shareholders of Voxter Communications for an aggregate offering price of $0.4 million. Such shares were issued in reliance on the exemption from registration under Regulation S promulgated under the Securities Act of 1933, as amended (Securities Act) as all shares were issued in offshore transactions and no directed selling efforts were made in the United States by us as the issuer, a distributor, or any affiliates or other person acting on our behalf. All such shares were issued with a restrictive legend and may only be resold pursuant the resale restrictions set forth in Regulation S and/or Rule 144 under the Securities Act

Use of Proceeds. Not applicable.

ITEM 6. Selected Consolidated Financial Data

The information set forth below for the five years ended January 31, 2020 is not necessarily indicative of results of future operations, and should be read in conjunction with MD&A and the consolidated financial statements, related notes and other financial information included elsewhere in this Form 10-K (in thousands, except share and per share data):

Consolidated Statement of Operations Data:

	Fiscal Year Ended January 31,				
	2020	2019	2018	2017	2016
Revenue	$ 151,593	$ 129,231	$ 114,490	$ 104,524	$ 88,775
Gross margin	$ 89,381	$ 76,491	$ 68,092	$ 59,329	$ 46,910
Net loss	$ (18,801)	$ (14,572)	$ (13,121)	$ (12,949)	$ (14,052)
Basic and diluted net loss per share	$ (0.89)	$ (0.74)	$ (0.71)	$ (0.74)	$ (1.38)
Weighted-average common shares outstanding	21,051,039	19,799,781	18,570,128	17,490,448	10,173,095

Consolidated Balance Sheet Data:

	As of January 31,				
	2020	2019	2018	2017	2016
Cash, cash equivalents and short-term investments	$ 26,064	$ 42,623	$ 51,790	$ 53,201	$ 55,404
Working capital	$ 1,144	$ 17,191	$ 29,338	$ 34,299	$ 35,891
Total assets	$ 80,611	$ 78,388	$ 73,431	$ 73,338	$ 76,536
Deferred revenue, current and non-current	$ 15,971	$ 15,750	$ 15,984	$ 16,030	$ 15,072
Total liabilities	$ 52,196	$ 45,341	$ 36,363	$ 33,518	$ 33,646
Total stockholders' equity	$ 28,415	$ 33,047	$ 37,068	$ 39,820	$ 42,890

The consolidated balance sheet data as of January 31, 2020 reflects the prospective adoption of Topic 842, *Leases*. The consolidated statement of operations data for fiscal 2020 and 2019 and the consolidated balance sheet data as of January 31, 2020 and 2019 reflect the modified retrospective adoption of Topic 606, *Revenue from Contracts with Customers*. Comparative prior period amounts have not been adjusted for Topics 842 and 606 and continue to be reported under the historic accounting standards in effect for the periods presented. (See Note 2: Significant Accounting Policies in the notes to the consolidated financial statements.)

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our consolidated financial statements and the related notes to those statements included elsewhere in this Form 10-K. In addition to historical financial information, the following discussion contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed under "Risk Factors" and elsewhere in this Form 10-K. The last day of our fiscal year is January 31, and we refer to our fiscal year ended January 31, 2020 as fiscal 2020, our fiscal year ended January 31, 2019 as fiscal 2019 and our fiscal year ended January 31, 2018 as fiscal 2018. All other references to years are references to calendar years.

This section of this Form 10-K generally discusses fiscal 2020 and 2019 items and year-to-year comparisons between fiscal 2020 and 2019. Discussion regarding our financial condition and results of operations for fiscal 2019 as compared to 2018 is included in Item 7 of our Annual Report on Form 10-K for the year ended January 31, 2019, filed with the SEC on April 3, 2019.

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 or rental of one of our on-premise appliances, connecting the appliance to the internet, and activating services, for which they primarily pay on a monthly basis. 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.

In May 2019, we acquired Broadsmart Global, Inc. ("Broadsmart"), a provider of cloud-based UCaaS solutions for a gross purchase price of $7.7 million. Broadsmart is expected to provide scale for our Ooma Office and Ooma Enterprise platforms, which aligns with our overall enterprise growth strategy. (See Note 12: *Business Acquisitions* in the notes to the consolidated financial statements.)

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.

See Item 1. Business above for additional information regarding our business, products and services, competitive market and regulatory matters.

Fiscal 2020 Financial Performance

- Total revenue was $151.6 million, up 17% year-over-year, primarily driven by the growth of Ooma Business. We have grown our core users 13% from approximately 929,000 as of January 31, 2018 to approximately 1,048,000 as of January 31, 2020.
- Subscription and services revenue has increased as a percentage of our total revenue over the last three years, from approximately 89% in fiscal 2018 to 92% in fiscal 2020. We expect subscription and services revenue to continue to increase for the foreseeable future.
- Subscription and services revenue from Ooma Business and Ooma Residential grew 61% and 4% year-over-year, respectively.
- Total gross margin was 59%, comparable to 59% in fiscal 2019 and 2018.
- Net loss was $18.8 million, compared to losses of $14.6 million in fiscal 2019 and $13.1 million in fiscal 2018, reflecting continued investments in operations and $3.1 million in total restructuring charges associated with the discontinuation of Ooma Smart Cam in October 2019 and a small reduction-in-force.
- Non-GAAP net loss was $0.7 million, compared to losses of $3.0 million in fiscal 2019 and $1.6 million fiscal 2018.
- Adjusted EBITDA was $1.0 million, compared to ($1.9) million in fiscal 2019 and ($0.2) million in fiscal 2018.
- As of January 31, 2020, we had total cash, cash equivalents and short-term investments of $26.1 million, compared to $42.6 million as of January 31, 2019. Cash usage reflects our investments in operating expenses to execute on our growth initiatives.

Key Factors Affecting Our Performance

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

Core user growth. Our growth in the number of core users, a key business metric defined below, is a key indicator of our market penetration, the growth of our business and our anticipated future subscription and services revenue, especially Ooma Business.

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

Growth in additional services. We believe that there is significant opportunity for us to increase the additional subscription and services that our customers purchase from us in both the business and residential markets. Customers who purchase additional subscription and services from us generate more value to Ooma over the life of our customer relationship. In order to drive adoption of additional services, we will need to continue to enhance our existing solutions and develop new connected services. For example, we continue to invest in Ooma Business to launch additional features.

Investing in long-term revenue growth. We believe that our total addressable market opportunity is large and we intend to continue investing in sales and marketing to grow our user base. However, we expect the markets in which we conduct our business will remain highly competitive. We recently entered the home security market and face significant competition from incumbent providers promoting their own offerings. We also expect to continue investing in research and development to enhance our platforms and develop additional connected services. We may evaluate additional possible acquisitions of businesses, products and technologies that are complementary to our business.

Looking Ahead to Fiscal 2021. In the year ahead, we plan to continue to execute on our growth initiatives and drive long-term revenue growth. However, the extent of the recent COVID-19 pandemic and its impact on our operations is uncertain. 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 would 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 Item 1A.

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

	As of January 31,		
	2020	2019	2018
Core users	1,048	976	929
Annualized exit recurring revenue (AERR)	$ 143,190	$ 119,102	$ 102,992
Net dollar subscription retention rate	100%	99%	101%
Adjusted EBITDA	$ 966	$ (1,859)	$ (217)

Core Users increased 7% 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 number of active residential user accounts and office user extensions. We believe that the relationship that we establish with our core users positions us to sell additional premium communications services and other new connected services to them.

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. We estimate our AERR by dividing our recurring quarterly subscription revenue (excluding Talkatone revenue) by the average number of core users each quarter, and annualize by multiplying by four. We then multiply that result by the number of core users at the end of the period to calculate AERR.

Net Dollar Subscription Retention Rate was 100% for fiscal 2020, 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. It measures the percentage year-over-year change in our recurring subscription revenue per core user (excluding Talkatone revenue), which is then adjusted by factoring in the percentage of our core users we have retained during the same period. Our net dollar subscription retention rate is affected by changes in average amounts that our core users pay to us, fluctuations in the number of our core users, and our core user churn rate.

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

(i) our year-over-year percentage change in annual recurring revenue per core user, which is calculated by:

- determining the annual recurring revenue per core user by dividing annual recurring revenue for the period ended by the number of core users at the end of that particular period; and
- calculating the year-over-year percentage change in annual recurring revenue per core user by dividing the current period recurring revenue per core user by the annual recurring revenue per core user for the same period in the prior year.

by:

(ii) our core user annual retention rate, which is calculated by:

- determining our core user churn, by identifying the number of paying core users who terminate service during a month, excluding infant churn, which we define as office extensions and home users who terminate service prior to the end of the second full calendar month after their activation date;
- calculating our monthly churn rate by dividing our churn in a month by the number of core users at the beginning of that month; and
- calculating our annual retention rate as one minus the sum of our monthly churn rates for the preceding 12-month period.

Adjusted EBITDA

In addition, we use Adjusted EBITDA (Earnings Before Interest Tax and Depreciation and Amortization) 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, restructuring charges and certain litigation costs that are not representative of the ordinary course of our business. (See Note 15: *Restructuring Charges* in the notes to the consolidated financial statements.)

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, restructuring 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):

	Fiscal Year Ended January 31,		
	2020	2019	2018
GAAP net loss	$ (18,801)	$ (14,572)	$ (13,121)
Reconciling items:			
Interest and other income, net	(780)	(830)	(603)
Income tax benefit	(130)	(384)	—
Depreciation and amortization of capital expenditures	2,548	2,269	1,958
Stock-based compensation and related taxes	13,149	10,695	11,118
Restructuring charges	3,085	—	—
Amortization of acquired intangible assets and acquisition-related costs	1,289	821	431
Litigation costs	606	142	—
Adjusted EBITDA	$ 966	$ (1,859)	$ (217)

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 slightly 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 get 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 decrease in both absolute dollars and as a percentage of revenue in the short-term.

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 flat as a percentage of total revenue.

Consolidated Results of Operations

The tables in this section set forth selected consolidated statements of operations data for each of the periods indicated (dollars in thousands):

	Fiscal Year Ended January 31,		
	2020	2019	2018
Revenue:			
Subscription and services	$ 139,499	$ 116,429	$ 101,999
Product and other	12,094	12,802	12,491
Total revenue	151,593	129,231	114,490
Cost of revenue:			
Subscription and services	43,748	36,108	31,406
Product and other	18,464	16,632	14,992
Total cost of revenue	62,212	52,740	46,398
Gross profit	89,381	76,491	68,092
Operating expenses:			
Sales and marketing	50,497	40,761	37,302
Research and development	37,770	33,903	29,328
General and administrative	20,825	17,613	15,186
Total operating expenses	109,092	92,277	81,816
Loss from operations	(19,711)	(15,786)	(13,724)
Interest and other income, net	780	830	603
Loss before income taxes	(18,931)	(14,956)	(13,121)
Income tax benefit	130	384	—
Net loss	$ (18,801)	$ (14,572)	$ (13,121)

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

	Fiscal Year Ended January 31,		
	2020	2019	2018
Cost of revenue	$ 1,311	$ 957	$ 1,129
Sales and marketing	2,004	1,501	1,857
Research and development	4,773	3,906	4,046
General and administrative	5,061	4,331	4,086
Total stock-based compensation and related taxes	$ 13,149	$ 10,695	$ 11,118

Revenue

	Fiscal Year Ended January 31,			Change			
	2020	2019	2018	2020 vs. 2019		2019 vs. 2018	
Revenue:							
Subscription and services	$ 139,499	$ 116,429	$ 101,999	$ 23,070	20%	$ 14,430	14%
Product and other	12,094	12,802	12,491	(708)	(6)%	311	2%
Total revenue	$ 151,593	$ 129,231	$ 114,490	$ 22,362	17%	$ 14,741	13%
Percentage of revenue:							
Subscription and services	92%	90%	89%				
Product and other	8%	10%	11%				
Total	100%	100%	100%				

Fiscal 2020 Compared to Fiscal 2019

We derived approximately 58% and 68% of our total revenue from Ooma Residential and approximately 39% and 28% from Ooma Business in fiscal 2020 and 2019, respectively.

