OOMA INC
Form 10-Q
December 08, 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 October 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 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 November 30, 2017, there were 18,986,578 shares of the registrant's common stock outstanding.

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AVAILABLE INFORMATION

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

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

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

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

OOMA, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

(Unaudited)

	October 31, 2017	January 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 4,947	$ 3,990
Short-term investments	48,574	49,211
Accounts receivable, net	3,542	4,714
Inventories	6,216	5,830
Deferred inventory costs	1,132	1,620
Prepaid expenses and other current assets	3,118	1,891
Total current assets	67,529	67,256
Property and equipment, net	4,527	4,176
Intangible assets, net	293	537
Goodwill	1,117	1,117
Other assets	284	252
Total assets	$ 73,750	$ 73,338
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 6,206	$ 5,857
Accrued expenses	12,967	11,579
Deferred revenue	15,812	15,521
Total current liabilities	34,985	32,957
Other liabilities	507	561
Total liabilities	35,492	33,518
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Preferred stock $0.0001 par value: 10,000,000 shares authorized; none issued and outstanding.	—	—
Common stock $0.0001 par value: 100,000,000 shares authorized; 18,979,480 and 17,995,555 shares issued and outstanding on October 31, 2017 and January 31, 2017, respectively.	2	2
Additional paid-in capital	126,296	117,639
Accumulated other comprehensive loss	(36)	(11)
Accumulated deficit	(88,004)	(77,810)
Total stockholders' equity	38,258	39,820

Total liabilities and stockholders' equity	$ 73,750	$ 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		Nine Months Ended	
	October 31, 2017	October 31, 2016	October 31, 2017	October 31, 2016
Revenue:				
Subscription and services	$25,524	$23,179	$74,830	$67,086
Product and other	2,981	3,828	9,440	9,874
Total revenue	28,505	27,007	84,270	76,960
Cost of revenue:				
Subscription and services	7,613	7,388	23,176	22,103
Product and other	3,726	4,276	11,314	11,316
Total cost of revenue	11,339	11,664	34,490	33,419
Gross profit	17,166	15,343	49,780	43,541
Operating expenses:				
Sales and marketing	9,127	8,302	27,526	24,975
Research and development	7,476	6,244	21,360	17,824
General and administrative	3,890	3,705	11,511	11,105
Total operating expenses	20,493	18,251	60,397	53,904
Loss from operations	(3,327)	(2,908)	(10,617)	(10,363)
Other income (expense):				
Interest income, net	160	95	418	259
Other (expense) income, net	(12)	(8)	5	(13)
Net loss	$(3,179)	$(2,821)	$(10,194)	$(10,117)
Net loss per share of common stock:				
Basic and diluted	$(0.17)	$(0.16)	$(0.55)	$(0.58)
Weighted-average number of shares used in per share amounts:				
Basic and diluted	18,725,286	17,648,251	18,407,817	17,337,682

See notes to condensed consolidated financial statements

OOMA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Amounts in thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	October 31, 2017	October 31, 2016	October 31, 2017	October 31, 2016
Net loss	$(3,179)	$ (2,821)	$(10,194)	$ (10,117)
Other comprehensive (loss) income:				
Unrealized (loss) gain on short-term investments	(16)	(24)	(25)	1
Comprehensive loss	$(3,195)	$ (2,845)	$(10,219)	$ (10,116)

See notes to condensed consolidated financial statements

OOMA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended	
	October 31, 2017	October 31, 2016
Cash flows from operating activities:		
Net loss	$(10,194)	$ (10,117)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Stock-based compensation expense	8,726	7,243
Depreciation and amortization	1,604	1,320
Amortization of intangible assets	244	265
Other non-cash expense, net	—	(3)
Changes in operating assets and liabilities:		
Accounts receivable, net	1,172	743
Inventories	(386)	419
Deferred inventory costs	488	570
Prepaid expenses and other assets	(1,233)	(99)
Accounts payable and other liabilities	1,707	(813)
Deferred revenue	251	296
Net cash provided by (used in) operating activities	2,379	(176)
Cash flows from investing activities:		
Purchases of short-term investments	(38,898)	(44,178)
Proceeds from maturity of short-term investments	37,977	20,650
Proceeds from sale of short-term investments	1,350	4,366
Purchases of property and equipment	(1,747)	(1,146)
Net cash used in investing activities	(1,318)	(20,308)
Cash flows from financing activities:		
Shares repurchased for tax withholdings on vesting of restricted stock units	(1,973)	(1,340)
Proceeds from issuance of common stock related to employee stock benefit plans	1,869	1,447
Repayment of debt related to capital leases	—	(628)
Payment of acquisition related earn-out	—	(100)
Net cash used in financing activities	(104)	(621)
Net increase (decrease) in cash and cash equivalents	957	(21,105)
Cash and cash equivalents at beginning of period	3,990	27,413
Cash and cash equivalents at end of period	$4,947	$ 6,308

See notes to condensed consolidated financial statements

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Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1: Description of Business and Significant Accounting Policies

Ooma, Inc. (the "Company"), founded in 2003, 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 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 its users.

In November 2017, the Company relocated its corporate headquarters from Palo Alto, California to Sunnyvale, California.

Fiscal Year. The Company's fiscal year ends on January 31. References to fiscal 2018 and fiscal 2017 refer to the fiscal year ending January 31, 2018 and the fiscal year ended January 31, 2017, respectively.

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 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, including the allowance for product

returns, inventory valuation, valuation of goodwill and intangible assets, regulatory fees and indirect tax accruals, 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.

Concentration of Risk

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

	As of	
	October 31, 2017	January 31, 2017
Customer A	*	11%

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

No single customer exceeded 10% of total revenue during the three and nine months ended October 31, 2017 and 2016.

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Sale of Business Promoter

On August 15, 2017, the Company completed the sale of its Business Promoter service to Xedia Networks, Inc. The Company divested Business Promoter to concentrate on its core businesses, Ooma Office and Ooma Telo. The Company did not receive any cash proceeds nor did it recognize any losses or gains from this transaction. The Company is entitled to receive a quarterly earn-out for the next five years up to a maximum of $4.5 million, which will be recorded as a reduction to general and administrative expense in the Company’s consolidated statement of operations. For the third quarter of fiscal 2018, the earn-out recorded by the Company was not material.

Significant Accounting Policies

There have been no material changes to the Company's significant accounting policies as described in its Annual Report on Form 10-K for the year ended January 31, 2017.

Recently Adopted Accounting Standards

Going Concern. The Company adopted ASU 2014-15 (ASC 205), Disclosure of Uncertainties About an Entity’s Ability to Continue as a Going Concern in the first quarter of fiscal 2018. The new standard provides guidance around management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. The adoption of this standard had no impact on the Company’s condensed consolidated financial statements.

Stock Compensation. The Company early adopted ASU 2017-09, Compensation — Stock Compensation (Topic 718), Scope of Modification Accounting in the third quarter of fiscal 2018. The updated standard provides guidance on the changes to the terms or conditions of a share-based payment award that require an entity to apply modification accounting under Topic 718. The adoption of this standard had no impact on the Company’s condensed consolidated financial statements.

Recent Accounting Standards Not Yet Adopted

Goodwill. In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350) that will eliminate the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, impairment charge will be based on the excess of a reporting unit's carrying amount over its fair value. The guidance is effective for the Company in the first quarter of fiscal 2023. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements, absent any goodwill impairment.

Leases. In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) that requires assets and liabilities arising from leases, including operating leases, to be recognized on the balance sheet. ASU 2016-02 will become effective for the Company in the first quarter of fiscal 2020, and requires adoption using a modified retrospective approach. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

Revenue Recognition

Background. In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which replaces existing revenue recognition guidance 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 provides guidance on the recognition of costs related to obtain customer contracts, including sales commissions. Collectively, the Company refers to Topic 606 and Subtopic 340-40 as the "new standard." The new standard must be adopted by the Company in its fiscal year beginning February 1, 2018.

The Company is continuing to evaluate the full impact that the new standard will have on its consolidated financial statements, as discussed below, and believes it is on schedule to conclude its evaluation upon adoption in the first quarter of fiscal 2019. The Company is also in the process of implementing the necessary changes to its accounting policies, processes and internal controls to support the requirements of the new standard.

Method of adoption. The Company preliminarily plans to adopt this standard using the full retrospective basis to restate each prior reporting period presented. However, the Company has not yet made a final decision and its ability to adopt using the full retrospective method is dependent upon system readiness for both revenue and commissions and the completion of the analysis of information necessary to restate prior period financial statements.

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Expected effect on the consolidated financial statements. The new standard will significantly impact the way the Company recognizes its product revenue for sales made through its channel partners, which is currently recognized upon resale by the partners to the end customers (sell-through basis). Upon adoption of the new standard, this practice will change to recognition of revenue upon the initial sale to the partners (sell-in basis). In addition, certain sales incentives will need to be estimated as a reduction to the transaction price at the time product is shipped. The Company has not yet determined whether the impact on revenues will be material for its adjusted consolidated statements of operations or for future periods.

The commission accounting under the new standard is significantly different than the Company's current policy. The Company expects to capitalize a significant portion of its sales commissions and other incremental costs to acquire customers, which have historically been expensed as incurred, resulting in a material increase in deferred costs recognized on the consolidated balance sheet. Such capitalized costs will be amortized on a systematic basis over the estimated customer life, which the Company is currently evaluating based on both qualitative and quantitative factors, such as product life cycles and customer attrition. The Company’s final conclusion on the amortization period will affect the classification and magnitude of the deferred costs at each reporting period.

The Company does not expect the new standard will have any impact on its net cash provided by or used in operating, investing and financing activities in the consolidated statements of cash flows.

Note 2: Fair Value Measurement

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

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

Level 2: Observable prices that are 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

As of October 31, 2017 and January 31, 2017, the Company did not have any financial assets or liabilities classified as Level 3. There were no transfers of financial assets between levels during the nine months ended October 31, 2017 and 2016.

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

	As of October 31, 2017			As of January 31, 2017		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Cash equivalents:						

Money market funds	$559	$—	$559	$951	$—	$951
Commercial paper	—	1,398	1,398	—	—	—
U.S. agency securities	—	—	—	—	—	—
Total cash equivalents	$559	$1,398	$1,957	$951	$—	$951
Cash			2,990			3,039
Total cash and cash equivalents			$4,947			$3,990
Short-term investments:						
U.S. government securities	$19,602	$—	$19,602	$17,798	$—	$17,798
Corporate debt securities	—	19,436	19,436	—	18,436	18,436
Commercial paper	—	5,912	5,912	—	5,386	5,386
U.S. agency securities	—	2,744	2,744	—	5,777	5,777
Asset-backed securities	—	880	880	—	1,814	1,814
Total short-term investments	$19,602	$28,972	$48,574	$17,798	$31,413	$49,211

The carrying value of the Company’s accounts receivable, inventory, accounts payable and other current assets and current liabilities approximates fair value due to short maturities.

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 3: Short-term Investments

Short-term investments consisted of the following (in thousands):

	As of October 31, 2017			
	Amortized Cost	Unrealized Losses	Unrealized Gains	Fair Value
Corporate debt securities	$19,621	$ (20)	$ 1	$ 19,602
Commercial paper	19,450	(14)	—	19,436
U.S. agency securities	5,912	—	—	5,912
U.S. government securities	2,746	(2)	—	2,744
Asset-backed securities	880	—	—	880
Total short-term investments	$48,609	$ (36)	$ 1	$ 48,574

	As of January 31, 2017			
	Amortized Cost	Unrealized Losses	Unrealized Gains	Fair Value
Corporate debt securities	$18,455	$ (20)	$ 1	$ 18,436
Commercial paper	5,386	—	—	5,386
U.S. agency securities	5,774	—	3	5,777
U.S. government securities	17,793	(2)	7	17,798
Asset-backed securities	1,814	—	—	1,814
Total short-term investments	$49,222	$ (22)	$ 11	$ 49,211

The gross realized gains and losses related to the Company's short-term investments were not material for the three and nine months ended October 31, 2017 and 2016, respectively.

As of October 31, 2017 and January 31, 2017, unrealized losses associated with short-term investments in an unrealized loss position were not material. The Company reviews the individual securities in its portfolio to determine whether a decline in a security's fair value below the amortized cost basis is other-than-temporary. The Company determined there were no investments in its portfolio that were other-than-temporarily impaired. The Company does not intend to sell any of these investments, and it is not more likely than not that the Company would be required to sell these investments before recovery of their amortized cost basis, which may be at maturity.

The cost basis and fair value of short-term investments by contractual maturity were as follows (in thousands):

	As of October 31, 2017		As of January 31, 2017	
	Amortized Value	Fair Value	Amortized Value	Fair Value
One year or less	$40,441	$40,419	$44,806	$44,794
Over one year and less than two years	8,168	8,155	4,416	4,417

Total	$48,609	$48,574	$49,222	$49,211

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 October 31, 2017	As of January 31, 2017
Finished goods	$5,387	$ 4,847
Raw material	829	983
Total inventory	$6,216	$ 5,830

Deferred revenue

	As of October 31, 2017	As of January 31, 2017
Deferred revenue:		
Subscription and services	$14,670	$ 13,770
Product and other	1,610	2,260
Total deferred revenue	16,280	16,030
Less: current portion of deferred revenue	15,812	15,521
Deferred revenue, noncurrent portion included in other liabilities	$468	$ 509

Accrued expenses

	As of October 31, 2017	As of January 31, 2017
Accrued regulatory fees and taxes	$5,377	$ 4,315
Accrued payroll and related expenses	3,989	4,546
Accrued professional services	1,197	1,007

Accrued other expenses	2,404	1,711
Total accrued expenses	$12,967	$ 11,579

Note 5: Commitments and Contingencies

Leases and purchase commitments

The Company leases its facilities under long-term operating leases, which expire at various dates through February 2023. As of October 31, 2017, total future minimum lease payments under non-cancelable operating leases were $4.5 million.

Rent expense was $1.2 million and $1.6 million for the nine months ended October 31, 2017 and 2016, respectively.

As of October 31, 2017, non-cancelable purchase commitments were $1.9 million.

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

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

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.

Other than the Oregon Tax litigation, Deep Green Wireless Litigation, Securities Litigation and Berks County Litigation, the Company is currently not a party to any material litigation or other proceedings, and as of October 31, 2017, the Company did not have any material accrued liabilities recorded for loss contingencies in its condensed consolidated financial statements.

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. The Company believes that the Commerce Clause of the United States Constitution bars the application of the Tax to the Company, since the Company has no employees, property or other indicia of a "substantial nexus" with the State of Oregon, and therefore the application of the Tax against Ooma and the Assessments are barred by the United States Constitution. 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 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 material losses that is reasonably possible to result from the Oregon Tax Litigation is not estimable.

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. On July 29, 2016, the Company filed its answer, affirmative defenses and counterclaims, on August 2, 2016 the Company filed a motion to transfer the case to the Northern District of California, and on February 21, 2017 magistrate judge Roy S. Payne granted the Company's motion to transfer the case. District Court Judge Jeffrey S. White of the Northern District of California set the initial case management conference for July 28, 2017. On June 8, 2017, the Company filed a motion with the United States Patent Trial and Appeal Board for inter partes review of the Deep Green Wireless Patent. 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.

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 Initial Public Offering on July 17, 2015 (the "IPO"). 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")

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Notes to Condensed Consolidated Financial Statements (Unaudited)

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 July 1, 2016, the Company filed its answer to the complaint, on August 26, 2016 the Company filed a motion for judgment on the pleadings, and on January 5, 2017, the Court issued an order in response to such motion, granting the Company's motion to dismiss the claims pursuant to Sections12(a)(2) and 15 of the Securities Act, with leave to amend, and denying the Company's motion to dismiss the claims pursuant to Section 11 of the Securities Act. The parties participated in a confidential mediation session on August 4, 2017 that did not result in a resolution of the Securities Litigation. On August 28, 2017, the plaintiffs filed a motion to amend the consolidated complaint, which, among other things, added back in the original claims based on Sections 12(a)(2) and 15 of the Securities Act (The "Section 12 and 15 Claims"). On November 29, 2017, the court dismissed the Section 12 and 15 Claims with prejudice, but denied the Company's motions to (a) dismiss the amended consolidated case on grounds that state courts lack subject matter jurisdiction to hear federal securities class action claims, and (b) to stay the case pending the United States Supreme Court's decision in Cyan v. Beaver Cnty. Emp. Ret.' Fund, which takes up the same issue of subject matter jurisdiction. The Company believes the plaintiffs' claims 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.

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, 35 Pa.C.S.A. §5301 et seq. ("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, attorneys' fees and costs, equitable and/or injunctive relief and such other relief as the court may deem proper. On May 17, 2016, the court issued an order overruling the defendants' joint preliminary objections, which are, in essence, the Pennsylvania equivalent of a motion to dismiss. Notwithstanding such adverse order, the Company believes that the Commerce Clause of the United States Constitution bars the application of the PA 911 Act to the Company, since the Company has no employees, property or other indicia of a "substantial nexus" with the State of Pennsylvania, and therefore the plaintiff's claims are without merit. The Company intends to continue vigorously defending 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.

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.

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Notes to Condensed Consolidated Financial Statements (Unaudited)

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

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

Note 6: Stockholders' Equity

2015 Equity Incentive Plan ("2015 Plan")

The Company's 2015 Plan provides for the grant of incentive stock options to its employees and any of its subsidiary corporations' employees, and for the grant of non-statutory stock options, stock appreciation rights, restricted stock, restricted stock units ("RSUs"), performance units and performance shares to its employees, directors and consultants and its subsidiary corporations' employees and consultants. The maximum aggregate number of shares that may be issued under the 2015 Plan is approximately 6.7 million.

Employee Stock Purchase Plan

The Company's 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. Under the ESPP, employees purchased 0.3 million shares of common stock during the nine months ended October 31, 2017 at a weighted average purchase price of $5.48 per share.

Stock Options

The following table summarizes the Company's stock option activities for the nine months ended October 31, 2017:

	Options Outstanding			
	Number of Shares Underlying Outstanding Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Balance as of January 31, 2017	1,777,365	$ 5.74	7.0	$ 7,864
Options granted	122,750	10.21		
Options exercised	(59,819)	4.19		
Options canceled	(27,406)	5.89		
Balance as of October 31, 2017	1,812,890	$ 6.09	6.5	$ 8,729
Vested and exercisable, October 31, 2017	1,405,829	$ 5.31	6.1	$ 7,760
Vested and expected to vest, October 31, 2017	1,812,890	$ 6.09	6.5	$ 8,729

The aggregate intrinsic value of options exercised was $0.3 million and $1.3 million for the nine months ended October 31, 2017 and 2016, respectively. The weighted-average grant date fair value of options granted during the nine months ended October 31, 2017 was $4.81 per share.

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Notes to Condensed Consolidated Financial Statements (Unaudited)

During the nine months ended October 31, 2017, the Company issued approximately 35,000 shares of common stock following the exercise of employee stock options prior to their vesting dates (or "early exercises"). The amounts received from early exercises are initially recorded as a liability and reclassified to stockholders' equity as the options vest. Unvested shares are subject to the Company's right to repurchase at the original purchase price, which lapses over the vesting term of the original option grant. As of October 31, 2017 and January 31, 2017, the Company recorded $0.1 million as a liability for proceeds from early exercises. During the nine months ended October 31, 2017 no common stock options were exercised prior to their vesting dates.

