OOMA INC
Form 10-Q
June 08, 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 April 30, 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 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 May 31, 2018, there were 19.6 million shares of the registrant's common stock outstanding.

TABLE OF CONTENTS

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

OOMA, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

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

	April 30, 2018	January 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$8,494	$4,483
Short-term investments	41,251	47,307
Accounts receivable, net	3,547	2,858
Inventories	6,394	6,079
Other current assets	3,429	4,397
Total current assets	63,115	65,124
Property and equipment, net	4,811	4,732
Intangible assets, net	3,231	1,292
Goodwill	3,803	1,947
Other assets	1,161	336
Total assets	$76,121	$73,431
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$8,094	$5,453
Accrued expenses	16,192	14,777
Deferred revenue	14,629	15,556
Total current liabilities	38,915	35,786
Other liabilities	966	577
Total liabilities	39,881	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; 19.5 million and 19.1 million shares issued and outstanding, respectively	2	2
Additional paid-in capital	131,231	128,081
Accumulated other comprehensive loss	(85)	(84)
Accumulated deficit	(94,908)	(90,931)
Total stockholders' equity	36,240	37,068
Total liabilities and stockholders' equity	$76,121	$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	
	April 30, 2018	April 30, 2017
Revenue:		
Subscription and services	$27,312	$24,100
Product and other	2,910	3,478
Total revenue	30,222	27,578
Cost of revenue:		
Subscription and services	8,774	7,749
Product and other	3,510	3,796
Total cost of revenue	12,284	11,545
Gross profit	17,938	16,033
Operating expenses:		
Sales and marketing	8,895	9,154
Research and development	8,522	6,621
General and administrative	4,452	3,756
Total operating expenses	21,869	19,531
Loss from operations	(3,931)	(3,498)
Interest and other income, net	177	106
Loss before income taxes	(3,754)	(3,392)
Income tax benefit	69	—
Net loss	$(3,685)	$(3,392)
Net loss per share of common stock:		
Basic and diluted	$(0.19)	$(0.19)
Weighted-average number of shares used in per share amounts:		
Basic and diluted	19,318,718	18,128,504

See notes to condensed consolidated financial statements

OOMA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, amounts in thousands)

	Three Months Ended	
	April 30, 2018	April 30, 2017
Cash flows from operating activities:		
Net loss	$(3,685)	$(3,392)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Stock-based compensation expense	2,314	2,971
Depreciation and amortization of property and equipment	504	468
Amortization of acquired intangible assets	145	83
Amortization and accretion of premiums from investments	(57)	75
Changes in operating assets and liabilities:		
Accounts receivable, net	(874)	272
Inventories	(311)	(1,154)
Other assets	(564)	343
Accounts payable and other liabilities	2,770	569
Deferred revenue	52	(70)
Net cash provided by operating activities	294	165
Cash flows from investing activities:		
Purchases of short-term investments	(5,409)	(5,441)
Proceeds from maturities of short-term investments	8,531	9,860
Proceeds from sales of short-term investments	2,995	450
Purchases of property and equipment	(405)	(579)
Business acquisition, net of cash assumed	(2,402)	—
Net cash provided by investing activities	3,310	4,290
Cash flows from financing activities:		
Taxes paid related to net share settlement of equity awards	(759)	(300)
Proceeds from issuance of common stock	1,166	863
Net cash provided by financing activities	407	563
Net increase in cash and cash equivalents	4,011	5,018
Cash and cash equivalents at beginning of period	4,483	3,990
Cash and cash equivalents at end of period	$8,494	$9,008
Non-cash investing and financing activities:		
Unpaid portion of property and equipment purchases	$200	$199
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, home 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 Unified Communications-as-a-Service (“UCaaS”) for mid-market and enterprise businesses. See Note 11: Business Acquisitions below. Beginning with fiscal 2019, the Company now refers to Ooma Office and Voxter collectively as Ooma Business. Ooma Residential includes Ooma Telo basic and premier services and the Company’s home security solutions.

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.

Recently Adopted Accounting Standards

Revenue recognition. In May 2014, the 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. Under Topic 842, leases would be accounted for as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use asset and a corresponding lease liability. For finance leases, the lessee would recognize interest expense and amortization of the right-of-use asset, and for operating leases, the lessee would recognize a straight-line total lease expense. The standard also requires qualitative and quantitative disclosures to elaborate and support the amounts recorded in the financial statements to aid better understanding of the adoption of the lease guidance, including the Company’s significant judgments and changes in judgments. The new standard will become effective for the Company beginning in fiscal 2020. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements. The Company expects that its operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon adoption.

