OOMA INC
Form 10-Q
December 07, 2018

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, 2018

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.)

525 Almanor Avenue, Suite 200, Sunnyvale, California 94085

(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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	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 November 30, 2018, there were 20.1 million shares of the registrant's common stock outstanding.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

OOMA, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited, amounts in thousands, except share and per share data)

	October 31, 2018	January 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$13,356	$4,483
Short-term investments	33,527	47,307
Accounts receivable, net	2,880	2,858
Inventories	7,817	6,079
Other current assets	3,830	4,397
Total current assets	61,410	65,124
Property and equipment, net	4,571	4,732
Intangible assets, net	2,836	1,292
Goodwill	3,803	1,947
Other assets	2,967	336
Total assets	$75,587	$73,431
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$7,866	$5,453
Accrued expenses	17,471	14,777
Deferred revenue	15,098	15,556
Total current liabilities	40,435	35,786
Other liabilities	771	577
Total liabilities	41,206	36,363
Commitments and contingencies (Note 5)		
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; 20.1 million and 19.1 million shares issued and outstanding, respectively	3	2
Additional paid-in capital	136,718	128,081
Accumulated other comprehensive loss	(34)	(84)
Accumulated deficit	(102,306)	(90,931)
Total stockholders' equity	34,381	37,068
Total liabilities and stockholders' equity	$75,587	$73,431

See notes to condensed consolidated financial statements

OOMA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, amounts in thousands, except share and per share data)

	Three Months Ended		Nine Months Ended	
	October 31, 2018	October 31, 2017	October 31, 2018	October 31, 2017
Revenue:				
Subscription and services	$29,794	$25,524	$85,532	$74,830
Product and other	2,814	2,981	8,979	9,440
Total revenue	32,608	28,505	94,511	84,270
Cost of revenue:				
Subscription and services	8,796	7,613	26,388	23,176
Product and other	3,739	3,726	11,339	11,314
Total cost of revenue	12,535	11,339	37,727	34,490
Gross profit	20,073	17,166	56,784	49,780
Operating expenses:				
Sales and marketing	10,755	9,127	30,149	27,526
Research and development	8,593	7,476	25,558	21,360
General and administrative	4,589	3,890	13,036	11,511
Total operating expenses	23,937	20,493	68,743	60,397
Loss from operations	(3,864)	(3,327)	(11,959)	(10,617)
Interest and other income, net	224	148	599	423
Loss before income taxes	(3,640)	(3,179)	(11,360)	(10,194)
Income tax benefit	146	—	277	—
Net loss	$(3,494)	$(3,179)	$(11,083)	$(10,194)
Net loss per share of common stock:				
Basic and diluted	$(0.18)	$(0.17)	$(0.56)	$(0.55)
Weighted-average number of shares used in per share amounts:				
Basic and diluted	19,962,735	18,725,286	19,655,727	18,407,817

See notes to condensed consolidated financial statements

OOMA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, amounts in thousands)

	Nine Months Ended	
	October 31, 2018	October 31, 2017
Cash flows from operating activities:		
Net loss	$(11,083)	$(10,194)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Stock-based compensation expense	7,734	8,726
Depreciation and amortization of property and equipment	1,717	1,446
Amortization of acquired intangible assets	540	244
Changes in fair value of acquisition-related contingent consideration	(128)	—
Deferred income taxes	(277)	—
Amortization and accretion of premiums from investments	(208)	158
Changes in operating assets and liabilities:		
Accounts receivable, net	(207)	1,172
Inventories	(1,734)	(386)
Deferred inventory costs	41	488
Other assets	(2,822)	(1,233)
Accounts payable and other liabilities	4,164	1,707
Deferred revenue	458	251
Net cash (used in) provided by operating activities	(1,805)	2,379
Cash flows from investing activities:		
Purchases of short-term investments	(26,709)	(38,898)
Proceeds from maturities and sales of short-term investments	40,762	39,327
Purchases of property and equipment	(1,438)	(1,747)
Business acquisition, net of cash assumed	(2,402)	—
Net cash provided by (used in) investing activities	10,213	(1,318)
Cash flows from financing activities:		
Shares repurchased for tax withholdings on vesting of restricted stock units	(2,298)	(1,973)
Proceeds from issuance of common stock	2,763	1,869
Net cash provided by (used in) financing activities	465	(104)
Net increase in cash and cash equivalents	8,873	957
Cash and cash equivalents at beginning of period	4,483	3,990
Cash and cash equivalents at end of period	$13,356	$4,947
Non-cash investing and financing activities:		
Unpaid portion of property and equipment purchases	$140	$177
Contingent consideration for business acquisition	$231	$—

Holdback payable for business acquisition	$780	$—
Shares issued for business acquisition	$390	$—

See notes to condensed consolidated financial statements

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

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. The Company's smart SaaS platform serves as a communications hub, which offers cloud-based communications solutions, smart security and other connected services. The Company was founded in 2003 and is headquartered in Sunnyvale, California.