Subscription and services revenue increased $23.1 million or 20% year-over-year, primarily driven by a 7% increase in our core users and an increase in the average revenue per user associated with the growth of Ooma Business. Year-over-year revenue growth reflected a combined 21% increase in subscription and services revenue from Ooma Business and Ooma Residential that was offset in part by a decline in revenue from Talkatone.

Product and other revenue decreased $0.7 million or 6% 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

	Fiscal Year Ended January 31,			Change			
	2020	2019	2018	2020 vs. 2019		2019 vs. 2018	
Cost of revenue:							
Subscription and services	$ 43,748	$ 36,108	$ 31,406	$ 7,640	21%	$ 4,702	15%
Product and other	18,464	16,632	14,992	1,832	11%	1,640	11%
Total cost of revenue	$ 62,212	$ 52,740	$ 46,398	$ 9,472	18%	$ 6,342	14%
Gross margin:							
Subscription and services	69%	69%	69%				
Product and other	(53)%	(30)%	(20)%				
Total	59%	59%	59%				

Fiscal 2020 Compared to Fiscal 2019

Subscription and services gross margin of 69% was flat year-over-year. Cost of subscription and services revenue for fiscal 2020 increased $7.6 million or 21% year-over-year, primarily driven by a $3.5 million increase in employee and consultant related costs, including travel and customer installation-related costs, as well as a $3.3 million increase in telecom and network infrastructure costs, a $0.3 million increase in credit card processing fees and increases in other expenses. 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 53% decreased year-over-year from negative 30% due to restructuring charges of $2.1 million for excess inventory, non-cancelable purchase commitments and impaired intangible assets related to the discontinuation of Ooma Smart Cam in October 2019.

Operating Expenses

	Fiscal Year Ended January 31,			Change			
	2020	2019	2018	2020 vs. 2019		2019 vs. 2018	
Sales and marketing	$ 50,497	$ 40,761	$ 37,302	$ 9,736	24%	$ 3,459	9%
Research and development	37,770	33,903	29,328	3,867	11%	4,575	16%
General and administrative	20,825	17,613	15,186	3,212	18%	2,427	16%
Total operating expenses	$ 109,092	$ 92,277	$ 81,816	$ 16,815	18%	$ 10,461	13%

Fiscal 2020 Compared to Fiscal 2019

Sales and Marketing. Sales and marketing expenses for fiscal 2020 increased $9.7 million or 24% year-over-year, primarily due to a $4.5 million increase in employee and consultant related costs, driven by higher headcount, as well as a $3.0 million increase in commissions expense, a $0.7 million increase in marketing activities and a $0.6 million increase in intangible amortization associated with acquired Broadsmart customer relationships. Overall, the year-over-year increase in sales and marketing reflects our strategy to drive continued growth in Ooma Business.

Research and Development. Research and development expenses for fiscal 2020 increased $3.9 million or 11% year-over-year, primarily due to a $2.5 million increase in employee and consultant related costs, driven by higher headcount, a $0.6 million increase in non-recurring engineering and license costs, and $0.6 million incurred for severance and other charges associated with our October 2019 restructuring actions.

General and Administrative. General and administrative expenses for fiscal 2020 increased $3.2 million or 18% year-over-year, primarily reflecting a $1.6 million increase in employee and consultant related costs, driven by higher headcount, as well as a $0.8 million increase in litigation costs and a $0.2 million increase in software and license fees. The increase in litigation costs were primarily driven by legal proceedings that are not representative of the ordinary course of our business.

Income Taxes

We recorded an income tax benefit of $0.1 million and $0.4 million for fiscal years 2020 and 2019, respectively, primarily associated with our acquisition of Voxter. We did not record a provision or benefit for income taxes in fiscal year 2018. We continue to maintain a full valuation allowance against our deferred tax assets. See Note 10: *Income Taxes* in the notes to our consolidated financial statements.

Non-GAAP Financial Measures

In addition to disclosing financial measures prepared in accordance with GAAP, this Form 10-K contains certain non-GAAP financial measures, including non-GAAP net loss and Adjusted EBITDA (see above). These non-GAAP financial measures exclude non-cash stock-based compensation expense and related taxes, amortization of acquired intangible assets and other acquisition-related charges, restructuring charges and certain litigation costs that are not representative of the ordinary course of our business.

These non-GAAP financial measures are presented to provide investors with additional information regarding our financial results and core business operations. We consider these non-GAAP financial measures to be useful measures of the operating performance of the Company, because they contain adjustments for unusual events or factors that do not directly affect what management considers to be our core operating performance, and are used by our management for that purpose. We also believe that these non-GAAP financial measures allow for a better evaluation of 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 of a company.

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

For additional information and reconciliations of our Adjusted EBITDA, see "Key Business Metrics" above. Reconciliations of our GAAP and non-GAAP net loss were as follows (in thousands):

	Fiscal Year Ended January 31,		
	2020	**2019**	**2018**
GAAP net loss	$ (18,801)	$ (14,572)	$ (13,121)
Stock-based compensation and related taxes	13,149	10,695	11,118
Restructuring charges	3,085	—	—
Amortization of acquired intangible assets and acquisition-related costs	1,289	752	431
Litigation costs	606	142	—
Non-GAAP net loss	$ (672)	$ (2,983)	$ (1,572)

Quarterly Results of Operations and Trends

The following table sets forth selected quarterly financial data for each of the eight quarterly periods ended January 31, 2020 (in thousands, except percentages):

	Three Months Ended			
	January 31	October 31	July 31	April 30
Fiscal 2020				
Total revenue	$ 40,648	$ 39,595	$ 37,343	$ 34,007
Gross profit	$ 24,588	$ 22,040	$ 22,320	$ 20,433
Gross margin	60%	56%	60%	60%
Total operating expenses	$ 27,060	$ 28,980	$ 27,599	$ 25,453
Net loss	$ (2,294)	$ (6,784)	$ (4,983)	$ (4,740)
Fiscal 2019				
Total revenue	$ 34,720	$ 32,608	$ 31,681	$ 30,222
Gross profit	$ 19,707	$ 20,073	$ 18,773	$ 17,938
Gross margin	57%	62%	59%	59%
Total operating expenses	$ 23,534	$ 23,937	$ 22,937	$ 21,869
Net loss	$ (3,489)	$ (3,494)	$ (3,904)	$ (3,685)

Revenue. Our total revenue has grown sequentially each quarter due to the continued growth in our subscriber base driven by an increase in our core users.

Gross Margin. Over the past eight fiscal quarters, our gross margin has fluctuated between 56% and 62% due to changes in our product mix and the introduction of new products, as well as restructuring charges recorded in the third quarter of fiscal 2020 as described above.

Operating Expenses. Our quarterly operating expenses in absolute dollars have increased significantly from fiscal 2019 to fiscal 2020, primarily driven by growing headcount and personnel-related expenses, as well as marketing and advertising expenses associated with our efforts to increase our overall subscriber base and product sales, and restructuring charges recorded in the third quarter of fiscal 2020 as described above.

Liquidity and Capital Resources

As of January 31, 2020, we had $26.1 million of total cash, cash equivalents and short-term investments. Our primary source of cash is receipts from sales to our customers. We believe that our existing cash, cash equivalents and short-term investments will be sufficient to meet our cash needs for at least the next 12 months. Our future capital requirements will depend on many factors, including our growth rate, the timing and extent of our sales and marketing and research and development expenditure, and the continuing market acceptance of our solutions.

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, as well as made payment of $0.4 million in connection with our acquisition of Voxter in fiscal 2019. In addition, in the fourth quarter of fiscal 2019, we invested cash of $1.3 million into a small privately-held technology company, in exchange for an 18-month convertible promissory note (see Note 6: *Balance Sheet Components* of the notes to our consolidated financial statements).

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

	Fiscal Year Ended January 31,		
	2020	2019	2018
Net cash used in operating activities	$ (7,564)	$ (3,926)	$ 3,173
Net cash provided by investing activities	2,866	14,853	(2,155)
Net cash provided by financing activities	1,008	(40)	(525)
Net (decrease) increase in cash and cash equivalents	$ (3,690)	$ 10,887	$ 493

Operating Activities

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

	Fiscal Year Ended January 31,		
	2020	2019	2018
Net loss	$ (18,801)	$ (14,572)	$ (13,121)
Non-cash charges	19,645	12,321	13,327
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable	135	(1,050)	1,856
Decrease (increase) in inventories and deferred inventory costs	407	(4,213)	310
Increase in other assets	(4,965)	(5,334)	(1,519)
(Decrease) increase in accounts payable and other liabilities	(4,089)	8,150	2,366
Increase (decrease) in deferred revenue	104	772	(46)
Net cash (used in) provided by operating activities	$ (7,564)	$ (3,926)	$ 3,173

For fiscal 2020, our net loss of $18.8 million included non-cash charges of $19.6 million primarily related to stock-based compensation, restructuring charges, operating lease expense and depreciation and amortization expense. Operating asset and liability changes for fiscal 2020 included:

- an increase of $5.0 million in other current and non-current assets primarily due to the capitalization of sales commissions costs under Topic 606 and operating lease costs under Topic 842
- a decrease of $4.1 million in accounts payable, accrued expenses and other liabilities due to the timing of payments

For fiscal 2019, our net loss of $14.6 million included non-cash charges of $12.3 million primarily related to stock-based compensation and depreciation and amortization expense. Operating asset and liability changes for fiscal 2019 included:

- an increase of $1.1 million in accounts receivable primarily due to timing of billing and our collection efforts
- a net increase of $4.2 million in our inventory and related deferred costs to scale our business
- an increase of $5.3 million in other current and non-current assets primarily due to the capitalization of sales commissions costs under Topic 606
- an increase of $8.2 million in accounts payable, accrued expenses and other liabilities to support the growth of our business, including higher headcount

Investing Activities

Our investing activities include short-term investment activities, capital expenditures and business acquisitions. Our capital expenditures have primarily been for general business purposes, including network servers used in data centers, computer hardware and other equipment and development of our company website.

During fiscal 2020, cash provided by investing activities was $2.9 million, which consisted of proceeds of $44.4 million from maturities and sales of short-term investments, offset in part by $31.2 million used for purchases of short-term investments, $7.1 million used for the acquisition of Broadsmart in the second fiscal quarter and $3.3 million used for capital expenditures.

During fiscal 2019, cash provided by investing activities was $14.9 million, which consisted of proceeds of $59.0 million from maturities and sales of short-term investments, offset in part by $38.5 million used for purchases of short-term investments, $1.9 million used for capital expenditures, $2.4 million used for the acquisition of Voxter in the first quarter, and $1.3 million used to invest in a privately-held technology company in the fourth quarter.

Financing Activities

Cash generated from financing activities include net proceeds from common stock issuances related to employee stock benefit plans. Cash used in financing activities includes payment of shares repurchased for tax withholdings on vesting of restricted stock units (“RSUs”) and payment of acquisition-related holdbacks.

During fiscal 2020, cash provided by financing activities was $1.0 million, which consisted of proceeds of $3.0 million from the issuance of common stock related to our Employee Stock Purchase Plan (“ESPP”) and stock option exercises, offset in part by payments of $1.5 million related to shares repurchased for tax withholdings on vesting of RSUs, as well as payment of $0.4 million in connection with our fiscal 2019 acquisition of Voxter.

During fiscal 2019, financing activities consisted of payments of $2.9 million related to shares repurchased for tax withholdings on vesting of RSUs, offset by proceeds of $2.9 million from the issuance of common stock related to our ESPP and stock option exercises.

Contractual Obligations and Commitments

As of January 31, 2020, our total future expected payment obligations under non-cancelable operating leases with terms longer than one year were approximately $9.1 million. See Note 7: *Operating Leases* in the notes to our consolidated financial statements for a table of contractual obligations, including payments due by period. As of January 31, 2020, non-cancelable purchase commitments with our contract manufacturers totaled approximately $4.0 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

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP, which requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, cash flows and related disclosures of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances. Actual results may differ from these estimates. Our future consolidated financial statements will be affected to the extent that our actual results materially differ from these estimates. Note 2 to the notes to consolidated financial statements of this Form 10-K describes the significant accounting policies and methods used in the preparation of the consolidated financial statements. We believe that the accounting policies discussed below are critical to understanding our historical and future performance as these policies involve a greater degree of judgment and complexity.