Ooma, Inc.

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 reporting periods beginning the first quarter of fiscal 2019 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 the Company's 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 Company's 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 the standard, 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 table summarizes the impact of adopting the new revenue standard on the Company's condensed consolidated statement of operations and balance sheet (in thousands, except per share amounts):

Statement of Operations:	Three Months Ended April 30, 2018		
	As Reported	Effect of Change	Balances without adoption of Topic 606
Total revenue	$30,222	$340	$30,562
Total cost of revenue	12,284	302	12,586
Gross profit	17,938	38	17,976
Sales and marketing expense	8,895	1,062	9,957
Net loss	(3,685)	(1,024)	(4,709)
Net loss per share - basic and diluted	(0.19)	(0.05)	(0.24)

Balance Sheet:	As of April 30, 2018		
	As Reported	Effect of Change	Balances without adoption of Topic 606

Accounts receivable, net	$3,547	$174	$3,721
Other current assets [1]	3,429	367	3,796
Other assets [2]	1,161	(825)	336
Accrued expenses [3]	16,192	(202)	15,990
Deferred revenue	14,629	638	15,267
Accumulated deficit	(94,908)	(720)	(95,628)

[1] Other current assets include deferred commissions and deferred inventory costs.

[2] Other assets include non-current deferred commissions.

[3] Accrued expenses include accrued customer sales incentives.

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

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

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 the Company's 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. The Company maintained its policy to exclude these taxes from revenue under the adoption of Topic 606.

Revenue disaggregated by revenue source for the three months ended April 30, 2018 and 2017, consisted of the following (in thousands):

	Three Months Ended	
	April 30, 2018	April 30, 2017
Subscription and services revenue	27,312	24,100
Product and other revenue	2,910	3,478
Total revenue	$30,222	$27,578

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. All subscription revenue is recognized on a straight-line basis over the contractual service term. The Company's service plans are generally sold as monthly subscriptions; however, certain residential plans are also offered as annual subscriptions.

In addition, the Company recognizes a small portion of its revenue on a point-in-time usage basis from services such as, prepaid international calls, directory assistance and advertisements displayed through the Company's 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 the Company's 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 when the Company delivers the product or when all customer contractual provisions have been met, if any. The Company's distribution agreements with its 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, and the Company's shipping and handling costs are expensed as incurred and classified as cost of revenue.

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

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 transaction price is then allocated to the separate performance obligations on a relative stand-alone selling price ("SSP") 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. The Company monitors the accuracy of its reserve estimates by reviewing actual returns and sales incentives and adjusts them for future expectations to determine the adequacy of current reserve needs. If actual future returns and sales incentives differ from past experience, additional reserves may be required. The Company recorded total allowances for product returns and customer sales incentives of $0.6 million and $0.6 million as of April 30, 2018 and January 31, 2018.

Accounts Receivable

Accounts receivable are stated at invoice value less estimated allowances for doubtful accounts and product returns (whereas customer sales incentives are recorded as a component of accrued expenses). The Company records its allowances based upon its assessment of several factors, including historical experience, aging of receivable balances and economic conditions. As of April 30, 2018 and January 31, 2018, the Company recorded allowances for doubtful accounts of $0.1 million.

Customers who represented 10% or more of the Company's net accounts receivable balance were as follows:

	As of April 30, 2018	January 31, 2018
Customer A	19%	*
Customer B	*	10%

*Represented less than 10% of accounts receivable, net at the end of respective periods

Customer Acquisition Costs

The Company recognizes an asset related to the costs incurred to obtain a contract if management expects to recover those costs and the Company would not have incurred those costs if the contract had not been obtained.

Based on this policy, the Company capitalizes its sales commissions and other costs paid to internal sales personnel, third-party sales entities and value-added resellers that are incremental to obtaining customer contracts. These deferred costs are then amortized on a systematic basis over the estimated customer life of five years, calculated based on both qualitative and quantitative factors, such as product life cycles and customer attrition. Amortization expense is included in sales and marketing expenses in the accompanying condensed consolidated statement of operations. 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 there are potential indicators of impairment.

The Company’s deferred commission costs were approximately $1.0 million as of April 30, 2018. The $0.2 million current portion and $0.8 million non-current portion of deferred commission costs were included in other current assets and other assets, respectively, within the condensed consolidated balance sheet. During the three months ended April 30, 2018, amortization expense was less than $0.1 million and there was no impairment loss in relation to the costs capitalized.

