OOMA INC
Form 10-Q
December 09, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended October 31, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 001-37493

Ooma, Inc.

(Exact Name of Registrant as Specified in its Charter)

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

1880 Embarcadero Road, Palo Alto, California 94303

(Address of principal executive offices)

(650) 566-6600

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

As of November 30, 2016, there were 17,896,570 shares of the registrant's common stock outstanding.

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AVAILABLE INFORMATION

Ooma, Inc. is required to file current, annual and quarterly reports, proxy statements and other information required by the Securities Exchange Act of 1934, as amended (the “Exchange Act”), with the Securities and Exchange Commission (the "SEC"). You may read and copy any document Ooma files with the SEC at the SEC’s Public Reference Room located at 100 F Street, N.E., Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet website at http://www.sec.gov, from which interested persons can electronically access Ooma’s SEC filings.

Ooma provides its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, Forms 3, 4 and 5 filed by or on behalf of directors, executive officers and certain large shareholders, and any amendments to those documents filed or furnished pursuant to the Exchange Act free of charge on the Investor Relations section of its website located at http://investors.ooma.com. These filings will become available as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. From time to time Ooma may use its website as a channel of distribution of material company information.

Ooma also makes available, in the Investor Relations section of its website and will provide print copies to shareholders upon request, (i) its corporate governance guidelines, (ii) its code of business conduct and ethics, and (iii) the charters of the audit, compensation, and nominating and corporate governance committees of its board of directors. These documents, as well as the information on the website, are not intended to be part of this quarterly report on Form 10-Q (the “Quarterly Report”). Ooma also uses the Investor Relations section of its website as a means of complying with its disclosure obligations under Regulation FD. Accordingly, you should monitor Ooma’s Investor Relations section of its website in addition to following Ooma’s press releases, SEC filings, and public conference calls and webcasts.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

OOMA, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

(Unaudited)

	October 31, 2016	January 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$6,308	$27,413
Short-term investments	47,054	27,991
Accounts receivable, net	4,866	5,609
Inventories	4,592	5,011
Deferred inventory costs	1,443	2,013
Prepaid expenses and other current assets	2,033	1,318
Total current assets	66,296	69,355
Property and equipment, net	4,212	4,291
Intangible assets, net	620	885
Goodwill	1,117	1,117
Other assets	303	888
Total assets	$72,548	$76,536
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$4,778	$4,786
Accrued expenses	11,972	13,010
Short-term capital lease	—	632
Deferred revenue	14,899	15,036
Total current liabilities	31,649	33,464
Other liabilities	543	182
Total liabilities	32,192	33,646
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock $0.0001 par value: 100,000,000 shares authorized; no shares issued and outstanding on October 31, 2016 and January 31, 2016, respectively.	—	—
Common stock $0.0001 par value: 100,000,000 shares authorized; 17,892,367 and 16,916,250 shares issued and outstanding on October 31, 2016 and January 31, 2016,	2	2

respectively.		
Additional paid-in capital	115,314	107,679
Accumulated other comprehensive income	18	17
Accumulated deficit	(74,978)	(64,808)
Total stockholders’ equity	40,356	42,890
Total liabilities and stockholders’ equity	$72,548	$76,536

See notes to condensed consolidated financial statements

OOMA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	October 31, 2016	October 31, 2015	October 31, 2016	October 31, 2015
Revenue:				
Subscription and services	$23,179	$19,470	$67,086	$52,495
Product and other	3,828	4,006	9,874	11,969
Total revenue	27,007	23,476	76,960	64,464
Cost of revenue:				
Subscription and services	7,388	6,715	22,103	18,649
Product and other	4,276	4,277	11,316	12,067
Total cost of revenue	11,664	10,992	33,419	30,716
Gross profit	15,343	12,484	43,541	33,748
Operating expenses:				
Sales and marketing	8,302	7,539	24,975	20,247
Research and development	6,244	4,948	17,824	13,329
General and administrative	3,705	3,499	11,105	9,666
Total operating expenses	18,251	15,986	53,904	43,242
Loss from operations	(2,908)	(3,502)	(10,363)	(9,494)
Other income (expense):				
Interest income (expense), net	95	(10)	259	(902)
Change in fair value of warrants	—	—	—	(442)
Other expense, net	(8)	(19)	(13)	(31)
Net loss	$(2,821)	$(3,531)	$(10,117)	$(10,869)
Net loss per share of common stock:				
Basic and diluted	$(0.16)	$(0.21)	$(0.58)	$(1.38)
Weighted-average number of shares used in per share amounts:				
Basic and diluted	17,648,251	16,703,852	17,337,682	7,875,761