Revenue Recognition

We derive revenue from two sources: (1) subscription and services revenue, which is generated from the sale of subscription plans and other services; and (2) product and other revenue. Our financial results for fiscal 2020 and 2019 are presented in accordance with the provisions under Topic 606, *Revenue Recognition*, which we adopted on February 1, 2018. Comparative prior period amounts for fiscal 2018 have not been adjusted and continue to be reported under Topic 605, which is materially similar to Topic 606.

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. Product and other revenue is generated from the sale of on-premise appliances and end-point devices, including shipping and handling fees for our direct customers, and to a lesser extent from porting fees that enable customers to transfer their existing phone numbers. Beginning fiscal 2019, we recognize revenue from sales to direct end-customers and channel partners at the point in time that control transfers which is typically when we deliver the product or when all customer contractual provisions have been met, if any. Our distribution agreements with channel partners typically contain clauses for price protection and right of return. Prior to fiscal 2019, we deferred product revenue and related costs of revenue on these product channel sales until title was transferred to the end-customer. See Note 2: *Significant Accounting Policies* in the notes to our consolidated financial statements for additional information regarding our subscription and services revenue and product and other revenue.

Our contracts with customers typically contain multiple performance obligations that consist of product(s) and related communications services. For these contracts, we account for individual performance obligations separately if they are distinct. The contract transaction price is then allocated to the separate performance obligations on a relative stand-alone selling price ("SSP") basis. We determine the SSP for our communications services based on observable historical stand-alone sales to customers, for which we require that a substantial majority of selling prices fall within a reasonably narrow pricing range. We do not have a directly observable SSP for our on-premise appliance and end-point devices, and therefore we establish SSP based on our best estimates and judgments, considering company-specific factors such as pricing strategies, estimated product and other costs, and bundling and discounting practices. The determination of SSP is made through consultation with and approval by our management. As our business offerings evolve over time, we may be required to modify our estimated selling prices in subsequent periods, and the timing of our revenue recognition could be affected.

We record reductions to revenue for estimated product returns from end users and customer sales incentives at the time the related revenue is recognized. Product returns and customer sales incentives are estimated based on our historical experience, current trends and expectations regarding future experience. Trends are influenced by product life cycles, new product introductions, market acceptance of products, the type of customer, seasonality and other factors. Product return and sales incentive rates may fluctuate over time but are sufficiently predictable to allow our management to estimate expected future amounts. If actual future returns and sales incentives differ from past experience, additional reserves may be required. To date, actual results have not been materially different from our estimates.

Inventories

Inventories consist of raw materials and finished goods and are stated at the lower of actual cost or market on a first-in, first-out basis. Our assessment of market value requires the use of estimates regarding the net realizable value of our inventory balances, including an assessment of excess or obsolete inventory. At each balance sheet date, we determine excess or obsolete inventory write-downs based on multiple factors, including: forecast demand for our products within a specified time horizon, generally 12 months, product acceptance and competitiveness in the marketplace, product life cycles, product development plans, and current and historical sales levels.

Inventory write-downs for excess and obsolete inventory are recorded in cost of goods sold within the consolidated statement of operations during the period in which such write-downs are determined as necessary by management. If actual future demand or market conditions are less favorable than those projected by management, additional inventory write-downs may be required. This would have a negative impact on our gross margin in that period. If in any period we are able to sell inventories that were not valued or that had been written down in a previous period, related revenues would be recorded without any offsetting charge to cost of sales resulting in a net benefit to our gross margin in that period.

For fiscal 2020, we recorded write-downs of $1.4 million for excess inventory and non-cancelable purchase commitments related to the discontinuation of Ooma Smart Cam in October 2019, which were included in the restructuring charges described above. Inventory write-downs recorded for fiscal 2019 and 2018 were not material.

Income Taxes

We account for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between financial statement carrying amounts and the tax basis of assets and liabilities and net operating loss and tax credit carryforwards. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. We have recorded a full valuation allowance against our deferred tax assets as of January 31, 2020 and 2019.

We use a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. A tax position is recognized when it is more likely than not that the tax position will be sustained upon examination, including resolution of any related appeals or litigation processes. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement with a taxing authority. Deferred tax assets associated with our unrecognized tax benefits were fully offset by a valuation allowance as of January 31, 2020 and 2019.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rates

Our exposure to market risk for changes in interest rates primarily relates to our cash and cash equivalents and short-term investments. Our cash equivalents and investments are held in money market funds, U.S. treasury securities, U.S. agency debt securities, commercial papers, corporate debt securities and asset-backed securities. Due to the short-term nature of these instruments, we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. Declines in interest rates, however, would reduce our future interest income. The effect of a hypothetical 100 basis point increase or decrease in interest rates would not have had a material impact on the fair value of our available-for-sale securities as of January 31, 2020 and 2019, or our interest income for each of the three years in the period ended January 31, 2020. We did not have any debt as of January 31, 2020 and 2019.

Foreign Currencies

To date, our revenue has been primarily denominated in U.S. dollars with a small portion denominated in Canadian dollars. As a result, some of our revenue is subject to fluctuations due to changes in the Canadian dollar relative to the U.S. dollar. Substantially all of our operating expenses have been denominated in U.S. dollars. The functional currency for all of our entities is the U.S. dollar. To date, gains and losses from foreign currency transactions have not been material to our consolidated financial statements, and we have not engaged in any foreign currency hedging transactions. A hypothetical 10% increase or decrease in overall foreign currency rates would not have had a material impact on our consolidated financial statements. As our international operations grow, we will continue to reassess our approach to managing the risks relating to fluctuations in currency rates.

ITEM 8. Consolidated Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Ooma, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Ooma, Inc. and subsidiaries (the "Company") as of January 31, 2020 and 2019, the related consolidated statements of operations, stockholders' equity, and cash flows, for each of the three years in the period ended January 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of January 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended January 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 and 3 to the financial statements, the Company adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, using the modified retrospective approach on February 1, 2018 and ASU No. 2016-02, *Leases,* using the modified retrospective transition method on February 1, 2019.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP

San Jose, California
April 13, 2020

We have served as the Company's auditor since 2012.

OOMA, INC.

CONSOLIDATED BALANCE SHEETS

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

	January 31, 2020	January 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 11,680	$ 15,370
Short-term investments	14,384	27,253
Accounts receivable, net	4,591	3,723
Inventories	8,369	10,117
Other current assets	8,992	5,450
Total current assets	48,016	61,913
Property and equipment, net	5,270	4,563
Operating lease right-of-use assets	8,057	—
Intangible assets, net	6,818	2,635
Goodwill	4,264	3,898
Other assets	8,186	5,379
Total assets	$ 80,611	$ 78,388
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 8,499	$ 10,231
Accrued expenses and other current liabilities	22,576	19,048
Deferred revenue	15,797	15,443
Total current liabilities	46,872	44,722
Long-term operating lease liabilities	5,150	—
Other liabilities	174	619
Total liabilities	52,196	45,341
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Preferred stock $0.0001 par value: 10 million shares authorized; none issued and outstanding	—	—
Common stock $0.0001 par value: 100 million shares authorized; 21.7 million and 20.3 million shares issued and outstanding, respectively	4	4
Additional paid-in capital	152,993	138,848
Accumulated other comprehensive income (loss)	14	(10)
Accumulated deficit	(124,596)	(105,795)
Total stockholders' equity	28,415	33,047
Total liabilities and stockholders' equity	$ 80,611	$ 78,388

See notes to consolidated financial statements.

OOMA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Fiscal Year Ended January 31,		
	2020	2019	2018
Revenue:			
Subscription and services	$ 139,499	$ 116,429	$ 101,999
Product and other	12,094	12,802	12,491
Total revenue	151,593	129,231	114,490
Cost of revenue:			
Subscription and services	43,748	36,108	31,406
Product and other	18,464	16,632	14,992
Total cost of revenue	62,212	52,740	46,398
Gross profit	89,381	76,491	68,092
Operating expenses:			
Sales and marketing	50,497	40,761	37,302
Research and development	37,770	33,903	29,328
General and administrative	20,825	17,613	15,186
Total operating expenses	109,092	92,277	81,816
Loss from operations	(19,711)	(15,786)	(13,724)
Interest and other income, net	780	830	603
Loss before income taxes	(18,931)	(14,956)	(13,121)
Income tax benefit	130	384	—
Net loss	$ (18,801)	$ (14,572)	$ (13,121)
Net loss per share of common stock:			
Basic and diluted	$ (0.89)	$ (0.74)	$ (0.71)
Weighted-average shares of common stock outstanding:			
Basic and diluted	21,051,039	19,799,781	18,570,128

See notes to consolidated financial statements.

OOMA, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Amounts in thousands, except shares and share data)

	Common Stock		Additional	Accumulated Other Comprehensive	Accumulated	Stockholders'
	Shares	Amount	Paid-In Capital	Income (Loss)	Deficit	Equity
BALANCE - January 31, 2017	17,995,555	$ 2	$ 117,639	$ (11)	$ (77,810)	$ 39,820
Issuance of common stock under equity-based plans	1,345,392	—	1,964	—	—	1,964
Shares repurchased for tax withholdings on vesting of RSUs	(244,865)	—	(2,443)	—	—	(2,443)
Exercise of warrants to common stock	19,352	—	—	—	—	—
Stock-based compensation	—	—	10,921	—	—	10,921
Other comprehensive loss	—	—	—	(73)	—	(73)
Net loss	—	—	—	—	(13,121)	(13,121)
BALANCE - January 31, 2018	19,115,434	2	128,081	(84)	(90,931)	37,068
Issuance of common stock under equity-based plans	1,374,336	2	2,933	—	—	2,935
Shares repurchased for tax withholdings on vesting of RSUs	(213,181)	—	(2,926)	—	—	(2,926)
Issuance of common stock for business acquisition	35,513	—	390	—	—	390
Stock-based compensation	—	—	10,370	—	—	10,370
Other comprehensive income	—	—	—	74	—	74
Cumulative adjustment upon adoption of Topic 606	—	—	—	—	(292)	(292)
Net loss	—	—	—	—	(14,572)	(14,572)
BALANCE - January 31, 2019	20,312,102	4	138,848	(10)	(105,795)	33,047
Issuance of common stock under equity-based plans	1,515,111	—	2,951	—	—	2,951
Shares repurchased for tax withholdings on vesting of RSUs	(111,085)	—	(1,523)	—	—	(1,523)
Stock-based compensation	—	—	12,717	—	—	12,717
Other comprehensive income	—	—	—	24	—	24
Net loss	—	—	—	—	(18,801)	(18,801)
BALANCE - January 31, 2020	21,716,128	$ 4	$ 152,993	$ 14	$ (124,596)	$ 28,415

See notes to consolidated financial statements.

OOMA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

	Fiscal Year Ended January 31,		
	2020	**2019**	**2018**
Cash flows from operating activities:			
Net loss	$ (18,801)	$ (14,572)	$ (13,121)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Stock-based compensation expense	12,761	10,370	10,921
Depreciation and amortization of capital expenditures	2,548	2,269	1,958
Amortization of intangible assets and non-cash acquisition-related costs	1,027	398	313
Non-cash restructuring charges	1,603	—	—
Non-cash operating lease expense	1,997	—	—
Deferred income taxes	(144)	(384)	—
Other	(147)	(332)	135
Changes in operating assets and liabilities:			
Accounts receivable, net	135	(1,050)	1,856
Inventories and deferred inventory costs	407	(4,213)	310
Prepaid expenses and other assets	(4,965)	(5,334)	(1,519)
Accounts payable and other liabilities	(4,089)	8,150	2,366
Deferred revenue	104	772	(46)
Net cash (used in) provided by operating activities	(7,564)	(3,926)	3,173
Cash flows from investing activities:			
Purchases of short-term investments	(31,234)	(38,485)	(49,331)
Proceeds from maturities of short-term investments	38,522	53,736	49,217
Proceeds from sales of short-term investments	5,924	5,225	1,800
Capital expenditures	(3,273)	(1,921)	(2,478)
Business acquisition, net of cash assumed	(7,073)	(2,402)	(1,363)
Payment for purchase of convertible note		(1,300)	—
Net cash provided by (used in) investing activities	2,866	14,853	(2,155)
Cash flows from financing activities:			
Proceeds from issuance of common stock	2,951	2,886	1,918
Shares repurchased for tax withholdings on vesting of RSUs	(1,523)	(2,926)	(2,443)
Payment of acquisition-related holdback	(420)	—	—
Net cash provided by (used in) financing activities	1,008	(40)	(525)
Net (decrease) increase in cash and cash equivalents	(3,690)	10,887	493
Cash and cash equivalents at beginning of period	15,370	4,483	3,990
Cash and cash equivalents at end of period	$ 11,680	$ 15,370	$ 4,483
Non-cash investing and financing activities:			
Unpaid portion of capital expenditures	$ 413	$ 201	$ 146
Contingent consideration for business acquisition	$ —	$ 231	$ 311
Holdback payable for business acquisition	$ —	$ 780	$ —
Shares issued for business acquisition and related earn-out	$ —	$ 390	$ —

See notes to 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 SaaS platforms.

