

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549**

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2020
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: 001-35469

VOCERA COMMUNICATIONS, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

94-3354663
(I.R.S. Employer
Identification No.)

Vocera Communications, Inc.
525 Race Street
San Jose, CA 95126
(408) 882-5100
(Address and telephone number of principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

(Title of class)	(Trading Symbol)	(Name of exchange on which registered)
Common Stock, \$0.0003 par value	VCRA	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
	Emerging Growth Company <input type="checkbox"/>

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.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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 June 30, 2020, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's common stock held by non-affiliates was approximately \$487.1 million based upon the \$21.20 closing price reported for such date on the New York Stock Exchange. For purposes of this disclosure, shares of common stock held by persons who hold more than 10% of the outstanding shares of common stock and shares held by executive officers and directors of the registrant have been excluded because such persons may be deemed to be affiliates of registrant. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 22, 2021, there were 32,835,050 shares of the registrant's common stock outstanding.

Documents Incorporated by Reference

Portions of the registrant's Proxy Statement for its 2021 Annual Meeting of Stockholders are incorporated by reference in Part III of this report. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2020.

VOCERA COMMUNICATIONS, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE ANNUAL PERIOD ENDED DECEMBER 31, 2020

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PART I

This Annual Report on Form 10-K contains forward-looking statements that are based on our beliefs and assumptions regarding future events and circumstances, including statements regarding our strategies, our opportunities, developments in the healthcare market, acquisitions, our relationships with our customers and contract manufacturer and other matters. These statements are principally contained in Item 1, Business; Item 1A, Risk Factors; Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations; and other sections of this Annual Report on Form 10-K. Forward-looking statements include statements that are not historical facts and can be identified by words such as "project," "believe," "anticipate," "plan," "expect," "estimate," "intend," "seeks," "continue," "should," "would," "could," "potentially," "will" or "may," or other similar words and phrases.

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from the results anticipated by these forward-looking statements. These risks, uncertainties and factors include those we discuss in this annual report in Item 1A, Risk Factors. You should read these risk factors and the other cautionary statements made in this Annual Report on Form 10-K as being applicable to all related forward-looking statements wherever they appear in this Annual Report on Form 10-K. It is not possible for us to predict all risks that could affect us, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. Moreover, new risks emerge from time to time.

The forward-looking statements made in this Annual Report on Form 10-K relate only to events as of the date on which the statements are made. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Item 1. Business

Overview

We are a provider of secure, integrated, intelligent communication and clinical workflow solutions, focused on empowering mobile workers in healthcare, hospitality, retail, energy, education and other mission-critical mobile work environments in the United States and internationally. The significant majority of our business is generated from sales of our solutions in the healthcare market to help our customers enhance quality of care, safety, patient and staff experience, and improve operational efficiency. Care teams at nearly 1900 healthcare facilities worldwide have selected our solutions to communicate with others, reduce alarm fatigue, enhance workflow, and help improve patient experience. Our solutions can also be found in luxury hotels, nuclear power facilities, schools, libraries, retail stores and other environments where mobile workers need to communicate and access resources instantly.

Our communication and collaboration solution enables users to connect instantly with other staff simply by saying the name, function or group name of the desired recipient. Our solution includes an intelligent enterprise software platform; lightweight, wearable, voice-controlled communication devices; as well as smartphone applications. It also delivers HIPAA-compliant secure text messages, alerts and alarms directly to the Vocera Badge, Vocera Smartbadge, smartphones and other mobile communication devices both inside and outside the hospital in order of priority, replacing legacy pagers and in-building wireless phones.

At the core of this solution is a patent-protected, enterprise-class server software platform. Our software platform is built on a scalable architecture and recognizes more than 100 spoken commands. Users can instantly communicate with others using the Vocera Smartbadge or Vocera Badge, or through smartphone applications developed for iOS and Android mobile devices. Our platform lets users communicate and collaborate with each other using voice or HIPAA-compliant secure texting, and unlike other solutions, allows users to reach people by their role, room assignment or department, without needing to know a person's name or phone number. The system can also broadcast emergency messages to a single department or to an entire organization. Our solution can be integrated with other clinical systems, including Electronic Health Records (EHR), nurse call, patient monitoring and even some medical devices, to provide critical data, alerts, alarms and clinical context that enables better workflow. Our enterprise-class software platform also features an advanced clinical rules engine that unifies data from multiple sources simultaneously, enables prioritization of notifications, adds patient context, and sends messages to the right care team members on their mobile devices. Our platform allows clinicians to be away from the bedside while staying informed about their patients. Our portfolio of over 150 unique integrations enhances clinical workflow by enabling the interoperability of our solution with a significant number of clinical and operational systems used in hospitals today.

Beyond healthcare, our solutions are used to quickly and contextually connect staff in other mission-critical mobile-worker environments. In the hospitality industry, it is used to enhance guest experience, as well as staff productivity and responsiveness. In the nuclear power industry, our solutions are used to instantly connect people and resources. In education,

schools use our solutions to increase security, safety and staff communication and libraries use it to enable their staff to be more mobile and attentive to patrons. And, in retail, our solutions are used to enhance the customer experience by enabling store personnel to quickly connect in and across various locations.

Over our 21-year history, we have significantly enhanced and added features and functionality to these solutions through ongoing development based on frequent interactions with our customers. Throughout the COVID-19 pandemic our solution has been used to simplify communication, preserve face masks and other valuable personal protective equipment (PPE), has allowed for the care teams to do remote rounding and even allow for a patient's family to be included in a three-way call. We believe that these uses of our solution will become industry standard. During 2020, in response to the COVID-19 pandemic, Vocera added the following features and enhancements to our products and support:

- A COVID response bundle of our core solution was developed to enable rapid delivery to customers.
- New COVID-specific care team roles and groups were created within our software to extend care teams to include temporary workers and even reach outside hospital walls.
- We added a dedicated section on our website which details specific workflows that can be enabled in a COVID environment.