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Deferred Revenue

Deferred revenue primarily consists of billings or payments received in advance of meeting revenue recognition criteria. The Company's communications services are sold as monthly or annual subscriptions, payable in advance. The Company recognizes deferred services revenue 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 April 30, 2018	January 31, 2018
Deferred revenue:		
Subscription and services	$14,899	$14,568
Product and other	132	1,416
Total deferred revenue	15,031	15,984
Less: current deferred revenue	14,629	15,556
Noncurrent deferred revenue included in other long-term liabilities	$402	$428

During the three months ended April 30, 2018, the Company recognized revenue of approximately $9.5 million pertaining to amounts deferred as of January 31, 2018. As of April 30, 2018, the Company's deferred revenue balance was primarily composed of subscription contracts that were invoiced during the first quarter of fiscal 2019, as well as amounts recorded during fiscal 2018 for annual contracts.

Remaining Performance Obligations

As of April 30, 2018, revenue of approximately $0.8 million is expected to be recognized from remaining performance obligations for open contracts with an original expected length of more than one year. This amount includes both long-term deferred revenue and non-cancelable contract amounts that will be invoiced and recognized as revenue in future periods. The Company expects to recognize revenue of approximately $0.4 million over the next 12 months and the remainder thereafter.

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 3: Fair Value Measurements

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

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

Level 2: Observable prices based on inputs not quoted in active markets, but are corroborated by market data.
Level 3: Unobservable inputs that are supported by little or no market activity.
The Company's financial assets 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 April 30, 2018				Balance as of January 31, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Cash and cash equivalents:								
Money market funds	$4,641	$—	$—	$4,641	$554	$—	$—	$554
Commercial paper	—	—	—	—	—	2,844	—	2,844
Total cash equivalents	$4,641	$—	$—	$4,641	$554	$2,844	$—	$3,398
Cash				3,853				1,085
Total cash and cash equivalents				$8,494				$4,483
Short-term investments:								
U.S. government securities	$17,391	$—	$—	$17,391	$20,867	$—	$—	$20,867
Corporate debt securities	—	11,952	—	11,952	—	13,895	—	13,895
Commercial paper	—	9,184	—	9,184	—	9,272	—	9,272
U.S. agency securities	—	999	—	999	—	1,996	—	1,996
Asset-backed securities	—	1,725	—	1,725	—	1,277	—	1,277
Total short-term investments	$17,391	$23,860	$—	$41,251	$20,867	$26,440	$—	$47,307
Liabilities:								
Contingent consideration	$—	$—	$542	$542	$—	$—	$311	$311
Total liabilities	$—	$—	$542	$542	$—	$—	$311	$311

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. There were no transfers of financial assets or liabilities between levels during the periods presented.

As of April 30, 2018 and January 31, 2018, the amortized cost of the Company's 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. There were no investments in the Company's portfolio that were other-than-temporarily impaired.

Level 3 liabilities consisted of contingent consideration related to the Company's acquisitions of Butterfleye, Inc. in December 2017 and Voxter Communications in March 2018 that were estimated using income-based approaches. Key inputs included assumptions regarding the achievement of certain performance milestones and discount rates consistent with the level of risk and economy in general. Contingent consideration was classified as a component of accrued expenses on the consolidated balance sheets. There have been no settlements or changes in the fair value of contingent consideration.

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

	As of April 30, 2018		As of January 31, 2018	
	Amortized Value	Fair Value	Amortized Value	Fair Value
One year or less	$40,342	$40,268	$43,227	$43,172
Over one year and less than two years	995	983	4,164	4,135
Total	$41,337	$41,251	$47,391	$47,307

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 4: Balance Sheet Components

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

Inventories

	As of April 30, 2018	January 31, 2018
Finished goods	$5,048	$5,517
Raw material	1,346	562
Total inventory	$6,394	$6,079

Other Current Assets

	As of April 30, 2018	January 31, 2018
Prepaid expenses	$1,188	$1,921
Deferred sales commissions	237	—
Deferred inventory costs	116	1,061
Other current assets	1,888	1,415
Total other current assets	$3,429	$4,397

Intangible Assets and Goodwill

The carrying amount of goodwill was $3.8 million and $1.9 million as of April 30, 2018 and January 31, 2018, respectively. The Company recognized $2.1 million in intangibles and $1.9 million in goodwill following the acquisition of Voxter in March 2018. See Note 11: Business Acquisitions below. There was no change to goodwill subsequent to this acquisition.