Principles of Presentation and Consolidation. The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated upon consolidation. In the opinion of the Company's management, the consolidated financial statements reflect all adjustments, which are normal and recurring in nature, necessary for fair financial statement presentation.

Fiscal Year. The Company's fiscal year ends on January 31. References to fiscal 2020, fiscal 2019 and fiscal 2018 refer to the fiscal years ended January 31, 2020, January 31, 2019 and January 31, 2018, respectively.

Use of Estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Company's consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates.

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

Segment Reporting. The chief operating decision maker for the Company is the chief executive officer. The Company's subscription plans, services and product offerings operate on SaaS platforms and the chief executive officer reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. Accordingly, management has determined that the Company operates in one reportable segment.

Revenue was principally derived from customers located in the United States for all periods presented. All of the Company's long-lived assets were attributable to operations in the United States, with a small portion attributable to operations in Canada and other countries, for all periods presented.

Note 2: Significant Accounting Policies

Revenue Recognition

On February 1, 2018, the Company adopted Topic 606, *Revenue from Contracts with Customers*. The Company's financial results for fiscal years 2020 and 2019 are presented in accordance with the provisions under Topic 606. Comparative prior period amounts for fiscal 2018 have not been adjusted and continue to be reported under Topic 605, *Revenue Recognition*, which is materially similar to Topic 606.

The Company derives its revenue from two sources: (1) subscription and services revenue, which is derived primarily from the sale of subscription plans for communications services and other connected services; and (2) product and other revenue. Subscriptions and services are sold directly to end-customers. Products are sold to end-customers through several channels, including but not limited to, distributors, retailers and resellers (collectively the "channel partners"), and Ooma sales representatives.

Under Topic 606, the Company determines revenue recognition through the following steps:

- *identification of the contract(s) with a customer;*
- *identification of the performance obligations in the contract;*
- *determination of the transaction price;*
- *allocation of the transaction price to the performance obligations in the contract; and*
- *recognition of revenue when, or as, the Company satisfies a performance obligation*

Revenue is recorded net of any sales and telecommunications taxes collected from customers to be remitted to government authorities.

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

	Fiscal Year Ended January 31,		
	2020	2019	2018
Subscription and services revenue	$ 139,499	$ 116,429	$ 101,999
Product and other revenue	12,094	12,802	12,491
Total revenue	$ 151,593	$ 129,231	$ 114,490

The Company derived approximately 58%, 68% and 71% of its total revenue from Ooma Residential and approximately 39%, 28% and 22% from Ooma Business in fiscal 2020, 2019 and 2018, 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.

Subscription and Services Revenue. Most of the Company's revenue is derived 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. The Company's service plans are generally sold as monthly subscriptions; however, certain plans are also offered as annual or multi-year subscriptions. A small portion of the Company's revenue is recognized on an over-time basis from installation-related services and on a point-in-time basis from services such as: prepaid international calls, directory assistance, and advertisements displayed through its Talkatone mobile application.

Product and Other Revenue. 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. The Company's distribution agreements with channel partners typically contain clauses for price protection and right of return. Therefore, the amount of product revenue recognized is adjusted for any variable consideration, such as expected returns and customer sales incentives as described in "Sales Allowances" below.

Amounts billed to customers related to shipping and handling are classified as revenue. Shipping and handling costs are expensed as incurred and classified as cost of revenue.

Multiple performance obligations. The Company's contracts with customers typically contain multiple performance obligations that consist of product(s) and related communications services. For these contracts, the Company accounts for individual performance obligations separately if they are distinct. The contract transaction price is then allocated to the separate performance obligations on a relative stand-alone selling price basis. The Company determines the SSP for its communications services based on observable historical stand-alone sales to customers, for which the Company requires that a substantial majority of selling prices fall within a reasonably narrow pricing range. The Company does not have a directly observable SSP for its on-premise appliance and end-point devices, and therefore establishes SSP based on its best estimates and judgments, considering company-specific factors such as pricing strategies, estimated product and other costs, and bundling and discounting practices.

Sales allowances. Credits and/or rebates issued to customers for product returns and sales incentives are deemed to be variable consideration under Topic 606, which the Company estimates and records as a reduction to revenue at the point of sale. Product returns and customer sales incentives are estimated based on the Company's historical experience, current trends and expectations regarding future experience. Trends are influenced by product life cycles, new product introductions, market acceptance of products, the type of customer, seasonality and other factors. Product return and sales incentive rates may fluctuate over time but are sufficiently predictable to allow the Company to estimate expected future amounts. If actual future returns and sales incentives differ from past experience, additional reserves may be required. As of January 31, 2020 and 2019, the Company had total reserves for product returns and customer sales incentives of $1.4 million and $0.6 million, respectively.

Cash Equivalents and Short-term Investments. All highly liquid investments with an original maturity of three months or less at the date of purchase are classified as cash equivalents. Short-term investments are classified as available-for-sale and carried at fair value, with unrealized gains and losses, net of tax, recorded as a separate component of stockholders' equity within accumulated other comprehensive income (loss). The cost of securities sold is based upon the specific identification method.

Fair Value of Financial Instruments. The Company records its financial assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the reporting date. The Company estimates and categorizes the fair value of its financial assets 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

Transfers among Level classifications are recognized as of the actual date of the events or change in circumstances that caused the transfers. The carrying value of the Company's financial instruments, including cash equivalents, accounts receivable, inventory, accounts payable and other current assets and current liabilities approximates fair value due to their short maturities.

Concentration of Credit Risk. Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash equivalents, short-term investments, accounts receivables and other receivables. The Company's cash equivalents and short-term investments are held by financial institutions that management believes are of high-credit quality. Such investments and deposits may, at times, exceed federally insured limits. The Company performs credit evaluations of its channel partners' financial condition and generally does not require collateral for sales made on credit.

As of January 31, 2020, no single customer accounted for 10% or more of the Company's net accounts receivable balance. As of January 31, 2019, one customer accounted for 15% of the Company's net accounts receivable balance.

Accounts Receivable. Accounts receivable are stated at invoice value less estimated allowances for doubtful accounts, product returns and customer sales incentives. The Company records its allowances for doubtful accounts based upon its assessment of several factors, including historical experience, aging of receivable balances and economic conditions. As of January 31, 2020 and 2019, the Company recorded allowances for doubtful accounts of $0.2 million and $0.1 million, respectively. (See "Sales Allowances" above regarding allowances for product returns and sales incentives.)

Inventories. Inventories, which consist of raw materials and finished goods, include the cost to purchase manufactured products, allocated labor and overhead. Inventories are stated at the lower of actual cost or market on a first-in, first-out basis. The Company's assessment of market value requires the use of estimates regarding the net realizable value of its inventory balances, including management's assessment of excess or obsolete inventory based upon forecast demand and market conditions. Adjustments to reduce inventory to net realizable value are recognized as a component of cost of revenue in the consolidated statement of operations.

Customer Acquisition Costs. Sales commissions and other costs paid to internal sales personnel, third-party sales entities and value-added resellers are considered incremental and recoverable costs of obtaining customer contracts. (The resellers are selling agents for the Company and earn sales commissions that are directly tied to the value of the contracts that the Company enters with the end-user customers.) Beginning fiscal 2019, under Topic 606, these costs are capitalized and amortized on a systematic basis over the expected period of benefit of five years, or customer contractual term for multi-year contracts, calculated based on both qualitative and quantitative factors, such as expected subscription term and expected renewal periods of its customer contracts, product life cycles and customer attrition. Amortization expense is recorded in sales and marketing expenses in the consolidated statement of operations. Prior to fiscal 2019, such costs were expensed as incurred.

The Company pays sales commissions on initial contracts and contracts for increased purchases with existing customers (expansion contracts) and does not pay commissions for contract renewals. The Company periodically evaluates whether there have been any changes in its business, the market conditions in which it operates or other events which would indicate that its amortization period should be changed or if there are potential indicators of impairment. To date, there have been no impairment losses related to the costs capitalized.

Internal-Use Website Development Costs. The Company capitalizes certain costs to develop its websites when preliminary development efforts are successfully completed, management has authorized and committed project funding, and it is probable that the project will be completed and the software will be used as intended. Such costs primarily include payroll-related costs for engineers and contractors directly associated with the development project. Capitalized website development costs are included in property and equipment and are amortized on a straight-line basis over an estimated useful life of two years. Costs related to preliminary project activities and post-implementation activities are expensed as incurred.

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

Operating Leases. The Company determines if an arrangement is a lease at inception. The Company's leases primarily consist of real property and are classified as operating leases. The Company does not have any finance leases nor material arrangements as a lessor. Right-of-use lease assets and lease liabilities are recognized at the lease commencement date based upon the present value of the remaining lease payments over the lease term. The Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. Lease expense for lease payments is recognized on a straight-line basis over the term of the lease. Lease terms may include options to renew or extend when it is reasonably certain that the option will be exercised. Lease agreements that contain both lease and non-lease components are accounted for as a single component. Short-term leases with an initial term of twelve months or less are not recorded on the balance sheet.

Goodwill. Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in a business combination. Goodwill is evaluated for impairment annually in the fourth quarter of its fiscal year, or more frequently if indicators of potential impairment arise. The Company has a single reporting unit and consequently evaluates goodwill for impairment based on an evaluation of the fair value of the Company as a whole. No impairment has been recognized for any of the periods presented.

Intangible Assets. Acquired intangible assets other than goodwill, which primarily consist of developed technology and customer relationships, are amortized over their useful lives unless the lives are determined to be indefinite. For intangible assets acquired in a business combination, the estimated fair values of the assets received are used to establish their recorded values. Valuation techniques consistent with the market approach, income approach and/or cost approach are used to measure fair value.

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

During fiscal 2020, the Company recorded impairment charges of $0.7 million to cost of product revenue for abandoned developed technology and trade names associated with the Ooma Smart Cam, which was acquired through the fiscal 2018 acquisition of Butterfleye, Inc. and discontinued in October 2019. See Note 15: *Restructuring Charges* below. The Company did not record any material impairment charges for fiscal 2019 and 2018.

Research and Development. Research and development costs, including new product development, are charged to operating expenses as incurred in the consolidated statements of operations. Research and development included personnel-related costs (including stock-based compensation), allocated costs of facilities and information technology, supplies, software tools and product certification.

Advertising. Advertising costs are included in sales and marketing and expensed as incurred, except for production costs associated with television and radio advertising, which are expensed on the first date of airing. Advertising costs were $13.6 million, $13.7 million and $14.4 million for fiscal 2020, 2019 and 2018, respectively.

Advertising payments to the Company’s channel partners recorded as a reduction in revenue totaled $0.4 million for fiscal 2020 and $0.3 million for fiscal 2019 and 2018.

Stock-Based Compensation. Stock-based compensation expense for all stock-based awards granted to employees is measured at the grant date based on the fair value of the equity award and is recognized as expense over the requisite service period, which is generally the vesting period. The fair value of options granted is estimated on the date of grant using the Black-Scholes option pricing model. The fair value of each RSU granted is determined using the fair value of the Company’s common stock on the date of grant. The fair value of each stock purchase right under the Company's ESPP is calculated based on the closing price of the Company's stock on the date of grant and the value of a call and put option is estimated using the Black-Scholes pricing model.

