OOMA INC
Form 10-Q
June 08, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 30, 2018

OR

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

Commission File Number: 001-37493

Ooma, Inc.

(Exact Name of Registrant as Specified in its Charter)

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

525 Almanor Avenue, Suite 200, Sunnyvale, California 94085

(Address of principal executive offices)

(650) 566-6600

(Registrant's telephone number, including area code)

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes No

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

As of May 31, 2018, there were 19.6 million shares of the registrant's common stock outstanding.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

OOMA, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

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

	April 30, 2018	January 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$8,494	$4,483
Short-term investments	41,251	47,307
Accounts receivable, net	3,547	2,858
Inventories	6,394	6,079
Other current assets	3,429	4,397
Total current assets	63,115	65,124
Property and equipment, net	4,811	4,732
Intangible assets, net	3,231	1,292
Goodwill	3,803	1,947
Other assets	1,161	336
Total assets	$76,121	$73,431
Liabilities and stockholders’ equity		
Current liabilities:		
Accounts payable	$8,094	$5,453
Accrued expenses	16,192	14,777
Deferred revenue	14,629	15,556
Total current liabilities	38,915	35,786
Other liabilities	966	577
Total liabilities	39,881	36,363
Commitments and contingencies (Note 5)		
Stockholders’ equity:		
Preferred stock $0.0001 par value: 10 million shares authorized; none issued and outstanding	—	—
Common stock $0.0001 par value: 100 million shares authorized; 19.5 million and 19.1 million shares issued and outstanding, respectively	2	2
Additional paid-in capital	131,231	128,081
Accumulated other comprehensive loss	(85)	(84)
Accumulated deficit	(94,908)	(90,931)
Total stockholders’ equity	36,240	37,068
Total liabilities and stockholders’ equity	$76,121	$73,431

See notes to condensed consolidated financial statements

OOMA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three Months Ended April 30, 2018	April 30, 2017
Revenue:		
Subscription and services	$27,312	$24,100
Product and other	2,910	3,478
Total revenue	30,222	27,578
Cost of revenue:		
Subscription and services	8,774	7,749
Product and other	3,510	3,796
Total cost of revenue	12,284	11,545
Gross profit	17,938	16,033
Operating expenses:		
Sales and marketing	8,895	9,154
Research and development	8,522	6,621
General and administrative	4,452	3,756
Total operating expenses	21,869	19,531
Loss from operations	(3,931)	(3,498)
Interest and other income, net	177	106
Loss before income taxes	(3,754)	(3,392)
Income tax benefit	69	—
Net loss	$(3,685)	$(3,392)
Net loss per share of common stock:		
Basic and diluted	$(0.19)	$(0.19)
Weighted-average number of shares used in per share amounts:		
Basic and diluted	19,318,718	18,128,504

See notes to condensed consolidated financial statements

OOMA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, amounts in thousands)

	Three Months Ended	
	April 30, 2018	April 30, 2017
Cash flows from operating activities:		
Net loss	$(3,685)	$(3,392)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Stock-based compensation expense	2,314	2,971
Depreciation and amortization of property and equipment	504	468
Amortization of acquired intangible assets	145	83
Amortization and accretion of premiums from investments	(57)	75
Changes in operating assets and liabilities:		
Accounts receivable, net	(874)	272
Inventories	(311)	(1,154)
Other assets	(564)	343
Accounts payable and other liabilities	2,770	569
Deferred revenue	52	(70)
Net cash provided by operating activities	294	165
Cash flows from investing activities:		
Purchases of short-term investments	(5,409)	(5,441)
Proceeds from maturities of short-term investments	8,531	9,860
Proceeds from sales of short-term investments	2,995	450
Purchases of property and equipment	(405)	(579)
Business acquisition, net of cash assumed	(2,402)	—
Net cash provided by investing activities	3,310	4,290
Cash flows from financing activities:		
Taxes paid related to net share settlement of equity awards	(759)	(300)
Proceeds from issuance of common stock	1,166	863
Net cash provided by financing activities	407	563
Net increase in cash and cash equivalents	4,011	5,018
Cash and cash equivalents at beginning of period	4,483	3,990
Cash and cash equivalents at end of period	$8,494	$9,008
Non-cash investing and financing activities:		
Unpaid portion of property and equipment purchases	$200	$199
Contingent consideration for business acquisition	$231	$—
Holdback payable for business acquisition	$780	$—

Shares issued for business acquisition	$390	$—

See notes to condensed consolidated financial statements

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1: Overview and Basis of Presentation

Ooma, Inc. and its wholly-owned subsidiaries (collectively, “Ooma” or the “Company”) create new communications experiences for businesses and consumers. The Company’s smart SaaS platform serves as a communications hub, which offers cloud-based communications solutions, home security and other connected services. The Company was founded in 2003 and is headquartered in Sunnyvale, California.