	As of April 30, 2018			As of January 31, 2018		
	Gross Value	Accumulated Amortization	Carrying Value	Gross Value	Accumulated Amortization	Carrying Value
Developed technology	2,560	(732)	$ 1,828	$1,568	$ (630)	$ 938
Customer relationships	902	(23)	879	—	—	—
Trade name	451	(98)	353	262	(81)	181
Patents and licenses	714	(700)	14	714	(698)	16
User relationships	458	(458)	—	458	(458)	—
Total amortizable assets	5,085	(2,011)	3,074	3,002	(1,867)	1,135

In-process R&D	157	—	157	157	—	157
Total intangible assets	$5,242	$ (2,011)	$ 3,231	$3,159	$ (1,867)	$ 1,292

At April 30, 2018, the estimated future amortization expense for intangible assets was as follows (in thousands):

Fiscal Years Ending January 31,	Total
2019 remainder	$591
2020	652
2021	603
2022	599
2023 and thereafter	629
Total	$3,074

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Accrued Expenses

	As of April 30, 2018	January 31, 2018
Regulatory fees and taxes	$6,146	$5,239
Payroll and related expenses	3,522	5,423
Professional services	1,398	1,046
Acquisition-related consideration	1,353	353
Other	3,773	2,716
Total accrued expenses	$16,192	$14,777

Note 5: Commitments and Contingencies

Leases and Purchase Commitments

The Company’s principal commitments consist of obligations under enforceable and legally binding lease agreements for office space and data center facilities. Rent expense was $0.7 million and $0.4 million for the three months ended April 30, 2018 and 2017, respectively. As of April 30, 2018 and January 31, 2018, future minimum rental commitments under non-cancelable operating leases were $4.3 million.

As of April 30, 2018 and January 31, 2018, non-cancelable purchase commitments with the Company’s contract manufacturers were $4.2 million and $3.3 million, respectively.

Legal Proceedings

In addition to the litigation matters described below, from time to time, the Company may be involved in a variety of other claims, lawsuits, investigations, and proceedings relating to contractual disputes, intellectual property rights, employment matters, regulatory compliance matters, and other litigation matters relating to various claims that arise in the normal course of business. Defending such proceedings is costly and can impose a significant burden on management and employees, the Company may receive unfavorable preliminary or interim rulings in the course of litigation, and there can be no assurances that favorable final outcomes will be obtained.

The Company determines whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. The Company assesses its potential liability by analyzing specific litigation and regulatory matters using reasonably available information. The Company develops its views on estimated losses in consultation with inside and outside counsel, which involves a subjective analysis of potential results and outcomes, assuming various combinations of appropriate litigation and settlement strategies. Legal fees are expensed in the period in which they are incurred.

As of April 30, 2018, other than amounts accrued for the Oregon Tax litigation as described below, the Company did not have any material 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 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. The plaintiff seeks a declaratory judgment that the Company must comply with the PA 911 Act, compensatory and punitive damages and such other relief as the court may deem proper. The Company believes that the plaintiff’s claims are without merit since the Company has no employees, property or other indicia of a “substantial nexus” with the State of Pennsylvania. The Company intends to continue vigorously defending against this lawsuit. 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 unfavorable preliminary or 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.

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 Berks County Litigation is not estimable.

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Deep Green Wireless Litigation

On June 8, 2016, plaintiff Deep Green Wireless LLC 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. Based upon the Company's investigation, the Company does not believe that its products infringe any valid or enforceable claim of the aforementioned patent, and the Company plans to continue vigorously defending against the plaintiff's claim. 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 unfavorable preliminary or 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.

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 starting on January 1, 2013 and ending on March 31, 2016 (collectively, the "Assessments"). On November 28, 2016, the Company filed a complaint in the Oregon Tax Court, asserting that the Assessments against the Company is in violation of applicable Oregon law and are barred by the United States Constitution, and asking the Oregon Tax Court to abate the Assessments in full (the "Complaint", and such dispute, the "Oregon Tax Litigation"). On February 10, 2017, the DOR filed an answer to the Complaint, and during April 2017, the Company voluntarily participated in an informal discovery process by providing certain information and documents to the DOR. The Company filed a motion for summary judgment on September 29, 2017, and on December 13, 2017 the Court heard oral arguments from the parties regarding such motion.