Restricted Stock Units

The following table summarizes the Company's RSUs activities for the nine months ended October 31, 2017:

	Number of Shares	Weighted-Average Grant-Date Fair Value Per Share	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in thousands)
Balance as of January 31, 2017	1,859,196	$ 7.65	1.4	$ 17,941
RSUs granted	1,111,605	10.04		
RSUs vested	(780,104)	8.57		
RSUs canceled	(143,561)	6.52		
Balance as of October 31, 2017	2,047,136	$ 8.68	1.4	$ 21,492

Vested RSUs included shares of common stock that the Company withheld on behalf of certain employees to satisfy the minimum statutory tax withholding requirements, as defined by the Company. The Company withheld an aggregate amount of $2.0 million and $1.3 million for the nine months ended October 31, 2017 and 2016, respectively, which were classified as financing cash outflows in the condensed consolidated statements of cash flows. The Company canceled and returned these shares to the 2015 Plan, which are available under the plan terms for future issuance.

Common Stock Warrants

For the nine months ended October 31, 2017, 38,315 common warrants were exercised net of the respective exercise price per warrant to purchase 19,144 shares of common stock. The remaining common warrants were terminated in the second quarter of fiscal 2018 due to non-exercise per the terms of the warrant agreement. As of October 31, 2017, the Company did not have any outstanding warrants.

Note 7: Stock-Based Compensation

The total stock-based compensation the Company recognized for stock-based awards in the condensed consolidated statements of operations is as follows (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2017	2016	2017	2016
Total cost of revenue	$251	$264	$909	$742
Sales and marketing	390	348	1,406	1,029
Research and development	1,005	873	3,221	2,680
General and administrative	989	885	3,190	2,792
Total stock-based compensation	$2,635	$2,370	$8,726	$7,243

The following table presents stock-based compensation expense by award-type (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2017	2016	2017	2016
Stock options	$580	$563	$1,770	$1,877
Restricted stock units	1,848	1,594	6,168	4,614
Employee stock purchase plan	207	213	788	752
Total stock-based compensation	$2,635	$2,370	$8,726	$7,243

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Notes to Condensed Consolidated Financial Statements (Unaudited)

As of October 31, 2017, there was $1.7 million, $16.1 million and $0.5 million of unrecognized share-based compensation expense, related to unvested stock option grants, RSUs and ESPP, respectively, which will be recognized on a straight-line basis over the remaining weighted-average vesting periods of approximately 1.7 years, 2.8 years and 0.7 years, respectively.

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

	Three and Nine Months Ended October 31, 2017
Stock Options:	
Expected volatility	47%
Expected term (in years)	6.1
Risk-free interest rate	1.8%-2.1%
Dividend yield	— %

No employee stock options were granted during the nine months ended October 31, 2016. The fair value of ESPP was estimated using the Black–Scholes model with the following assumptions:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2017	2016	2017	2016
ESPP:				
Expected volatility	35%-41%	37%-44%	35%-41%	37%-50%
Expected term (in years)	0.5-2.0	0.5-2.0	0.5-2.0	0.5-2.0
Risk-free interest rate	0.9%-1.4%	0.5%-0.7%	0.9%-1.4%	0.5%-1.0%
Dividend yield	— %	— %	— %	— %

Note 8: Income Taxes

The Company did not record a provision or benefit for income taxes during the three and nine months ended October 31, 2017 and 2016, respectively. The Company continues to maintain a full valuation allowance against its deferred tax assets.

As of October 31, 2017, the Company had unrecognized tax benefits of $2.5 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 October 31, 2017 will significantly increase or decrease within the next twelve months. There was no interest expense or penalties related to unrecognized tax benefits recorded through October 31, 2017.

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.

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Notes to Condensed Consolidated Financial Statements (Unaudited)

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, since the effects of potentially dilutive securities are antidilutive. 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 October 31,		Nine Months Ended October 31,	
	2017	2016	2017	2016
Numerator				
Net loss	$(3,179)	$(2,821)	$(10,194)	$(10,117)
Denominator				
Weighted-average common shares	18,725,286	17,648,251	18,407,817	17,337,682
Basic and diluted net loss per share	$(0.17)	$(0.16)	$(0.55)	$(0.58)

The following potentially dilutive common shares were excluded from diluted weighted-average common shares outstanding as the effect would have been anti-dilutive:

	Three and Nine Months Ended October 31,	
	2017	2016
Options to purchase common stock	1,812,890	1,796,127
Employee stock purchase plan	274,339	339,543
Restricted stock units	2,047,136	1,901,233
Warrants to purchase common stock	—	97,931
Common stock subject to repurchase	18,812	66,439
Potential shares excluded from diluted net loss per share	4,153,177	4,201,273

Note 10: Defined Contribution Plans

The Company's contributions to the 401(k) defined contribution plan, which are expensed immediately as compensation costs, were $0.1 million for each of the three months ended October 31, 2017 and 2016, respectively, and $0.4 million and $0.3 million for the nine months ended October 31, 2017 and 2016, respectively.

Note 11: Related Party Transaction

One of the Company’s board members is affiliated with a professional firm that provides public relations services to the Company. The Company incurred expenses of approximately $0.1 million for each of the three months ended October 31, 2017 and 2016, respectively, and $0.1 million and $0.3 million for the nine months ended October 31, 2017 and 2016, respectively, for the services provided by the firm.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations 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, 2017 filed with the Securities Exchange Commission or SEC on April 11, 2017. In addition to historical condensed consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included under Part II, Item 1A below. In preparing this MD&A, we presume that readers have access to and have read the MD&A in our Annual Report, pursuant to Instruction 2 to paragraph (b) of Item 303 of Regulation S-K.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. 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.

Forward-looking statements appear throughout this Quarterly Report on Form 10-Q including in this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. Forward-looking statements can generally be identified by words such as "will," "enables," "expects," "allows," "continues," "believes," "anticipates," "est or similar expressions. Examples of forward-looking statements include, among others, statements we make regarding (i) expected operating results, such as revenue growth, operating and other expenses, margins and earnings; (ii) expectations of the effect on our financial condition of claims, litigation, contingent liabilities, and governmental and regulatory investigations and proceedings; (iii) strategies for customer retention, growth, product development, market position, financial results and reserves; and (iv) strategies for risk management. Forward-looking statements are neither historical facts nor assurances of future performance. They are based only on our current beliefs, expectations and assumptions regarding the future of our business, anticipated events and trends, the economy and other future conditions. As such, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and in many cases outside our control. Our expected results may not be achieved, and actual results may differ materially from our expectations. Therefore, you should not rely on any of these forward-looking statements.

Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as the section titled "Risk Factors" included under Part II, Item 1 A below, including but not limited to: (i) the extent to which we are successful in gaining new customers and retaining existing ones; (ii) the incidence of service outages that could harm our reputation and impair our ability to sell our services; (iii) developments and changes in laws and regulations, including increased regulation of the internet telecommunications industry through legislative action and revised rules and standards applied by the Federal Communications Commission; and (iv) disruptions to our technology network including computer systems and software, as well as natural events such as severe weather, fires, floods and earthquakes or man-made or other disruptions of our operating systems, structures or equipment. Furthermore, such forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

We are a leading provider of innovative communications solutions and other connected services to small business, residential and mobile users. Our unique hybrid SaaS platform, consisting of our proprietary cloud, on-premise appliances, mobile applications and end-point devices, provides the connectivity and functionality that power our solutions. Our communications solutions deliver our proprietary HD voice quality, advanced features and integration with mobile devices at competitive pricing and value. Our 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. Our platform and solutions have the power to provide communications, productivity, automation, monitoring, safety, security and networking infrastructure applications to our users.

Beginning with the first quarter of fiscal 2018, we modified our key business metrics to focus on data related to our primary business which is Ooma Telo for residential customers and Ooma Office for small business customers. Additionally, we now refer to Ooma Office as our Small Business Solution (“Small Business”) and we may refer to them interchangeably. Accordingly, our key business metrics below for core users, annualized exit recurring revenue and

annual net dollar subscription retention rate reflect this change and exclude Business Promoter users and revenue for all periods presented.

We drive the adoption of our platform by providing communications solutions to the large and growing markets for small business, residential and mobile users and then accelerate growth by offering new and innovative connected services to our user base. Our Small Business and residential customers adopt our platform by purchasing our on-premise appliances, connecting the appliance to the internet and activating services, for which they primarily pay on a monthly basis. Our communications solutions are distinguished by the combination of our proprietary HD voice quality, value, an advanced feature set enhanced by a number of end-point devices and integration with mobile devices. We believe we have achieved high levels of customer retention and loyalty by delivering exceptional quality and customer satisfaction.

We generate our 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.

In August 2017, we completed the sale of our Business Promoter service to Xedia Networks, Inc. in order to concentrate on our core businesses, Ooma Office and Ooma Telo. We did not receive any cash proceeds nor did we recognize any losses or gains from this transaction. We are entitled to receive a quarterly earn-out for the next five years up to a maximum of $4.5 million, which will be recorded as a reduction to general and administrative expense in our consolidated statement of operations. The earn-out we received in the third quarter of fiscal 2018 was not material.

Financial Highlights

Our total revenue increased to $28.5 million in the three months ended October 31, 2017 from $27.0 million in the comparable prior year period, representing 6% growth in total revenue. In the nine months ended October 31, 2017, our total revenue increased to $84.3 million from $77.0 million in the comparable prior year period, representing 9% growth. We have continued to make investments in research and development, as well as brand marketing and channel development, incurring net losses of $3.2 million and $2.8 million during the three months ended October 31, 2017 and 2016, respectively, and net losses of $10.2 million and $10.1 million during the nine months ended October 31, 2017 and 2016, respectively. We generated positive operating cash flow of $0.9 million and $2.4 million in the three and nine months ended October 31, 2017, respectively.

Key Business Metrics

We review the key metrics below to evaluate our primary business, measure our performance, identify trends affecting our business, formulate financial projections and make strategic decisions. Beginning with the first quarter of fiscal 2018, our key business metrics for core users, annualized exit recurring revenue and annual net dollar subscription retention rate exclude Business Promoter data as it is not part of our primary cloud communications business. We believe that this change enables us to better evaluate the performance of our primary cloud communications business in a given period compared to those in prior and future periods.

Core Users

We believe that the number of our core users is an indicator of our market penetration, the growth of our business and our anticipated future subscription and services revenue. We define our core users as the number of residential user accounts and office user extensions. Core users as of October 31, 2017 and 2016 were approximately as follows:

	As of October 31,	
	2017	2016
Core Users	914,000	833,000

Total core users increased 10% year-over-year, which was primarily driven by growth in both residential and small business users.

Annualized Exit Recurring Revenue (AERR)

We believe that AERR for our core users is an indicator of recurring subscription and services revenue for near-term future periods. AERR as of October 31, 2017 and 2016 were approximately as follows (in thousands):

	As of October 31,	
	2017	2016
Annualized Exit Recurring Revenue	$96,790	$81,361

AERR increased year-over-year primarily due to an increase in our core users and an increase in our average revenue per core user year-over-year.

Annual Net Dollar Subscription Retention Rate

We believe that our annual net dollar subscription retention rate for our core users 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.

Annual Net Dollar Subscription Retention Rate as of October 31, 2017 and 2016 were as follows:

	As of October 31,	
	2017	2016
Annual Net Dollar Subscription Retention Rate	99%	98%

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 the operating performance of the Company, 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 that 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, depreciation and amortization, and stock-based compensation and related taxes. 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 operate our business;
- Adjusted EBITDA does not consider the impact of stock-based compensation and related taxes;
- Adjusted EBITDA does not reflect other non-operating expenses, net of other non-operating income, including net interest and other income; 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 the three and nine months ended October 31, 2017 and 2016 as follows (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2017	2016	2017	2016
Net loss	$(3,179)	$(2,821)	$ (10,194)	$ (10,117)
Reconciling items:				
Interest and other income, net	(148)	(87)	(423)	(246)
Depreciation and amortization	484	459	1,446	1,193
Amortization of intangibles	80	83	244	265
Stock-based compensation and related taxes	2,722	2,447	8,886	7,320
Adjusted EBITDA	$(41)	$81	$ (41)	$ (1,585)

Components of Results of Operations

Revenue

We generate revenue primarily through the sale of subscriptions to our communications solutions and other connected services. We also generate revenue from the sale of our on-premise appliances and end-point devices that enable our solutions, as well as from porting fees to enable our customers to transfer their existing phone numbers to the Ooma service.

Subscription and services revenue. Our subscription and services revenue consists primarily of fees we bill to our customers in connection with their subscriptions to our communications solutions. Our revenue varies based upon the services and features utilized by our core users. We derive subscription and services revenue primarily from recurring monthly payments related to service plans, such as Ooma Premier, Ooma Office (Small Business), international calling plans and other subscriptions, which we refer to as service subscription plans. Subscription and services revenue also includes revenue generated from payments for qualified lead generation, prepaid international and directory assistance. We also earn revenue from the display of advertisements through our Talkatone mobile application, primarily based on advertisement impressions displayed. We expect our subscription and services revenue to increase as we continue to expand our core user base, driven primarily by growth in Ooma Office.

Product and other revenue. Our product and other revenue consists primarily of the sale of our on-premise appliances and end-point devices used in connection with our services and includes shipping and handling fees. We also generate other revenue from porting fees for enabling them to transfer their existing phone numbers to Ooma Office or Telo. We expect our product and other revenue to continue to decrease on a year-over-year basis.

Cost of Revenue

Our cost of revenue consists of the cost of our subscription and services revenue and the cost of our product and other revenue.

Cost of subscription and services revenue. Our cost of subscription and services revenue primarily consists of payments we make for third-party network operations and telecommunications services, credit card processing fees, costs to maintain data centers, including co-location fees for the right to place our servers in data centers owned by third parties, depreciation of servers and equipment, along with related utilities and maintenance costs, personnel costs associated with customer care and network operations support, and allocated costs of facilities and information technology. We expect to continue investing in our network infrastructure and customer support function to support our growth and maintain quality of service and security.

Cost of product and other revenue. Cost of product and other revenue is comprised primarily of the costs associated with the manufacturing of our on-premise appliances and end-point devices, as well as personnel costs for employees and contractors, costs related to porting our customers' phone numbers to our service, shipment of on-premise appliances and end-point devices, and allocated costs of facilities and information technology.

Gross Margin

Our gross margin consists of our subscription and services gross margin and our product and other gross margin.

Subscription and services gross margin. Subscription and services gross margin, which we define as subscription and services revenue minus cost of subscription and services revenue expressed as a percentage of subscription and services revenue, can fluctuate based on a number of factors, including the costs we pay to third-party

telecommunications providers, the timing of capital expenditures and related depreciation charges and changes in headcount. We expect our subscription and services gross margin to increase over the long term in part as our Small Business revenue becomes a significant portion of the overall subscription revenue. Our subscription and services gross margin may fluctuate from period to period depending on the interplay of these factors.

Product and other gross margin. Product and other gross margin, which we define as product and other revenue minus cost of product and other revenue expressed as a percentage of product and other revenue, can fluctuate based on a number of factors, including the number of our on-premise appliances and end-point devices we sell during a period, as compared to the cost to produce those units and the relatively fixed personnel costs for employees and contractors incurred during the period. We sell our on-premise appliances at an aggressive price point to our customers to facilitate the adoption of our platform. Therefore, we expect our product and other gross margin to continue to be negative for the foreseeable future.

Our subscription and services gross margin is significantly higher than our product and other gross margin. As a result, any significant change in the mix between subscription and services revenue and product and other revenue will cause our total gross margin to change. For example, in periods where we sell significantly more on-premise appliances, we would expect our total gross margin to decline.

Operating Expenses

We classify our operating expenses as sales and marketing expenses, research and development expenses, and general and administrative expenses.

Sales and marketing expenses. Our sales and marketing expenses are the largest component of our operating expenses and consist primarily of personnel costs for employees and contractors directly associated with our sales and marketing activities, internet, television, radio and billboard advertising fees, public relations expenses, commissions we pay to resellers and other third parties, trade show expenses, travel expenses, marketing and promotional activities and allocated costs of facilities and information technology. We expect our sales and marketing expenses to increase in absolute dollars and as a percentage of total revenue as we continue to actively grow our core users and expand our operations internationally.

Research and development expenses. Our research and development efforts are focused on developing new and expanded features for our services and improvements to our platform and backend architecture. Our research and development expenses consist primarily of personnel costs for employees and contractors and allocated costs of facilities and information technology, software tools, and product certification. We expense research and development costs as incurred. We expect our research and development expenses to continue to grow in absolute dollars.

General and administrative expenses. Our general and administrative expenses consist primarily of personnel costs for employees engaged in administrative activities to support the day-to-day operations of our business. Other significant components of our general and administrative expenses include professional service fees, legal fees and allocated costs of facilities and information technology. We expect our general and administrative expenses to remain relatively flat as a percentage of total revenue going forward.

Results of Operations

The following table sets forth selected condensed consolidated statement of operations data (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2017	2016	2017	2016
Revenue:				
Subscription and services	$25,524	$23,179	$74,830	$67,086
Product and other	2,981	3,828	9,440	9,874
Total revenue	28,505	27,007	84,270	76,960
Cost of revenue:				
Subscription and services	7,613	7,388	23,176	22,103
Product and other	3,726	4,276	11,314	11,316
Total cost of revenue (1)	11,339	11,664	34,490	33,419
Gross profit	17,166	15,343	49,780	43,541
Operating expenses:				
Sales and marketing (1)	9,127	8,302	27,526	24,975
Research and development (1)	7,476	6,244	21,360	17,824
General and administrative (1)	3,890	3,705	11,511	11,105
Total operating expenses	20,493	18,251	60,397	53,904
Loss from operations	(3,327)	(2,908)	(10,617)	(10,363)
Interest income, net	160	95	418	259
Other (expense) income, net	(12)	(8)	5	(13)
Net loss	$(3,179)	$(2,821)	$(10,194)	$(10,117)
(1) Includes stock-based compensation and related taxes as follows (in thousands):				
Total cost of revenue	$262	$274	$932	$752
Sales and marketing	406	362	1,437	1,043
Research and development	1,038	901	3,282	2,708
General and administrative	1,016	910	3,235	2,817
Total	$2,722	$2,447	$8,886	$7,320

Comparison of the three and nine months ended October 31, 2017 and 2016 (dollars in tables are in thousands):

Revenue

	Three Months Ended October 31,				Nine Months Ended October 31,			
	2017	2016	$ Change	% Change	2017	2016	$ Change	% Change
Revenue:								
Subscription and services	$25,524	$23,179	$ 2,345	10 %	$74,830	$67,086	$ 7,744	12 %

Product and other	2,981		3,828		(847)	(22%)	9,440		9,874		(434)	(4%)
Total revenue	$28,505		$27,007		$ 1,498	6%	$84,270		$76,960		$ 7,310	9%
Percentage of revenue:												
Subscription and services	90	%	86	%			89	%	87	%		
Product and other	10	%	14	%			11	%	13	%		
Total	100	%	100	%			100	%	100	%		

Three Months Ended October 31, 2017 Compared to Three Months Ended October 31, 2016

Total revenue for the three months ended October 31, 2017 increased $1.5 million or 6% year-over-year, driven by continued subscription services growth from our small business customers and residential customers.