In March 2018, the Company acquired Voxter Communications, Inc., ("Voxter") a provider of customizable Unified-Communications-as-a-Service ("UCaaS") offerings for mid-market and enterprise businesses. See Note 11: Business Acquisition below. The Company also refers to its Voxter UCaaS offering as Ooma Enterprise and refers to both Ooma Office and Ooma Enterprise collectively as Ooma Business. The Company refers to its Ooma Telo basic and premier services as well as its Smart Security solutions as Ooma Residential.

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

Principles of Presentation and Consolidation

These unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission (the "SEC") regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, the information included in this Quarterly Report on Form 10-Q should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended January 31, 2018 ("Annual Report").

These financial statements have been prepared on the same basis as the Company's annual financial statements and, in the opinion of management, reflect all normal recurring adjustments necessary to present fairly the Company's financial position, its results of operations, and cash flows for the interim periods presented, but are not necessarily indicative of the results of operations to be anticipated for the full fiscal year ending January 31, 2019. The condensed consolidated balance sheet as of January 31, 2018 included herein was derived from the audited financial statements as of that date.

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

Use of Estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the Company's condensed consolidated financial statements and notes thereto. Significant estimates include, but are not limited to, those related to revenue recognition, inventory valuation, deferred commissions, valuation of goodwill and intangible assets, regulatory fees and indirect tax accruals, loss contingencies, stock-based compensation, 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. 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.

Comprehensive Loss. For all periods presented, comprehensive loss approximated net loss in the condensed consolidated statements of operations. Therefore, the condensed consolidated statements of comprehensive loss have been omitted.

Significant Accounting Policies. Except for the accounting policies related to revenue recognition and customer acquisition costs that were updated as a result of adopting Topic 606, Revenue from Contracts with Customers, there have been no significant changes in the Company's accounting policies from those disclosed in its Annual Report. See Note 2: Revenue, Deferred Revenue and Commissions below.

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Recently Adopted Accounting Standards

Revenue recognition. In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606), which superseded the revenue recognition guidance in Topic 605 with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. Topic 606 also includes Subtopic 340-40, Other Assets and Deferred Costs – Contracts with Customers, which requires the deferral of incremental costs to acquire customer contracts, including sales commissions. The Company adopted the new standard effective February 1, 2018 under the modified retrospective method. The Company has implemented policies, processes and controls to support the standard's measurement and disclosure requirements. See Note 2: Revenue, Deferred Revenue and Commissions for disclosure on the impact of adopting this standard and updated accounting policies.

Goodwill. The Company early adopted ASU 2017-04, Intangibles – Goodwill and Other (Topic 350) in the first quarter of fiscal 2019. The updated standard eliminated the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, an impairment charge will be based on the excess of a reporting unit's carrying amount over its fair value. The adoption of this standard had no impact on the Company's condensed consolidated financial statements.

Business Combinations. The Company adopted ASU 2017-01, Business Combinations (Topic 805) – Clarifying the Definition of a Business in the first quarter of fiscal 2019. The updated standard provided guidance to assist entities in evaluating when a set of transferred assets and activities constitutes a business. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The adoption of this standard had no impact on the Company's condensed consolidated financial statements.

Accounting Standards Not Yet Adopted

Leases. In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) which supersedes the lease accounting requirements in Topic 840 and requires that lessees recognize a right-of-use asset and a lease liability on the balance sheet for all leases, with the exception of short-term leases. The standard also requires qualitative and quantitative disclosures to help investors and other readers of the financial statements to better understand the amount, timing and uncertainty of cash flows arising from leases. The Company will adopt Topic 842 in the first quarter of fiscal 2020, utilizing the optional transition method, whereby it will not be adjusting comparative period financial statements for the new standard. The Company continues to make progress in evaluating potential lease arrangements under Topic 842. The Company believes the most significant impact upon adoption of Topic 842 will be the recognition of right-of-use assets and lease liabilities that were not previously recognized, which will increase total assets and liabilities on its consolidated balance sheets. The Company does not expect the adoption to have a material impact on its consolidated statements of operations.