On March 27, 2018, the Magistrate Division of the Oregon Tax Court issued its decision denying the Company's motion, and granting the DOR's motion for summary judgment. Notwithstanding such decision, 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. The Company intends to file an appeal of the Magistrate Divisions decision with the Regular Division of the Oregon Tax Court, and the Company will continue to vigorously litigate the Complaint in pursuit of the full abatement of the Assessments. 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.

As of April 30, 2018, the condensed consolidated balance sheet included an accrual of approximately $0.3 million in other current liabilities as the amount of loss deemed probable and reasonably estimable to result from the Oregon Tax Litigation.

Secure Cam Litigation

On May 2, 2018, plaintiff Secure Cam, LLC filed a complaint in the U.S. District Court for the Northern District of California against the Company's wholly-owned subsidiary, Butterfleye, Inc., alleging infringement of four United States patents (No. 8,531,555, No. 8,350,928, No. 8,836,819 and No. 9,363,408) (the "Secure Cam Litigation"). The complaint seeks unspecified monetary damages, costs, attorneys' fees and other appropriate relief. The Company plans to contest the complaint vigorously. Based upon the Company's preliminary investigation, the Company does not believe that its products infringe any valid or enforceable claim of the aforementioned patents, although the outcome of any litigation can never be certain.

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 Secure Cam Litigation is not estimable.

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

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 our IPO on July 17, 2015. Since that time two additional purported class actions making substantially the same allegations against the same defendants were filed, and on May 18, 2016, all three complaints were combined into a "consolidated complaint" filed in the same court (the "Securities Litigation"). The consolidated complaint purports to be brought on behalf of all persons who purchased shares of common stock in our IPO in reliance upon the Registration Statement and Prospectus the Company filed with the SEC. The consolidated complaint alleges 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 allege contained material misstatements and omissions in violation of Sections 11, 12(a)(2) and 15 of the Securities Act. The plaintiffs seek class certification, compensatory damages, attorneys' fees and costs, rescission or a rescissory measure of damages, equitable and/or injunctive relief, and such other relief as the court may deem proper.

On November 29, 2017, the Superior Court dismissed the claims that were based on Sections 12(a)(2) and 15 of the Securities Act with prejudice, but denied the Company's motion to stay the case pending the United States Supreme Court's decision in Cyan v. Beaver Cnty. Emp. Ret.' Fund. On March 20, 2018, the United States Supreme Court published its decision in the Cyan case, holding that state courts have subject matter jurisdiction to hear claims brought under the Securities Act, such as the claims alleging violations of Section 11 of the Securities Act (the only remaining claims in the Securities Litigation) brought against the Company in the Superior Court.

The Company believes the plaintiffs' claim are without merit and the Company is vigorously defending against the Securities Litigation and will continue to do so. 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 unfavorable preliminary or 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.

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 Securities Litigation is not estimable.

Indemnification

The Company enters into standard indemnification arrangements in the ordinary course of business. Pursuant to these arrangements, the Company indemnifies, holds harmless and agrees to reimburse the indemnified parties for losses suffered or incurred by the indemnified party, in connection with any trade secret, copyright, patent or other intellectual property infringement claim by any third party with respect to the Company's technology. The term of these indemnification agreements is generally perpetual. The maximum potential amount of future payments the Company could be required to make under these agreements is not determinable because it involves claims that may be made against the Company in the future, but have not yet been made.

The Company has entered into indemnification agreements with its directors and officers that may require the Company to indemnify its directors and officers against liabilities that may arise by reason of their status or service as directors or officers, other than liabilities arising from willful misconduct of the individual. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has director and officer insurance coverage that reduces the Company's exposure and enables the Company to recover a portion of any future amounts paid.

To date the Company has not incurred costs to defend lawsuits or settle claims related to these indemnification agreements. No liability associated with such indemnifications has been recorded to date.

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 6: Stockholders' Equity

Equity Incentive Plan. The 2015 Equity Incentive Plan provides for the grant of incentive stock options to its employees and any of its subsidiary corporations' employees, and for the grant of restricted stock units ("RSUs"), non-statutory stock options, stock appreciation rights, restricted stock, performance units and performance shares to its employees, directors and consultants and its subsidiary corporations' employees and consultants.