Income Taxes. Income taxes are recorded using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income (or loss) in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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

Interest and penalties associated with unrecognized tax benefits are classified as income tax expense. The Company had no interest or penalty accruals associated with uncertain tax benefits in its consolidated balance sheets and statements of operations for any periods presented.

Foreign currency. The U.S. dollar is the functional currency of the Company's foreign subsidiaries. Remeasurement and transaction gains and losses are included in interest and other income, net and were not material for any periods presented.

Note 3: Recent Accounting Standards

Adopted Accounting Standards

Leases. On February 1, 2019, the Company adopted Accounting Standards Update ("ASU") 2016-02, *Leases* (Topic 842) which superseded the guidance in Topic 840 and required the Company to recognize operating leased assets and corresponding liabilities on the balance sheet and to provide enhanced disclosures. The Company adopted Topic 842 using the modified retrospective transition method by applying the new standard to all leases existing at the date of initial adoption and not restating comparative periods. The Company elected the package of practical expedients, which among other things, allowed it to carry forward its historical lease classification and its assessment of whether any existing leases as of the date of adoption are or contain leases.

Adoption on February 1, 2019 resulted in the recognition of $4.1 million of operating right-of-use assets and $4.3 million of operating lease liabilities on the consolidated balance sheet, with no adjustment to accumulated deficit. The difference of $0.2 million represented deferred rent for leases that existed as of the date of adoption, which was an offset to the opening balance of right-of-use assets.

Adoption of the new standard did not materially impact the Company's consolidated statements of operations, consolidated statements of stockholders' equity and consolidated statements of cash flows. The Company has implemented policies, processes and controls to support the standard's measurement and disclosure requirements. See Note 2: *Significant Accounting Policies* above and Note 7: *Operating Leases* below.

Accounting Standards Not Yet Adopted

Financial Instruments-Credit Losses. In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost, which includes accounts receivables, certain financial instruments and contract assets. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss methodology, which will result in more timely recognition of credit losses. The amendment is effective for the Company beginning in fiscal 2021. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

Fair Value Measurement. In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurements*, which expands the disclosure requirements for Level 3 fair value measurements as well as eliminates, adds and modifies certain other disclosure requirements for fair value measurements. The amendment is effective for the Company beginning in fiscal 2021. The Company does not expect adoption to have a material impact on its consolidated financial statements.

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 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 currently evaluating the impact of the new guidance on its consolidated financial statements.

Note 4: Fair Value Measurements

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

	Balance as of January 31, 2020			Balance as of January 31, 2019		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Cash and cash equivalents:						
Money market funds	$ 4,822	$ —	$ 4,822	$ 5,951	$ —	$ 5,951
Commercial paper	—	—	—	—	5,429	5,429
Total cash equivalents	$ 4,822	$ —	$ 4,822	$ 5,951	$ 5,429	$ 11,380
Cash			6,858			3,990
Total cash and cash equivalents			$ 11,680			$ 15,370
Short-term investments:						
U.S. treasury securities	$ 4,492	$ —	$ 4,492	$ 11,088	$ —	$ 11,088
Corporate debt securities	—	3,504	3,504	—	4,735	4,735
Commercial paper	—	5,482	5,482	—	8,253	8,253
U.S. agency securities	—	—	—	—	990	990
Asset-backed securities	—	906	906	—	2,187	2,187
Total short-term investments	$ 4,492	$ 9,892	$ 14,384	$ 11,088	$ 16,165	$ 27,253

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. The fair value of Level 2 financial instruments were obtained from an independent pricing service, which used quoted market prices for identical or comparable instruments or model driven valuations that used observable market data or inputs corroborated by observable market data. Commercial paper was valued using market prices, if available, adjusted for accretion of the purchase price to face value at maturity.

For the periods presented, the amortized cost of cash equivalents and marketable securities approximated their fair value and there were no material realized or unrealized gains or losses, either individually or in the aggregate. No investments in the Company's portfolio were other-than-temporarily impaired. The Company had no material Level 3 assets or liabilities and there have been no transfers between levels.

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

	As of	
	January 31, 2020	January 31, 2019
Due in one year or less	$ 13,145	$ 27,253
Due after one year to two years	1,239	—
Total	$ 14,384	$ 27,253

Note 5: Goodwill and Acquired Intangible Assets

The carrying amount of goodwill was $4.3 million and $3.9 million as of January 31, 2020 and 2019, respectively. The Company recognized intangibles of $6.1 million and goodwill of $0.4 million in connection with the acquisition of Broadsmart in May 2019. See Note 12: *Business Acquisitions* below. There was no change to goodwill subsequent to this acquisition.

The gross value, accumulated amortization and carrying values of intangible assets were as follows (in thousands):

		As of January 31, 2020			As of January 31, 2019		
	Estimated life (in years)	Gross Value	Accumulated Amortization	Carrying Value	Gross Value	Accumulated Amortization	Carrying Value
Customer relationships	5-7	$ 6,735	$ (894)	$ 5,841	$ 902	$ (157)	$ 745
Developed technology	5	2,122	(1,500)	622	2,716	(1,121)	1,595
Trade names	5	625	(270)	355	451	(166)	285
Patents and licenses	NA	—	—	—	714	(704)	10
Total intangible assets		$ 9,482	$ (2,664)	$ 6,818	$ 4,783	$ (2,148)	$ 2,635

During fiscal 2020, the Company recorded impairment charges of $0.7 million to cost of product revenue for abandoned developed technology and trade names associated with the Ooma Smart Cam, which was acquired through the fiscal 2018 acquisition of Butterfleye, Inc. and discontinued in October 2019. See Note 15: *Restructuring Charges* below.

Amortization expense was $1.2 million, $0.7 million and $0.3 million in fiscal 2020, 2019 and 2018, respectively.

At January 31, 2020, the estimated future amortization expense for intangible assets is as follows (in thousands):

Fiscal Years Ending January 31,	Total
2021	1,305
2022	1,305
2023	1,305
2024	940
2025	852
Thereafter	1,111
Total	$ 6,818

Note 6: Balance Sheet Components

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

Inventories

	As of January 31, 2020	As of January 31, 2019
Finished goods	$ 6,988	$ 7,567
Raw materials	1,381	2,550
Total inventory	$ 8,369	$ 10,117

Property and equipment, net

	Estimated life (in years)	As of January 31, 2020	As of January 31, 2019
Computer hardware and software	3-4	$ 7,046	$ 7,109
Network and engineering equipment	3-5	3,479	1,190
Website development costs	2	2,689	3,323
Customer premise equipment	3	691	—
Office furniture and fixtures	5	124	114
Leasehold improvements	1-5	420	449
Total property and equipment		14,449	12,185
Less: accumulated depreciation and amortization		(9,179)	(7,622)
Property and equipment, net		$ 5,270	$ 4,563

Depreciation and amortization of property and equipment totaled $2.5 million, $2.3 million and $2.0 million in fiscal 2020, 2019 and 2018, respectively.

Other assets

	As of January 31, 2020	As of January 31, 2019
Prepaid expenses	$ 2,739	$ 2,681
Deferred sales commissions, current	2,525	1,081
Convertible note receivable	1,453	—
Deferred inventory costs	867	334
Other current assets	1,408	1,354
Total other current assets	$ 8,992	$ 5,450
Deferred sales commissions, non-current	$ 7,412	$ 3,387
Convertible note receivable	—	1,315
Other non-current assets	774	677
Total other non-current assets	$ 8,186	$ 5,379

Customer Acquisition Costs. During fiscal 2020 and 2019, amortization expense for total deferred sales commissions was $2.2 million and $0.7 million, respectively.

Global Telecomm Corporation ("GTC"). 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 January 31, 2020, the Company's maximum exposure to loss was equal to the carrying value of its convertible note receivable, including accrued interest. For all periods presented, the Company held no other variable interests in VIEs.

GTC is a related party of Ooma as a result of the convertible note. During fiscal 2020, the Company procured certain raw material inventories from GTC that amounted to approximately $0.9 million. As of January 31, 2020 and 2019, the Company recorded prepaid inventory deposits to GTC of $0.5 million and zero, respectively, included in other current assets on the consolidated balance sheet. As of January 31, 2020 and 2019, the Company's non-cancelable purchase commitments with GTC were $2.2 million and zero, respectively.

Accrued expenses

	As of	
	January 31, 2020	January 31, 2019
Payroll and related expenses	$ 8,942	$ 7,926
Regulatory fees and taxes	4,777	5,645
Short-term operating lease liabilities (1)	3,263	—
Customer sales incentives	1,293	970
Other	4,301	4,507
Total accrued expenses	$ 22,576	$ 19,048

(1) The Company adopted Topic 842, the new accounting standard for leasing arrangements on February 1, 2019. See Note 7: *Operating Leases* below.

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 consolidated balance sheets.

	As of	
	January 31, 2020	January 31, 2019
Subscription and services	$ 15,892	$ 15,682
Product and other	79	68
Total deferred revenue	$ 15,971	15,750
Less: current deferred revenue	15,797	15,443
Non-current deferred revenue included in other long-term liabilities	$ 174	$ 307

During fiscal 2020, the Company recognized revenue of approximately $15.4 million pertaining to amounts deferred as of January 31, 2019. As of January 31, 2020, the Company's deferred revenue balance was primarily composed of subscription contracts that were invoiced during fiscal 2020.

Remaining Performance Obligations. As of January 31, 2020, contract revenue that has not yet been recognized for open contracts with an original expected length of greater than one year was $0.2 million. This amount includes both long-term deferred revenue and any non-cancelable contract amounts that will be invoiced and recognized as revenue in future periods.

Note 7: 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, with expiration dates through fiscal 2025. The lease agreements often include escalating rent payments, renewal provisions and other provisions which require the Company to pay common area maintenance costs, property taxes and insurance. The lease agreements do not contain any material residual value guarantees or material restrictive covenants.

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

	As of January 31, 2020
Assets	
Operating lease right-of-use assets	$ 8,057
Total leased assets	$ 8,057
Liabilities	
Short-term operating lease liabilities	$ 3,263
Long-term operating lease liabilities	5,150
Total lease liabilities	$ 8,413
Weighted-average remaining lease term	2.6 years
Weighted-average discount rate	5.36%

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

The components of lease expense were as follows (in thousands):

	Fiscal Year Ended January 31, 2020
Operating lease costs (1)	$ 2,796
Variable lease costs (2)	1,062
Total lease cost	$ 3,858

(1) Operating lease costs are recognized on a straight-line basis over the lease term. Includes costs for leases with an initial term of twelve months or less, which were not material.
(2) Variable lease costs primarily included common area maintenance, utilities and property taxes and insurance, which were expensed as incurred.

Total lease costs for fiscal 2019 and 2018 were $3.4 million and $2.7 million, respectively, under Topic 840.

In October 2017, the Company entered into an office sublease agreement with Fiserv Solutions, LLC (“Fiserv”) to lease approximately 33,400 rentable square feet of an office building located in Sunnyvale, California, the Company’s corporate headquarters. One of the members of the Company’s board of directors is also a member of Fiserv’s board of directors. Therefore, Fiserv is a related party of the Company. During fiscal 2020, 2019 and 2018, the Company incurred total lease costs of approximately $1.0 million, $1.2 million and $0.2 million under this sublease agreement, respectively, which are included in the table above. This sublease expired at the end of November 2019. In the third quarter of fiscal 2020, the Company entered into a new sublease agreement with an unrelated third party to lease its current corporate headquarters in Sunnyvale, California from December 1, 2019 through January 31, 2022.

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

	Fiscal Year Ended January 31, 2020
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 2,148
Right-of-use assets recognized in exchange for new operating lease obligations	$ 5,856

As of January 31, 2020, maturities of lease liabilities under non-cancelable operating leases were as follows (in thousands):

Fiscal Years Ending January 31,	January 31, 2020
2021	$ 3,354
2022	3,955
2023	1,299
2024	261
2025	200
Total lease payments	9,069
Less: imputed interest	(656)
Present value of lease liabilities	$ 8,413

As of January 31, 2019, future minimum rental payments under non-cancelable operating leases were as follows (in thousands):

Fiscal Years Ending January 31,	January 31, 2019
2020	$ 1,983
2021	1,408
2022	917
2023	266
2024	49
Total [1]	$ 4,623

(1) Amounts are based on Topic 840, *Leases* that was superseded upon the Company's adoption of Topic 842 on February 1, 2019.