Vocera Care Experience is a hosted software suite that coordinates and streamlines provider-to-patient and provider-to-provider communication and clinical rounding to improve quality of care, patient and staff experience, reduce care provider's risk and improve reimbursements. The solution provides personalized patient instructions and education; provides alerts and notifications to physicians and caregivers of patients' changing care plans or status; and tracks patient experience before, during and after hospitalization.

In August 2020, we expanded our solution through the acquisition of EASE Applications, LLC (now referred to as Vocera Ease). Vocera Ease offers a cloud-based communication platform and mobile application built to improve the patient experience by enabling friends and family members to receive timely updates about the progress of their loved one in the hospital. The Vocera Ease app enables nurses and other care team members to send HIPAA-compliant texts, photos, and video updates, putting family and friends at ease and saving valuable time. With this acquisition, Vocera further strengthened its ability to improve the lives of patients, families and care teams.

As of December 31, 2020, our solutions were selected by nearly 1,900 healthcare facilities, including large hospital systems, small and medium-sized local hospitals, clinics, surgery centers and aged-care facilities. We sell our solutions to our healthcare customers primarily through our direct sales force in the United States, with resellers for certain vertical markets as well as our U.S. Government business, and through both direct sales and select distribution channels in international markets.

We were incorporated in Delaware on February 16, 2000. Our corporate headquarters are located at 525 Race Street, San Jose, California 95126, and our main telephone number is (408) 882-5100. We maintain a website at www.vocera.com. The contents of our website are not incorporated into, or otherwise to be regarded as part of, this Annual Report on Form 10-K.

Vocera® is our primary registered trademark in the United States. Other trademarks appearing in this document are the property of their respective holders.

Industry overview

Vocera provides communication and workflow solutions for mobile workers in healthcare, hospitality, retail, energy, education and other industries. Healthcare is our largest vertical market.

Hospital communication is still predominantly conducted through multiple disparate, non-integrated systems, including pagers, overhead paging, portable in-building wireless phones and individuals' personal mobile phones. These non-integrated communication methods are inefficient and often unreliable; lacking "closed loop" communication, workflow standardization, or the scale required by health systems. Further, they often contribute to noisy environments for patients and negatively impact healing, safety, quality of care and operational efficiency.

Broadly, we believe the healthcare industry is placing greater emphasis on the need for better communication and workflow to meet increasing requirements for care quality, efficiency, patient satisfaction and staff safety and resiliency. Healthcare providers also require greater coordination of care among clinicians as the industry shifts towards population health and paying for value instead of the traditional fee-for-service reimbursement model. This shift to value-based purchasing incorporates financial incentives for hospitals to improve the quality of care and patient satisfaction. A number of non-government organizations, such as The Joint Commission, are also requiring improvements in patient safety and quality of care. These forces are driving hospitals to invest in technology and process improvements to manage their operations more efficiently, improve quality of care, and increase patient satisfaction and staff resiliency. Our solutions help hospitals increase productivity and reduce costs by enhancing workflow and improving patient and staff satisfaction through secure, integrated and intelligent communication.

Our strategy

Our goal is to extend our leadership position as a provider of communication and workflow solutions in the healthcare market and add new customers in non-healthcare markets.

Key elements of our strategy include:

- **Expand our business to new U.S. healthcare customers.** We believe our solutions can provide significant value to health systems, hospitals and smaller healthcare facilities. We plan to continue to add new customers among hospitals of all sizes, and expand to outpatient clinics, aged-care and skilled nursing facilities.
- **Further expand our footprint within our existing installed customer base.** Many of our customers initially deploy our solutions in several departments of a hospital and gradually expand to additional departments as they come to fully appreciate the value of the solutions. We have a significant opportunity to up-sell and cross-sell to our existing customers, including into new hospitals that are part of an existing healthcare system customer. Key sales strategies include expanding our footprint at existing customer facilities and capturing additional revenue by cross selling additional solutions. We plan to continue expanding within our existing customers in order to grow our revenue and maintain and improve the customer experience.
- **Extend our technology advantage and create new product solutions.** We intend to continue our investment in research and development to enhance the functionality of our solutions and further differentiate them from other competing solutions. As we did with the 2020 COVID-19 related enhancements and features, introduction of the Smartbadge in January 2019, and the introduction of the new Vina Smartphone Application in September 2019, we plan to continue to invest in product upgrades, product line extensions and new solutions to enhance our portfolio, including further development of applications for iOS and Android devices.
- **Increase our health system selling efforts.** Our increasingly comprehensive product suite is enabling us to sell to more large health systems. These sales efforts typically involve conversations with senior decision makers and result in larger deals with complex and elongated sales cycles. We have invested and will continue to invest in our sales force and marketing to enhance our ability to pursue more of these opportunities in the future.
- **Invest in partnerships.** To create a more efficient communication and workflow system for the entire care team our solution needs to access clinical data and patient context. To enhance that access, we plan to continue to broaden our ecosystem of technology partners, including vendors that provide nurse call systems, patient monitoring systems, analytics and EHRs. We added new partnerships in 2020 and will continue to explore new relationships that broaden our overall market presence and accelerate the sales of our offerings.
- **Pursue acquisitions of complementary businesses, technologies and assets.** Over the last several years we have completed a number of acquisitions to help us achieve our strategic vision by enhancing our products and enabling us to enter new markets. Our acquisitions have expanded our solutions, demonstrating that we can successfully source, acquire and integrate complementary businesses, technologies and assets. With the acquisition of EASE Applications in August 2020, we further strengthened our ability to improve the lives of patients, families and care teams. We intend to continue to pursue acquisition opportunities that we believe can accelerate the growth of our business.
- **Grow our international healthcare presence.** Today, in addition to our core U.S. market, we sell into other English-speaking markets, including Canada, the United Kingdom, Australia, New Zealand, and Middle Eastern countries including the United Arab Emirates, Saudi Arabia, Oman and Qatar. We believe that the rapid pace of investment in new healthcare facilities in these developing international markets provides a significant opportunity for growth. As of December 31, 2020, our solutions were selected by nearly 350 healthcare facilities outside the United States. We plan to utilize both our direct sales force and leverage channel partners to expand our presence into other markets over time.
- **Expand our solutions in non-healthcare markets.** While our primary focus is on the healthcare market, our solutions also provide great value in non-healthcare markets. Our solutions have been selected by facilities in hospitality, retail, energy, education, and other mission critical mobile worker environments. Currently, this is not a material portion of our revenue, but in the long term, we believe these markets could represent potential opportunities for growth.