Subscription and services revenue grew $2.3 million year-over-year, reflecting a 59% increase in revenue from Ooma Office (Small Business) and an 11% increase from Ooma Telo, offset in part by a decline in revenue from Talkatone and the absence of revenue from Business Promoter. Our growth in subscription services revenue was principally driven by 10% overall growth in our core users, which increased to approximately 914,000 as of October 31, 2017 from approximately 833,000 core users as of October 31, 2016, and to a lesser extent by minor changes that we recently made to our pricing structure. As also noted above, we sold the Business Promoter service at the start of the third quarter of fiscal 2018, whereas revenue earned from Business Promoter in the same prior year quarter was approximately $1.2 million.

Our product and other revenue decreased by $0.8 million year-over-year, primarily due to a $0.9 million decline from Telo-related sales, offset in part by growth in unit sales of home security sensors, a new product launched in fiscal 2018.

Nine Months Ended October 31, 2017 Compared to Nine Months Ended October 31, 2016

Total revenue for the nine months ended October 31, 2017 increased $7.3 million or 9% year-over-year, driven by continued subscription services growth from our small business customers and residential customers.

Subscription and services revenue grew $7.7 million year-over-year, reflecting a 61% increase in revenue from Ooma Office and an 11% increase from Ooma Telo, offset in part by a decline in revenue from Talkatone and Business Promoter. Our growth in subscription services revenue was principally driven by 10% year-over-year growth in our core users. Revenue earned from Business Promoter declined to approximately $1.8 million for the nine months ended October 31, 2017 from approximately $4.4 million in the same prior year period, due to our sale of the Business Promoter service in early August 2017.

Our product and other revenue decreased by $0.4 million year-over-year, primarily due to Telo-related sales, offset in part by growth in unit sales of home security sensors and end-point devices.

Cost of Revenues and Gross Margin

	Three Months Ended October 31,				Nine Months Ended October 31,			
	2017	2016	$ Change	% Change	2017	2016	$ Change	% Change
Cost of revenues:								
Subscription and services	$7,613	$7,388	$ 225	3 %	$23,176	$22,103	$ 1,073	5 %
Product and other	3,726	4,276	(550)	(13 %)	11,314	11,316	(2)	(0 %)
Total cost of revenue	$11,339	$11,664	$ (325)	(3 %)	$34,490	$33,419	$ 1,071	3 %
Gross profit:								
Subscription and services	$17,911	$15,791	2,120	13 %	$51,654	$44,983	6,671	15 %
Product and other	(745)	(448)	(297)	66 %	(1,874)	(1,442)	(432)	30 %
Total gross profit	$17,166	$15,343	$ 1,823	12 %	$49,780	$43,541	$ 6,239	14 %
Gross margin:								
Subscription and services	70 %	68 %			69 %	67 %		
Product and other	(25 %)	(12 %)			(20 %)	(15 %)		

Total gross margin	60	%	57	%	59	%	57	%

Three Months Ended October 31, 2017 Compared to Three Months Ended October 31, 2016

Total gross margin of 60% in the three months ended October 31, 2017 increased year-over-year from 57%, reflecting improved margins in subscriptions and services that were mostly driven by higher revenues from Ooma Office and the benefits of scale on a larger core user base. In addition, our gross margin improved as a result of certain credits against our subscription and service expenses that are not expected to recur in the fourth quarter of fiscal 2018. Product and other revenue gross margin of (25%) decreased year-over-year from (20%) due to higher personnel and other overhead costs, as we continue to add more products to our portfolio, coupled with a decrease in the sale of end-point devices.

Cost of subscription and services revenue for the three months ended October 31, 2017 increased $0.2 million year-over-year, primarily due to an increase in personnel related costs, driven by our international expansion, offset by a decline in the cost of Business Promoter services.

Cost of product and other revenue for the three months ended October 31, 2017 decreased $0.6 million year-over-year due to higher personnel and other overhead costs and changes in product mix, which primarily reflected a higher proportion of home security devices sold in the three months ended October 31, 2017 compared to the same prior year period.

Nine Months Ended October 31, 2017 Compared to Nine Months Ended October 31, 2016

Total gross margin of 59% in the nine months ended October 31, 2017 increased year-over-year from 57%, primarily due to higher proportionate growth of subscription and services revenue, reflecting improved margins that were mostly driven by higher revenues from Ooma Office and the benefits of scale on a larger core user base. Product and other revenue gross margin of (20%) decreased year-over-year from (15%) due to higher personnel and other overhead costs, coupled with a decrease in the sale of end-point devices.

Cost of subscription and services revenue for the nine months ended October 31, 2017 increased $1.1 million year-over-year, primarily due to an increase in personnel related costs and credit card processing fees, driven by our international expansion, offset in part by a decline in the cost of Business Promoter services.

Cost of product and other revenue was flat year-over-year, reflecting higher personnel and other overhead costs in fiscal 2018 that were offset by changes in product mix.

Operating Expenses

	Three Months Ended October 31,				Nine Months Ended October 31,			
	2017	2016	$ Change	% Change	2017	2016	$ Change	% Change
Operating expenses:								
Sales and marketing	$9,127	$8,302	$ 825	10 %	$27,526	$24,975	$ 2,551	10 %
Research and development	7,476	6,244	1,232	20 %	21,360	17,824	3,536	20 %
General and administrative	3,890	3,705	185	5 %	11,511	11,105	406	4 %
Total operating expenses	$20,493	$18,251	$ 2,242	12 %	$60,397	$53,904	$ 6,493	12 %

Sales and Marketing

Three Months Ended October 31, 2017 Compared to Three Months Ended October 31, 2016

Sales and marketing expenses for the three months ended October 31, 2017 increased $0.8 million or 10% year-over-year, primarily due to an increase in personnel related costs and commissions paid to resellers, driven by higher headcount. The year-over-year growth in sales and marketing expenses supported the expansion of our sales efforts in support of our Small Business Solution.

Nine Months Ended October 31, 2017 Compared to Nine Months Ended October 31, 2016

Sales and marketing expenses for the nine months ended October 31, 2017 increased $2.6 million or 10% year-over-year due to a $4.3 million increase in personnel related costs and commissions paid to resellers, driven by higher headcount, coupled with a $0.5 million increase in facilities related costs and a $0.4 million increase in stock-based compensation. These higher expenses were offset in part by a $2.6 million decrease in marketing activities, primarily Telo-related advertising expenses.

Research and Development

Three Months Ended October 31, 2017 Compared to Three Months Ended October 31, 2016

Research and development expenses for the three months ended October 31, 2017 increased $1.2 million or 20% year-over-year, primarily due to a $0.8 million increase in personnel and consultant related costs, driven by higher headcount, as well as an increase in depreciation and facilities related costs of $0.2 million and stock-based compensation of $0.1 million. The year-over-year growth in research and development supported the continued development of our office platform as well as home security features for our residential platform.

Nine Months Ended October 31, 2017 Compared to Nine Months Ended October 31, 2016

Research and development expenses for the nine months ended October 31, 2017 increased $3.5 million or 20% year-over-year, primarily due to a $2.3 million increase in personnel and consultant related costs, driven by higher headcount, as well as an increase in depreciation, equipment and facilities related costs of $0.5 million and stock-based compensation of $0.5 million.

General and Administrative

Three Months Ended October 31, 2017 Compared to Three Months Ended October 31, 2016

General and administrative expenses for the three months ended October 31, 2017 increased $0.2 million year-over-year, due to an increase in personnel and consultant related costs and stock-based compensation, driven by higher headcount.

Nine Months Ended October 31, 2017 Compared to Nine Months Ended October 31, 2016

General and administrative expenses for the nine months ended October 31, 2017 increased $0.4 million year-over-year, reflecting a $0.9 million increase in personnel and consultant related costs and stock-based compensation costs, driven by higher headcount, that were offset by a $0.5 million decrease in legal expenses.

Other Income

	Three Months Ended October 31,				Nine Months Ended October 31,			
	2017	2016	$ Change	% Change	2017	2016	$ Change	% Change
Other income (expense):								
Interest income, net	$160	$95	$65	68%	$418	$259	$159	61%
Other (expense) income, net	(12)	(8)	(4)	*NM	5	(13)	18	*NM
Total other income	$148	$87	$61	70%	$423	$246	$177	72%

*Percentage is not meaningful

Other income increased by $0.1 million and $0.2 million in the three and nine months ended October 31, 2017, as compared to the same prior year periods, due to higher interest income earned from our short-term investment portfolio.

Liquidity and Capital Resources

As of October 31, 2017, we had $53.5 million of cash, cash equivalents and short-term investments. To date we have funded our operations primarily through our sales to our customers, proceeds from issuance of common stock in the initial public offering and issuance of convertible preferred stock and debt.

We believe that our existing cash and cash equivalents and short-term investments will be sufficient to meet our cash needs for at least the next 12 months. Our future capital requirements will depend on many factors, including our growth rate, our needs for increased data center capacity to support our expanding customer base, the timing and extent of our sales and marketing and research and development expenditures, and the continuing market acceptance of our solutions.

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

	Nine Months Ended October 31,	
	2017	2016
Net cash provided by (used in) operating activities	$2,379	$(176)
Net cash used in investing activities	(1,318)	(20,308)
Net cash used in financing activities	(104)	(621)
Net increase (decrease) in cash and cash equivalents	$957	$(21,105)

Net Cash Provided by (Used in) Operating Activities

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

	Nine Months Ended October 31,	
	2017	2016
Net loss	$(10,194)	$(10,117)
Add back non-cash charges	10,574	8,825
Net income (loss) before non-cash charges	380	(1,292)
(Increase) decrease in inventories	(386)	419
Decrease in deferred inventory costs	488	570
Increase (decrease) in accounts payable and accrued expenses	1,707	(813)
Decrease in accounts receivable	1,172	743
Increase in deferred revenue	251	296
(Increase) decrease in prepaid expenses and other assets	(1,233)	(99)
Net cash provided by (used in) operating activities	$2,379	$(176)

For the nine months ended October 31, 2017, our net loss of $10.2 million included non-cash charges of $10.6 million primarily related to $8.7 million of stock-based compensation and $1.8 million of depreciation and amortization expenses. Changes in operating asset and liabilities in the nine months ended October 31, 2017 from January 31, 2017 included:

- an increase of $0.4 million in our raw materials and finished goods inventory to scale our business, including expansion of the home security sensors
- a decrease of $0.5 million in deferred inventory costs due to lower inventory levels at channel partners
- a net increase of $1.7 million in accounts payable and accrued liabilities due to the timing of payments
- a decrease of $1.2 million in accounts receivable primarily due to the timing of billings and collections
- a net increase of $1.2 million in prepaid expenses and other assets due the timing of certain payments

For the nine months ended October 31, 2016, our net loss of $10.1 million included non-cash charges of $8.8 million primarily related to $7.2 million of stock-based compensation and $1.6 million of depreciation and amortization expenses. Changes in operating asset and liabilities in the nine months ended October 31, 2016 from January 31, 2016 included:

- a decrease of $0.4 million in inventory primarily due to usage of raw material
- a decrease of $0.6 million in deferred inventory costs due to lower inventory levels at channel partners
- a net decrease of $0.8 million of accounts payable and accrued liabilities due to the timing of payments and invoices
- a decrease of $0.7 million in accounts receivable primarily due to the timing of billings to our channel partners
- an increase of $0.3 million in deferred revenue due to an increase of $1.5 million in deferred revenue from subscription and other services driven by a growth in our core users, offset by a decrease of $1.2 million in deferred product revenue associated with lower inventory levels at our channel partners.

Net Cash Used in Investing Activities

Our investing activities primarily include proceeds from maturity and sale of short-term investments, purchases of short-term investments and capital expenditures for property and equipment purchases. Our capital expenditures have primarily been for general business purposes, including expansion of our network operations centers, computer equipment used internally, and leasehold improvements as we have expanded our office space to accommodate our growth in headcount.

For the nine months ended October 31, 2017, we used $1.3 million in investing activities to purchase short-term investments of $38.9 million and property and equipment of $1.7 million, offset by proceeds from maturity and sale of short-term investments of $39.3 million.

For the nine months ended October 31, 2016, we used $20.3 million in investing activities to purchase short-term investments of $44.2 million and property and equipment of $1.1 million, offset by proceeds from maturity and sale of short-term investments of $25.0 million.

Net Cash Used in Financing Activities

Cash generated from financing activities includes proceeds from our issuance of common stock related to employee stock benefit plans. Cash used in financing activities includes payment of shares repurchased for tax withholdings on vesting of restricted stock units, repayment of debt and capital leases and payment of acquisition related earn-out.

During the nine months ended October 31, 2017, cash used by financing activities was $0.1 million, which consisted of payments of $2.0 million related to shares repurchased for tax withholdings on vesting of RSUs, offset by proceeds of $1.9 million from common stock issuances under our employee stock benefit plans.

During the nine months ended October 31, 2016, financing activities used $0.6 million of cash, which consisted of payment of $1.3 million related to shares repurchased for tax withholdings on vesting of RSUs, repayment of $0.6 million of capital lease obligations and payment of $0.1 million of acquisition-related earn-out, offset by proceeds of $1.4 million from common stock issuances under our employee stock benefit plans.

Contractual Obligations and Commitments

Our principal commitments consist of obligations under enforceable and legally binding lease agreements for office space and data center facilities. At October 31, 2017, the future non-cancelable minimum payments under these commitments were as follows (in thousands):

	Total	Less Than 1 Year	1-3 Years	4-5 years	Thereafter
Operating lease obligations	$4,511	$1,932	$2,128	$385	$ 66
Total	$4,511	$1,932	$2,128	$385	$ 66

During the third quarter of fiscal 2018, we entered into an office sublease agreement to lease approximately 33,400 rentable square feet of an office building located in Sunnyvale, California, our new corporate headquarters. The term of the sublease agreement expires in November 2019. We also extended the lease term of our facility in Newark, California through February 2023 and entered into a three-year agreement to lease space from a third-party datacenter hosting facility in Dallas, Texas. The lease payments associated with these agreements are included in the table above.

As of October 31, 2017, non-cancelable purchase commitments with our contract manufacturers were $1.9 million and we had no tax liabilities related to uncertainty in income tax positions.

Off-balance Sheet Arrangements

During the nine months ended October 31, 2017 and 2016, we did not have any arrangements with unconsolidated entities or financial partnerships, including entities such as structured finance or special purpose entities that were established for the purpose of facilitating off-balance sheet arrangements.

Critical Accounting Policies and Estimates

There have been no material changes to our critical accounting policies and estimates, from those disclosed in our Annual Report on Form 10-K for the fiscal year ended January 31, 2017.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in foreign currency exchange rates and interest rates. We do not hold or issue financial instruments for trading purposes.

Interest Rate Sensitivity

We had cash and cash equivalents and short-term investments of $53.5 million and $53.2 million as of October 31, 2017 and January 31, 2017, respectively. Our cash and cash equivalents are mainly held in cash and money market funds. Due to the short-term nature of these instruments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates.

Foreign Currency Risk

To date, all of our revenue has been denominated in U.S. and Canadian dollars. Some of our revenue is subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Canadian dollar. Additionally, fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our statements of operations. To date, foreign currency transaction realized gains and losses have not been material to our consolidated financial statements. A hypothetical 10% increase or decrease in foreign currency exchange rates would not have had a material impact on our condensed consolidated financial statements.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining adequate disclosure controls and procedures. Management, with the participation of our chief executive officer and our chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of October 31, 2017. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of October 31, 2017 our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II — OTHER INFORMATION

Item 1. Legal Proceedings

For a discussion of legal proceedings, see “Note 5: Commitments and Contingencies” in the notes to consolidated condensed financial statements in this Form 10-Q.

Item 1A. Risk Factors

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

Risks Related to Our Business and Our Industry

If we are unable to attract new users of our services on a cost-effective basis, our business will be materially and adversely affected.

In order to grow our business, we must continue to attract new users on a cost-effective basis. We use and periodically adjust the mix of advertising and marketing programs to promote our services. Significant increases in the pricing of one or more of our advertising channels could increase our advertising costs or may cause us to choose less expensive and perhaps less effective channels to promote our services. As we add to or change the mix of our advertising and marketing strategies, we may need to expand into channels with significantly higher costs than our current programs, which could materially and adversely affect our results of operations. We will incur advertising and marketing expenses in advance of when we anticipate recognizing any revenue generated by such expenses, and we may fail to experience an increase in revenue or brand awareness as a result of such expenditures. We have made in the past, and may make in the future, significant expenditures and investments in new advertising campaigns, and we cannot assure you that any such investments will lead to the cost-effective acquisition of additional customers. New users are drawn to our products and services by rankings circulated by organizations such as Amazon.com, Apple and Google app stores and highly regarded publications such as PC Magazine. If we are unable to maintain effective advertising programs and garner favorable rankings, our ability to attract new customers could be materially and adversely affected, our advertising and marketing expenses could increase substantially, and our results of operations may suffer.

We market our products and services principally to small businesses and households. Many of these consumers tend to be less technically knowledgeable and may be resistant to new technologies such as our cloud-based communications solutions and our connected services. Because our potential customers need to connect additional hardware at their location and take other technical steps not required for the use of traditional communications services such as telephone, fax and e-mail, these consumers may be reluctant to use our service. These customers may also lack sufficient resources, financial or otherwise, to invest in learning about our services, and therefore may be unwilling to adopt them. If these consumers choose not to adopt our services, our ability to grow our business will be limited.

Our customers may terminate their subscriptions for our service at any time without penalty, and increased customer turnover, or costs we incur to retain our customers and encourage them to add users and, in the future, to purchase additional functionalities and premium services, could materially and adversely affect our financial performance.

Our customers generally do not have long-term contracts with us, and they may terminate their subscription for our service at any time without penalty or early termination charges. We cannot accurately predict the rate of customer terminations or average monthly service cancellations or failures to renew, which we refer to as churn. Our Ooma Office customers may choose to reduce the number of lines or remove some of the solutions to which they subscribe. Additionally, our Ooma Telo customers subscribing to Premium Services have no obligation to renew their subscriptions for such services and may elect to terminate their subscription for any number of reasons, including changes in financial or employment status, perceived reduction in quality or value, and other unique and personal reasons.

We may not be able to predict the renewal rates for our customers. In addition, Small Business customers generally pay more for their subscriptions than residential or mobile customers, so any increased churn in Small Business customers could materially and adversely affect our financial performance and user churn, resulting in a significant impact on our results of operations, and an increase in the cost we incur in our efforts to retain our customers and encourage them to upgrade their services and increase their number of users. Our core user churn rate could increase in the future if customers are not satisfied with our service, the value proposition of our services or our ability to otherwise meet their needs and expectations. Churn and reductions in the number of users for whom a Small Business customer subscribes may also increase due to factors beyond our control. Because of churn and reductions in the number of users for whom a customer subscribes, we have to acquire new customers, or acquire new users within our existing customer base, on an ongoing basis simply to maintain our existing level of customers and revenue. If a significant number of customers terminate, reduce or fail to renew their subscriptions, we may need to incur significantly higher marketing expenditures than we currently anticipate in order to increase the number of new customers or to sell existing customers additional services, and such additional marketing expenditures could harm our business and results of operations. Different factors may affect the churn of business, residential, mobile customers and Talkatone customers differently. As a result, our business is susceptible to a broad array of market forces, and any of our efforts to mitigate risk of customer churn due to one factor may divert management's time and focus away from efforts to mitigate risk of customer churn due to other factors. This broad-based susceptibility to churn could materially and adversely affect our financial performance.