Stock-based Compensation. In June 2018, the FASB issued ASU 2018-07, Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting, which expands the scope of Topic 718 to include and simplify the accounting for share-based payments issued to nonemployees. Under the amended standard, most of the guidance on nonemployee share-based payments would be aligned with the requirements for share-based payments granted to employees. The new standard will become effective for the Company beginning in fiscal 2020. The Company does not expect the adoption to have a material impact 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 will become effective for the Company beginning in fiscal 2020. The Company is evaluating the effect of adoption on its consolidated financial statements.

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Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 2: Revenue, Deferred Revenue and Commissions

On February 1, 2018, the Company adopted Topic 606, Revenue from Contracts with Customers using the modified retrospective method applied to only those contracts that were not completed as of the adoption date. The Company's financial results for the three and nine months ended October 31, 2018 are presented in accordance with the provisions under Topic 606. Comparative prior period amounts have not been adjusted and continue to be reported under the historic accounting standards in effect for the periods presented.

The new standard impacted revenue recognition timing on product sales made to certain channel partners, whereby revenue is now recognized when the Company delivers product to the channel partner (sell-in basis) rather than deferring recognition until resale by the partner to the end customer (sell-through basis). The adoption of the new standard also changed the treatment of sales commissions, whereby the Company now capitalizes its incremental costs of acquiring customer contracts and amortizes these deferred costs over the estimated customer life. Previously, all sales commissions were expensed as incurred. See below for further discussion of the Company's updated significant accounting policies.

As a result of adopting Topic 606, the February 1, 2018 beginning balance of accumulated deficit increased by $0.3 million, reflecting a net decrease to deferred revenue of approximately $1.0 million and corresponding adjustments to deferred inventory costs and other related accounts. Deferred commissions related to open contracts as of the adoption date were immaterial.

The following tables summarize the impact of adopting Topic 606 on the Company's condensed consolidated statement of operations and balance sheet (in thousands, except per share amounts):

Statement of Operations:	Three Months Ended October 31, 2018		
	As Reported	Effect of Change	Balances without adoption of Topic 606
Total revenue	$32,608	$(212)	$32,396
Total cost of revenue	12,535	(507)	12,028
Gross profit	20,073	295	20,368
Sales and marketing expense	10,755	1,238	11,993
Net loss	(3,494)	(943)	(4,437)
Net loss per share - basic and diluted	(0.18)	(0.04)	(0.22)

	Nine Months Ended October 31, 2018		
	As Reported	Effect of Change	Balances without adoption of Topic 606

Total revenue	$94,511	$(90)	$94,421
Total cost of revenue	37,727	(394)	37,333
Gross profit	56,784	304	57,088
Sales and marketing expense	30,149	3,499	33,648
Net loss	(11,083)	(3,195)	(14,278)
Net loss per share - basic and diluted	(0.56)	(0.17)	(0.73)

Balance Sheet:	As of October 31, 2018		
	As Reported	Effect of Change	Balances without adoption of Topic 606
Accounts receivable, net	$2,880	$840	$3,720
Other current assets [1]	3,830	491	4,321
Other assets [2]	2,967	(2,688)	279
Accrued expenses [3]	17,471	(162)	17,309
Deferred revenue	15,098	1,695	16,793
Accumulated deficit	(102,306)	(2,890)	(105,196)

(1) Other current assets include deferred commissions and deferred inventory costs.

(2) Other assets include non-current deferred commissions.

(3) Accrued expenses include certain accrued sales incentives.

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

The adoption of the new standard did not have any impact on net cash flows for operating, investing and financing activities in the consolidated statements of cash flows.

Revenue Recognition

The Company derives its revenue from two sources: (1) subscription and services revenue, which are generated from sales 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. Under Topic 606, the Company has maintained its policy to exclude these taxes from revenue.

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

	Three Months Ended		Nine Months Ended	
	October 31, 2018	October 31, 2017	October 31, 2018	October 31, 2017
Subscription and services revenue	$29,794	$25,524	$85,532	$74,830
Product and other revenue	2,814	2,981	8,979	9,440
Total revenue	$32,608	$28,505	$94,511	