Our products, technology and services

Our solutions include the Vocera Communication and Workflow System, Vocera Ease Application and Vocera Care Experience. To complement our solutions, we provide services, support and education to help our customers optimize the benefits of our solutions.

Vocera Communication and Workflow System

The Vocera Communication and Workflow System is comprised of a unique software platform that connects communication devices, including our hands-free, wearable, voice controlled Smartbadge and Badge, and third-party mobile devices that use our mobile software applications. The system transforms the way mobile workers communicate by enabling them to instantly connect via voice or secure text messaging. With a portfolio of over 150 third-party party clinical integrations, our system also enables the intelligent delivery of alerts and alarms to a variety of mobile devices, providing real time situation awareness to care providers. Our hands-free voice capability allows mobile workers to connect with the right person simply by saying or selecting the name, function or group name of the person they want to reach, often while remaining at the point-of-care. Our system responds to over 100 spoken commands.

Some examples of common commands are shown below.

Action	Spoken commands
Call by name	Call <i>John Smith</i> .
Call a group member	Call an <i>Anesthesiologist</i> .
Dial a phone number or extension	Dial extension <i>3145</i> .
Initiate a broadcast to a group	Broadcast to <i>Emergency Response Team</i> .
Locate nearest member of a group	Where is the nearest member of <i>Security</i> ?
Send a voice message	Record a message for <i>Pediatric Nursing</i> .

Components of the Vocera Communication and Workflow System include:

- ***Vocera Software Platform.*** At the heart of our Vocera Communication and Workflow System is a patent-protected, enterprise-class software platform. The intelligence of our client-server system is contained primarily within our server-software. This platform contains an optimized speech recognition engine, intelligent call routing and management functionality, reporting and analytics tools, clinical directories and user profiles. As part of this software platform, the Engage intelligent workflow engine allows routing, escalation and prioritization of communication and alert and alarm notifications that include patient content. In addition, our platform has the ability to integrate with a significant number of third-party clinical systems, including telephony, nurse call, patient monitoring and EHR systems. Our software platform features an advanced clinical rules engine that unifies data from multiple sources simultaneously, enables prioritization of notifications, adds patient context, and sends messages to the right care team members on their mobile devices, helping to improve patient safety and satisfaction and increase operational efficiency. By providing real-time situational awareness about the patients and care teams, we enable healthcare workers to be more effective and suffer less from alarm and alert fatigue. Recognizing the rapidly expanding footprint of care, our scalable software platform can support multiple geographic sites and multiple facilities within a healthcare system to help clinicians stay connected to the current status of their patients.
- ***Vocera Smartbadge.*** Our Smartbadge is the only wearable communication device purpose-built for patient care and can be used under PPE. Our Smartbadge is powered by the Vocera Software Platform and operates over customers' industry-standard Wi-Fi networks. The Smartbadge has a 2.4" touchscreen that enables the user to receive prioritized alert and alarm notifications with additional patient context. Additionally, users can make and answer calls hands-free or by holding it up to the ear for privacy, and send and receive secured text messages, using the touchscreen keyboard with no character limit. The Smartbadge also has a dedicated panic button and enhanced "do not disturb" functionality.
- ***Vocera Badge.*** Our Badge is a smaller and lighter hands-free wearable device that allows the users instant two-way voice conversations without the need to remember a phone number or use a handset. Similar to the Smartbadge, it is powered by the Vocera Software Platform and operates over the customers' industry-standard Wi-Fi networks and can be used underneath PPE. It has a small display that provides a concise amount of information and allows the user to receive prioritized alarm and alert notifications with limited context. The Badge has received the FIPS 140-2 certification from the National Institute of Standards and Technology. We have also received an Authority to Operate (ATO) certification from the U.S. Department of Defense for the Vocera software platform and badges. Both of these certifications are requirements to sell our solutions to U.S. government and military hospital and medical facilities.
- ***Vocera Smartphone Applications.*** Vocera's suite of smartphone applications enable a seamless multi-mode communications and collaboration experience; combining the unique calling, texting, alerting and content distribution capabilities of Vocera into a secure, easy-to-use smartphone application that presents incoming communication in order of

importance. Available and certified for use on commercially available iOS and Android devices, our smartphone applications support both personal (bring your own device or BYOD) and shared device usage models. Powered by the Vocera Software Platform, our new Vina Smartphone application delivers relevant context about clinical events, patient status and clinician availability, helping care teams improve safety, quality of care and experience for patients and care teams. The customizable communication application presents prioritized patient-centric calls, secure messages and alerts in a unified inbox and provides an intuitive user experience for clinicians inside and outside the hospital.