Our future success also depends in part on our ability to sell additional subscriptions and additional functionalities to our current customers. This may require increasingly sophisticated and costlier sales efforts and a longer sales cycle. Any increase in the costs necessary to upgrade, expand and retain existing customers could materially and adversely affect our financial performance. If our efforts to convince customers to add users and, in the future, to purchase additional functionalities are not successful, our business may suffer. In addition, such increased costs could cause us to increase our subscription rates, which could increase our turnover rate.

We face competition in our markets by our competitors and may lack sufficient financial or other resources to compete successfully.

The cloud-based communications and connected services industries are highly competitive. We face continued competition from (i) established communications providers, such as AT&T Inc., Comcast Corporation and Verizon Communications Inc. in the U.S., and Rogers Communications Inc. and others in Canada; (ii) other communications companies such as 8x8, Inc., magicJack VocalTec Ltd., RingCentral, Inc. and Vonage Holdings Corp.; (iii) companies such as Broadsoft, Inc. and Microsoft Corporation (that generally license their software) and their resellers; (iv) traditional on-premise, hardware communications providers, such as Avaya Inc., Cisco Systems, Inc., Mitel, Inc., and their resellers; (v) mobile communications app companies providing "over-the-top" solutions, such as LINE Corporation, Pinger, Inc., Viber (Rakuten, Inc.) and WhatsApp Inc.; and (vi) large internet companies, such as Google and its free calling service, Google Voice, and the Google Home personal assistant device, for which Google recently launched a free outbound calling service, and Amazon and its Alexa platform and Alexa free calling service. All of these companies currently or may in the future host their solutions through the cloud.

We also face competition in the home security market from (i) established providers such as SimpliSafe and ADT, as well as from (ii) new home security offerings such as Nest Secure and Ring Protect.

Aggressive business tactics by our competitors may reduce our revenue.

Increased competition may result in aggressive business tactics by our competitors, including:

- offering products similar to our platform and solutions on a bundled basis at no charge;

- announcing competing products combined with extensive marketing efforts;
- providing financial incentives to consumers; and
- asserting intellectual property rights irrespective of the validity of the claims.

Our retail partners may offer the products and services of competing companies, which would adversely affect our business. Competition from other companies may also adversely affect our negotiations with service providers and suppliers, including, in some cases, requiring us to lower our prices. We may not be able to compete successfully with the offerings and sales tactics of other companies, which could result in the loss of customers and, as a result, our revenue and profitability could be adversely affected.

Mergers or other strategic transactions involving our competitors could weaken our competitive position, which could adversely affect our ability to compete effectively and harm our results of operations additionally, mergers or other strategic transactions we engage in may not be successful.

We believe that some of our existing competitors may consolidate or be acquired. In addition, some of our competitors may enter into new alliances with each other or may establish or strengthen cooperative relationships with systems integrators, third-party consulting firms or other parties. Any such consolidation, acquisition, alliance or cooperative relationship could adversely affect our ability to compete effectively and lead to pricing pressure and our loss of market share, and could result in a competitor with greater financial, technical, marketing, service and other resources, all of which could harm our business, results of operations and financial condition.

In the past we have decided, and in the future may decide, to enter into mergers or other strategic transactions in which we acquire other companies. We cannot guarantee we will be able to successfully integrate the teams, assets, or business of these target companies into our business, that we will be able to fully recover the costs of such transactions or that we will be successful in leveraging such strategic transactions into increased business for our products.

We rely significantly on retailers and reseller partnerships to sell our products our failure to effectively develop, manage, and maintain our retail sales and reseller partnership channels could materially and adversely affect our revenue.

We currently sell our Ooma Telo and Ooma Office products through a combination of direct sales, leading retailers such as Amazon.com, Costco.com, Best Buy, Fry's Electronics and Walmart, and our reseller partnerships and a significant portion of our product sales are made through our retail and reseller partnership channels. In addition, our Talkatone application relies significantly on the Apple and Google app stores for distribution. Our future success depends on our continued ability to establish and maintain a network of productive retailers, to maintain and expand our reseller partnership arrangements, and to maintain the ability of Talkatone to be distributed through the app stores and increase Talkatone's visibility therein. We expect that we will need to maintain and expand our retail channel and reseller partnership sales and Talkatone's distribution and visibility in the app stores as we seek to expand our customer base. We generally do not have long-term contracts with our retailers, distributors and reseller partners, and we have in the past and may in the future experience a loss of or reduction in sales through any of these third parties, which could materially reduce our revenue. For example, our reseller partnership with Vivint has not produced significant sales to end users and to our knowledge, Vivint is not currently reselling our home communications solution to new customers. In addition, if Apple or Google determine that Talkatone is non-compliant with their app store vendor policies, they may revoke our rights to sell Talkatone through their app store at any time. Our competitors may in some cases be effective in causing our current and potential retailers, and reseller partners to favor their services or prevent or reduce sales of our services. If we fail to maintain relationships with current retailers and reseller partners, fail to develop relationships with new retailers and reseller partners in new markets or expand the number of retailers and reseller partners in existing markets, fail to manage, train, or provide appropriate incentives to our existing retailers and reseller partners, or if they are not successful in their sales efforts, sales of our products and services may decrease and our results of operations would suffer.

We depend on a small number of vendors to manufacture the on-premise appliances, end-point devices and home security systems we sell, and any delay or interruption in manufacturing, configuring and delivering by these third parties would result in delayed or reduced shipments to our customers and may harm our business.

We primarily rely on Mitac Computing Technology Corporation for production of our on-premise appliances, Hualin Precision Technology Co., Ltd. ("Hualin") for production of our end point devices, and Hualin and Crow Corporation for production of our home security systems we sell to our customers. We currently do not have long-term contracts with these vendors. As a result, these third parties are not obligated to provide products to or perform services for us for

any specific period, in any specific quantities or at any specific price, except as may be provided in a particular purchase order. If these third parties are unable to deliver on premise appliances or end-point devices of acceptable quality or in a timely manner, our ability to bring services to market, the reliability of our services and our reputation could suffer. We expect that it could take several months to effectively transition to new third-party manufacturers or fulfillment agents. Additionally, several components used in our on-premise appliances and end-point devices are "single sourced" and any interruption in the suppliers of such components could cause our business to suffer as we identify alternative sources of components. In the past, labor strikes in West Coast ports have delayed shipments of our products from our manufacturers. Future repetition of such delays could negatively affect our ability to deliver product to our customers in a timely manner and may harm our business and hinder our growth.

To deliver our services, we rely on third parties for our network connectivity and co location facilities for certain features in our services and for certain elements of providing our services.

We currently use the infrastructure of third-party service providers for hosting, internet access and other services that are vital to our service offering. Equinix, Inc. provides data center facilities; Comcast, NTT Inc. and others provide backbone internet access; and Bandwidth.com, Onvoy and others provide origination services. We also rely on third-party services for our SMS and speech-to-text services which are sole-sourced. Intrado is our sole provider of 911 services. We expect that we will continue to rely heavily on third-party network service providers to provide these services for the foreseeable future. If any of these network service providers stop providing us with access to their infrastructure, fail to provide these services to us on a cost-effective basis, cease operations, or otherwise terminate these services, the delay caused by qualifying and switching to another third-party network service provider, if one is available, could have a material adverse effect on our business and results of operations.

We may be required to transfer our servers to new data center facilities if we are unable to renew our leases on acceptable terms, if at all, or the owners of the facilities decide to close their facilities, and we may incur significant costs and possible service interruption in connection with doing so. In addition, any financial difficulties, such as bankruptcy or foreclosure, faced by our third-party data center operators or any of the service providers with which we or they contract, may have negative effects on our business, the nature and extent of which are difficult to predict. Additionally, if our data centers are unable to keep up with our increasing needs for capacity, our ability to grow our business could be materially and adversely impacted.

If problems occur with any of these third-party network or service providers, it may cause errors or reduced quality in our services, and we could encounter difficulty identifying the source of the problem. The occurrence of errors or reduced quality in our service, whether caused by our systems or a third-party network or service provider, may result in the loss of our existing customers, delay or loss of market acceptance of our services, termination of our relationships and agreements with our resellers or liability for failure to meet service level agreements, and may seriously harm our business and results of operations.

We rely on purchased or leased hardware and software licensed from third parties in order to offer our service. In some cases, we integrate third-party licensed software components into our platform. This hardware and software may not continue to be available at reasonable prices or on commercially reasonable terms, or at all. Any loss of the right to use any of this hardware or software could significantly increase our expenses and otherwise result in delays in the provisioning of our service until equivalent technology is either developed by us, or, if available, is identified, obtained and integrated. Any errors or defects in third-party hardware or software could result in errors or a failure of our service which could harm our business.

We also contract with third parties to provide enhanced 911, or E-911, services, including assistance in routing emergency calls and terminating E-911 calls. Our providers operate a national call center that is available 24 hours a day, seven days a week, to receive certain emergency calls and maintain public service answering point, or PSAP, databases for the purpose of deploying and operating E-911 services. On mobile devices, we generally rely on the underlying cellular or wireless carrier to provide E-911 services. Any failure to perform, including interruptions in service, by our vendors, could cause failures in our customers' access to E-911 services and expose us to significant liability and damage our reputation.

Interruptions in our services could harm our reputation, result in significant costs to us and impair our ability to sell our services.

Because our technology platform is complex, incorporates a variety of new computer hardware, and the platform continues to evolve, our services may have errors or defects that are identified after customers begin using such

services, which could result in unanticipated service interruptions. Although we test our services to detect and correct errors and defects before their initial release and before we make updates or other changes to such services, we have occasionally experienced significant service interruptions as a result of undetected errors or defects and may experience future interruptions of service if we fail to detect and correct errors and defects. For example, in April and May 2015 while working to upgrade our network, we encountered unexpected problems with the communications between our data centers, as well as certain server capacity issues, which led to multiple intermittent service outages, some of which lasted for up to approximately eight hours for some of our customers. While we have identified root causes of these service outages, and in each case were able to restore service to all of the affected customers, we continue to take corrective actions to address these root causes. We were able to correct such root causes without incurring material expenses, and the outages in April and May 2015 did not materially affect our results of operations. However, the costs incurred in correcting root causes for future service outages may be substantial and these and other related consequences could negatively impact our results of operations.

We currently serve our customers from two data center hosting facilities located in Northern California and Virginia, where we lease space from Equinix, Inc. While we believe that the additional data center and certain procedures we have adopted will enable us to restore services quickly in the event of a service outage, these procedures and our data centers, by themselves, will not prevent future outages. Any damage to, or failure of, these facilities, the communications network providers with whom we or they contract or with the systems by which our communications providers allocate capacity among their customers, including us, could result in interruptions in our service. Additionally, in connection with the expansion or consolidation of our existing data center facilities, we may move or transfer our data and our customers' data to other data centers. Despite precautions we take during this process, any unsuccessful data transfers may impair or cause disruptions in the delivery of our service.

Despite precautions taken at our hosting facilities, the occurrence of a natural disaster or an act of terrorism or other unanticipated problems at these facilities could result in lengthy interruptions in our service. Even with the disaster recovery arrangements that we have in place, our service could be interrupted.

Any defects in, or unavailability of, the components of our platform that cause interruptions of our services could, among other things:

- cause a reduction in revenue or a delay in market acceptance of our services;
- require us to issue refunds to our customers or expose us to claims for damages;
- cause us to lose existing customers and make it more difficult to attract new customers;
- divert our development resources or require us to make extensive changes to our software, which would increase our expenses and slow innovation;
- increase our technical support costs; and
- harm our reputation and brand.

We rely on third parties for some of our software development, quality assurance and operations.

We currently depend on various third parties for some of our software development efforts, quality assurance and operations. Specifically, we outsource some of our software development and design, quality assurance and operations activities to third-party contractors that have employees and consultants located in Canada, China, India, New Zealand, Russia, Serbia and Ukraine. Our dependence on third-party contractors creates a number of risks, in particular, the risk that we may not maintain control or effective management with respect to these business operations.

Our agreements with these third-party contractors are either not terminable by them (other than at the end of the term or upon an uncured breach by us) or require at least 30 days' prior written notice of termination. If we experience problems with our third-party contractors, the costs charged by our third-party contractors increase or our agreements with our third-party contractors are terminated, we may not be able to develop new solutions, enhance or operate existing solutions or provide customer support in an alternate manner that is equally or more efficient and cost-effective.

We anticipate we will continue to depend on these and other third-party relationships in order to grow our business for the foreseeable future. If we are unsuccessful in maintaining existing and, if needed, establishing new relationships with third parties, our ability to efficiently operate existing services or develop new services and provide adequate customer support could be impaired, and as a result, our competitive position or our results of operations could suffer.

We rely on third parties to provide the majority of our customer service and support representatives. If these third parties do not provide our customers with reliable, high quality service, our reputation will be harmed, and we may lose customers.

We offer customer support through both our online account management website and our toll-free customer support number. Our customer support is currently provided via a third-party provider located in the Philippines, as well as our employees in the U.S. We currently offer support almost exclusively in English. Our third-party providers generally provide customer service and support to our customers without identifying themselves as independent parties. The ability to support our customers may be disrupted by natural disasters, inclement weather conditions, civil unrest, strikes, acts of terrorism and other adverse events in the Philippines. Furthermore, as we expand our operations internationally, we may need to make significant expenditures and investments in our customer service and support to adequately address the complex needs of international customers, such as support in multiple foreign languages.

If any of these third parties do not provide reliable, high-quality service, our reputation and our business will be harmed and we may be exposed to significant liability. In addition, a significant service outage may cause a high volume of customer support inquiries, and our third party customer service call center might be unable to respond to a significant spike in customer support inquiries in a timely manner. In addition, industry consolidation among providers of services to us may impact our ability to obtain these services or increase our costs for these services.

Our limited operating history makes it difficult to evaluate our current business and future prospects, which may increase the risk of investing in our stock.

Although we were incorporated in 2003, we did not formally introduce Ooma Telo until 2009, Ooma Office until 2013 or Ooma Home Security until 2016. Our limited operating history limits our ability to plan for and model future growth. We have encountered and expect to continue encountering risks and uncertainties frequently experienced by growing companies in rapidly changing markets. If our assumptions regarding these uncertainties are incorrect or change in reaction to changes in our markets, or if we do not manage or address these risks successfully, our results of operations could differ materially from our expectations, and our business could suffer. Any success we may experience in the future will depend, in large part, on our ability to, among other things:

- retain and expand our customer base;
- increase revenue from existing customers as they add users and, in the future, purchase additional functionalities and premium service subscriptions;
- successfully acquire customers on a cost-effective basis;
- improve the performance and capabilities of our services, applications, and hardware through research and development;
- successfully expand our business domestically and internationally;
- successfully compete in our markets;
- continue to innovate and expand our service offerings;
- continue our relationships with strategic partners like Amazon, Nest Labs, Inc. and our reseller partners;
- continue our relationships with our current retail partners and develop relationships with additional retail partners;
- continue our relationships with our digital marketing agency partners, advertising agencies and digital advertising networks;
- continue our relationships with third-party vendors that enable our solutions;
- successfully protect our intellectual property and defend against intellectual property infringement claims;
- generate leads and convert potential customers into paying customers;
- maintain and enhance our third-party data center hosting facilities to minimize interruptions in the use of our services;
- determine appropriate prices for the marketplace; and
- hire, integrate and retain professional and technical talent.

We have incurred significant losses in the past and anticipate continuing to incur losses for the foreseeable future, and we may therefore not be able to achieve or sustain profitability in the future.

We have incurred substantial net losses since our inception, including net losses of approximately $3.2 million and $2.8 million for the three months ended October 31, 2017 and 2016, respectively, and $10.2 million and $10.1 million for the nine months ended October 31, 2017 and 2016, respectively. We had an accumulated deficit of $88.0 million as of October 31, 2017. We have spent considerable amounts of time and money since inception to develop new communications solutions and connected services. Additionally, we have incurred substantial losses and expended significant resources to market, promote, develop and sell our products and solutions. We also expect to continue investing for future growth, including for advertising, customer acquisition, technology infrastructure, storage capacity, services development and international expansion. In addition, as a public company, we have incurred and may continue incurring additional accounting, legal and other expenses.

Although we generated positive cash flow from operations during the nine months ended October 31, 2017, we may not continue to do so in the future as a result of our increased expenditures, and we will have to generate and sustain increased revenue to sustain positive cash flows and achieve future profitability. Achieving profitability will require us to increase revenue, manage our cost structure and avoid significant liabilities. Revenue growth may slow, revenue may decline or we may incur significant losses in the future for a number of possible reasons, including general

macroeconomic conditions, increasing competition (including competitive pricing pressures), a decrease in the growth of the markets in which we compete or failure for any reason to continue capitalizing on growth opportunities. Additionally, we may encounter unforeseen operating expenses, difficulties, complications, delays, service delivery and quality problems and other unknown factors that may result in losses in future periods. If these losses exceed our expectations or our revenue growth expectations are not met in future periods, our financial performance will be harmed and our stock price could be volatile or decline.

Our business could suffer if we cannot obtain or retain direct inward dialing numbers, or DIDs, are prohibited from obtaining local or toll-free numbers, or are limited to distributing local or toll-free numbers to only certain customers.

Our future success depends on our ability to procure large quantities of local and toll-free DIDs in the U.S. and foreign countries in desirable locations at a reasonable cost and without restrictions. Our ability to procure and distribute DIDs depends on factors outside of our control, such as applicable regulations, the practices of the communications carriers that provide DIDs, the cost of these DIDs, and the level of demand for new DIDs. Due to their limited availability, there are certain popular area code prefixes we generally cannot obtain. Our inability to acquire DIDs for our operations would make our services less attractive to potential customers in the affected local geographic areas. In addition, future growth in our customer base, together with growth in the customer bases of other providers of internet-based business communications, has increased, which increases our dependence on needing sufficiently large quantities of DIDs.

If we are unable to effectively process local number and toll-free number portability provisioning in a timely manner, our growth may be negatively affected.

We support local number and toll-free number portability, which allows our customers to transfer to us and thereby retain their existing phone numbers when subscribing to our small business, residential and mobile services. Transferring numbers can be a manual process that can take up to 15 business days or longer to complete. A new customer of our services must maintain both our service and the customer's existing phone service during the number transferring process. Any delay we experience in transferring these numbers typically results from the fact that we depend on third-party carriers to transfer these numbers, a process we do not control, and these third-party carriers may refuse or substantially delay the transfer of these numbers to us. Local number portability is considered an important feature by many potential customers, and if we fail to reduce any related delays, we may experience increased difficulty in acquiring new customers. Moreover, the FCC requires us to comply with specified number porting timeframes when customers leave our service for the services of another provider. In Canada, the Canadian Radio-television and Telecommunications Commission, or CRTC, has imposed a similar number portability requirement on service providers like us. If we, or our third-party carriers, are unable to process number portability requests within the requisite timeframes, we could be subject to fines and penalties. Additionally, in the U.S., both customers and carriers may seek relief from the relevant state public utility commission, the FCC, or in state or federal court for violation of local number portability requirements.