Note 8: Stockholders' Equity

Common Stock Reserved for Future Issuance

The Company had shares of common stock reserved for issuance as follows (in thousands):

	As of January 31, 2020
Restricted stock units outstanding	1,657
Stock options outstanding	1,416
Shares available for future grant under 2015 Equity Incentive Plan	1,530
Shares available for future issuance under ESPP	903
Total shares of common stock reserved	5,506

Stock Options. Under the Company's 2015 Equity Incentive Plan, or the 2015 Plan, options to purchase shares of common stock may be granted to employees, directors and consultants. These options vest from the date of grant to up to four years and expire ten years from the date of grant. Options may be exercised anytime during their term in accordance with the vesting/exercise schedule specified in the recipient's stock option agreement and in accordance with the 2015 plan provisions.

Stock option activity for fiscal 2020 was as follows:

	Shares (in thousands)	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value (in thousands)
Balance as of January 31, 2019	1,691	$ 6.39	$ 14,755
Granted	89	$ 15.49	
Exercised	(249)	$ 2.64	
Canceled	(115)	$ 9.74	
Balance as of January 31, 2020	1,416	$ 7.35	$ 8,530
Vested and exercisable as of January 31, 2020	1,270	$ 6.69	$ 8,371

The aggregate intrinsic value of vested options exercised during fiscal 2020, 2019 and 2018 was $2.2 million, $1.3 million and $0.3 million, respectively. The weighted average grant date fair value of options granted during fiscal 2020, 2019 and 2018 was $7.13, $5.28 and $4.81 per share, respectively.

Restricted Stock Units. Under the 2015 Plan, RSUs may be granted to employees, non-employee board members and consultants. These RSUs vest ratably over a period ranging from one to four years, and are subject to the participant's continuing service to the Company over that period. Until vested, RSUs do not have the voting and dividend participation rights of common stock and the shares underlying the awards are not considered issued and outstanding.

RSU activity for fiscal 2020 and 2019 was as follows:

	Shares (in thousands)	Weighted Average Grant-Date Fair Value Per Share
Balance as of January 31, 2018	1,967	$ 8.85
Granted	1,177	$ 11.96
Vested	(922)	$ 9.12
Canceled	(297)	$ 9.70
Balance as of January 31, 2019	1,925	$ 10.49
Granted	1,035	$ 14.91
Vested	(1,038)	$ 10.64
Canceled	(265)	$ 12.56
Balance as of January 31, 2020	1,657	$ 12.82

Vested RSUs included shares of common stock that the Company withheld on behalf of certain employees to satisfy the minimum statutory tax withholding requirements, as defined by the Company. The Company withheld an aggregate amount of $1.5 million, $2.9 million and $2.4 million in fiscal 2020, 2019 and 2018, respectively, which were classified as financing cash outflows in the consolidated statements of cash flows. The Company canceled and returned these shares to the 2015 Plan, which are available under the plan terms for future issuance.

Employee Stock Purchase Plan

The ESPP allows eligible employees to purchase shares of common stock at a discount through payroll deductions of up to 15% of their eligible compensation (subject to plan limitations). The ESPP provides for a 24-month offering period comprised of four purchase periods of approximately six months. Employees are able to purchase shares at 85% of the lower of the fair market value of the Company’s common stock as of the first date or the ending date of each six-month offering period. The offering periods are scheduled to start on the first trading day on or after March 15 and September 15 of each year.

During fiscal 2020, 2019 and 2018, employees purchased 0.2 million, 0.3 million and 0.3 million shares, respectively, at a weighted purchase price of $9.97, $6.82 and $5.48 per share, respectively.

Note 9: Stock-Based Compensation

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

	Fiscal Year Ended January 31,		
	2020	2019	2018
Cost of revenue	$ 1,262	$ 920	$ 1,102
Sales and marketing	1,929	1,442	1,818
Research and development	4,610	3,762	3,972
General and administrative	4,960	4,246	4,029
Total stock-based compensation expense	$ 12,761	$ 10,370	$ 10,921

The income tax benefit related to stock-based compensation expense was zero for all periods presented due to a full valuation allowance on the Company's deferred tax assets (see Note 10: *Income Taxes* below). As of January 31, 2020, there was $21.0 million of unrecognized stock-based compensation expense related to unvested RSUs, stock options and ESPP that will be recognized on a straight-line basis over the remaining weighted-average vesting period of approximately 2.4 years.

Fair value disclosures. The fair value of stock options granted and purchased under the Company's ESPP was estimated using the Black-Scholes option pricing model. The expected term of options granted to employees was based on the simplified method as the Company does not have sufficient historical exercise data, and the expected term of the ESPP was based on the contractual term. Expected volatility was determined using a combination of the average historical volatility of a group of comparable publicly traded companies and the Company’s own common stock. Risk-free interest rate was based on the yields of U.S. Treasury securities with maturities similar to the expected term. Dividend yield was zero as the Company does not have any history of, nor plans to make, dividend payments.

The fair value of employee stock options and ESPP was estimated using the Black–Scholes model with the following assumptions, as applicable:

	Fiscal Year Ended January 31,		
	2020	2019	2018
Stock Options:			
Expected volatility	44%	43%	47%
Expected term (in years)	6.1	6.1	6.1
Risk-free interest rate	2.5%	2.7	1.8%-2.1%
Dividend yield	NA	NA	NA

	Fiscal Year Ended January 31,		
	2020	2019	2018
ESPP:			
Expected volatility	40%-51%	39%-56%	35%-41%
Expected term (in years)	0.5-2.0	0.5-2.0	0.5-2.0
Risk-free interest rate	1.7%-2.5%	2.0%-2.8%	0.9%-1.4%
Dividend yield	NA	NA	NA

Note 10: Income Taxes

Loss before income taxes consisted of the following (in thousands):

	Fiscal Year Ended January 31,		
	2020	2019	2018
United States	$ (17,051)	$ (13,497)	$ (13,121)
Foreign	(1,880)	(1,459)	—
Loss before income taxes	$ (18,931)	$ (14,956)	$ (13,121)

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

	Fiscal Year Ended January 31,					
	2020	Rate	2019	Rate	2018	Rate
Federal tax at statutory rate	$ (3,975)	21%	$ (3,141)	21%	$ (4,316)	33%
State taxes, net of federal benefit	12	—	(494)	3%	(396)	3%
Foreign income and withholding taxes	(98)	1%	(105)	1%	—	—
Permanent tax adjustment	720	(4)%	843	(6)%	527	(4)%
Stock-based compensation	(624)	3%	(991)	7%	387	(3)%
Change in valuation allowance	5,445	(29)%	5,603	(37)%	(6,786)	52%
Research and development credit	(1,279)	7%	(2,155)	14%	(1,080)	8%
Impact of U.S. tax law change	—	—	58	—	11,667	(89)%
Other	(331)	2%	(2)	—	—	—
Total	$ (130)	1%	$ (384)	3%	$ 3	0%

Income tax expense differs from the amount computed by applying the statutory federal income tax rate primarily as the result of changes in the valuation allowance. On December 22, 2017, the Tax Cuts and Jobs Act was enacted, reducing the corporate income tax rate from 35% to 21%, effective January 1, 2018.

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

	As of January 31,	
	2020	2019
Deferred tax assets:		
Net operating loss carry forwards	$ 38,407	$ 26,277
Tax credit carryover	8,171	5,977
Operating lease asset	2,131	—
Stock-based compensation	1,167	1,071
Deferred revenue	44	73
Accruals and reserves	(130)	1,549
Intangible assets amortization	—	(21)
Other	184	—
Gross deferred tax assets	49,974	34,926
Valuation allowance	(47,792)	(34,309)
Net deferred tax assets	$ 2,182	$ 617
Deferred tax liabilities:		
Operating lease liability	$ (2,042)	$ —
Fixed assets depreciation	(124)	(154)
Acquired intangible assets	(16)	(607)
Gross deferred tax liabilities	$ (2,182)	$ (761)
Total deferred tax liabilities	$ —	$ (144)

Management believes that, based on available evidence, both positive and negative, it is more likely than not that the deferred tax assets will not be utilized, such that a full valuation allowance has been recorded. The valuation allowance for deferred tax assets was $47.8 million, $34.3 million and $28.7 million as of January 31, 2020, 2019 and 2018, respectively. The net change in the total valuation allowance for fiscal 2020 and 2019 was an increase of $13.5 million and $5.7 million, respectively.

As of January 31, 2020, the Company had approximately $121.5 million and $70.6 million of net operating loss carryforwards available to offset future taxable income for both federal and state purposes, respectively. If not utilized, these available carryforward losses will expire in various amounts for federal and state tax purposes beginning in 2030. In addition, the Company had approximately $7.9 million and $7.1 million of federal and state research and development tax credits, respectively, available to offset future taxes. If not utilized, the available federal credits will begin to expire in 2030. California state research and development tax credits can be carried forward indefinitely.

Uncertain Tax Positions

The Company has unrecognized tax benefits ("UTBs") of approximately $6.0 million as of January 31, 2020. Deferred tax assets associated with these UTBs are fully offset by a valuation allowance. If recognized, these UTBs would not affect the effective tax rate before consideration of the valuation allowance. The following table summarizes the activity related to UTBs (in thousands):

Balance at January 31, 2018	$	2,825
Increase related to prior year positions		8
Increase related to current year tax positions		1,592
Balance at January 31, 2019		4,425
Increase related to prior year positions		—
Increase related to current year tax positions		1,592
Balance at January 31, 2020	$	6,017

The Company had no interest or penalty accruals associated with uncertain tax benefits in its balance sheets and statements of operations for both fiscal 2020 and 2019. The Company does not have any tax positions for which it is reasonably possible the total amount of gross unrecognized benefits will increase or decrease within 12 months of the year ended January 31, 2020. Because the Company has net operating loss and credit carryforwards, there are open statutes of limitations in which federal, state and foreign taxing authorities may examine the Company's tax returns for all years from 2009 through the current period.

Note 11: Commitments and Contingencies

Purchase Commitments. As of January 31, 2020 and 2019, non-cancelable purchase commitments with the Company's contract manufacturers and other parties were $4.0 million and $4.2 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 January 31, 2020, the Company does not have any accrued liabilities recorded for loss contingencies in its consolidated financial statements.

Berks County Litigation

On January 21, 2016, the County of Berks, Pennsylvania filed a lawsuit in the Berks County Court of Common Pleas (the "Court") naming the Company and 113 other telephone service providers as defendants (the "Berks County Litigation"), alleging breach of fiduciary duty, fraud, and negligent misrepresentation in connection with alleged violations of the Pennsylvania 911 Emergency Communication Services Act ("PA 911 Act") for failure to collect from subscribers and remit certain fees pursuant to the PA 911 Act. On June 13, 2019, the case was dismissed by the Court and on June 26, 2019, the parties to the litigation entered into a Joint Stipulation of Dismissal, which was approved by the Court.

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. Deep Green has 30 days to petition for rehearing by the Federal Circuit. Deep Green may also petition the Supreme Court to hear the case, provided a petition is filed on the later of 90 days from March 31, 2020 or 90 days from the date of denial of any petition for rehearing. If Deep Green does not petition for rehearing by the Federal Circuit or for the Supreme Court to hear the case, or if the petition for rehearing is denied, we expect the Deep Green Wireless Litigation will be dismissed.

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. During fiscal 2019, the Company paid $0.6 million to the State of Oregon in connection with the Oregon Tax Litigation, of which $0.3 million was charged to the consolidated statement of operations as the amount of loss deemed probable and reasonably estimable, and $0.3 million was recorded as a receivable in other current assets on the consolidated balance sheet for interest and penalties. As of January 31, 2020, the Company determined the $0.3 million receivable was not probable of recovery and charged the amount to general and administrative expense in the consolidated statement of operations.

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.

