

OOMA INC
Form 10-Q
September 07, 2017

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 July 31, 2017

OR

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

For the transition period from _____ to _____

Commission File Number: 001-37493

Ooma, Inc.

(Exact Name of Registrant as Specified in its Charter)

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

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

(Address of principal executive offices)

(650) 566-6600

Edgar Filing: OOMA INC - Form 10-Q

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company) Smaller 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. Yes No

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

As of August 31, 2017, there were 18,472,596 shares of the registrant's common stock outstanding.

TABLE OF CONTENTS

Page

PART I. FINANCIAL INFORMATION

Item 1.	<u>Financial Statements (unaudited):</u>	4
	<u>Condensed Consolidated Balance Sheets</u>	4
	<u>Condensed Consolidated Statements of Operations</u>	5
	<u>Condensed Consolidated Statements of Comprehensive Loss</u>	6
	<u>Condensed Consolidated Statements of Cash Flows</u>	7
	<u>Notes to Condensed Consolidated Financial Statements</u>	8
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	30
Item 4.	<u>Controls and Procedures</u>	30

PART II. OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	31
Item 1A.	<u>Risk Factors</u>	33
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	62
Item 3.	<u>Default Upon Senior Securities</u>	62
Item 4.	<u>Mine Safety Disclosures</u>	62
Item 5.	<u>Other Information</u>	62
Item 6.	<u>Exhibits</u>	62
	<u>Signatures</u>	64

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)

	July 31, 2017	January 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$10,433	\$3,990
Short-term investments	43,370	49,211
Accounts receivable, net	4,258	4,714
Inventories	6,831	5,830
Deferred inventory costs	1,196	1,620
Prepaid expenses and other current assets	1,850	1,891
Total current assets	67,938	67,256
Property and equipment, net	4,496	4,176
Intangible assets, net	373	537
Goodwill	1,117	1,117
Other assets	168	252
Total assets	\$74,092	\$73,338
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$7,262	\$5,857
Accrued expenses	11,450	11,579
Deferred revenue	15,585	15,521
Total current liabilities	34,297	32,957
Other liabilities	498	561
Total liabilities	34,795	33,518
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Preferred stock \$0.0001 par value: 10,000,000 shares authorized; no shares issued and outstanding on July 31, 2017 and January 31, 2017, respectively.	—	—
Common stock \$0.0001 par value: 100,000,000 shares authorized; 18,461,549 and 17,995,555 shares issued and outstanding on July 31, 2017 and January 31, 2017,	2	2

respectively.

Additional paid-in capital	124,140	117,639
Accumulated other comprehensive loss	(20)	(11)
Accumulated deficit	(84,825)	(77,810)
Total stockholders' equity	39,297	39,820
Total liabilities and stockholders' equity	\$74,092	\$73,338

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		Six Months Ended	
	July 31, 2017	July 31, 2016	July 31, 2017	July 31, 2016
Revenue:				
Subscription and services	\$25,206	\$22,417	\$49,306	\$43,907
Product and other	2,981	3,077	6,459	6,046
Total revenue	28,187	25,494	55,765	49,953
Cost of revenue:				
Subscription and services	7,814	7,444	15,563	14,715
Product and other	3,792	3,501	7,588	7,040
Total cost of revenue	11,606	10,945	23,151	21,755
Gross profit	16,581	14,549	32,614	28,198
Operating expenses:				
Sales and marketing	9,245	8,578	18,399	16,673
Research and development	7,263	5,839	13,884	11,580
General and administrative	3,865	3,545	7,621	7,400
Total operating expenses	20,373	17,962	39,904	35,653
Loss from operations	(3,792)	(3,413)	(7,290)	(7,455)
Other income (expense):				
Interest income (expense), net	136	100	258	164
Other income (expense), net	33	(27)	17	(5)
Net loss	\$(3,623)	\$(3,340)	\$(7,015)	\$(7,296)
Net loss per share of common stock:				
Basic and diluted	\$(0.20)	\$(0.19)	\$(0.38)	\$(0.42)
Weighted-average number of shares used in per share amounts:				
Basic and diluted	18,360,560	17,280,985	18,246,457	17,180,671

See notes to condensed consolidated financial statements

OOMA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Amounts in thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	July 31, 2017	July 31, 2016	July 31, 2017	July 31, 2016
Net loss	\$ (3,623)	\$ (3,340)	\$ (7,015)	\$ (7,296)
Other comprehensive (loss) income:				
Unrealized gain (loss) on short-term investments	3	12	(9)	25
Comprehensive loss	\$ (3,620)	\$ (3,328)	\$ (7,024)	\$ (7,271)

See notes to condensed consolidated financial statements

OOMA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended	
	July 31, 2017	July 31, 2016
Cash flows from operating activities:		
Net loss	\$(7,015)	\$(7,296)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Stock-based compensation expense	6,091	4,873
Depreciation and amortization	1,095	822
Amortization of intangible assets	164	182
Other non-cash expense, net	—	(3)
Changes in operating assets and liabilities:		
Accounts receivable, net	456	1,131
Inventories	(1,001)	447
Deferred inventory costs	424	(24)
Prepaid expenses and other assets	135	217
Accounts payable and accrued expenses	1,049	(1,087)
Other liabilities	(3)	(22)
Deferred revenue	37	176
Net cash provided by (used in) operating activities	1,432	(584)
Cash flows from investing activities:		
Purchases of short-term investments	(20,544)	(33,115)
Proceeds from maturity of short-term investments	25,333	10,950
Proceeds from sale of short-term investments	900	3,016
Purchases of property and equipment	(1,063)	(1,030)
Net cash provided by (used in) investing activities	4,626	(20,179)
Cash flows from financing activities:		
Repayment of debt and capital leases	—	(628)
Payment of acquisition related earn-out	—	(100)
Shares repurchased for tax withholdings on vesting of restricted stock units	(503)	—
Proceeds from issuance of common stock related to employee stock benefit plans	888	790
Net cash provided by financing activities	385	62
Net increase (decrease) in cash and cash equivalents	6,443	(20,701)
Cash and cash equivalents at beginning of period	3,990	27,413
Cash and cash equivalents at end of period	\$10,433	\$6,712

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’s communications solutions deliver its proprietary high-definition (“HD”) voice quality, advanced features, and integration with mobile devices, at extremely competitive pricing and value. The Company’s platform helps create smart workplaces and homes by providing value-added communications and other connected services and by integrating end-point devices to enable the Internet of Things. The Company’s platform and solutions have the power to provide communications, productivity, automation, monitoring, safety, security, and networking infrastructure applications to our users. 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, 2017.

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, 2018. The condensed consolidated balance sheet as of January 31, 2017 included herein was derived from the audited financial statements as of that date.

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

Use of Estimates

The preparation of 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, valuation of goodwill and intangible assets, inventory valuation, regulatory fees and indirect tax accruals, accounting for income taxes including

Edgar Filing: OOMA INC - Form 10-Q

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 July 31, 2017 and January 31, 2017, respectively are as follows:

	As of	
	July	January
	31,	31,
	2017	2017
Customer A	12%	*
Customer B	*	