If we fail to continue developing our brand or our reputation is harmed, our business may suffer.

We believe that continuing to strengthen our current brand will be critical to achieving widespread acceptance of our services and will require continued focus on active marketing efforts. The demand for and cost of online and traditional advertising have been increasing and may continue to increase. Accordingly, we may need to increase our investment in, and devote greater resources to, advertising, marketing, and other efforts to create and maintain brand loyalty among users. Brand promotion activities may not yield increased revenue, and even if they do, any increased revenue may not offset the expenses incurred in building our brands. If we fail to promote and maintain our brand, or if we incur substantial expense in an unsuccessful attempt to promote and maintain our brands, our business could be materially and adversely affected.

Our services, as well as those of our competitors, are regularly reviewed and commented upon by online and social media sources, as well as computer and other business publications. Negative reviews, or reviews in which our competitors' products and services are rated more highly than our solutions, could negatively affect our brand and reputation. From time to time, our customers have expressed dissatisfaction with our services, including dissatisfaction with our customer support, our billing policies and the way our services operate. If we do not handle customer complaints effectively, our brand and reputation may suffer, we may lose our customers' confidence, and

they may choose to terminate, reduce or not to renew their subscriptions. In addition, many of our customers participate in social media and online blogs about internet-based services, including our services, and our success depends in part on our ability to minimize negative and generate positive customer feedback through such online channels where existing and potential customers seek and share information. If actions we take or changes we make to our services upset these customers, their blogging could negatively affect our brand and reputation. Complaints or negative publicity about our services or customer service could materially and adversely impact our ability to attract and retain customers and our business, financial condition and results of operations.

A security breach could delay or interrupt service to our customers, compromise the integrity of our systems or data that we collect, result in the loss of our intellectual property or confidential information, harm our reputation, or subject us to significant liability.

Our operations depend on our ability to protect our network from interruption or damage resulting from unauthorized access or entry, computer viruses or malware or other events beyond our control. In the past, we may have been subject to undetected distributed denial-of-service, or DDOS, cyberattacks by hackers intent on bringing down our services, and we may be subject to DDOS and other forms of cyberattacks in the future. We cannot assure you that our backup systems, regular data backups, physical, technological and organizational security protocols and measures and other procedures that are currently in place, or that may be in place in the future, will be adequate to prevent unauthorized access to our systems, significant damage, system interruption, degradation or failure, or data loss or to respond to a cyberattack once launched. Additionally, hackers may attempt to directly gain access to a customer's on-premise appliance, or their mobile phone, which may delay or interrupt services, or may subject our customers to further security risks, including in relation to any connected household devices a customer might have now or in the future, such as Nest devices or other household sensors, or to our network more generally. Also, our services are web-based, and the amount of data we store for our users on our servers has been increasing as our business has grown. Despite the implementation of security measures, our infrastructure may be vulnerable to hackers, computer viruses, worms, other malicious software programs or similar disruptive problems caused by our customers, employees, consultants or other internet users who attempt to invade public and private data networks. In some cases we do not have in place disaster recovery facilities for certain ancillary services, such as email delivery of messages. Currently, nearly all of our customers authorize us to bill their credit or debit card accounts directly for all transaction fees that we charge. We rely on encryption and authentication technology to ensure secure transmission of confidential information, including customer credit and debit card numbers. Despite our efforts to encrypt and secure customer payment card information, hackers with sufficiently sophisticated technology or methods may still be able to infiltrate our systems to gain unauthorized access to payment card information. Further, advances in computer capabilities, new discoveries in the field of cryptography or other developments may result in a compromise or breach of the technology we use to protect transaction data.

Additionally, third parties may attempt to fraudulently induce domestic and international employees, consultants or customers into disclosing sensitive information, such as user names, passwords or customer proprietary network information, or CPNI, or other information in order to gain access to our customers' data or to our data. CPNI includes information such as the phone numbers called by a customer, the frequency, duration, and timing of such calls, and any services purchased by the customer, such as call waiting, call forwarding and caller ID, in addition to other information that may appear on a customer's bill. Third parties may also attempt to fraudulently induce employees, consultants or customers into disclosing sensitive information regarding our intellectual property and other confidential business information, or our information technology systems. In addition, because the techniques used to obtain unauthorized access, or to sabotage systems, change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any system failure or security breach that causes interruptions or data loss in our operations or in the computer systems of our customers or leads to the misappropriation of our or our customers' confidential or personal information, or CPNI, could result in significant liability to us. Such failure or breach could cause our service to be perceived as not being secure, subject us to regulatory requirements such as FCC notification, result in significant monetary costs, such as fines, legal fees and expenditures to improve and enhance our security measures, cause considerable harm to us and our reputation (including requiring notification to customers, regulators or the media) and deter current and potential customers from using our services. Additionally, we could incur significant costs, both monetary and with respect to management's time and attention, to investigate and remediate a data security breach. Because our onboarding and billing functions are conducted primarily through a single data center, any security breach in that data center may cause an interruption in our business operations. Any of these events could have a material adverse effect on our business, results of operations and financial condition.

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Failures in internet infrastructure or interference with broadband access could cause current or potential customers to believe that our systems are unreliable, leading our current customers to switch to our competitors or potential customers to avoid using our services.

Many of our services depend on our customers' broadband access to the internet, usually provided through a cable or digital subscriber line, or DSL, connection. In addition, users who access our services and applications through mobile devices, such as smartphones and tablets, must have a high-speed connection, such as Wi-Fi, 3G, 4G or LTE, to use our services and applications. Currently, this access is provided by companies that have significant and increasing market power in the broadband and internet access marketplace, including incumbent phone companies, cable companies and wireless companies. Increasing numbers of users and increasing bandwidth requirements may degrade the performance of internet and mobile infrastructure, resulting in outages or deteriorations in connectivity and negatively impacting the quality with which we can deliver our solutions. As our customer base grows and their usage of communications capacity increases, we will be required to make additional investments in network capacity to maintain adequate data transmission speeds, the availability of which may be limited, or the cost of which may be on terms unacceptable to us. If adequate capacity is not available to us as our customers' usage increases, our network may be unable to achieve or maintain sufficiently high data transmission capacity, reliability or performance. Furthermore, as the rate of adopting new technologies increases, the networks on which our services and applications rely may not be able to sufficiently adapt to the increased demand for these services, including ours. In the past, we have experienced disruptions to our service. For example, in April and May 2015, we experienced multiple intermittent service outages that lasted for up to eight hours for some of our customers. Frequent or persistent interruptions could cause current or potential users to believe that our systems or services are unreliable, leading them to switch to our competitors or to avoid our services, and could permanently harm our reputation and brands. Because some of our services rely on integration between features that use both wired and wireless infrastructures, any of the aforementioned problems with either wired or wireless infrastructure may result in the inability of customers to take advantage of our integrated services and therefore may decrease the attractiveness of our collective services to current and potential customers.

The success of our business relies on customers' continued and unimpeded access to broadband service. Providers of broadband services may be able to block our services or charge their customers more for using our services, which could adversely affect our revenue and growth.

Some of the providers of broadband internet access and high-speed mobile access, such as AT&T and Verizon, offer products and services that directly compete with our own offerings, which can potentially give such providers a competitive advantage. For example, these providers may market and sell a bundle of services to our current and potential customers that includes services directly competitive to ours, and our current and potential customers may prefer these bundled offerings. Some providers of broadband access, including providers outside of the U.S., may take measures that affect their customers' ability to use our service, such as degrading the quality of the data packets we transmit over their lines, giving those packets low priority, giving other packets higher priority than ours, blocking our packets entirely or attempting to charge their customers more for also using our services. While actions like these by U.S. providers would violate the net neutrality rules recently adopted by the FCC and described below, most foreign countries have not adopted formal net neutrality or open internet rules, and there continues to be some uncertainty regarding whether the net neutrality rules will be upheld by courts or modified by legislative action.

On March 12, 2015 the FCC released new network neutrality and open internet rules that it had adopted on February 26, 2015. In that order, the FCC reclassified broadband Internet access services as a telecommunications service subject to some elements of common carrier regulation, including the obligation to provide service on just and reasonable terms, requirements related to customer privacy and requirements for accessibility for people with disabilities. The order also prohibits blocking or discriminating against lawful services and applications and prohibits "paid prioritization," or providing faster speeds or other benefits in return for compensation. The order went into effect

on June 12, 2015 and is the subject of pending appeals by several parties. The impact of the existing net neutrality rules is unclear, and on April 27, 2017, the FCC issued a Notice of Proposed Rulemaking, and on November 21, 2017, the FCC circulated a draft order that would largely reverse the existing net neutrality rules, including the classification of broadband Internet service as a telecommunications service subject to certain common carrier regulations. The FCC will vote on such draft order at its open meeting scheduled for December 14, 2017. The recently proposed new rules could affect the market for broadband internet access service in a way that impacts our business, for example by increasing the cost of broadband internet service and thereby depressing demand for our services or by increasing the costs of services we purchase.

Our quarterly and annual results of operations have fluctuated in the past and may continue to do so in the future. As a result, we may fail to meet or to exceed the expectations of research analysts or investors, which could cause our stock price to fluctuate.

Our quarterly and annual results of operations have varied historically from period to period, and we expect that they will continue to fluctuate due to a variety of factors, many of which are outside of our control, including:

- our ability to retain existing customers and attract new customers;
- our ability to sell premium solutions to our existing customers;
- our ability to introduce new solutions;
- the actions of our competitors, including pricing changes or the introduction of new solutions;
- our ability to effectively manage our growth;
- our ability to successfully penetrate the communications and connected services markets for small businesses, residential and mobile;
- the number of monthly and annual subscriptions at any given time;
- the timing, cost and effectiveness of our advertising and marketing efforts;
- the timing, operating cost and capital expenditures related to the operation, maintenance, and expansion of our business;
- the timing of our decisions with regard to product resource allocation;
- seasonality of consumers' purchasing patterns and seasonality of advertising patterns;
- service outages or security breaches and any related impact on our reputation;
- our ability to accurately forecast revenue and appropriately plan our expenses;
- costs associated with defending and resolving intellectual property infringement and other claims;
- changes in tax laws, regulations, or accounting rules;
- the timing and cost of developing or acquiring technologies, services or businesses and our ability to successfully manage any such acquisitions; and
- the impact of worldwide economic, industry, and market conditions.

Any one of the factors above, or the cumulative effect of some or all of the factors referred to above, may result in significant fluctuations in our quarterly and annual results of operations. This variability and unpredictability could result in our failure to meet our internal operating plan or the expectations of securities analysts or investors for any period, which could cause our stock price to decline. In addition, a significant percentage of our operating expenses is fixed in nature and is based on forecasted revenue trends. Accordingly, in the event of revenue shortfalls, we may not be able to mitigate the negative impact on net income (loss) and margins in the short term. If we fail to meet or exceed the expectations of research analysts or investors, the market price of our shares could fall substantially and we could face costly lawsuits, including securities class-action suits.

We may require additional capital to pursue our business objectives and to respond to business opportunities, challenges or unforeseen circumstances. If capital is not available to us or only under unfavorable terms, our business, results of operations and financial condition may be adversely affected.

We intend to continue making expenditures and investments to support the growth of our business and may require additional capital to pursue our business objectives and respond to business opportunities, challenges or unforeseen circumstances, including the need to develop new solutions or enhance our existing solutions, enhance our operating infrastructure, and acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. However, additional funds may not be available when we need them on terms acceptable to us, or at all. Our credit agreements include restrictive covenants and any debt financing we secure in the future could involve further restrictive covenants, which may make it more difficult for us to obtain additional capital and to pursue business opportunities.

In addition, volatility in the credit markets may have an adverse effect on our ability to obtain debt financing. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences, and privileges superior to those of holders of our common stock. If we are unable to obtain adequate financing or financing on terms satisfactory to us, our ability to continue pursuing our business objectives and to respond to business opportunities, challenges or unforeseen circumstances could be significantly limited, and our business, results of operations, financial condition and prospects could be materially and adversely affected.

Growth may place significant demands on our management and our infrastructure.

We have recently experienced substantial growth in our business, including an increase in the number of customers we consider to be our core users. This growth has placed and may continue to place significant demands on our management and our operational and financial infrastructure. As our operations grow in size, scope and complexity, we will need to increase our sales and marketing efforts and add additional sales and marketing personnel worldwide and to improve and upgrade our systems and infrastructure to attract, service, and retain an increasing number of users. For example, we expect the volume of simultaneous calls to increase significantly as our user base grows. Our network hardware and software may not be able to accommodate this additional simultaneous call volume. The expansion of our systems and infrastructure will require us to commit substantial financial, operational and technical resources in advance of an increase in the volume of business, with no assurance that the volume of business will increase. Any such additional capital investments will increase our cost base. Continued growth could also strain our ability to maintain reliable service levels for our users, develop and improve our operational, financial and management controls, enhance our reporting systems and procedures and recruit, train, and retain highly skilled personnel. If we fail to achieve the necessary level of efficiency in our organization as we grow, our business, results of operations, and financial condition could be materially and adversely affected.

Shifts in trends or the emergence of new technologies may render our solutions obsolete or require us to expend significant resources to develop, license, or acquire new services or applications on a timely and cost-effective basis in order to remain competitive.

The cloud-based communications and connected services industries are emerging markets characterized by rapid changes in customer requirements, frequent introductions of new and enhanced services, and continuing and rapid technological advancement. We cannot predict the effect of technological changes on our business. To compete successfully in these emerging markets, we must anticipate and adapt to technological changes and evolving industry standards and continue to design, develop, manufacture and sell new and enhanced services that provide increasingly higher levels of performance and reliability at lower cost. We derived approximately 72% of our revenue from Ooma Telo for the nine months ended October 31, 2017. We expect Ooma Telo will continue to account for a majority of our revenue for the foreseeable future. However, our future success will also depend on our ability to introduce and sell new services, features and functionality that enhance or are beyond the voice, fax, text and connected services we currently offer, as well as to improve usability and support and increase customer satisfaction. Our failure to develop solutions that satisfy customer preferences in a timely and cost-effective manner may harm our ability to renew our subscriptions with existing customers and to create or increase demand for our services and may materially and adversely impact our results of operations.

The introduction of new services by competitors or the development of entirely new technologies to replace existing offerings could make our solutions obsolete or adversely affect our business and results of operations. Announcements of future releases and new services and technologies by our competitors or by us could cause customers to defer purchases of our existing services, which also could have a material adverse effect on our business, financial condition or results of operations. We may experience difficulties with software development, operations, design or marketing that could delay or prevent our development, introduction or implementation of new or enhanced services and applications. We have in the past experienced delays in the planned release dates of new features and upgrades, and have discovered defects in new services and applications after their introduction. We cannot assure you that new features or upgrades will be released according to schedule, or that, when released, they will not contain defects. Either of these situations could result in adverse publicity, loss of revenue, delay in market acceptance or claims by customers brought against us, all of which could harm our reputation, business, results of operations, and financial condition. Moreover, the development of new or enhanced services or applications may require substantial investment, and we must continue to invest a significant amount of resources in our research and development efforts to develop these services and applications to remain competitive. We do not know whether these investments will be

successful. If customers do not widely adopt any new or enhanced services and applications, we may not be able to realize a return on our investment. If we are unable to develop, license or acquire new or enhanced services and applications on a timely and cost effective basis, or if such new or enhanced services and applications do not achieve market acceptance, our business, financial condition and results of operations may be materially and adversely affected.

Our success depends on the public acceptance of our connected services and applications.

Our future growth depends on our ability to significantly increase revenue generated from our communications solutions and other connected services that integrate voice communications technology with other functions, such as business promotion, automation, security and others. The markets for cloud-based communications and connected services are evolving rapidly and are characterized by an increasing number of market entrants. As is typical of a rapidly evolving industry, the demand for and market acceptance of these applications is uncertain. If the markets for cloud-based communications solutions or for other connected services fail to develop, develop more slowly than we anticipate or develop in a manner different than we expect, our services could fail to achieve market acceptance, which in turn could materially and adversely affect our business.

Our future growth in the small business market depends on the continued use of voice communications by businesses, as compared to e-mail and other data-based methods. A decline in the overall rate of voice communications by businesses would harm our business. Furthermore, our continued growth depends on future demand for and adoption of internet voice communications systems and services and on future demand for connected communications services. Although the number of broadband subscribers worldwide has grown significantly in recent years, only a small percentage of businesses have adopted internet voice communications services to date. For demand and adoption of internet voice communications services by businesses to increase, internet voice communications networks must improve the quality of their service for real-time communications by managing the effects of and reducing packet loss, packet delay, and packet jitter, as well as unreliable bandwidth, so that high-quality service can be consistently provided. Additionally, the cost and feature benefits of internet voice communications must be sufficient to cause customers to switch from traditional phone service providers. We must devote substantial resources to educate potential customers about the benefits of internet voice communications solutions, in general, and of our services in particular. If any or all of these factors fail to occur, our business may be materially and adversely affected.

Our Ooma Telo product and services are being sold to individuals and families. With the growth in cellular and other mobile technologies, many consumers have chosen to eliminate altogether their home telephone service. Our ability to continue growing our user base depends on our ability to convince our customers and potential customers that our service is sufficiently useful and cost-effective, such that it makes sense to maintain or reestablish home telephone services with us. Our growth could slow and our financial condition could be adversely affected if the trend of eliminating home telephone service continues or accelerates.

Our mobile platform, available to any consumer with a Wi-Fi or cellular data connected mobile device, operates in a market that is fragmented and difficult to get noticed by consumers. Many of our competitors in this market have been able to establish a significant user base and reputation in the market, which may make it more difficult for our products to be adopted. Furthermore, as new mobile devices are released, we may encounter difficulties supporting these devices and services, and we may need to devote significant resources to the creation, support, and maintenance of our mobile applications. Additionally, our competitors may allocate additional resources to marketing and promotion of their products, making it even more difficult to be noticed. It is also unclear how the adoption of “over-the-top” based communications will continue to grow. If the number of consumers using “over-the-top” based communications stagnates or declines, such movement may result in an intensified competition for consumers in this space.

Accusations of infringement of third-party intellectual property rights could materially and adversely affect our business.

There has been substantial litigation in the areas in which we operate regarding intellectual property rights. In the past, we have been sued by third parties claiming infringement of their intellectual property rights and we may be sued for infringement from time to time in the future. In the past, we have settled infringement litigation brought against us;

however, we cannot assure you that we will be able to settle any future claims or, if we are able to settle any such claims, that the settlement will be on terms favorable to us. Our broad range of technology may increase the likelihood that third parties will claim that we infringe their intellectual property rights.