Stock option activity for the three months ended April 30, 2018 was as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Balance as of January 31, 2018	1,801,232	$ 6.09	6.2	$ 8,270
Granted	100,000	$ 11.75		
Exercised	(60,718)	$ 4.87		
Canceled	(11,652)	$ 7.67		
Balance as of April 30, 2018	1,828,862	$ 6.43		
Vested and exercisable as of April 30, 2018	1,518,013	$ 5.56	5.7	$ 8,249

The aggregate intrinsic value of vested options exercised during the three months ended April 30, 2018 and 2017 was $0.2 million and $0.1 million, respectively. The weighted average grant date fair value of options granted during the three months ended April 30, 2018 and 2017 was $5.28 and $4.81, respectively.

RSU activity for the three months ended April 30, 2018 was as follows:

	Number of Shares	Weighted Average Grant-Date Fair Value Per Share
Balance as of January 31, 2018	1,966,895	$ 8.85
Granted	966,675	$ 11.71
Vested	(204,728)	$ 8.33
Canceled	(129,251)	$ 8.33
Balance as of April 30, 2018	2,599,591	$ 9.99

Employee Stock Purchase Plan. The 2015 Employee Stock Purchase Plan ("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 the three months ended April 30, 2018 and 2017, employees purchased approximately 0.2 million and 0.2 million shares, respectively, at a weighted purchase price of $5.65 and $5.34 per share, respectively.

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 7. Stock-Based Compensation

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

	Three Months Ended	
	April 30, 2018	April 30, 2017
Cost of revenue	$192	$315
Sales and marketing	326	520
Research and development	863	1,068
General and administrative	933	1,068
Total stock-based compensation expense	$2,314	$2,971

As of April 30, 2018, there was $26.9 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 3 years.

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

	Three Months Ended	
	April 30, 2018	April 30, 2017
Stock Options:		
Expected volatility	43%	47%
Expected term (in years)	6.1	6.1
Risk-free interest rate	2.7%	2.1%
Dividend yield	—%	—%
ESPP:		
Expected volatility	47%-56%	35%-41%
Expected term (in years)	0.5-2.0	0.5-2.0
Risk-free interest rate	2.0%-2.3%	0.9%-1.3%
Dividend yield	—%	—%

Note 8: Income Taxes

The Company recorded an income tax benefit of $0.1 million during the three months ended April 30, 2018, primarily related to the Company's acquisition of Voxter, a corporation incorporated in the province of British Columbia, Canada. See Note 11: Business Acquisitions. The Company did not record a provision or benefit for income taxes during the three months ended April 30, 2017. The Company continues to maintain a full valuation allowance against its deferred tax assets.

Uncertain Tax Positions

As of April 30, 2018, the Company had unrecognized tax benefits of $3.0 million, none of which would currently affect the Company's effective tax rate if recognized due to the Company's deferred tax assets being fully offset by a valuation allowance. The Company does not anticipate that the amount of unrecognized tax benefits relating to tax positions existing at April 30, 2018 will significantly increase or decrease within the next twelve months. There was no interest expense or penalties related to unrecognized tax benefits recorded through April 30, 2018.

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

U.S. Tax Reform

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was enacted, containing significant changes to U.S. tax law, including: a permanent reduction in the U.S. corporate tax rate from 35% to 21%, effective January 1, 2018;

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

implementing a territorial tax system; and imposing a one-time tax on deemed repatriated earnings of foreign subsidiaries. As a result of the reduction in the corporate income tax rate, the Company revalued its net deferred tax assets at December 22, 2017.

Effective for tax years beginning on January 1, 2018 or later, which is considered fiscal 2019 for the Company, tax reform legislation modified Section 162(m) rules to repeal the performance-based compensation and commission exceptions to the $1 million deduction limitation. However, written binding contracts in effect on November 2, 2017, including plans where the right to participate in the plan is part of a written contract with an executive officer, are grandfathered and not subject to limitation under Section 162(m). The Company believes some of its contracts will not be subject to limitation and will continue to monitor the deferred tax assets related to deferred compensation expense and share-based compensation expense on a going forward basis.