- **Choice of Mobile Devices.** We resell the Spectralink Versity Smartphone and Zebra Technologies TC52 Android mobile computer. These devices are offered as a bundled solution with our smartphone applications to provide a complete, turnkey solution for our customers' clinical communication needs. We also deliver our solution on iOS devices. This gives our customers a choice of different devices to access the power of the Vocera software platform.

Services

Our customer-centric strategy is supported by our services and support capabilities, which help customers optimize their use of Vocera solutions and enhance users' experience with our products. Our services organization consists of the following:

- **Professional services.** Our professional services help customers successfully deploy, manage, update and/or expand their Vocera systems in order to gain the full benefits of our solutions. As of December 31, 2020, our professional services team consisted of 111 professionals with expertise in wireless communication, clinical workflow, end-user training, speech science and project management. We offer a full suite of services, including clinical workflow design, wireless assessment, solution configuration, training and project management, enabling customers to integrate our solutions and improve workflow efficiency and staff productivity. We also provide classroom and distance learning curricula for systems administrators, information technology professionals and clinical educators.
- **Software maintenance and support.** We provide 24x7 technical support to our customers through our support centers in San Jose, California; Fort Wayne, Indiana; Toronto, Canada and Reading, United Kingdom. As of December 31, 2020, our technical support team consisted of 77 technical support professionals with expertise in wireless, telephony, integration, servers and client devices. Our team utilizes remote diagnostic tools to proactively assess the performance of customer systems. We assign technical account management resources to our largest accounts to help them expand the use of our solutions and facilitate adoption of new functionality. Software maintenance entitles customers to unspecified upgrades, bug fixes and patch releases. Additional services, including an annual Remote System Health Assessment and biweekly technical webinar education, are offered as project-based consulting or through our membership collaborative.
- **Vocera University.** We provide hands-on, interactive educational experience through classroom training, distance learning or customized courseware covering best practices, implementation and use of our solutions. Training courses are provided for systems administrators, IT professionals and industry-specific, end-user educators.
- **Subscription revenue.**
 - **Vocera Ease.** Vocera Ease is our cloud-based communication platform and mobile application built to improve the patient experience by enabling friends and family members to receive timely updates about the progress of their loved one in the hospital. The Vocera Ease app enables nurses and other care team members to send HIPAA-compliant texts, photos, and video updates to patients' loved ones, putting them at ease and saving valuable time.
 - **Vocera Care Experience.** Our Care Experience solution is a hosted software suite we developed to improve patient and staff experience, safety and operational quality in near-real time. Vocera Care Experience suite offers caregivers communication solutions that span the entire care continuum - before admission, during treatment and after discharge. This patient-centric solution is designed to enable hospitals and health systems to improve care quality and safety, enhance patient experience and satisfaction, simplify and automate manual tasks and procedures, improve patient satisfaction scores under the Hospital Consumer Assessment of Healthcare Providers and Systems Survey (HCAHPS), and otherwise increase revenue and decrease costs. Vocera Care Experience includes pre-arrival communications, patient family communications and rounding capabilities.

Sales and marketing

Sales

Our sales employees call on hospitals and healthcare systems in the United States, Canada, the United Kingdom, Australia, New Zealand and several countries in the Middle East. As of December 31, 2020, we had 174 sales and account support employees. The sales team is organized to allow us to better serve our customers and to support the different elements of our sales strategy. We supplement our sales organization by utilizing a U.S. government-authorized reseller to facilitate our sales to Veterans Administration and Department of Defense healthcare facilities. We also use resellers in certain vertical markets in the

United States, as well as in international markets to supplement our sales efforts. A specialized group of our sales team focuses on the development of new customer relationships with large integrated health systems and government healthcare facilities. We enhance our sales efforts by including in our sales staff individuals with nursing backgrounds to address clinical uses with, and provide utilization advice to, customers and potential customers. We have also staffed our sales team with system engineers who focus on the technical elements of system optimization, particularly wireless, and overall product configuration. We have a small direct sales team to focus on developing our non-healthcare business, including hospitality, energy, education and other mission-critical mobile work environments.

Marketing

Our marketing efforts focus on building awareness and generating demand. We believe that continuing to increase our brand recognition is important for the growth of our business as well as generating demand for our solutions. As of December 31, 2020, we had 33 employees in marketing, product management and business development.

Our customer-centric marketing strategy is important to generating new sales leads as word of mouth promotion and testimonials are some of our most valuable marketing tools. A number of our customers have agreed to participate in video testimonials, white papers and case studies that validate the efficacy and the financial benefits of our solutions. We have been featured in numerous articles and on network television demonstrating increased patient satisfaction, streamlined hospital operations and enhanced employee satisfaction and safety. Additionally, we sponsor numerous customer-led webinars to demonstrate customer success and to let prospective customers hear from their peer group about the positive impact that our solutions have made on their hospitals. Many of our sales leads come from referrals of existing customers or users who have moved from a hospital already using Vocera to a new facility or health system. We also invest in digital outreach to better influence buyers early on in their decision-making.

We have an integrated product management organization that manages the full lifecycle of our products and services; from strategy through execution to end-of-life. Our product roadmaps are driven by current and prospective customers and continually validated using primary and secondary research. We collect customer feedback through surveys and focus groups, customer visits, a customer advisory board, user forums and participation in industry standards organizations. Integral to this team are product managers and user experience designers skilled in clinical and operating workflows, and business development resources that create and manage the ecosystems of clinical and technology system partners.