We have in the past received, and may in the future receive, notices of claims of infringement, misappropriation or misuse of other parties' proprietary rights, such as the Deep Green Wireless Litigation described in "Note 5: Commitments and Contingencies" in the notes to consolidated condensed financial statements in this Form 10-Q. Notwithstanding their merits, accusations and lawsuits like these often require significant time and expense to defend, may negatively affect customer relationships, may divert management's attention away from other aspects of our operations and, upon resolution, may have a material adverse effect on our business, results of operations, financial condition and cash flows.

Certain technology necessary for us to provide our services may, in fact, be patented by other parties either now or in the future. If such technology were validly patented by another person, we would have to negotiate a license for the use of that technology. We may not be able to negotiate such a license at a price that is acceptable to us or at all. The existence of such a patent, or our inability to negotiate a license for any such technology on acceptable terms, could force us to cease using the technology and cease offering products and services incorporating the technology, which could materially and adversely affect our business and results of operations.

If we were found to be infringing on the intellectual property rights of any third party, we could be subject to liability for such infringement, which could be material. We could also be prohibited from using or selling certain products or services, prohibited from using certain processes, or required to redesign certain products or services, each of which could have a material adverse effect on our business and results of operations.

These and other outcomes may:

- result in the loss of a substantial number of existing customers or prohibit the acquisition of new customers;
- cause us to pay license fees for intellectual property we are deemed to have infringed;
- cause us to incur costs and devote valuable technical resources to redesigning our services;
- cause our cost of goods sold to increase;
- cause us to accelerate expenditures to preserve existing revenue;
    - cause existing or new vendors to require prepayments or letters of credit;
- materially and adversely affect our brand in the marketplace and cause a substantial loss of goodwill;
- cause us to change our business methods or services;
- require us to cease certain business operations or offering certain products, services or features; and
- lead to our bankruptcy or liquidation.

Our limited ability to protect our intellectual property rights could materially and adversely affect our business.

We rely, in part, on patent, trademark, copyright and trade secret law to protect our intellectual property in the U.S. and abroad. We cannot assure you that the particular forms of intellectual property protection we seek, including business decisions about when to file patents and when to maintain trade secrets, will be adequate to protect our business. We seek to protect our technology, software, documentation and other information under trade secret and copyright law, which afford only limited protection. For example, we typically enter into confidentiality agreements with our employees, consultants, third-party contractors, customers and vendors in an effort to control access to use and distribution of our technology, software, documentation and other information. These agreements may not effectively prevent unauthorized use or disclosure of confidential information and may not provide an adequate remedy in the event of such unauthorized use or disclosure, and it may be possible for a third party to legally reverse engineer, copy or otherwise obtain and use our technology without authorization. In addition, improper disclosure of trade secret information by our current or former employees, consultants, third-party contractors, customers or vendors to the public or others who could make use of the trade secret information would likely preclude that information from being protected as a trade secret.

We also rely, in part, on patent law to protect our intellectual property in the U.S. and internationally. As of October 31, 2017, our intellectual property portfolio includes 17 issued U.S. patents, which we expect to expire between 2028 and 2035, as well as 11 patent applications pending for examination in the U.S. and six patent applications pending for examination in foreign jurisdictions, all of which are related to U.S. applications. We cannot predict whether such pending patent applications will result in issued patents or whether any issued patents will effectively protect our intellectual property. Even if a pending patent application results in an issued patent, the patent may be circumvented or its validity may be challenged in various proceedings in U.S. District Court, before the U.S. Patent and Trademark Office or before their foreign equivalents, such as reexamination, which may require legal representation and involve

substantial costs and diversion of management time and resources. In addition, we cannot assure you that every significant feature of our solutions is protected by our patents, or that we will mark our products with any or all patents they embody. As a result, we may be prevented from seeking damages in whole or in part for infringement of our patents.

The unlicensed use of our brand, including domain names, by third parties could harm our reputation, cause confusion among our customers and impair our ability to market our products and services. To that end, we have registered numerous trademarks and service marks, have applied for registration of additional trademarks and service marks and have acquired a number of domain names in and outside the U.S. to establish and protect our brand names as part of our intellectual property strategy. If our applications receive objections or are successfully opposed by third parties, it will be difficult for us to prevent third parties from using our brand without our permission. Moreover, successful opposition to our applications might encourage third parties to make additional oppositions or commence trademark infringement proceedings against us, which could be costly and time consuming to defend against. There have been in the past, and may be in the future, instances where third parties have used our trade names, or have adopted confusingly similar trade names to ours. We have been successful in asserting our rights in our trade names and causing such third parties to cease such use, but we may not be successful in the future. If we are not successful in protecting our trademarks, our trademark rights may be diluted and subject to challenge or invalidation, which could materially and adversely affect our brand.

Despite our efforts to implement our intellectual property strategy, we may not be able to protect or enforce our proprietary rights in the U.S. or internationally (where effective intellectual property protection may be unavailable or limited). For example, we have entered into agreements containing confidentiality and invention assignment provisions in connection with the outsourcing of certain software development, quality assurance and development activities to third-party contractors located in Canada, India, New Zealand, Russia, Serbia and Ukraine. We have also entered into an agreement containing a confidentiality provision with a third-party contractor located in the Philippines, where we have outsourced a significant portion of our customer support function. We cannot assure you that agreements with these third-party contractors or their agreements with their employees and contractors will adequately protect our proprietary rights in the applicable jurisdictions and foreign countries, as their respective laws may not protect proprietary rights to the same extent as the laws of the U.S. In addition, our competitors may independently develop technologies similar or superior to our technology, duplicate our technology in a manner that does not infringe our intellectual property rights or design around any of our patents. Furthermore, detecting and policing unauthorized use of our intellectual property is difficult and resource-intensive. Moreover, litigation may be necessary in the future to enforce our intellectual property rights, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Such litigation, whether successful or not, could result in substantial costs and diversion of management time and resources and could have a material adverse effect on our business, financial condition and results of operations.

We license technology from third parties we do not control and cannot be assured of retaining such licenses.

We rely upon certain technology, including hardware and software, licensed from third parties. There can be no assurance that the technology licensed by us will continue to provide competitive features and functionality or that the licenses for technology currently utilized by us or other technology which we may seek to license in the future, will be available to us on commercially reasonable terms or at all. The loss of, or inability to maintain, existing licenses could result in shipment delays or reductions until equivalent technology or suitable alternative products are developed, identified, licensed and integrated, and could harm our business. These licenses are typically offered on standard commercial terms made generally available by the companies providing the licenses. The cost and terms of these licenses individually are not material to our business.

If we experience excessive fraudulent activity or cannot meet evolving credit card association merchant standards, we could incur substantial costs and lose the right to accept credit cards for payment, which could cause our customer base to decline significantly.

Nearly all of our customers authorize us to bill their credit card accounts directly for service fees that we charge. If people pay for our services with stolen credit cards, we could incur substantial third-party vendor costs for which we may not be reimbursed. Further, our customers provide us with credit card billing information online or over the phone, and we do not review the physical credit cards used in these transactions, which increases our risk of exposure to fraudulent activity. We also incur charges, which we refer to as chargebacks, from the credit card companies' claims that the customer did not authorize the credit card transaction to purchase our service, something we have experienced in the past. If the number of unauthorized credit card transactions becomes excessive, we could be assessed substantial fines for excess chargebacks and we could lose the right to accept credit cards for payment. We have also been affected by the credit card breaches at various retail stores, which have caused millions of consumers to cancel credit cards as a result of the breach. We have found that some consumers do not renew their services after a card cancellation, which can have a material negative impact on our revenue. In addition, credit card issuers may change merchant standards, including data protection and documentation standards, required to utilize their services from time to time. We are currently not in compliance with all of the applicable technical requirements of the Payment Card Industry Data Security Standard, or PCI, but we are working to become fully compliant as soon as is practicable. If we fail to become compliant or maintain compliance with current merchant standards, such as PCI, or fail to meet new standards, the credit card associations may fine us or, while unusual, may impose certain restrictions on our ability to accept credit cards or terminate our agreements with them, rendering us unable to accept credit cards as payment for our services. Our services have been in the past, and may also be in the future, subject to fraudulent or abusive usage in violation of applicable law or our acceptable use policies, including but not limited to revenue share fraud, domestic traffic pumping, subscription fraud, premium text message scams, and other fraudulent schemes, any of which could result in our incurring substantial costs for the completion of calls. Although our customers are required to set passwords and Personal Identification Numbers, or PINs, to protect their accounts and may configure in which destinations international calling is enabled from their extensions, third parties have accessed and used our customers' accounts and extensions through fraudulent means in the past, and they may do so in the future, which also could result in substantial call completion and other costs for us. In addition, third parties may have attempted in the past, and may attempt in the future, to fraudulently induce domestic and international employees or consultants into disclosing customer credentials and other account information. Communications fraud can result in unauthorized access to customer accounts and customer data, unauthorized use of customers' services, and charges to customers for fraudulent usage and expenses we must pay to carriers. We may be required to pay for these charges and expenses with no reimbursement from the customer, and our reputation may be harmed if our services are subject to fraudulent usage. Although we implement multiple fraud prevention and detection controls, we cannot assure you that these controls will be adequate to protect against fraud. Substantial losses due to fraud or our inability to accept credit card payments, which could cause our paid customer base to significantly decrease, could have a material adverse effect on our results of operations, financial condition and ability to grow our business.

Potential problems with our information systems could interfere with our business and operations.

We rely on our information systems and those of third parties for processing customer orders, distribution of our services, billing our customers, processing credit card transactions, customer relationship management, supporting financial planning and analysis, accounting functions and financial statement preparation and otherwise running our business. Information systems may experience interruptions, including interruptions of related services from third-party providers, which may be beyond our control. Such business interruptions could cause us to fail to meet customer requirements. All information systems, both internal and external, are potentially vulnerable to damage or interruption from a variety of sources, including without limitation, computer viruses, security breaches, energy blackouts, natural disasters, terrorism, war, telecommunication failures and employee or other theft, as well as

third-party provider failures. Any disruption in our information systems and those of the third parties upon which we rely could have a significant impact on our business.

We may implement enhanced information systems in the future to meet the demands resulting from our growth and to provide additional capabilities and functionality. The implementation of new systems and enhancements is frequently disruptive to the underlying business of an enterprise, and can be time-consuming and expensive, increase management responsibilities and divert management attention. Any disruptions relating to our systems enhancements or any problems with the implementation, particularly any disruptions impacting our operations or our ability to accurately report our financial performance on a timely basis during the implementation period, could materially and adversely affect our business. Even if we do not encounter these material and adverse effects, the implementation of these enhancements may be much costlier than we anticipated. If we are unable to successfully implement the information systems enhancements as planned, our financial position, results of operations and cash flows could be negatively impacted.

Our use of open source technology could impose limitations on our ability to commercialize our services.

We use open source software in our platform on which our services operate. There is a risk that the owners of the copyrights in such software may claim that such licenses impose unanticipated conditions or restrictions on our ability to market or provide our services. If such owners prevail in such claim, we could be required to make the source code for our proprietary software (which contains our valuable trade secrets) generally available to third parties, including competitors, at no cost, to seek licenses from third parties in order to continue offering our services, to re-engineer our technology, or to discontinue offering our services in the event re-engineering cannot be accomplished on a timely basis or at all, any of which could cause us to discontinue our services, harm our reputation, result in customer losses or claims, increase our costs or otherwise materially and adversely affect our business and results of operations. If a copyright holder of such open source software were to allege we had not complied with the conditions of one or more of these licenses, we could be required to incur significant legal expenses defending against such allegations and could be subject to significant damages, enjoined from the sale of our solutions that contained the open source software and required to comply with the foregoing conditions, which could disrupt the distribution and sale of some of our solutions.

We depend largely on the continued services of our senior management and other key employees, the loss of any of whom could adversely affect our business, results of operations and financial condition.

Our future performance depends on the continued services and contributions of our senior management and other key employees to execute on our business plan, and to identify and pursue opportunities and services innovations. The loss of services of senior management or other key employees could significantly delay or prevent the achievement of our development and strategic objectives. In particular, we depend to a considerable degree on the vision, skills, experience and effort of our Chief Executive Officer, Eric B. Stang. All of our executive officers and senior management may terminate employment with us at any time with no advance notice. The replacement of any of these senior management personnel would likely involve significant time and costs, and such loss could significantly delay or prevent the achievement of our business objectives. Many members of our senior management have been our employees for many years and therefore have significant experience and understanding of our business that would be difficult to replace. Our inability to attract and retain the necessary personnel could adversely affect our business, financial condition or results of business. We do not maintain key person insurance for any of our personnel.

If we are unable to hire, retain and motivate qualified personnel, our business will suffer.

Our future success depends, in part, on our continued ability to attract and retain highly skilled personnel. We believe there is, and will continue to be, intense competition for highly skilled technical and other personnel with experience in our industry in the San Francisco Bay Area, where our headquarters is located, and in other locations where we may maintain offices in the future. We must provide competitive compensation packages and a high-quality work environment to hire, retain and motivate employees. If we are unable to retain and motivate our existing employees or attract qualified personnel to fill key positions, we may be unable to manage our business effectively, including the development, marketing and sale of existing and new services, which could have a material adverse effect on our business, financial condition, and results of operations. To the extent we hire personnel from competitors, we may be subject to allegations such personnel have been improperly solicited or divulged proprietary or other confidential information.

We may expand through acquisitions of, or investments in, other companies, each of which may divert our management’s attention, result in additional dilution to our stockholders, increase expenses, disrupt our operations and harm our results of operations.

Our business strategy may, from time to time, include acquiring or investing in complementary services, technologies or businesses. We cannot assure you we will successfully identify suitable acquisition candidates, integrate or manage disparate technologies, lines of business, personnel and corporate cultures, realize our business strategy or the expected return on our investment, or manage a geographically dispersed company. Any such acquisition or investment could materially and adversely affect our results of operations. Acquisitions and other strategic investments involve significant risks and uncertainties, including:

- the potential failure to achieve the expected benefits of the combination or acquisition;
- unanticipated costs and liabilities;
- difficulties in integrating new products and services, software, businesses, operations and technology infrastructure in an efficient and effective manner;
- difficulties in maintaining customer relations;
- the potential loss of key employees of the acquired businesses;
- the diversion of the attention of our senior management from the operation of our daily business;

- the potential adverse effect on our cash position to the extent that we use cash for the purchase price;
- the potential significant increase of our interest expense, leverage, and debt service requirements if we incur additional debt to pay for an acquisition;
- the potential issuance of securities that would dilute our stockholders' percentage ownership;
- the potential to incur large and immediate write-offs and restructuring and other related expenses; and
- the inability to maintain uniform standards, controls, policies and procedures.

Any acquisition or investment could expose us to unknown liabilities. Moreover, we cannot assure you that we will realize the anticipated benefits of any acquisition or investment. In addition, our inability to successfully operate and integrate newly acquired businesses appropriately, effectively, and in a timely manner could impair our ability to take advantage of future growth opportunities and other advances in technology, as well as on our revenue, gross margins and expenses.

We are expanding our international operations, which may expose us to significant risks.

To date, we have not generated significant revenue from outside of the U.S. and Canada, but we recently expanded our operations outside North America as we ramp up to provide services to WeWork members in various countries. The future success of our business will depend, in part, on our ability to expand our operations and customer base worldwide. Operating in international markets requires significant resources and management attention and will subject us to regulatory, economic and political risks different from those in the U.S. Because of our limited experience with international operations and developing and managing sales and distribution channels in international markets, our international expansion efforts may not be successful. In addition, we will face risks in doing business internationally that could materially and adversely affect our business, including:

- our ability to comply with differing technical and environmental standards, data privacy and telecommunications regulations, and certification requirements outside the U.S.;
- potential contractual and other liability to our business partners if we fail to meet their aggressive expansion schedules in new locations;
- difficulties and costs associated with staffing and managing foreign operations;
- potentially greater difficulty collecting accounts receivable and longer payment cycles;
- the need to adapt and localize our services for specific countries;
- the need to offer customer care in various native languages;
- reliance on third parties over which we have limited control, including international resellers, for marketing and reselling our services;
- availability of reliable broadband connectivity and wide area networks in targeted areas for expansion;
- lower levels of adoption of credit or debit card usage for internet related purchases by foreign customers and compliance with various foreign regulations related to credit or debit card processing and data privacy requirements;
- difficulties in understanding and complying with local laws, regulations, and customs in foreign jurisdictions;
- export controls and trade and economic sanctions administered by the Department of Commerce Bureau of Industry and Security and the Treasury Department's Office of Foreign Assets Control;
- tariffs and other non-tariff barriers, such as quotas and local content rules and the possibility of additional import tariffs imposed by the new administration;
- compliance with various anti-bribery and anti-corruption laws such as the U.S. Foreign Corrupt Practices Act of 1977, as amended, or the FCPA;
- limited protection for intellectual property rights in some countries;
- adverse tax consequences;
- fluctuations in currency exchange rates, which could increase the price of our services outside of the U.S., increase the expenses of our international operations, including expenses related to foreign contractors, and expose us to foreign currency exchange rate risk;

- exchange control regulations, which might restrict or prohibit our conversion of other currencies into U.S. Dollars;
- restrictions on the transfer of funds;

- deterioration of political relations between the U.S. and other countries; and
- political or social unrest or economic instability in a specific country or region, which could have an adverse impact on our third-party software development and quality assurance operations there.

Our failure to manage any of these risks successfully could harm our future international operations and our overall business.

We may not be able to manage our inventory levels effectively, which may lead to excess inventory or inventory obsolescence that would force us to incur inventory write-downs.

Our vendor-supplied on-premise appliances and end-point devices have lead times of up to 32 weeks for delivery and are built to satisfy our demand forecasts that are necessarily imprecise. It is likely that from time to time we will have either excess or insufficient product inventory. In addition, because we rely on third-party vendors for the supply of our devices, our inventory levels are subject to the conditions regarding the timing of purchase orders and delivery dates not within our control. Excess inventory levels would subject us to the risk of inventory obsolescence, while insufficient levels of inventory may negatively affect relations with customers. For instance, our customers rely upon our ability to meet committed delivery dates, and any disruption in the supply of our services could result in loss of customers or harm to our ability to attract new customers. Retailers may elect to return any unsold inventory without any penalty, which could result in a write down for excess inventory. Any of these factors could have a material adverse effect on our business, financial condition or results of operations.

Our corporate headquarters, one of our data center and co-location facilities and our third-party customer service and support facility are located near known earthquake fault zones, and the occurrence of an earthquake, tsunami or other catastrophic disaster could damage our facilities or the facilities of our contractors, which could cause us to curtail our operations. Increased energy costs, power outages and limited availability of electrical resources may adversely affect our operating results.

Our corporate headquarters, one of our data center and our customer service call center for Ooma office are located in Northern California, our other customer service call center operated by our contractor is located in the Philippines, and our contract manufacturer facilities are located near the coast in China. All of these locations are on the Pacific Rim near known earthquake fault zones and, therefore, are vulnerable to damage from earthquakes and tsunamis. Additionally, our sole third-party customer service and support facility in the Philippines is in an area subject to typhoons. We and our contractors are also vulnerable to other types of disasters, such as power loss, fire, floods, pandemics, cyber-attack, war, political unrest and terrorist attacks and similar events that are beyond our control. If any disasters were to occur, our ability to operate our business could be seriously impaired, and we may endure system interruptions, reputational harm, loss of intellectual property, delays in our services development, lengthy interruptions in our services, breaches of data security and loss of critical data, all of which could harm our future results of operations. In addition, we do not carry earthquake insurance and we may not have adequate insurance to cover our losses resulting from other disasters or other similar significant business interruptions. Any significant losses not recoverable under our insurance policies could seriously impair our business and financial condition.