Securities Litigation

On January 14, 2016, Michael Barnett filed a purported stockholder class action in the San Mateo County Superior Court of the State of California (Case No. CIV536959) against the Company, certain of its officers and directors, and certain of the underwriters of the Company's IPO on July 17, 2015. After the case was consolidated with two other identical lawsuits, a "consolidated complaint" was filed on behalf of all persons who purchased shares of common stock in the Company's IPO in reliance upon the Registration Statement and Prospectus the Company filed with the SEC. The consolidated complaint alleged that the Company and the other defendants violated the Securities Act of 1933, as amended (the "Securities Act") by issuing the Registration Statement and Prospectus, which the plaintiffs alleged contained material misstatements and omissions in violation of Sections 11, 12(a)(2) and 15 of the Securities Act.

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. Under the terms of the settlement, the Company's directors' and officers' liability insurers deposited $8.65 million into a settlement fund for payment to class members, and paid plaintiff's attorneys' fees and costs of administering the settlement. The Stipulation of Settlement contains no admissions of wrongdoing, and the Company and the other defendants have maintained and continue to deny liability and wrongdoing of any kind with respect to the class action claims. 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.

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 certain losses suffered or incurred by the indemnified party. In some cases, the term of these indemnification agreements is 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.

Note 12: Business Acquisitions

Broadsmart Global, Inc.

On May 24, 2019, the Company acquired all outstanding stock of Broadsmart, a provider of cloud-based UCaaS solutions based in Florida. The cash consideration transferred for Broadsmart was $7.1 million, net of cash assumed of $0.6 million, and of which approximately $0.9 million will be held in escrow for a period of up to two years. The Company expects Broadsmart will provide scale for the Ooma Office and Ooma Enterprise platforms, which aligns with the Company's overall enterprise growth strategy.

The fair values of assets acquired and liabilities assumed as of the date of acquisition was as follows (in thousands):

	Fair Value
Cash	$ 649
Accounts receivable	1,003
Other current and non-current assets	639
Intangible assets	6,107
Goodwill	366
Accounts payable and other liabilities	(1,043)
Net assets acquired	$ 7,721

Intangible assets acquired consisted of customer relationships of $5.8 million and trade names of $0.3 million. Customer relationships represented the estimated fair values of the underlying relationships with Broadsmart's customer base and have an estimated useful life of seven years as of the date of acquisition. The goodwill recognized was attributable to the assembled workforce and expanded market opportunities when integrating Broadsmart's offerings with Ooma Business. The Company made an election under Section 338(h)(10) of the Internal Revenue Code, which resulted in the acquisition being treated as an asset purchase for income tax purposes. Therefore, the transaction did not result in the recording of deferred taxes as the Company's tax basis in the acquired assets equaled its book basis. The resulting goodwill from this acquisition is deductible for U.S. income tax purposes.

Broadsmart revenue included in the Company's consolidated statement of operations from the May 24, 2019 acquisition date through January 31, 2020 was approximately $7.0 million. On an unaudited pro forma basis, had the Broadsmart acquisition been included in the Company's consolidated results of operations beginning February 1, 2018, the Company's total revenue for fiscal 2020 and 2019 would have approximated $153 million and $138 million, respectively. These pro forma revenue amounts were adjusted to exclude revenue associated with a legacy Broadsmart customer that was not expected to be a continuing customer for the combined entity. These pro forma revenue amounts do not necessarily represent what would have occurred if the business combination had taken place on February 1, 2018, nor do these amounts represent the results that may occur in the future. Actual and pro forma net loss for the Broadsmart acquisition have not been presented because the impact was not material to the Company's consolidated statement of operations.

Acquisition-related transaction costs charged to expense during fiscal 2020 were approximately $0.3 million.

Voxter Communications, Inc.

On March 12, 2018, the Company acquired all outstanding stock of Voxter, a privately-held provider of UCaaS offerings for mid-market and enterprise businesses. The acquisition date fair value consideration transferred for Voxter was approximately $3.9 million, which primarily consisted of cash and common stock. The final purchase price allocation included identifiable intangible assets of approximately $2.1 million, net assets acquired of approximately $0.4 million, deferred tax liabilities of approximately $0.4 million and residual goodwill of approximately $2.0 million, based on the best estimates of management. Acquisition-related transaction costs charged to expense were $0.4 million. The goodwill recognized was attributable primarily to expected synergies in the acquired technologies that may be leveraged by the Company in future Ooma Business offerings. Goodwill was not deductible for U.S. or Canadian income tax purposes.

The operating results of the acquired company were included in the Company's consolidated financial statements from the date of acquisition. Actual and pro forma results of operations for the Voxter acquisition have not been presented because it does not have a material impact on the Company's consolidated results of operations.

Note 13: Net Loss Per Share

Basic and diluted net loss per share of common stock is calculated by dividing the net loss allocable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net loss per share of common stock is the same as basic net loss per share because the effects of potentially dilutive securities are antidilutive because the Company reported net losses for all periods presented.

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

	Fiscal Year Ended January 31,		
	2020	2019	2018
Numerator			
Net loss	$ (18,801)	$ (14,572)	$ (13,121)
Denominator			
Weighted-average common shares	21,051,039	19,799,781	18,570,128
Basic and diluted net loss per share	$ (0.89)	$ (0.74)	$ (0.71)

Potentially dilutive securities of approximately 3.2 million, 3.9 million and 4.1 million were excluded from the computation of diluted net loss per share for fiscal 2020, 2019 and 2018, respectively. These dilutive securities included the Company's RSUs, stock options and shares to be purchased under the ESPP. These shares include the Company's outstanding RSUs, outstanding stock options and shares to be purchased 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 14: Retirement Plan

The Company offers a qualified 401(k) defined contribution plan to eligible full-time employees that provides for discretionary employer matching and profit-sharing contributions. For calendar year 2019, eligible employees could contribute up to a maximum of $19,000 per year, or $25,000 for employees over 50 years of age. The Company matches the lower of 50% of employee contributions or 50% of the first 6% of each employee's eligible compensation that is contributed to the 401(k) plan. Contributions made by the Company vest 100% upon contribution. The Company's matching contributions to the plan, which are expensed immediately as compensation costs, were $0.7 million, $0.7 million and $0.5 million in fiscal 2020, 2019 and 2018, respectively.

Note 15: Restructuring Charges

In October 2019, the Company approved a restructuring plan designed to better align resources around its long-term business strategy. The restructuring provided for the discontinuation of Ooma Smart Cam, given the increased level of competition in the market, accompanied with a small reduction-in-force.

For fiscal 2020, the Company recorded aggregate restructuring charges of $3.1 million in its consolidated statement of operations, which consisted of the following major components (in thousands):

	Employee Severance	Excess Inventory and Purchase Commitments [1]	Other Assets [2]	Other Charges	Total
Cost of service revenue	$ 75	$ —	$ —	$ 93	$ 168
Cost of product revenue	—	1,375	694	45	2,114
Sales and marketing	170	—	—	5	175
Research and development	475	—	42	111	628
General and administrative	—	—	—	—	—
Total restructuring charges	$ 720	$ 1,375	$ 736	$ 254	$ 3,085

(1) Includes charges for excess Smart Cam product inventory and non-cancelable purchase commitments.
(2) Includes impairment charges for abandoned intangible assets associated with Smart Cam as well as other long-lived assets.

The actions associated with the restructuring were completed in the fourth quarter of fiscal 2020, including the pay-out of all restructuring liabilities.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Our Management, with the participation of our chief executive officer and our chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of January 31, 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 January 31, 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.

Management's Annual Report on Internal Control Over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Management conducted an assessment of the effectiveness of our internal control over financial reporting based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on the assessment, management has concluded that its internal control over financial reporting was effective as of January 31, 2020 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. GAAP. This annual report does not include an attestation report of our registered public accounting firm due to a transition period established by rules of the SEC for newly public companies under the JOBS Act.

Changes in Internal Control over Financial Reporting. There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended January 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. Other Information

None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

The information required by this item will be included under the caption “Directors, Executive Officers and Corporate Governance” in our Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended January 31, 2020, which we refer to as our 2020 Proxy Statement, and is incorporated herein by reference. The Company has a “Code of Ethics and Business Conduct for Employees, Officers and Directors” that applies to all of our employees, including our Principal Executive Officer, Principal Financial Officer, Principal Accounting Officer and our Board of Directors. A copy of this code is available on our website at http://investors.ooma.com. We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding amendment to, or waiver from, a provision of our Code of Ethics and Business Conduct for Employees, Officers and Directors by posting such information on our investor relations website under the heading “Corporate Governance—Governance Documents” at http://investors.ooma.com.

ITEM 11. Executive Compensation

The information required by this item will be included under the captions “Executive Compensation” and under the subheadings “Board’s Role in Risk Oversight, “Outside Director Compensation,” and “Compensation Committee Interlocks and Insider Participation” under the heading “Directors, Executive Officers and Corporate Governance” in the 2020 Proxy Statement and is incorporated herein by reference.

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

The information required by this item will be included under the captions “Security Ownership of Certain Beneficial Owners and Management” and under the subheading “Potential Payments upon Termination or Change in Control” and “Equity Compensation Plan Information” under the heading “Executive Compensation” in the 2020 Proxy Statement and is incorporated herein by reference.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item will be included under the captions “Certain Relationships and Related Transactions” and “Directors, Executive Officers and Corporate Governance—Director Independence” in the 2020 Proxy Statement and is incorporated herein by reference.

ITEM 14. Principal Accounting Fees and Services

The information required by this item will be included under the caption “Proposal Two: Ratification of Selection of Independent Registered Public Accountants” in the 2020 Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. Exhibits, Financial Statement Schedules

Documents filed as part of this report are as follows:

(a) Consolidated Financial Statements

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

(b) Consolidated Financial Statement Schedules

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

(c) Exhibits

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

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

ITEM 16. Form 10-K Summary

None.

EXHIBITS

Exhibit Number	Description	Filed / Furnished / Incorporated by Reference from Form	Incorporated by Reference from Exhibit Number	Date Filed
3.1	Amended and Restated Certification of Incorporation	10-Q	3.1	9/11/2015
3.2	Amended and Restated Bylaws	10-Q	3.2	9/11/2015
4.1	Form of common stock certificate.	S-1/A	4.1	7/6/2015
4.2	Fourth Amended and Restated Investors' Rights Agreement, by and among the Registrant and certain of its stockholders dated as of April 24, 2015.	S-1	4.2	6/15/2015
4.3	Form of Senior Indenture	S-3	4.2	12/23/2019
4.4	Form of Subordinated Indenture	S-3	4.4	12/23/2019
4.5	Description of Securities	Filed herewith.		
10.1+	2005 Stock Incentive Plan and forms of agreements thereunder.	S-1	10.1	6/15/2015
10.2+	2015 Equity Incentive Plan and forms of agreements thereunder.	S-1/A	10.2	7/6/2015
10.3+	2015 Employee Stock Purchase Plan and form of agreement thereunder.	S-1/A	10.3	7/6/2015
10.4+	Executive Incentive Bonus Plan.	S-1	10.4	6/15/2015
10.5+	Executive Change in Control and Severance Agreement by and between the Company and Eric B. Stang, dated June 9, 2015.	S-1	10.5	6/15/2015
10.6+	Form of Executive Change in Control and Severance Agreement	S-1	10.6	6/15/2015
10.7+	Offer Letter by and between the Company and James A. Gustke, dated July 30, 2010.	S-1	10.7	6/15/2015
10.8	Change in Control Letter Agreement between the Company and James A. Gustke, dated August 31, 2016.	10-K	10.8	4/11/2017
10.9	Form of Indemnification Agreement between the Registrant and each of its directors and executive officers.	S-1	10.8	6/15/2015

Exhibit Number	Description	Filed / Furnished / Incorporated by Reference from Form	Incorporated by Reference from Exhibit Number	Date Filed
10.10	Sublease Agreement, dated as of September 12, 2017 by and among the Company and Fiserv Solutions, LLC.	8-K	10.1	10/10/2017
10.11+	Form of Restricted Stock Unit Agreement under the 2015 Equity Incentive Plan (effective for grants made on or after March 14, 2018).	10-Q	10.1	06/08/2018
10.12	Sublease Agreement dated as of August 6, 2019 by and among the Company and Alibaba Group (U.S.) Inc.	10-Q	10.1	12/06/2019
21.1	List of subsidiaries of the Registrant.	Filed herewith.		
23.1	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm.	Filed herewith.		
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, Rule 13(a)-14(a)/15d-14(a), by President and Chief Executive Officer.	Filed herewith.		
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, Rule 13(a)-14(a)/15d-14(a), by Chief Financial Officer.	Filed herewith.		
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by President and Chief Executive Officer.	Furnished herewith.		
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Chief Financial Officer.	Furnished herewith.		
101.INS	XBRL Instance Document	Filed herewith.		
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith.		
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith.		
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith.		
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith.		
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith.		