Customers

Our solutions have been selected by more than 2,300 facilities worldwide. Of these, nearly 1,900 are hospitals and other healthcare facilities, and nearly 350 are outside of the United States. Our healthcare customers include national and international health and hospital systems, large and medium-sized independent and academic hospitals, small hospitals and healthcare facilities, and U.S. governmental hospitals and care facilities.

Competition

We do not believe any single competitor offers a similar intelligent communication system to the healthcare market that allows instant, hands-free communication through voice-activated, role-based and activity-based calling, secure texting, and clinical integrations and workflows, and that features an advanced clinical rules engine that unifies data from multiple sources simultaneously on a combination of dedicated, proprietary devices, as well as third-party smartphones and other devices.

At this time, the primary alternative to our system consists of a combination of traditional communication methods utilizing wired phones, wireless in-building phones, smartphones, pagers and overhead paging systems.

The most significant alternative with which we compete for new sales in hospitals are in-building wireless telephones and smartphone applications. While we compete with the providers of these wireless phones in making sales to hospitals, they do not at this time purport to contain the system intelligence, integrated workflow and convenience of our communication and workflow solutions.

Additionally, we compete against EHR companies, which have their own smartphone application for secure texting that they continue to enhance. We differentiate our solutions from these EHR vendors by enabling hands-free communication via our Smartbadge and Badge and offering a sophisticated rules engine to support more advanced clinical workflows with more than 150 system integrations.

We believe that the use of mobile smartphone apps for healthcare will continue to expand in our target market and may represent a source of competition, but this trend also represents an opportunity to expand our communication solutions with our smartphone applications, which enable all members of the patient's care team to connect to our software platform and participate as users on our Communication system.

We believe that the primary competitive factors at work in our market include:

- comprehensiveness of the solution, the features provided and the ability to purchase the complete solution from a single vendor
- product performance and reliability
- the initial cost and ongoing cost of ownership
- customer service and support capabilities

We may face increased competition in the future, including from large, multinational companies or private equity backed organizations with significant resources. Potential competitors may have existing relationships with purchasers of other products and services within the hospital, which may enhance their ability to gain a foothold in our market. In addition, the continuing expansion of our communication and workflow collaboration capabilities may introduce us to a broader set of competitors. These competitors may include companies that provide clinical workflow solutions, enterprise software, cloud-based solutions and electronic health records.

Research and development

Our continued investment in research and development is critical to our business. We have teams of engineers with expertise in various fields, including software, firmware, database design, applications, speech recognition, wireless communication and hardware design. We employ research and development personnel in San Jose, California; Fort Wayne, Indiana; Toronto, Canada and Bangalore, India. There were 203 full-time research and development employees as of December 31, 2020. Finally, we have periodically engaged outsourced development firms and contractors to help us with the development and quality assurance testing of certain elements of our software offerings.

Intellectual property

Our success depends, in part, upon our ability to protect our core technology and intellectual property. To accomplish this, we rely on a combination of intellectual property rights, including patents, trade secrets, copyrights and trademarks, as well as customary contractual protections.

We held 30 U.S. patents as of December 31, 2020, including patents on many capabilities of our software platform and wearable devices. The expiration dates of these patents range from 2021 through 2036. One or more utility patents have also been issued in Australia, Canada, India, Japan and the European Patent Office (with validation in Germany, United Kingdom and Netherlands). A European Community design patent has been issued that protects the design in multiple European jurisdictions.

In addition to the foregoing protections, we generally control access to and use of our proprietary software and other confidential information through the use of internal and external controls, including non-disclosure agreements and other statutory and contractual protections applicable to employees, contractors, customers and partners. These protections include U.S. and international copyright laws.

Our solutions include software developed and owned by us as well as software components we have licensed. These non-exclusive licenses are terminable by the licensor for cause. Certain of these licenses are for a contractually specified term and cannot be renewed without the assent of the licensor. In the event one or more of these licenses is terminated or is not renewed, we could be required to redesign substantial portions of our software in order to incorporate software components from alternative sources. An unplanned redesign of our software could materially and adversely affect our business.

Manufacturing operations and suppliers

We outsource the manufacturing of our wearable device products to original design manufacturers and contract manufacturers, including Sercomm and SMTC Corporation (SMTC). Our Vocera Smartbadge is built in Taiwan and our Vocera Badge is made in Mexico using custom tools and test equipment owned by us. Most of our accessories, including batteries, chargers and attachments, are built by original design manufacturers (ODMs) in Asia.

These manufacturers are responsible for procuring all the components included in our products, as specified and approved by us. Some of these components are sole-sourced off-the-shelf and some are custom components built exclusively for our products. In the event we are unable to procure certain components, we could be required to redesign some of our products in order to incorporate technology from alternative sources. An unplanned redesign of our products could materially and adversely affect our business.

We require our suppliers to perform both incoming and outgoing product inspections. In addition, we perform in-house quality control and ongoing reliability testing.

We also resell the Spectralink Versity Smartphone and Zebra Technologies TC52 Android mobile computer. These devices are offered as a bundled solution with our smartphone applications to provide a complete, turnkey solution for our customers' clinical communication needs.