Changes in effective tax rates, or adverse outcomes resulting from examination of our income or other tax returns, could adversely affect our results of operations and financial condition.

Our future effective tax rates could be subject to volatility or adversely affected by a number of factors, including:

- changes in the valuation of our deferred tax assets and liabilities;
- expiration of, or lapses in, the research and development tax credit laws;
- expiration or non-utilization of net operating loss carryforwards;
- tax effects of share-based compensation;

- certain non-deductible expenses as a result of acquisitions;
- expansion into new jurisdictions;
- potential challenges to and costs related to implementation and ongoing operation of our intercompany arrangements; and
- changes in tax laws and regulations and accounting principles, or interpretations or applications thereof.

As we expand our operations outside the U.S. and Canada, certain changes to U.S. tax laws, including limitations on the ability to defer U.S. taxation on earnings outside of the U.S. until those earnings are repatriated to the U.S. could affect the tax treatment of our foreign earnings. Any changes in our effective tax rate could adversely affect our results of operations.

We may be unable to use some or all of our net operating loss carryforwards, which could materially and adversely affect our reported financial condition and results of operations.

As of January 31, 2017, we had federal and state net operating loss carryforwards, or NOLs, of $72.9 million and $57.5 million, respectively, available to offset future taxable income. If not utilized, both the federal and California NOLs will begin to expire in 2030. We also have federal and California research and development tax credit carryforwards that will begin to expire in 2030. Realization of these net operating loss and research tax credit carryforwards depends on future income, and there is a risk that our existing carryforwards could expire unused and be unavailable to offset future income tax liabilities, which could materially and adversely affect our results of operations.

Under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, our ability to utilize net operating loss carryforwards or other tax attributes, such as research tax credits, in any taxable year may be limited if we experience an "ownership change." A Section 382 "ownership change" generally occurs if one or more stockholders or groups of stockholders, who own at least 5% of our stock, increase their ownership by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. Similar rules may apply under state tax laws. We completed a Section 382 analysis through January 31, 2017 and determined that an ownership change, as defined under Section 382 of the Internal Revenue Code, occurred in prior years. Based on the analysis, we determined that we had undergone four ownership changes. The first and second ownership changes occurred in April 2005, the third change occurred in February 2009 and the fourth change occurred in January 2017. NOLs presented account for any limited and potential lost attributes due to the ownership changes and their respective expiration dates.

No deferred tax assets have been recognized on our balance sheet related to these NOLs, as they are fully reserved by a valuation allowance. If we have previously had, or have in the future, one or more Section 382 "ownership changes", or if we do not generate sufficient taxable income, we may not be able to utilize a material portion of our NOLs, even if we achieve profitability. If we are limited in our ability to use our NOLs in future years in which we have taxable income, we will pay more taxes than if we were able to fully utilize our NOLs. This could materially and adversely affect our results of operations.

The estimates of market opportunity and forecasts of market growth included in this report may prove to be inaccurate, and even if the market in which we compete achieves the forecasted growth, our business could fail to grow at similar rates, if at all.

Market opportunity estimates and growth forecasts are subject to significant uncertainty and are based on assumptions and estimates that may not prove to be accurate. The estimates and forecasts in this report relating to the size and expected growth of our market, including our estimated annual recurring revenue based on various assumptions, may prove to be inaccurate. Even if the market in which we compete meets the size estimates and growth forecasted in this report, our business could fail to grow at similar rates, if at all.

Risks Related to Federal, State and International Regulation

Our services are subject to regulation and future legislative or regulatory actions could adversely affect our business and expose us to liability.

Federal Regulation

Our business is regulated by the Federal Communications Commission, or FCC. As a communications services provider, we are subject to FCC regulations relating to privacy, disability access, porting of numbers, Federal Universal Service Fund, or USF, contributions, E 911, and other matters. If we do not comply with FCC rules and

regulations, we could be subject to FCC enforcement actions, fines, loss of licenses, and possibly restrictions on our ability to operate or offer certain of our services. Any enforcement action by the FCC, which may include a public process, would hurt our reputation in the industry, possibly impair our ability to sell our services to customers and could have a materially adverse impact on our revenue.

If the FCC classifies interconnected VoIP service as a telecommunications service subject to common carrier regulation, we could be subject to additional regulation under federal and state telecommunications laws. Compliance with such laws could increase our cost of doing business.

State Regulation

We are also subject to state consumer protection laws, as well as U.S. state, municipal and local sales, use, excise, utility user and ad valorem taxes, fees or surcharges. The imposition of such regulatory obligations or the imposition of additional taxes on our services could increase our cost of doing business and limit our growth.

International Regulation

As we expand internationally, we may be subject to telecommunications, consumer protection, data privacy and other laws and regulations in the foreign countries where we offer our services. For example, we are a provider of internet voice telecommunications services in Canada. As a provider of internet voice communications services, we are subject to regulation in Canada by the CRTC. We are also subject to Canadian federal privacy laws and provincial consumer protection legislation.

In addition, our international operations are potentially subject to country-specific governmental regulation and related actions that may increase our cost or impact our product and service offerings or prevent us from offering or providing our products and services in certain countries. Certain of our services may be used by customers located in countries where VoIP and other forms of IP communications may be illegal or require special licensing. In countries where local laws and regulations prohibit (or come to prohibit) the use of our products, users may continue to use our products and services, which could subject us to costly penalties or governmental action adverse to our business and damaging to our brand and reputation, our international expansion efforts, or our business and operating results.

The FCC continues to consider additional 911 requirements, including requiring us to deploy an E-911 service that automatically determines the location of our customers. The adoption of such requirements could increase our costs that could make our service more expensive, decrease our profit margins, or both.

The FCC is actively considering additional 911 requirements for interconnected VoIP providers, non-interconnected VoIP providers and texting providers. The outcome of the FCC's proceedings cannot be determined at this time and we may or may not be able to comply with any such obligations that may be adopted. At present, we have no means to automatically identify the physical location of our customers on the internet. Changes to the FCC's VoIP E 911 rules may adversely affect our ability to deliver our service to new and existing customers in all geographic regions or to nomadic customers who move to a location where emergency calling services compliant with the FCC's mandates are unavailable. Our compliance with the FCC's VoIP E-911 order and related costs puts us at a competitive disadvantage to VoIP service providers who are either not subject to the requirements or have chosen not to comply with the FCC's mandates. We cannot guarantee emergency calling service consistent with the VoIP E 911 order will be available to all of our customers, especially those accessing our services on a mobile device or from outside of the U.S. The FCC's current VoIP E-911 order or follow-on orders or clarifications, the impact on our customers due to service price increases or other factors could have a material adverse effect on our business, financial condition or operating results.

The FCC order reforming the system of payments between regulated carriers we partner with to interface with the public switched telephone network, or PSTN, could increase our costs of providing service, which could result in increased rates for service, making our offerings less competitive than others in the marketplace, or reduce our profitability.

In 2011, the FCC reformed the system under which regulated providers of telecommunications services compensate each other for various types of traffic, including VoIP traffic that terminates on the PSTN, and applied new call signaling requirements to VoIP and other service providers. The FCC's rules concerning charges for transmission of VoIP traffic could result in an increased cost to terminate the traffic, could reduce the availability of services or increase the price of services from our underlying providers, or could otherwise impact the wholesale telecommunications market in a way that adversely impacts our business. To the extent that we transmit traffic not subject to a specific intercarrier compensation arrangement and another provider were to assert that the traffic we exchange with them is subject to higher levels of compensation than what we, or the third parties terminating our traffic to the PSTN, pay today (if any), our termination costs could increase.

If we cannot comply with the FCC's rules imposing call signaling requirements on VoIP providers like us, we may be subject to fines, cease and desist orders, or other penalties.

The FCC order reforming the system of compensation for various types of traffic also included rules to address calls for which identifying information is missing or masked in ways that impede billing for such traffic. The FCC's rules require, among other things, interconnected VoIP providers like us, who originate interstate or intrastate traffic destined for the PSTN, to transmit the telephone number associated with the calling party to the next provider in the call path. Intermediate providers must pass unaltered calling party number or charge number signaling information they receive from other providers to subsequent providers in the call path. To the extent that we pass traffic that does not have appropriate calling party number or charge number information, we could be subject to fines, cease and desist orders, or other penalties.

We may not be able to comply with FCC rules governing completion of calls to rural areas and related reporting requirements.

On November 8, 2013, the FCC issued a Report and Order and Further Notice of Proposed Rulemaking adopting rules to address problems with rural call completion and proposing additional requirements. The new rules apply to

interconnected VoIP providers like us. The Commission imposed recording, retention, and reporting requirements to increase its ability to monitor and redress rural call completion problems. These new rules also support the Commission's efforts to enforce restrictions on blocking, choking, reducing, or restricting calls. Under the rules, a covered provider must record and retain, for at least nine months, information about calls attempts to rural areas and must report that data to the FCC on a quarterly basis. If we cannot comply with these rules, we could be subject to investigation and enforcement action and could be exposed to substantial liability. In addition, complying with these rules may increase our cost of doing business and may also increase the cost of services we purchase from our underlying telecommunications providers. The FCC also has increased enforcement activity related to completion of calls to rural customers, and we could be subject to substantial fines and to conduct requirements that could increase our costs if we are the subject of an enforcement proceeding and cannot demonstrate calls from our customers to rural customers are completed at a satisfactory rate. On July 14, 2017, the FCC released a Second Further Notice of Proposed Rulemaking to consider alternatives to the existing rural call completion requirements.

The FCC has continued to increase regulation of interconnected VoIP services and may at any time determine certain VoIP services are telecommunications services subject to traditional common carrier regulation.

The FCC is considering, in various proceedings, issues arising from the transition from traditional copper networks to IP networks. It has, among other things, launched a series of trials and experiments designed to gather data about this transition, and to support the FCC's effort to ensure public safety, enable universal access, and protect consumers and competition. The FCC is also considering whether interconnected VoIP services should be treated as telecommunications services, which could subject interconnected VoIP services to additional common carrier regulation. The FCC's efforts may result in additional regulation of IP network and service providers, which may negatively affect our business.

The FCC adopted rules concerning disabilities access requirements that may expand disabilities access requirements to additional services we offer.

In October 2010, the Twenty-First Century Communications and Video Accessibility Act, or the CVAA, was signed into law. The CVAA and the FCC's implementing rules imposes disability access, recordkeeping, certification, and other compliance obligations on interconnected VoIP providers and on providers of other Advanced Communications services, including non-interconnected VoIP and electronic messaging services. In addition, the CVAA and the FCC's implementing rules include complaint filing procedures to address accessibility complaints. These new obligations could increase our expenses, which would have an adverse effect on our operating results. Failure to comply with these obligations could expose us to FCC enforcement actions and liability.

Reform of federal and state Universal Service Fund programs could increase the cost of our service to our customers, diminishing or eliminating our pricing advantage.

The FCC and a number of states are considering reform or other modifications to Universal Service Fund programs. The way we calculate our contribution may change if the FCC or certain states engage in reform or adopt other modifications. In April 2012, the FCC released a Further Notice of Proposed Rulemaking to consider reforms to the manner in which companies, like us, contribute to the federal Universal Service Fund program, and in August 2014, the FCC ordered the Federal-State Joint Board on Universal Service to make a recommendation on how to reform the universal service contribution rules by April 7, 2015, although the recommendation has not been released as of the date hereof. In addition, the FCC is considering whether non-interconnected VoIP providers, texting providers, and broadband providers, among others, should contribute to the USF. We cannot predict the outcome of this proceeding nor its impact on our business at this time.

Should the FCC or certain states adopt new contribution mechanisms or otherwise modify contribution obligations that increase our contribution burden, we will either need to raise the amount we currently collect from our customers to cover this obligation or absorb the costs, which would reduce our profit margins. Furthermore, the FCC has ruled that states can require us to contribute to state Universal Service Fund programs. A number of states already require us to contribute, while others are actively considering extending their programs to include the services we provide. We currently pass through Universal Service Fund contributions to our customers which may result in our services becoming less competitive as compared to those provided by others.

Our products must comply with industry standards, FCC regulations, state, local, country specific and international regulations, and changes may require us to modify existing products and/or services.

In addition to reliability and quality standards, the market acceptance of telephony over broadband IP networks is dependent upon the adoption of industry standards so that products from multiple manufacturers are able to communicate with each other. Our unique hybrid SaaS connectivity platform relies on communication standards such as SIP, SRTP and network standards such as TCP/IP and UDP to interoperate with other vendors' equipment. There is currently a lack of agreement among industry leaders about which standard should be used for a particular application and about the definition of the standards themselves. These standards, as well as audio and video compression standards, continue to evolve. We also must comply with certain rules and regulations of the FCC regarding electromagnetic radiation and safety standards established by Underwriters Laboratories, as well as similar regulations and standards applicable in other countries. Standards are frequently modified or replaced. As standards evolve, we may be required to modify our existing products or develop and support new versions of our products. We must comply with certain federal, state and local requirements regarding how we interact with our customers, including marketing practices, consumer protection, privacy, and billing issues, the provision of 9-1-1 emergency service and the quality of service we provide to our customers. The failure of our products and services to comply, or delays in compliance, with various existing and evolving standards could delay or interrupt volume production of our VoIP telephony products, subject us to fines or other imposed penalties, or harm the perception and adoption rates of our service, any of which would have a material adverse effect on our business, financial condition or operating results.

Failure to comply with communications and telemarketing laws could result in significant fines or place significant restrictions on our business.

We rely on a variety of marketing techniques, including telemarketing and email marketing campaigns. We also record certain telephone calls between our customers or potential customers and our sales and service representatives for training and quality assurance purposes. These activities are subject to a variety of state and federal laws such as the Telephone Consumer Protection Act of 1991 (also known as the Federal Do-Not-Call law, or the TCPA), the Telemarketing Sales Rule, the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 (also known as the CAN-SPAM Act) and various U.S. state laws regarding telemarketing and telephone call recording. These laws are subject to varying interpretations by courts and governmental authorities and often require subjective interpretation, making it difficult to predict their application and therefore making our compliance efforts more challenging. We cannot be certain our efforts to comply with these laws, rules and regulations will be successful, or, if they are successful, that the cost of such compliance will not be material to our business. Changes to these or similar laws, or to their application or interpretation, or new laws, rules and regulations governing our communication and marketing activities could adversely affect our business. In the event that any of these laws, rules or regulations significantly restricts our business, we may not be able to develop adequate alternative communication and marketing strategies. Further, non-compliance with these laws, rules and regulations carries significant financial penalties and the risk of class action litigation, which would adversely affect our financial performance and significantly harm our reputation and our business.

We process, store, and use personal information and other data, which subjects us and our customers to a variety of evolving governmental regulation, industry standards and self regulatory schemes, contractual obligations, and other legal obligations related to privacy, which may increase our costs, decrease adoption and use of our products and services, and expose us to liability.

There are a number of U.S. federal, state and local, and foreign laws and regulations, as well as contractual obligations and industry standards, that provide for certain obligations and restrictions with respect to data privacy and security, and the collection, storage, retention, protection, use, processing, transmission, sharing, disclosure, and protection of personal information and other customer data. The scope of these obligations and restrictions is changing, subject to differing interpretations, and may be inconsistent among countries or conflict with other rules, and their status remains uncertain. Within the European Union, or EU, strict laws already apply in connection with the collection, storage, retention, protection, use, processing, transmission, sharing, disclosure, and protection of personal information and other customer data. The EU model has been replicated in many jurisdictions outside the U.S., including Asia Pacific Economic Cooperation countries. Regulators have the power to impose significant fines on non-compliant organizations. As internet commerce, communication technologies and the Internet of Things continue to evolve, increasing online service providers' and network users' capacity to collect, store, retain, protect, use, process and transmit large volumes of personal information, increasingly restrictive regulation by federal, state or foreign agencies becomes more likely. For example, a variety of regulations that would increase restrictions on online service providers in the area of data privacy are currently being proposed, both in the U.S. and in other jurisdictions, and we believe that the adoption of increasingly restrictive regulation in the field of data privacy and security is likely. In Canada, new anti-spam legislation prescribing certain rules regarding the use of electronic messages for commercial purposes took effect on July 1, 2014. This new law also contains provisions that took effect in January 2015, which impose certain restrictions on a service provider's ability to electronically automatically update or change software used in a customer's service without the customer's consent. Penalties for non-compliance with the new Canadian anti-spam legislation are considerable, including administrative monetary penalties of up to $10 million and a private right of action. Obligations and restrictions imposed by current and future applicable laws, regulations, contracts and industry standards may affect our ability to provide all the current features of our small business, residential and mobile products and services and our customers' ability to use our products and services, and could require us to modify the features and functionality of our products and services. Such obligations and restrictions may limit our ability to collect, store, process, use, transmit and share data, and to allow our customers to collect, store, retain, protect, use, process, transmit, share and disclose data with others through our products and services. Compliance with such obligations and restrictions could increase the cost of our operations. Failure to comply with obligations and restrictions related to data privacy and security could subject us to lawsuits, fines, criminal penalties, statutory damages, consent decrees, injunctions, adverse publicity and other losses that could harm our business.

Our customers can use our services to store contact and other personal or identifying information, and to process, transmit, receive, store and retrieve a variety of communications and messages, including, for our Ooma Office customers, information about their own customers and other contacts. In addition, customers may use our services to transmit and store protected health information, or PHI, that is protected under the Health Insurance Portability and Accountability Act, or HIPAA. Noncompliance with laws and regulations relating to privacy such as HIPAA, as amended, and the HIPAA regulations, may lead to significant fines, penalties or liabilities. Our actual compliance, our customers' perception of our compliance, costs of compliance with such regulations and customer concerns regarding their own compliance obligations (whether factual or in error) may limit the use and adoption of our service and reduce overall demand. Furthermore, privacy concerns, including the inability or impracticality of providing advance notice to customers of privacy issues related to the use of our services, may cause our customers' customers to resist providing the personal data necessary to allow our customers to use our services effectively. Even the perception of privacy concerns, whether or not valid, may inhibit market adoption of our service in certain industries.

In addition to government activity, privacy advocacy groups and industry groups have adopted and are considering the adoption of various self-regulatory standards and codes of conduct that may place additional burdens on us and our customers, which may further reduce demand for our services and harm our business.

While we try to comply with all applicable data protection laws, regulations, standards, and codes of conduct, as well as our own posted privacy policies and contractual commitments to the extent possible, any failure by us to protect our users' privacy and data, including as a result of our systems being compromised by hacking or other malicious or surreptitious activity, could result in a loss of user confidence in our services and ultimately in a loss of users, which could materially and adversely affect our business. Our customers may also accidentally disclose their passwords, store them on a mobile device that is lost or stolen, or otherwise fall prey to attacks outside our system, creating the perception that our systems are not secure against third-party access. Additionally, our third-party contractors in Canada, China, India, Philippines, New Zealand, Russia, Serbia and Ukraine may have access to customer data. If these or other third-party vendors violate applicable laws or our policies, such violations may also put our customers' information at risk and could in turn have a material and adverse effect on our business.