See notes to condensed consolidated financial statements

OOMA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Amounts in thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	October 31, 2016	October 31, 2015	October 31, 2016	October 31, 2015
Net loss	$(2,821)	$(3,531)	$(10,117)	$(10,869)
Other comprehensive (loss) income				
Unrealized (loss) gain on short-term investments, net	(24)	—	1	—
Comprehensive loss	$(2,845)	$(3,531)	$(10,116)	$(10,869)

See notes to condensed consolidated financial statements

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OOMA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended	
	October 31, 2016	October 31, 2015
Cash flows from operating activities:		
Net loss	$(10,117)	$(10,869)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	7,243	2,725
Depreciation and amortization	1,320	1,046
Amortization of intangible assets	265	295
Write-off of non-cash deferred debt issuance costs	—	332
Other non-cash (income) expense, net	(3)	64
Change in fair value of acquisition-related contingent consideration	—	167
Change in fair value of warrant liability	—	442
Changes in operating assets and liabilities:		
Accounts receivable, net	743	(1,853)
Inventories	419	2,292
Deferred inventory costs	570	(426)
Prepaid expenses and other assets	(99)	(531)
Accounts payable and accrued expenses	(766)	4,509
Other liabilities	(47)	(88)
Deferred revenue	296	1,199
Net cash used in operating activities	(176)	(696)
Cash flows from investing activities:		
Purchases of short-term investments	(44,178)	—
Proceeds from maturity of short-term investments	20,650	—
Proceeds from sale of short-term investments	4,366	—
Purchases of property and equipment	(1,146)	(1,117)
Net cash used in investing activities	(20,308)	(1,117)
Cash flows from financing activities:		
Proceeds from initial public offering, net	—	57,303
Proceeds from Series Beta preferred stock, net	—	5,000
Repayment of debt and capital leases	(628)	(11,457)
Payment of acquisition related earn-out	(100)	(475)
Payment of preferred warrant liability	—	(584)
Shares repurchased for tax withholdings on vesting of restricted stock units	(1,340)	—
Proceeds from issuance of common stock related to warrants and employee stock benefit plans	1,447	178
Net cash (used in) provided by financing activities	(621)	49,965
Net (decrease) increase in cash and cash equivalents	(21,105)	48,152

Cash and cash equivalents at beginning of period	27,413	9,133
Cash and cash equivalents at end of period	$6,308	$57,285

See notes to condensed consolidated financial statements

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

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

Basis of Presentation

These unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission (the "SEC") regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, the information included in this Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended January 31, 2016.

These financial statements have been prepared on the same basis as the Company's annual financial statements and, in the opinion of management, reflect all normal recurring adjustments necessary to present fairly the Company's financial position, its results of operations, and cash flows for the interim periods presented, but are not necessarily indicative of the results of operations to be anticipated for the full fiscal year ending January 31, 2017. The condensed consolidated balance sheet as of January 31, 2016 included herein was derived from the audited financial statements as of that date.

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

Reverse Stock Split

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

Initial Public Offering and Conversion of Preferred Stock

In July 2015, the Company completed its initial public offering (the "IPO"), in which 5,000,000 shares of common stock were sold to the public at an IPO price of $13.00 per share. The net proceeds from the offering were $56.9 million after deducting the underwriters' discounts and commissions of $4.5 million and $3.6 million of offering expenses.

Use of Estimates

The preparation of the Company's condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates include, but are not limited to, those related to revenue recognition, the allowance for returns, stock-based compensation and warrants, valuation of goodwill and intangible assets, inventory valuation, regulatory fees and indirect tax accruals, accounting for income taxes including valuation allowances and fair value measurements. Estimates are based on historical experience, where applicable, and other assumptions believed to be reasonable by management. Actual results could differ from those estimates. These estimates are based on information available as of the date of the condensed consolidated financial statements, and assumptions are inherently subjective in nature; therefore, actual results could differ from management's estimates.