Employees and Workforce Management

As of December 31, 2020, we had 688 employees dedicated to our mission of improving the lives of healthcare professionals and patients. These consist of 19 in manufacturing and quality operations, 203 in research and development, 207 in sales and marketing, 188 in services and support and 71 in general and administrative. Our workforce is distributed globally across 6 countries with 547 employees located in the U.S. and 141 located outside the U.S. None of our employees are covered by a collective bargaining agreement or are represented by a labor union. We consider our company culture to be a unique asset, and we believe our relations with our employees to be good.

Vocera's workforce is governed by various federal, state, and local regulations. We monitor all key employment activities such as hiring, termination, and pay practices for compliance with established regulations globally. The Compensation Committee of our Board of Directors is responsible for monitoring our workforce management, including, among other aspects, management depth and strength assessment, leadership development, talent assessment, diversity, equality and inclusion, and our employee survey results. While workforce management is overseen at the highest level of our Company, it is woven into the everyday fabric of Vocera's culture.

Our people are a core asset and a source of competitive advantage. The cultural values we put into action are: build with respect, embrace innovation, think customer first, drive for results and lead with passion. These values are the framework we use to hire, train, manage and assess the performance of our global employees. We believe these values differentiate us and, in part, allowed us to consistently retain our employees throughout fiscal year 2020, as our attrition rate continues to be substantially lower than benchmark data. Our employee average tenure globally is 4.8 years.

We foster a culture where our employees can thrive both at work and at home. We apply a systemic approach to culture and people and align performance with pay and rewards. As part of Vocera's dedication to and investment in its employees, we conduct organizational health surveys designed to assess employee engagement, leadership, work environment, and culture.

Diversity, Equity, and Inclusion: We embrace diversity and inclusion and strive to provide a rich environment with diverse skills, backgrounds, and perspectives. As of December 31, 2020, 32% of global employees, 27% of leadership positions, and 33% of our board of directors identified as female. In terms of racial and ethnic diversity, 28% of our employees in the United States self-identified as part of a minority group. At Vocera we are committed to diversity, equity, and inclusion. In 2020, we measured our employee's perceptions on this topic and scored at or above our benchmark.

Employee Well-being and Resilience: We provide comprehensive benefits related to health, wellness, mental health and family resources designed to meet the needs of our diverse global workforce. Employee resilience, physical and psychological safety is of paramount importance to us in any year and was of particular focus in 2020 in light of the COVID-19 pandemic. We enhanced and promoted programs to support our employees physical, financial, mental, and family's well-being through our Vocera on Wellness and Employee Assistance Programs. In response to the pandemic, we provided PPE to our frontline employees, implemented new safety protocols, enhanced utilization of existing productivity and collaboration tools, and established structures for timely communication and decision making throughout the changing environment. We facilitated frequent town halls to clearly articulate expectations and engage in meaningful dialogue with all employees. As a result of these efforts, our overall employee satisfaction increased over the previous year.

People Development: We believe in investing in our employees, and their professional growth and development is a priority for our company. At all levels, we engage in detailed discussions around succession planning and talent development to achieve business results. We have robust employee development review discussions where high-performing and high potential employees are identified for future growth opportunities, as well as succession planning for future critical leadership positions. There are actions and development plans as a result of this work that are ongoing throughout the year. With an added focus on developing our leaders, our people managers attended management essentials sessions, and we hosted a customized year-long leadership development program focused on our top talent and future leaders.

Community and Social Impact: Vocera strongly believes in giving back to the local communities by volunteering and making direct donations where our employees live and work. While the global pandemic limited our ability to volunteer in-person, our employee-run community involvement council held virtual charitable events and was able to make several donations to food banks and other regional non-profit agencies.

Backlog

Our backlog of undelivered orders was \$109.2 million and \$75.0 million at December 31, 2020 and 2019, respectively. Of the current backlog, all but \$46.0 million is expected to be delivered in 2021.

Government regulations and standards

Nearly all of our revenue is derived from the healthcare industry. The healthcare industry is highly regulated and is subject to changing political, legislative, regulatory and other influences. These factors affect the purchasing practices and operations of healthcare organizations, as well as the behavior and attitudes of our users. Representatives of the U.S. federal legislature and agencies have announced plans to reform or revise aspects of the U.S. healthcare system and we expect these efforts to continue over the next several years. We also expect federal and state legislatures and agencies to continue to consider new programs to reform or revise aspects of the U.S. healthcare system. These programs may contain proposals to increase governmental involvement in healthcare or otherwise change the environment in which healthcare industry participants operate.

HIPAA privacy and security standards

In connection with our healthcare communications business, we access personal health information on behalf of our customers. Accordingly, in the United States, we are subject to the Health Insurance Portability and Accountability Act of 1996 (HIPAA), and its implementing regulations, which established uniform standards for certain “covered entities” (healthcare providers engaged in electronic transactions, health plans and healthcare clearinghouses) governing the conduct of certain electronic healthcare transactions and protecting the security and privacy of protected health information. The American Recovery and Reinvestment Act of 2009 included sweeping expansion of HIPAA’s privacy and security standards as reflected in the Health Information Technology for Economic and Clinical Health Act, (HITECH). Among other things, the law makes certain HIPAA privacy and security standards directly applicable to “business associates” - independent contractors or agents of covered entities that receive or obtain protected health information in connection with providing a service on behalf of a covered entity. HITECH also increased the civil and criminal penalties that may be imposed against covered entities, business associates and possibly other persons, and gave state attorneys general new authority to file civil actions for damages or injunctions in federal courts to enforce the federal HIPAA laws and seek attorney’s fees and costs associated with pursuing federal civil actions. Most of our customers are covered entities under HIPAA and, to the extent that we access personal health information on their behalf, we are their “business associates” and are subject to HIPAA and associated contractual obligations, as well as comparable state privacy and security laws.