Use or delivery of our services may become subject to new or increased regulatory requirements, taxes or fees.

The increasing growth and popularity of internet voice communications heighten the risk that governments will regulate or impose new or increased fees or taxes on internet voice communications services. To the extent the use of our services continues to grow, regulators may be more likely to seek to regulate or impose new or additional taxes, surcharges or fees on our services. Similarly, advances in technology, such as improvements in locating the geographic origin of internet voice communications, could cause our services to become subject to additional regulations, fees or taxes, or could require us to invest in or develop new technologies, which may be costly. In addition, as we continue to expand our user base and offer more services, we may become subject to new regulations, taxes, surcharges or fees. Increased regulatory requirements, taxes, surcharges or fees on internet voice communications services, which could be assessed by governments retroactively or prospectively, would substantially increase our costs, and, as a result, our business would suffer. In addition, the tax status of our services could subject us to conflicting taxation requirements and complexity with regard to the collection and remittance of applicable taxes. Any such additional taxes could harm our results of operations.

We are subject to anti-corruption and anti-money laundering laws with respect to our operations and non-compliance with such laws can subject us to criminal and/or civil liability and harm our business.

We are subject to the FCPA, the U.S. domestic bribery statute contained in 18 U.S.C. § 201, the U.S. Travel Act, the USA PATRIOT Act, and possibly other anti-bribery and anti money laundering laws in countries in which we conduct activities. Anti-corruption laws are interpreted broadly and prohibit companies and their employees and third-party intermediaries from authorizing, offering, or providing, directly or indirectly, improper payments or benefits to recipients in the public or private sector. We use third-party representatives for product testing, customs, export, and import matters outside of the U.S. In addition, as we increase our international sales and business, we may engage with business partners and third party intermediaries to sell our products and services abroad and to obtain necessary permits, licenses, and other regulatory approvals. We or our third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities. We can be held liable for the corrupt or other illegal activities of these third-party intermediaries, our employees, representatives, contractors, partners, and agents, even if we do not explicitly authorize such activities.

Noncompliance with anti-corruption and anti-money laundering laws could subject us to whistleblower complaints, investigations, sanctions, settlements, prosecution, other enforcement actions, disgorgement of profits, significant fines, damages, other civil and criminal penalties or injunctions, suspension and/or debarment from contracting with certain persons, the loss of export privileges, reputational harm, adverse media coverage, and other collateral consequences. If any subpoenas or investigations are launched, or governmental or other sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation, our business, results of operations and financial condition could be materially harmed. In addition, responding to any action will likely result in a materially significant diversion of management's attention and resources, significant defense costs and other professional fees. Enforcement actions

and sanctions could further harm our business, results of operations, and financial condition.

We are subject to governmental export and import controls, economic embargoes and trade sanctions that could impair our ability to expand our business to, and compete in, international markets and could subject us to liability if we are not in compliance with applicable laws.

Our products and services are subject to export and import laws and regulations, including the U.S. Export Administration Regulations, U.S. Customs regulations and various economic and trade sanctions regulations administered by the U.S. Treasury Department's Office of Foreign Assets Controls. Exports of our products and services must be made in compliance with these laws and regulations. Obtaining the necessary authorizations, including any required license, for a particular sale may be time-consuming, is not guaranteed and may result in the delay or loss of sales opportunities. If we fail to comply with these laws and regulations, we and certain of our employees could be subject to substantial civil or criminal penalties, including the possible loss of export or import privileges, fines which may be imposed on us and responsible employees or managers, and, in extreme cases, the incarceration of responsible employees or managers.

Moreover, U.S. export control laws and economic sanctions programs generally prohibit the export of certain products and services to countries, governments and persons subject to U.S. economic embargoes and trade sanctions unless a license, approval, or other authorization is obtained from the U.S. Government. Obtaining such licenses and authorizations may be time consuming and is not guaranteed. Any violations of such economic embargoes and trade sanctions regulations could have negative consequences, including government investigations, penalties and reputational harm.

In addition, any changes in our products or services, or changes in applicable export, import, embargo and trade sanctions regulations, may create delays in the introduction and sale of our products and services in international markets or, in some cases, prevent the export or import of our products and services to certain countries, governments, or persons altogether. Any change in export, import, embargo, or trade sanctions regulations, shift in the enforcement or scope of existing regulations, or change in the countries, governments, persons or technologies targeted by such regulations, could also result in decreased use of our products and services, or in our decreased ability to export or sell our products and services to existing or potential customers with international operations. Any decreased use of our products and services or limitation on our ability to export or sell our products and services would likely adversely affect our business.

We may be subject to liabilities on past services for taxes, surcharges and fees.

We collect and remit state or municipal sales, use, excise, utility user and ad valorem taxes, fees, or surcharges on the charges to our customers for our services or goods in only those jurisdictions where we believe we have a legal obligation to do so or for business reasons to reduce risk. In addition, we have historically substantially complied with the collection of certain California sales/use taxes and financial contributions to the California 9-1-1 system (the Emergency Telephone Users Surcharge) and federal USF. With limited exception, we believe we are generally not subject to taxes, fees, or surcharges imposed by other state and municipal jurisdictions or that such taxes, fees, or surcharges do not apply to our service. There is uncertainty as to what constitutes sufficient "in state presence" for a state or local municipality to levy taxes, fees and surcharges for sales made over the internet. Taxing authorities have in the past, and likely will in the future, challenge our position on the lack of enforceability of such taxes, fees and surcharges where we have no relevant presence, and audit our business and operations with respect to sales, use, telecommunications and other taxes, which could result in increased tax liabilities for us or our customers, which could materially and adversely affect our results of operations and our relationships with our customers. We have seen an increase recently in the number and frequency of such state and local tax authority challenges, audits and related demands, which we are defending against vigorously. Complaints were filed by the County of Berks, Pennsylvania and the State of Alabama on January 21, 2016 and November 12, 2015, respectively, alleging that we are subject to their taxes, fees and surcharges and have failed to remit the required 911 charges. In addition, on November 28, 2016,

Ooma filed a complaint against the Oregon Department of Revenue contesting a tax assessment against the Company for the Oregon Emergency Communications Tax, to which the Department of Revenue alleges we are subject.

Finally, the application of other indirect taxes (such as sales and use tax, value added tax, or VAT, goods and services tax, business tax, and gross receipt tax) to e-commerce businesses, such as ours, is a complex and evolving area. In November 2007, the U.S. federal government enacted legislation extending the moratorium on states and other local authorities imposing access or discriminatory taxes on the internet through November 2014. This moratorium does not prohibit federal, state, or local authorities from collecting taxes on our income or from collecting taxes due under existing tax rules. The application of existing, new, or future laws, whether in the U.S. or internationally, could have adverse effects on our business, prospects, and results of operations. There have been, and will continue to be, substantial ongoing costs associated with complying with the various indirect tax requirements in the numerous markets in which we conduct or will conduct business.

Risks Related to Being a Public Company

If we fail to develop and maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results in a timely manner, which may adversely affect investor confidence in our company and, as a result, the value of our common stock.

We are required, pursuant to Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. This assessment includes disclosure of any material weaknesses identified by our management in our internal control over financial reporting. A "material weakness" is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

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

We are required to disclose material changes made in our internal control and procedures on a quarterly basis. To comply with the requirements of being a public company, we have undertaken various actions, such as implementing new internal controls and procedures and hiring of an internal audit firm. Our independent registered public accounting firm is not required to formally attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act until the later of the year following our first annual report required to be filed with SEC, or the date we are no longer an "emerging growth company," as defined by the Jumpstart Our Business Startups Act ("JOBS Act"). At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating. Our remediation efforts may not enable us to avoid a material weakness in the future.

Our actual operating results may differ significantly from our guidance.

From time to time, we plan to release guidance in our quarterly earnings conference calls, quarterly earnings releases, or otherwise, regarding our future performance that represents our management's estimates as of the date of release. This guidance, which will include forward looking statements, will be based on projections prepared by our management. These projections will not be prepared with a view toward compliance with published guidelines of the American Institute of Certified Public Accountants, and neither our registered public accountants nor any other independent expert or outside party compiles or examines the projections. Accordingly, no such person will express any opinion or any other form of assurance with respect to the projections.

Projections are based upon a number of assumptions and estimates that, while presented with numerical specificity, are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. We intend to state possible outcomes as high and low ranges which are intended to provide a sensitivity analysis as variables are changed but are not intended to imply that actual results could not fall outside of the suggested ranges. The principal reason that we release guidance is to provide a basis for our management to discuss our business outlook with analysts and investors. We do not accept any responsibility for any projections or reports published by any such third parties.

Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the guidance furnished by us will not materialize or will vary significantly from actual results. Accordingly, our guidance is only an estimate of what management believes is realizable as of the date of release. Actual results may vary from our guidance and the variations may be material. In light of the foregoing, investors are urged not to rely upon our guidance in making an investment decision regarding our common stock.

Any failure to successfully implement our operating strategy or the occurrence of any of the events or circumstances set forth in this “Risk Factors” section in this report could result in the actual operating results being different from our guidance, and the differences may be adverse and material.

The requirements of being a public company may strain our resources and divert management's attention.

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, the Dodd Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, the listing requirements of the New York Stock Exchange and other applicable securities rules and regulations. Compliance with these rules and regulations has increased and will continue to increase our legal and financial compliance costs, and has made and will continue to make some activities more difficult, time-consuming or costly, and increase demand on our systems and resources, particularly after we are no longer an "emerging growth company." The Exchange Act requires, among other things, that we file annual, quarterly, and current reports with respect to our business and results of operations. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could harm our business and results of operations. Although we have already hired additional employees to comply with these requirements, we may need to hire more employees in the future or engage outside consultants, which will increase our costs and expenses.

The expenses incurred by public companies for reporting and corporate governance purposes have increased dramatically over the past several years. We expect these rules and regulations to increase our legal and financial compliance costs substantially and to make some activities more time consuming and costly. However, for as long as we remain an "emerging growth company" as defined in the JOBS Act, we will take advantage of certain exemptions from various reporting requirements applicable to other public companies that are not "emerging growth companies," including, but not limited to, exemption from the requirement to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We will take advantage of these reporting exemptions until we are no longer an "emerging growth company."

We will cease to be an "emerging growth company" upon the earliest of (i) January 31, 2021, (ii) the last day of the first fiscal year in which our annual gross revenue exceeds $1.0 billion, (iii) the date on which we have, during the previous three-year period, issued more than $1.0 billion in non-convertible debt securities or (iv) as of the end of any fiscal year in which the market value of our common stock held by non-affiliates exceeded $700 million as of the end of the second quarter of that fiscal year.

As a result of filings required of a public company, our business and financial condition has become more visible, which we believe may result in more litigation, including by competitors and other third parties. If such claims are successful, our business and results of operations could be materially and adversely affected, even if the claims do not result in litigation or are resolved in our favor. These claims, and the time and resources necessary to resolve them, could divert the resources of our management and materially and adversely affect our business and results of operations.

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

We are an "emerging growth company," as defined in the JOBS Act, and are taking advantage of certain exemptions from various reporting requirements that are applicable to public companies that are not "emerging growth companies," including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive

compensation and stockholder approval of any golden parachute payments not previously approved. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock, and our stock price may be more volatile and may decline.

Risks Related to Owning Our Common Stock

Sales of a substantial number of shares of our common stock in the public market, or the perception these sales might occur, could cause our stock price to decline.

Sales of a substantial number of shares of our common stock in the public market, or the perception these sales might occur, could cause the market price of our common stock to decline and could impair our ability to raise capital through the sale of additional equity securities. At October 31, 2017, we had 19.0 million shares of common stock outstanding of which approximately 17.3 million shares were freely tradable.

In addition, we have registered shares of common stock which we may issue under our 2015 Stock Plan and 2015 Employee Stock Purchase Plan and they may be sold freely in the public market upon issuance.

We may issue our shares of common stock or securities convertible into our common stock from time to time in connection with a financing, acquisition, and investments or otherwise. Any such issuance could result in substantial dilution to our existing stockholders and cause the trading price of our common stock to decline.

If securities analysts do not publish or cease publishing research or reports about our business or if they publish negative evaluations of our stock, the price of our stock could decline.

We expect that the trading price for our common stock will be affected by any research or reports that industry or financial analysts publish about us or our business. If one or more of the analysts who elect to cover us downgrade their evaluations of our stock or provide more favorable relative recommendations about our competitors, the price of our stock could decline. If one or more of these analysts cease coverage of our company, our stock may lose visibility in the market, which in turn could cause its price to decline.

We have never paid cash dividends and do not anticipate paying any cash dividends on our common stock.

We do not anticipate paying any cash dividends on our common stock in the foreseeable future. If we do not pay cash dividends, you would receive a return on your investment in our common stock only if the market price of our common stock increases before you sell your shares. Furthermore, we are party to credit agreements which contain negative covenants that limit our ability to pay dividends.

Our charter documents and Delaware law could prevent a takeover that stockholders consider favorable and could also reduce the market price of our stock.

Our Amended and Restated Certificate of Incorporation and our Amended and Restated Bylaws contain provisions that could delay or prevent a change in control of our company. These provisions could also make it more difficult for stockholders to elect directors and take other corporate actions. These provisions include:

- providing for a classified board of directors with staggered, three year terms;
- authorizing the issuance of “blank check” preferred stock that our board of directors could issue to increase the number of outstanding shares to discourage a takeover attempt;
- prohibiting cumulative voting in the election of directors;
- providing that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum;
- prohibiting stockholder action by written consent;
- limiting the persons who may call special meetings of stockholders; and
- requiring advance notification of stockholder nominations and proposals.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. In addition, the provisions of Section 203 of the Delaware General Corporate Law govern us. These provisions may prohibit large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us for a certain period of time without the consent of our board of directors.

These and other provisions in our amended and restated certificate of incorporation and our bylaws and under Delaware law could discourage potential takeover attempts, reduce the price investors might be willing to pay in the future for shares of our common stock and result in the market price of our common stock being lower than it would

be without these provisions.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware will be the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or other employees.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the sole and exclusive forum for any derivative action or proceeding brought on our behalf, any action asserting a breach of fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, any action asserting a claim against us arising pursuant to any provisions of the General Corporation Law of the State of Delaware, our amended and restated certificate of incorporation or our amended and restated bylaws, or any action asserting a claim against us that is governed by the internal affairs doctrine. The choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and other employees. If a court were to find the choice of forum provision contained in our amended and restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions.

The market price of our common stock is likely to be volatile and could fluctuate or decline, resulting in a substantial loss of your investment.

The market price of our common stock could be subject to wide fluctuations in response to, among other things, the factors described in this "Risk Factors" section or otherwise, and other factors beyond our control, such as fluctuations in the valuations of companies perceived by investors to be comparable to us.

Furthermore, the stock markets have experienced price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market fluctuations, as well as general economic, systemic, political and market conditions, such as recessions, interest rate changes or international currency fluctuations, may negatively affect the market price of our common stock.

Factors that could cause the market price of our common stock to fluctuate significantly include:

- our operating and financial performance and prospects and the performance of other similar companies;
- our quarterly or annual earnings or those of other companies in our industry;
- conditions that impact demand for our services;
- the public's reaction to our press releases, financial guidance, and other public announcements, and filings with the Securities and Exchange Commission, or SEC;
- changes in earnings estimates or our failure to meet earnings estimates or the expectations of investors,
- failure of securities analysts to cover or track our common stock;
- market and industry perception of our success, or lack thereof, in pursuing our growth strategy;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- changes in government and other regulations;
- changes in accounting standards, policies, guidance, interpretations or principles;
- arrival and departure of key personnel;
- the number of shares to be publicly traded after the lock-up agreements expire;
    - sales of common stock by us, our investors or members of our management team; and
- changes in general market, economic, and political conditions in the U.S. and global economies or financial markets, including those resulting from natural disasters, telecommunications failure, cyber-attack, civil unrest in various parts

of the world, acts of war, terrorist attacks, or other catastrophic events.

In the past, many companies that have experienced volatility in the market price of their stock have become subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could harm our business.

We are currently subject to securities class action litigation in connection with our initial public offering and may be subject to similar litigation in the future. If the outcome of this litigation is unfavorable, it could have a material adverse effect on our financial condition, results of operations and cash flows.

The Company, its directors, and certain officers have been named as defendants in a consolidated securities class actions ("the Securities Litigation"). See Part II, Item 1 (Legal Proceedings) for a detailed description of the Securities Litigation and the allegations currently made therein. The Company is vigorously defending itself against the allegations in the Securities Litigation. However, as with all litigation, the Company cannot predict the outcome of the proceedings or estimate the losses that it may incur in connection with the Securities Litigation. The Company will, however, incur certain costs and fees associated with its defense, including costs related to its obligation to indemnify certain parties named in the action. While the Company carries insurance that may offset some of the costs associated with the Securities Litigation, the Company may incur substantial costs, expenses and burdens not covered by insurance. In addition, the pendency of the Securities Litigation may cause burdens and distractions to the Company's management. Any adverse judgments, settlements, or consequences of the Securities Litigation could have a material, adverse effect on the Company's business and financial condition.

In the future, especially following periods of volatility in the market price of our shares, other purported class action or derivative complaints may be filed against us. The outcome of the pending and potential future litigation is difficult to predict and quantify and the defense of such claims or actions can be costly. In addition to diverting financial and management resources and general business disruption, we may suffer from adverse publicity that could harm our brand or reputation, regardless of whether the allegations are valid or whether we are ultimately held liable. A judgment or settlement that is not covered by or is significantly in excess of our insurance coverage for any claims, or our obligations to indemnify the underwriters and the individual defendants, could materially and adversely affect our financial condition, results of operations and cash flows.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Recent Sales of Unregistered Securities

During the nine months ended October 31, 2017, we did not issue equity securities that were not registered under the Securities Act of 1933.

Use of Proceeds from Public Offering of Common Stock

On July 17, 2015, our registration statement on Form S-1 was declared effective by the SEC for the IPO of our common stock. There has been no material change in the planned use of proceeds from our IPO as described in our final prospectus filed with the SEC on July 6, 2015.

Item 3. Default Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits.

The exhibits listed in the accompanying Exhibit Index are filed or incorporated by reference as part of this Quarterly Report.

EXHIBIT

INDEX

Exhibit Number	Description	Incorporated by Reference From Form	Incorporated by Reference From Exhibit Number	Date Filed
10.1	Sublease Agreement dated as of September 12, 2017 by and among the Company and Fiserv Solutions, LLC.	8-K	10.1	October 10, 2017
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.	Filed herewith		
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.	Filed herewith		
32.1*	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act.	Furnished herewith		
32.2*	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act.	Furnished herewith		
101.INS	XBRL Instance Document	Filed herewith		
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith		
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith		
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith		
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith		
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith		

*The certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. Such certifications will not be deemed to be incorporated by reference into any filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the registrant

specifically incorporates it by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Ooma, Inc.

Date: December 7, 2017 By: /s/ Ravi Narula

Ravi Narula

Chief Financial Officer

(Principal Financial and Accounting Officer)