Concentration of Risk

The concentration of accounts receivable as of October 31, 2016 and January 31, 2016, respectively are as follows:

	As of October 31, 2016	January 31, 2016
Customer A	16%	13%
Customer B	10%	*

*Represented less than 10% of accounts receivable, net as of January 31, 2016

There were no customers that individually exceeded 10% of revenue during the three and nine months ended October 31, 2016 and 2015.

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Summary of Significant Accounting Policies

There have been no material changes to the Company's significant accounting policies as described in its Annual Report on Form 10-K for the year ended January 31, 2016 except for changes due to the recently adopted accounting standards.

Recently Adopted Accounting Standard

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. This ASU affects entities that issue share-based payment awards to their employees. The ASU is designed to simplify several aspects of accounting for share-based payment award transactions which include – the income tax consequences, classification of awards as either equity or liabilities, classification on the statement of cash flows and forfeiture rate calculations. The Company early adopted ASU 2016-09 during the three months ended October 31, 2016. The Company has elected to account for forfeitures as they occur rather than estimate expected forfeiture using a modified retrospective transition method. As a result of this the Company recorded a cumulative-effect adjustment of $0.1 million to accumulated deficit and additional paid-in capital. Additionally, under ASU 2016-09, excess tax benefits and deficiencies are required to be recognized prospectively as part of provision for income taxes rather than additional paid-in capital. The adoption did not have any material impact on our accounting of provision for income taxes. Finally, ASU 2016-09 requires excess tax benefits to be presented as a component of operating cash flows rather than financing cash flows. The Company has adopted this requirement prospectively and accordingly, prior periods have not been adjusted. Excess tax benefits were not material for all periods presented.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes, which simplifies the presentation of deferred income taxes. The ASU requires that deferred tax assets and liabilities be classified as non-current in a statement of financial position, thereby simplifying the current guidance that requires an entity to separate deferred assets and liabilities into current and noncurrent amounts. The Company early adopted ASU 2015-17 as of January 31, 2016 on a prospective basis. The statement of financial position as of January 31, 2016 reflects the classification of deferred tax assets and liabilities as noncurrent. No prior periods were retrospectively adjusted because such an adjustment was not material and does not affect comparability.

Recent Accounting Pronouncements Not Yet Adopted

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

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments, which improves financial reporting by providing timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. This ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Additionally, the new standard amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will become effective for the Company in the first quarter of fiscal 2021. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

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

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

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

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which affects any entity that either enters into contracts with customers to transfer goods and services or enters into contracts for the transfer of nonfinancial assets. ASU 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under the currently effective guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In July 2015, the FASB approved a one-year deferral of the effective date of the standard with the issuance of by ASU 2015-14, Revenue from Contracts with Customers (ASC 606) Deferral of Effective Date. As a result, ASU 2014-09 will become effective for the Company in the first quarter of fiscal 2019 and can be adopted either retrospectively to each prior reporting period presented or as a cumulative effect adjustment as of the date of adoption. Early adoption is permitted but not before the original effective date of annual periods beginning after December 15, 2016. In April 2016 and May 2016, the FASB issued ASU 2016-10 and ASU 2016-12, respectively, which clarifies guidance on identifying performance obligations, collectability criterion and noncash consideration. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

2. Fair Value Measurement

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

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.
Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.
Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities and which reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

The Company's financial instruments consist of Level 1, Level 2 assets and Level 3 liabilities.

As of January 31, 2016, the Level 3 liabilities consisted of acquisition-related contingent consideration. During the first quarter of fiscal 2017, this liability was settled in cash and issuance of shares of common stock.

There were no transfers into or out of the Level 3 category during the nine months ended October 31, 2016.

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

As of October 31, 2016

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents:				
Money market funds	$3,078	$—	$ —	$3,078
Total cash equivalents	$3,078	$—	$ —	$3,078
Cash				3,230
Total Cash and cash equivalents				$6,308
Short-term investments:				
Corporate debt securities	$—	$11,693	$ —	$11,693
Commercial paper	—	9,376	—	9,376
U.S. agency securities	—	6,574	—	6,574
U.S. government securities	18,059	—	—	18,059
Asset-backed securities				