In March 2018, the Company acquired Voxter Communications, Inc., (“Voxter”) a provider of Unified Communications-as-a-Service (“UCaaS”) for mid-market and enterprise businesses. See Note 11: Business Acquisitions below. Beginning with fiscal 2019, the Company now refers to Ooma Office and Voxter collectively as Ooma Business. Ooma Residential includes Ooma Telo basic and premier services and the Company’s home security solutions.

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

Principles of Presentation and Consolidation

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

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

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

Use of Estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the Company’s condensed consolidated financial statements and notes thereto. Significant estimates include, but are not limited to, those related to revenue recognition, inventory valuation, deferred commissions, valuation of goodwill and intangible assets, regulatory fees and indirect tax accruals, loss contingencies, stock-based compensation, income taxes (including valuation allowances) and fair value measurements. Estimates are based on historical experience, where applicable, and other assumptions believed to be reasonable by management. These estimates are based on information available as of the date of the condensed consolidated financial statements, and assumptions are inherently subjective in nature. Therefore, actual results could differ from management's estimates.

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

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

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Recently Adopted Accounting Standards

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

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

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

Accounting Standards Not Yet Adopted

Leases. In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) which supersedes the lease accounting requirements in Topic 840. Under Topic 842, leases would be accounted for as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use asset and a corresponding lease liability. For finance leases, the lessee would recognize interest expense and amortization of the right-of-use asset, and for operating leases, the lessee would recognize a straight-line total lease expense. The standard also requires qualitative and quantitative disclosures to elaborate and support the amounts recorded in the financial statements to aid better understanding of the adoption of the lease guidance, including the Company’s significant judgments and changes in judgments. The new standard will become effective for the Company beginning in fiscal 2020. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements. The Company expects that its operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon adoption.

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 2: Revenue, Deferred Revenue and Commissions

On February 1, 2018, the Company adopted Topic 606, Revenue from Contracts with Customers using the modified retrospective method applied to only those contracts that were not completed as of the adoption date. The Company's financial results for reporting periods beginning the first quarter of fiscal 2019 are presented in accordance with the provisions under Topic 606. Comparative prior period amounts have not been adjusted and continue to be reported under the historic accounting standards in effect for the periods presented.

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

See below for further discussion of the Company's updated significant accounting policies.

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

The following table summarizes the impact of adopting the new revenue standard on the Company's condensed consolidated statement of operations and balance sheet (in thousands, except per share amounts):

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

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

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

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

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

[3] Accrued expenses include accrued customer sales incentives.

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

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Revenue Recognition

The Company derives its revenue from two sources: (1) subscription and services revenue, which are generated from sales of subscription plans for communications services and other connected services; and (2) product and other revenue. Subscriptions and services are sold directly to end-customers. Products are sold to end-customers through several channels, including but not limited to, distributors, retailers and resellers (collectively the "channel partners"), and the Company's sales representatives.

Under Topic 606, the Company determines revenue recognition through the following steps:

- identification of the contract(s) with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, the Company satisfies a performance obligation

Revenue is recorded net of any sales and telecommunications taxes collected from customers to be remitted to government authorities. The Company maintained its policy to exclude these taxes from revenue under the adoption of Topic 606.

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

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

No individual country outside of the United States represented 10% or more of total revenue for the periods presented. No single customer accounted for 10% or more of total revenue for the periods presented.

Subscription and services revenue. Most of the Company's revenue is derived from recurring subscription fees related to service plans such as Ooma Business, Ooma Residential and other communications services. All subscription revenue is recognized on a straight-line basis over the contractual service term. The Company's service plans are generally sold as monthly subscriptions; however, certain residential plans are also offered as annual subscriptions.

In addition, the Company recognizes a small portion of its revenue on a point-in-time usage basis from services such as, prepaid international calls, directory assistance and advertisements displayed through the Company's Talkatone mobile application.

Product and other revenue. Product and other revenue is generated from the sale of on-premise appliances and end-point devices, including shipping and handling fees for the Company's direct customers, and to a lesser extent from porting fees that enable customers to transfer their existing phone numbers. The Company recognizes revenue from sales to direct end-customers and channel partners when the Company delivers the product or when all customer contractual provisions have been met, if any. The Company's distribution agreements with its channel partners typically contain clauses for price protection and right of return. Therefore, the amount of product revenue recognized is adjusted for any variable consideration, such as expected returns and customer sales incentives as described in "Sales allowances" below.