In addition, we are subject to privacy and security regulations in other jurisdictions. For example, in May 2016, the EU formally adopted the General Data Protection Regulation, or GDPR, which became effective in May 2018. The regulation introduced new data protection requirements in the EU and substantial fines for breaches of the data protection rules. It increased our responsibility and liability in relation to personal information that we process and we put in place additional mechanisms to enhance our compliance with the new EU data protection rules. Additionally, Canada’s Personal Information and Protection of Electronic Documents Act provides Canadian residents with privacy protections in regard to transactions with businesses and organizations in the private sector and sets out ground rules for how private sector organizations may collect, use and disclose personal information in the course of commercial activities. While the United States does not yet have an overarching federal privacy law, several states have enacted or are in the process of enacting state privacy laws. For example, the California Consumer Privacy Act of 2018, or the CCPA, came into effect on January 1, 2020, and became enforceable by the California Attorney General on July 1, 2020, along with related regulations which came into force on August 14, 2020. Additionally, although not effective until January 1, 2023, the California Privacy Rights Act, or the CPRA, which expands upon the CCPA, was passed in the recent election on November 3, 2020. The CCPA requires covered companies to provide new disclosures to California consumers about their data collection, use and sharing practices and provide such consumers new data protection and privacy rights. The CCPA does have an exemption for HIPAA-covered protected health information, however, the CCPA may still apply to other personal information that we collect and process.

These statutes, regulations and contractual obligations impose numerous requirements regarding the use and disclosure of personal health information with which we must comply, and subject us to material liability and other adverse impacts to our business in the event we fail to do so. These include, without limitation, civil fines, criminal sanctions in certain circumstances, contractual liability to our customers, and damage to our brand and reputation. We endeavor to mitigate these risks through measures we believe to be appropriate for the specific circumstances, including storing personal information under our control on password-protected systems in secure facilities, counseling our customers as to best practices in using our solutions, encrypting such information, and training our personnel. We are committed to protecting the confidentiality, integrity, and availability of personal health information we may encounter in the course of our business activities. Accordingly, we have adopted specific policies and procedures addressing the conduct of the company, employees and specific other third parties regarding how to appropriately safeguard such information in the course of daily activities, and our mandatory annual training includes courses on data security and our code of conduct and policies. All employees are required to sign a certification of completion with respect to such training on an annual basis.

Medical device regulation

The U.S. Food and Drug Administration (FDA) regulates certain products, including software-based products, as “medical devices” based, in part, on the intended use of the product and the risk the device poses to the patient should the device fail to perform properly. We have concluded that our communication products are general-purpose communication solutions and are not subject to FDA regulation. However, either the FDA could disagree with our conclusion or changes in our product or the FDA’s evolving regulations could lead to the imposition of medical device regulation on more of our products. In this event, we would be subject to additional regulatory requirements, including the expense of compliance with Medical Device Reporting and Quality System regulation and the potential of liability for failure to comply, and we could be required to obtain 510(k) clearance or premarket approval of those products from the FDA prior to commercial distribution. Some of the products acquired as a result of the Extension Healthcare and mVisum acquisitions are regulated by the FDA as Class II medical devices under applicable law and FDA regulations. Class II devices are devices classified by the FDA as posing a moderate to high risk and therefore subject to both “general controls” and “special controls,” as such terms are defined in the Food, Drug and Cosmetics Act.

Electrical standards and FCC regulations

Our products emit radio frequency energy in the 2.4 and 5.0 GHz spectrum bands for which licensing by U.S. and other regulatory authorities is not required, provided that the products conform to certain requirements, e.g., maximum power output and tolerance of interference from other devices sharing that spectrum band. We subject our products to testing by independent testing laboratories for compliance with the relevant standards issued by various U.S. and international bodies, including the EU (with respect to the “CE” mark), the International Electrotechnical Commission, the Australian Communications and Media Authority, Underwriters Laboratories and CSA International.

Executive officers

The names of our executive officers, their ages as of February 25, 2021, and their positions are shown below.

Name	Age	Position
Brent D. Lang	53	Chairman and Chief Executive Officer
Justin R. Spencer ¹	49	Executive Vice President and Chief Financial Officer
Douglas A. Carlen	51	Vice President Legal and General Counsel
M. Bridget Duffy, M.D.	61	Chief Medical Officer
Paul T. Johnson	57	Executive Vice President of Sales and Services

(1) On January 25, 2021 Justin Spencer provided notice that he will be resigning from his positions. Mr. Spencer will remain with the Company through June 2021 to facilitate a smooth transition.

The Board chooses executive officers, who then serve at the Board’s discretion. There is no family relationship between any of our directors or executive officers.

Brent D. Lang assumed the role of President and Chief Executive Officer and a board member effective June 1, 2013. He assumed the role of Chairman of the board effective June 2018. Mr. Lang served as our President and Chief Operating Officer from October 2007 through May 2013. From February 2007 to October 2007, he served as our Executive Vice President, from January 2007 to June 2007, he served as our Acting Chief Executive Officer, and from June 2001 through January 2007, he served as our Vice President of Marketing and Business Development. From September 1995 to June 2001, Mr. Lang served as senior director of marketing for 3Com Corporation, a networking company, where he was responsible for 3Com’s digital home products. From June 1991 to June 1993, Mr. Lang worked as a strategy consultant for Monitor Company, Inc., a consulting firm, advising Fortune 500 companies. Mr. Lang earned a B.S. degree in Industrial and Operations Engineering from the University of Michigan and an M.B.A. degree from the Stanford University Graduate School of Business.