While the Tax Act provides a territorial tax system, beginning in calendar year 2018, it also included two new U.S. tax base erosion provisions, the global intangible low-taxed income (GILTI) provision and the base-erosion and anti-abuse tax (BEAT) provision. The GILTI provision requires the Company to include in its U.S. income tax return foreign subsidiary earnings in excess of an allowable return on the foreign subsidiary's tangible assets. The BEAT provision in the Tax Act eliminates the deduction of certain base-erosion payments made to related foreign corporations and imposes a minimum tax if greater than regular tax. The BEAT provision may not apply to the Company in the near future. However, the Company intends to account for the GILTI tax in the period in which it is incurred. The Company does not expect GILTI provisions to result in significant additional U.S. taxes in fiscal 2019.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. The Company has recognized the provisional tax impact related to the revaluation of deferred tax assets and liabilities to the extent identified. The ultimate impact may differ materially from these provisional amounts due to, among other things, additional analysis, changes in interpretations and assumptions the Company has made, additional regulatory guidance that may be issued, and actions the Company may take as a result of the Tax Act.

Note 9: Basic and Diluted Net Loss Per Share

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

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

	Three Months Ended	
	April 30, 2018	April 30, 2017

Numerator		
Net loss	$(3,685)	$(3,392)
Denominator		
Weighted-average common shares	19,318,718	18,128,504
Basic and diluted net loss per share	$(0.19)	$(0.19)

Potentially dilutive securities of approximately 4.6 million and 5.1 million were excluded from the computation of diluted net loss per share for the three months ended April 30, 2018 and 2017, respectively, and included the Company’s RSUs, stock options and shares to be purchased under the ESPP.

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 10: Related Party Transactions

Through February 2018, one of the members of the Company's board of directors was affiliated with a professional firm that provided public relations services to the Company. The Company incurred expenses of less than $0.1 million for the three months ended April 30, 2018 and 2017 for the services provided by the firm.

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 new corporate headquarters. One of the members of the Company's board of directors is also a current member of Fiserv's board of directors. The Company incurred rent expense of approximately $0.2 million for the three months ended April 30, 2018 under this sublease agreement.

Note 11: Business Acquisition

On March 12, 2018, the Company completed its acquisition of Voxter Communications Inc., a privately-held provider of UCaaS solutions for mid-market and enterprise businesses.

The acquisition date fair value consideration transferred for Voxter was approximately $3.9 million, which consisted of the following (in thousands, except for share data):

	Fair Value
Cash paid at closing	$2,510
Common stock issued at closing (35,513 shares)	390
Holdback payable (1)	780
Contingent consideration (2)	231
Total	$3,911

(1) Amounts to be paid in cash after a one-year holdback period.

(2) Fair value of deferred earn-out payments ($0.8 million gross) contingent upon the achievement of certain performance targets.

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 $1.9 million, based on the best estimates of management. See Note 4: Balance Sheet Components above. Acquisition-related transaction costs charged to expense were approximately $0.3 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 is not expected to be deductible for U.S. or Canadian income tax purposes.

The operating results of the acquired company have been 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.

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

The following discussion should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and with our audited financial statements included in our Annual Report on Form 10-K for the year ended January 31, 2018 filed with the SEC on April 2, 2018. In addition to historical financial information, the following discussion contains "forward-looking statements" within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and other legal authority. These forward-looking statements concern our operations, economic performance, financial condition, goals, beliefs, future growth strategies, objectives, plans and current expectations. The words "believe," "will," "may," "estimate," "continue," "anticipate," "intend," "should," "plan," "expect," "predict," "could," "potentially" and variations of su similar expressions are intended to identify such forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. Such statements are based on management's expectations as of the date of this filing and involve many risks and uncertainties that could cause our actual results, events or circumstances to differ materially from those expressed or implied in our forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Item 2. MD&A, as well as the section titled "Risk Factors" included under Part II, Item 1A below. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.

Executive Overview

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

We drive the adoption of our platform 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 platform by making a one-time purchase of one of our on-premise appliances, connecting the appliance to the internet, and activating our subscription and services, for which they primarily pay on a recurring 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 solutions, 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 offer our solutions in the U.S. and Canadian markets and began expanding our operations outside of North America in the prior fiscal year.

On February 1, 2018, we adopted Topic 606, Revenue from Contracts with Customers, which resulted in timing and presentation changes affecting our consolidated balance sheet and statement of operations. Under Topic 606, product revenue for sales made through our channel partners is now recognized when we deliver product to our partners (sell-in basis) rather than deferring recognition until resale by the partners to the end customers (sell-through basis). We also capitalize a significant portion of our sales commission costs as an incremental cost of obtaining a customer contract and amortize them to sales and marketing expense over an estimated customer life of five years. Previously, we expensed all sales commissions as incurred. See Note 2: Revenue, Deferred Revenue and Commissions in the notes to the condensed consolidated financial statements.