Amounts billed to customers related to shipping and handling are classified as revenue, and the Company's shipping and handling costs are expensed as incurred and classified as cost of revenue.

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Multiple performance obligations. The Company's contracts with customers typically contain multiple performance obligations that consist of product(s) and related communications services. For these contracts, the Company accounts for individual performance obligations separately if they are distinct. The transaction price is then allocated to the separate performance obligations on a relative stand-alone selling price ("SSP") basis. The Company determines the SSP for its communications services based on observable historical stand-alone sales to customers, for which the Company requires that a substantial majority of selling prices fall within a reasonably narrow pricing range. The Company does not have a directly observable SSP for its on-premise appliance and end-point devices, and therefore establishes SSP based on its best estimates and judgments, considering company-specific factors such as pricing strategies, estimated product and other costs, and bundling and discounting practices.

Sales allowances. Credits and/or rebates issued to customers for product returns and sales incentives are deemed to be variable consideration under Topic 606, which the Company estimates and records as a reduction to revenue at the point of sale. Product returns and customer sales incentives are estimated based on the Company's historical experience, current trends and expectations regarding future experience. Trends are influenced by product life cycles, new product introductions, market acceptance of products, the type of customer, seasonality and other factors. Product return and sales incentive rates may fluctuate over time, but are sufficiently predictable to allow the Company to estimate expected future amounts. The Company monitors the accuracy of its reserve estimates by reviewing actual returns and sales incentives and adjusts them for future expectations to determine the adequacy of current reserve needs. If actual future returns and sales incentives differ from past experience, additional reserves may be required. The Company recorded total allowances for product returns and customer sales incentives of $0.6 million and $0.6 million as of April 30, 2018 and January 31, 2018.

Accounts Receivable

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

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

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

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

Customer Acquisition Costs

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

Based on this policy, the Company capitalizes its sales commissions and other costs paid to internal sales personnel, third-party sales entities and value-added resellers that are incremental to obtaining customer contracts. These deferred costs are then amortized on a systematic basis over the estimated customer life of five years, calculated based on both qualitative and quantitative factors, such as product life cycles and customer attrition. Amortization expense is included in sales and marketing expenses in the accompanying condensed consolidated statement of operations. The Company periodically evaluates whether there have been any changes in its business, the market conditions in which it operates or other events which would indicate that its amortization period should be changed or if there are there are potential indicators of impairment.

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

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Deferred Revenue

Deferred revenue primarily consists of billings or payments received in advance of meeting revenue recognition criteria. The Company's communications services are sold as monthly or annual subscriptions, payable in advance. The Company recognizes deferred services revenue on a ratable basis over the term of the contract as the services are provided. For all arrangements, any revenue that has been deferred and is expected to be recognized beyond one year is classified in long term liabilities on the consolidated balance sheets.

	As of April 30, 2018	January 31, 2018
Deferred revenue:		
Subscription and services	$14,899	$14,568
Product and other	132	1,416
Total deferred revenue	15,031	15,984
Less: current deferred revenue	14,629	15,556
Noncurrent deferred revenue included in other long-term liabilities	$402	$428

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

Remaining Performance Obligations

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

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 3: Fair Value Measurements

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

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

Level 2: Observable prices based on inputs not quoted in active markets, but are corroborated by market data.
Level 3: Unobservable inputs that are supported by little or no market activity.
The Company's financial assets and liabilities that are measured at fair value on a recurring basis by level within the fair value hierarchy were as follows (in thousands):

	Balance as of April 30, 2018				Balance as of January 31, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Cash and cash equivalents:								
Money market funds	$4,641	$—	$ —	$4,641	$554	$—	$ —	$554
Commercial paper	—	—	—	—	—	2,844	—	2,844
Total cash equivalents	$4,641	$—	$ —	$4,641	$554	$2,844	$ —	$3,398
Cash				3,853				1,085
Total cash and cash equivalents				$8,494				$4,483
Short-term investments:								
U.S. government securities	$17,391	$—	$ —	$17,391	$20,867	$—	$ —	$20,867
Corporate debt securities	—	11,952	—	11,952	—	13,895	—	13,895
Commercial paper	—	9,184	—	9,184	—	9,272	—	9,272
U.S. agency securities	—	999	—	999	—	1,996	—	1,996
Asset-backed securities	—	1,725	—	1,725	—	1,277	—	1,277
Total short-term investments	$17,391	$23,860	$ —	$41,251	$20,867	$26,440	$ —	$47,307
Liabilities:								