+ Indicates a management contract or compensatory plan.

SIGNATURES

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

April 13, 2020

Ooma, Inc.

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

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Eric B. Stang, Ravi Narula and Jenny C. Yeh, and each of them individually, as his or her attorney-in-fact, each with full power of substitution, for him or her in any and all capacities to sign any and all amendments to this Annual Report on Form 10-K, and to file the same with, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorney-in-fact, or his or her substitute, may do or cause to be done by virtue hereof.

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

Signature	Title	Date
/s/ Eric B. Stang **Eric B. Stang**	President and Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)	April 13, 2020
/s/ Ravi Narula **Ravi Narula**	Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	April 13, 2020
/s/ Susan Butenhoff **Susan Butenhoff**	Director	April 13, 2020
/s/ Alison Davis **Alison Davis**	Director	April 13, 2020
/s/ Andrew Galligan **Andrew Galligan**	Director	April 13, 2020
/s/ Peter J. Goettner **Peter J. Goettner**	Director	April 13, 2020
/s/ Russell Mann **Russell Mann**	Director	April 13, 2020
/s/ William D. Pearce **William D. Pearce**	Lead Director	April 13, 2020

DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

As of January 31, 2020, Ooma, Inc. ("Ooma," the "Company", "we," "our" or "us") had one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"): Common Stock, par value $0.0001 per share. The Company's securities registered under Section 12 of the Exchange Act are listed on the New York Stock Exchange.

As used in the following description, the terms "Ooma," "we," "us" and "our" refer to Ooma, Inc. and not any of its subsidiaries, unless the context requires otherwise.

The following description summarizes the most important terms of our capital stock as set forth in our amended and restated certificate of incorporation and amended and restated bylaws. The summary does not purport to be complete and is qualified in its entirety by reference to our amended and restated certificate of incorporation, our amended and restated bylaws and to the applicable provisions of Delaware law. For more detailed information, please see our amended and restated certificate of incorporation and amended and restated bylaws, which are filed as exhibits to our quarterly report on Form 10-Q for the period ended July 31, 2015, as filed on September 11, 2015 with the SEC.

Common Stock

We are authorized to issue up to a total of 100,000,000 shares of common stock, par value $0.0001 per share. Holders of our common stock are entitled to one vote for each share held on all matters submitted to a vote of our stockholders. Holders of our common stock have no cumulative voting rights. Further, holders of our common stock have no preemptive, conversion, redemption or rights and there are no sinking fund provisions applicable to our common stock. Upon our liquidation, dissolution or winding-up, holders of our common stock are entitled to share ratably in all assets remaining after payment of all liabilities and the liquidation preferences of any of our outstanding shares of preferred stock. Subject to preferences that may be applicable to any outstanding shares of preferred stock, holders of our common stock are entitled to receive dividends, if any, as may be declared from time to time by our board of directors, or board, out of our assets which are legally available.

As of March 31, 2020, there were approximately 22.1 million shares of common stock issued and outstanding and there were approximately 75 holders of record of our common stock.

Preferred Stock

Our board is authorized, subject to certain limitations prescribed by law, to designate and issue up to a total of 10,000,000 shares of preferred stock, par value $0.0001, without stockholder approval. The board may issue preferred stock from time to time in one or more series and fix the designations, preferences and rights of the shares of each such series and any qualifications, limitations or restrictions on the shares of each such series, including dividend rights and rates, conversion rights, voting rights, terms of redemption, liquidation preferences and the number of shares constituting any such series. Our board may authorize the issuance of preferred stock with voting or conversion rights that could harm the voting power or other rights of the holders of the common stock. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, have the effect of delaying, deferring or preventing a change in control of our company and might harm the market price of our common stock and the voting and other rights of the holders of common stock. No shares of preferred stock are outstanding, and we have no current plans to issue any shares of preferred stock.

Anti-Takeover Effects of Delaware Law and Our Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws

Our amended and restated certificate of incorporation and our amended and restated bylaws contain certain provisions that could have the effect of delaying, deterring or preventing another party from acquiring control of us. These provisions and certain provisions of Delaware law, which are summarized below, are expected to discourage coercive takeover practices and inadequate takeover bids. These provisions are also designed, in part, to encourage persons seeking to acquire control of us to negotiate first with our board of directors. We believe that the benefits of increased protection of our potential ability to negotiate more favorable terms with an unfriendly or unsolicited acquirer outweigh the disadvantages of discouraging a proposal to acquire us.

Amended and Restated Certificate of Incorporation and Amended and Restated Bylaw Provisions

Our amended and restated certificate of incorporation and our amended and restated bylaws include a number of provisions that could deter hostile takeovers or delay or prevent changes in control of our management team, including the following:

- *Board of director vacancies*. Our amended and restated certificate of incorporation and amended and restated bylaws authorize only our board of directors to fill vacant directorships, including newly created seats. In addition, the number of directors constituting our board of directors is permitted to be set only by a resolution adopted by our board of directors. These provisions prevent a stockholder from increasing the size of our board of directors and then gaining control of our board of directors by filling the resulting vacancies with its own nominees. This makes it more difficult to change the composition of our board of directors but promotes continuity of management.

- *Classified board*. Our board of directors is divided into three classes, one class of which is elected each year by our stockholders. The directors in each class will serve three-year terms. A third party may be discouraged from making a tender offer or otherwise attempting to obtain control of us as it is more difficult and time-consuming for stockholders to replace a majority of the directors on a classified board.

- *Stockholder action; special meeting of stockholders*. Our amended and restated certificate of incorporation and amended and restated bylaws provide that our stockholders may not take action by written consent but may only take action at annual or special meetings of our stockholders. As a result, a holder controlling a majority of our capital stock will not be able to amend our amended and restated bylaws or remove directors without holding a meeting of our stockholders called in accordance with our amended and restated bylaws.
  Our amended and restated certificate of incorporation further provides that special meetings of our stockholders may be called only by a majority of our board of directors, the chairman of our board of directors, our chief executive officer or our president (in the absence of a chief executive officer), thus prohibiting a stockholder from calling a special meeting. These provisions might delay the ability of our stockholders to force consideration of a proposal or for stockholders controlling a majority of our capital stock to take any action, including the removal of directors.

- *Advance notice requirements for stockholder proposals and director*. Our amended and restated bylaws provide advance notice procedures for stockholders seeking to bring business before our annual meeting of stockholders or to nominate candidates for election as directors at our annual meeting of stockholders. Our amended and restated bylaws also specify certain requirements regarding the form and content of a stockholder's notice. These provisions might preclude our stockholders from bringing matters before our annual meeting of stockholders or from making nominations for directors at our annual meeting of stockholders if the proper procedures are not followed. We expect that these provisions may also discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of our company.

- *No cumulative voting*. Our amended and restated certificate of incorporation does not provide for cumulative voting in the election of directors. Cumulative voting allows a stockholder to vote a portion or all of its shares for one or more candidates for seats on the board of directors. Without cumulative voting, a minority stockholder may not be able to gain as many seats on our board of directors as the stockholder would be able to gain if cumulative voting were permitted. The absence of cumulative voting makes it more difficult for a minority stockholder to gain a seat on our board of directors to influence our board's decision regarding a takeover.

- *Directors removed only for cause*. Our amended and restated certificate of incorporation and amended and restated bylaws provide that stockholders may remove directors only for cause.

- *Choice of forum*. Unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware is the sole and exclusive forum for: (1) any derivative action or v proceeding brought on our behalf; (2) any action asserting a claim of breach of a fiduciary duty owed by any of our directors or officers to us or our stockholders; (3) any action asserting a claim against us arising pursuant to any provision of the Delaware General Corporation Law, our amended and restated certificate of incorporation or our amended and restated bylaws; or (4) any action asserting a claim against us governed by the internal affairs doctrine. The enforceability of similar choice of forum provisions in other companies' certificates of incorporation has been challenged in legal proceedings, and it is possible that, in connection with any action, a court could find the choice of forum provisions contained in our amended and restated certificate of incorporation to be inapplicable or unenforceable in such action.

- *Amendment of Charter and Bylaws Provisions*. The amendment of the above provisions of our amended and restated certificate of incorporation will require approval by holders of at least 66 ⅔% of our outstanding capital stock entitled to vote generally in the election of directors. The amendment of certain provisions of our amended and restated bylaws will also require approval by the holders of at least 66 ⅔% of our outstanding capital stock.

- *Undesignated Preferred Stoc*k. As discussed above, our board of directors will have the ability to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to change control of us. These and other provisions may have the effect of deterring hostile takeovers or delaying changes in control or management of our company.

Delaware Anti-Takeover Statute

We are subject to the provisions of Section 203 of the Delaware General Corporation Law regulating corporate takeovers. In general, Section 203 prohibits a publicly-held Delaware corporation from engaging, under certain circumstances, in a business combination with an interested stockholder for a period of three years following the date the person became an interested stockholder unless:

- prior to the date of the transaction, the board of directors approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;

- upon completion of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding, but not for determining the outstanding voting stock owned by the interested stockholder, (1) voting stock owned by persons who are directors and also officers, and (2) voting stock owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or

- at or subsequent to the date of the transaction, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 ⅔% of the outstanding voting stock which is not owned by the interested stockholder.

In general, Section 203 defines business combination to include the following:

- any merger or consolidation involving the corporation and the interested stockholder;

- any sale, lease, exchange, mortgage, transfer, pledge or other disposition of 10% or more of either the assets or outstanding stock of the corporation involving the interested stockholder;

- subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;

- any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder; or

- the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits by or through the corporation.

These provisions may have the effect of delaying, deferring or preventing a change in our control.

Listing

Our common stock is listed on the New York Stock Exchange under the symbol "OOMA."

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Computershare Trust Company, N.A. The transfer agent and registrar's address is 462 South 4th Street, Suite 1600, Louisville, KY 40202. The transfer agent's telephone number is (800) 736-3001 (United States) or +1-781-575-3100 (outside the United States).

Exhibit 21.1

List of Subsidiaries

Name	Jurisdiction of Incorporation
Talkatone, LLC	Delaware
Ooma International Operations, LLC	Delaware
Ooma International Ltd.	United Kingdom
Ooma Australia Pty Ltd.	Australia
Voxter Communications, Inc.	British Columbia, Canada
Broadsmart Global, Inc.	Florida

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-235673 on Form S-3 and in Registration Nos. 333-230693, 333-224086, 333-217254, 333-210717 and 333-205719 on Form S-8 of our report dated April 13, 2020, relating to the consolidated financial statements of Ooma, Inc. and subsidiaries (the "Company") (which report expresses unqualified opinion and includes an explanatory paragraph relating to the Company's adoption of Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers,* and No. 2016-02, *Leases*) appearing in this Annual Report on Form 10-K of the Company for the year ended January 31, 2020.

/s/ DELOITTE & TOUCHE LLP

San Jose, California
April 13, 2020

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Eric B. Stang, certify that:

1. I have reviewed this Annual Report on Form 10-K of Ooma, Inc. for the fiscal year ended January 31, 2020;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 13, 2020

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

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Ravi Narula, certify that:

1. I have reviewed this Annual Report on Form 10-K of Ooma, Inc. for the fiscal year ended January 31, 2020;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 13, 2020

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

Exhibit 32.1

**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**

I, Eric B. Stang, certify pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of Ooma, Inc. for the fiscal year ended January 31, 2020, fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act and that the information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and result of operations of Ooma, Inc.

Date: April 13, 2020

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

Exhibit 32.2

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

I, Ravi Narula, certify pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of Ooma, Inc. for the fiscal year ended January 31, 2020, fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act and that the information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and result of operations of Ooma, Inc.

Date: April 13, 2020

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