In March 2018, we acquired Voxter Communications, Inc., a provider of UCaaS solutions for mid-market and enterprise businesses for upfront cash consideration of $2.4 million, net of cash acquired of $0.1 million. (See Note 11: Business Acquisitions in the notes to the condensed consolidated financial statements). We believe Voxter will complement our Ooma Office solution and allow us to meet the needs of larger organizations. Although Voxter was not material to our financial statements for the three months ended April 30, 2018, we expect it to be a strategic growth initiative for our business long-term.

Beginning with fiscal 2019, we now refer to Ooma Office and Voxter collectively as Ooma Business.

First Quarter Fiscal 2019 Financial Highlights

- Total revenue was $30.2 million, up 10% year-over-year, reflecting a 7% increase in our core user base. Ooma Business contributed approximately 26% to our total revenue compared to 20% in the prior year quarter.
- Subscription and services revenue from Ooma Business and Ooma Residential grew 53% and 11% year-over-year, respectively.
- Total gross margin was 59%, up from 58% in the prior year period, driven by the continued growth of Ooma Business.
- Net loss was $3.7 million, compared to $3.4 million the prior year period, reflecting continued investments in research and development, brand marketing and channel development.
- Adjusted EBITDA was ($0.5) million, compared to $0.1 million in the prior year period.
- Cash provided from operations was $0.3 million, compared to $0.2 million in the prior year period.
- As of April 30, 2018, we had total cash, cash equivalents and short-term investments of $49.7 million, compared to $51.8 million as of January 31, 2018.

Key Business Metrics

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

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

	As of	
	April 30, 2018	April 30, 2017
Core users	945	879
Annualized exit recurring revenue (AERR)	$105,300	$88,300
Net dollar subscription retention rate	101 %	97 %
Adjusted EBITDA	$(522)	$71

Core Users increased 7% year-over-year, which was primarily driven by growth in both business and residential users. We believe that the number of our core users is an indicator of our market penetration, the growth of our business and our anticipated future subscription and services revenue. We define our core users as the total number of active residential user accounts and business user extensions.

Annualized Exit Recurring Revenue increased year-over-year due to an increase in the average revenue per core user, which was driven by the increase in total business core users and in part by the changes made to our residential customer pricing structure in October 2017. We believe that AERR is an indicator of recurring subscription and services revenue for near-term future periods.

Net Dollar Subscription Retention Rate increased year-over-year due to an increase in the average revenue per core user as we continued to offer more services to our customers and in part due to the changes made to our residential customer pricing structure in October 2017. We believe that our net dollar subscription retention rate provides insight into our ability to retain and grow our subscription and services revenue, and is an indicator of the long-term value of our customer relationships and the stability of our revenue base.

Adjusted EBITDA. We use Adjusted EBITDA to manage our business, evaluate our performance and make planning decisions. We consider this measure to be a useful measure of our operating performance, because it contains adjustments for unusual events or factors that do not directly affect what management considers being the core operating performance, and are used by our management for that purpose. We also believe this measure enables us to better evaluate our performance by facilitating a meaningful comparison of our core operating results in a given period to those in prior and future periods. In addition, investors often use similar measures to evaluate the operating performance with competitors. Adjusted EBITDA represents net loss before interest and other income, non-cash income tax benefit, depreciation and amortization, stock-based compensation and related taxes and acquisition-related costs.

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 stock-based compensation and related taxes, amortization of acquired intangible assets and other acquisition-related charges, income tax benefits, or changes in the fair value of acquisition-related contingent consideration (if any);
- Adjusted EBITDA does not reflect other non-operating expenses, net of other non-operating income, including net interest and other income/expense; and
- other companies, including companies in our industry, may calculate Adjusted EBITDA differently, which reduces its usefulness as a comparative measure.

Because of these limitations, you should consider Adjusted EBITDA alongside other financial performance measures, including net loss and our other GAAP results. The following table provides a reconciliation of net loss (the most directly comparable GAAP financial measure) to Adjusted EBITDA for each of the periods indicated (in thousands):

	Three Months Ended	
	April 30, 2018	April 30, 2017
GAAP net loss	$(3,685)	$(3,392)
Reconciling items:		
Interest and other income, net	(177)	(106)
Income tax benefit	(69)	—
Depreciation and amortization	504	468
Acquisition-related costs and amortization of acquired intangible assets	496	83
Stock-based compensation and related taxes	2,409	