Justin R. Spencer has served as our Executive Vice President and Chief Financial Officer since August 2014. From September 2008 to November 2013, he served as Executive Vice President and Chief Financial Officer for Symmetricom, Inc., a provider of precise timekeeping and synchronization solutions, which was acquired by Microsemi Corporation in November 2013. From June 2007 to April 2008, Mr. Spencer served as the Executive Vice President and Chief Financial Officer at Covad Communications Group Inc., a provider of broadband integrated voice and data communications. From November 2002 until May 2007, Mr. Spencer served in various positions at Covad Communications Group Inc., including Interim Chief Financial Officer, Vice President of Finance and Director of Corporate Development. Mr. Spencer served on the Board of Directors of iPass Inc., including as Audit Committee Chair, until its sale in early 2019. Mr. Spencer holds a bachelor’s degree in accounting from the University of Utah and a master’s degree from The Wharton School.

Douglas A. Carlen has served as our General Counsel since July 2016. From August 2012 to June 2016, Mr. Carlen was the Vice President of Legal Affairs at Liquid Robotics, an ocean data services provider and developer of the Wave Glider. Prior to Liquid Robotics, Mr. Carlen served from August 2010 to August 2012 as Senior Vice President and General Counsel at MegaPath, a provider of data, voice and cloud-based communications services. From September 1999 to August 2010, he worked at Covad Communications in three corporate counsel roles, with the last three years as Senior Vice President and General Counsel. Mr. Carlen also specialized in corporate law and litigation at various firms from 1994 to 1999. Since 2011, Mr. Carlen has been on the board of directors for the Lupus Foundation of Northern California. He earned his bachelor's degree from the University of Southern California and a law degree from Hastings College of the Law.

M. Bridget Duffy, M.D. has served as our Chief Medical Officer since January 2013. Previously, Dr. Duffy was the co-founder of ExperiaHealth, Inc., which became a subsidiary of Vocera in November 2010. Dr. Duffy served as ExperiaHealth, Inc.'s Chief Experience Officer from July 2009 through October 2010, and as its Chief Executive Officer from November 2010 through July 2013. From July 2007 to June 2009, Dr. Duffy served as Chief Experience Officer of the Cleveland Clinic, a non-profit academic medical center. Dr. Duffy earned her Doctor of Medicine in June 1991 from the University of Minnesota and currently holds a Physician and Surgeon license in both the states of Minnesota and California.

Paul T. Johnson has served as our Executive Vice President of Sales and Services since October 2013. From August 2013 to October 2013, Mr. Johnson served as Vice President of Sales at Digital Insight, a provider of online and mobile banking solutions. Mr. Johnson served as Vice President of Sales and Relationship Management at Intuit's Financial Services Division (which was renamed Digital Insight following Intuit's sale of this business in August 2013) from January 2011 to August 2013. From November 2007 to December 2010, he served as the Executive Vice President, North America, Sage Business Solutions for Sage Software, Inc., a provider of business management software and services. In addition, Mr. Johnson previously served in various sales and services functions at International Business Machines Corporation. Mr. Johnson earned his M.B.A and B.S degrees in Business Administration from the University of Southern California.

Available information

We make available our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (Exchange Act), as amended, free of charge on the SEC's website at www.sec.gov and on our website at www.vocera.com, as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission (SEC).

The contents of our corporate website are not incorporated into, or otherwise to be regarded as part of, this Annual Report on Form 10-K.

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information set forth in this Annual Report on Form 10-K. Our business, financial condition, results of operations or future prospects could be materially and adversely harmed if any of the following risks, or other risks or uncertainties that are not yet identified or that we currently believe are immaterial, actually occur. The trading price of our common stock could decline due to any of these risks or uncertainties, and, as a result, you may lose all or part of your investment.

Summary of Risk Factors

Our business is subject to a number of risks and uncertainties, including those risks discussed at-length below. These risks include, among others, the following:

- The COVID-19 outbreak has had a material impact on the U.S. and global economies and could have a material adverse impact on our employees, suppliers, manufacturing and customers, which could adversely and materially impact our business, financial condition and results of operations.
- We have incurred significant losses in the past and will likely experience losses in the future.
- We depend on sales in the healthcare market for the majority of our revenue, and a decrease in sales in the healthcare market would harm our business.
- Our sales cycle can be lengthy and unpredictable, which may cause our revenue and operating results to fluctuate significantly.
- If we fail to offer high-quality products and services, our operating results and our ability to sell these in the future will be harmed.

- We depend on some sole source and limited source suppliers, and if we are unable to source our components from them, our business and operating results could be harmed.
- Because we depend on contract manufacturers and original design manufacturers, our operations could be harmed and we could lose sales if we encounter problems with these manufacturers.
- If we fail to forecast our manufacturing requirements accurately or fail to properly manage our inventory with our contract manufacturers, we could incur additional costs or experience manufacturing delays that could impact the timing of our revenue recognition and adversely affect our operating results.
- Our business has gone through cycles of expansion, relative stability and contraction, and if we are not able to manage such cycles effectively, our operating results may suffer.
- Our revenue and operating results have fluctuated, and are likely to continue to fluctuate, making our quarterly results difficult to predict, which may cause us to miss analyst expectations and may cause the price of our common stock to decline.
- Developments in the healthcare industry and governing regulations have negatively affected and may continue to negatively affect our business.
- If we fail to increase market awareness of our brand and solutions, and expand our sales and marketing operations, our business could be harmed.
- Failure to protect our information technology infrastructure against cyber-based attacks, network security breaches, service interruptions, or data corruption could significantly disrupt our operations and adversely affect our business and operating results.
- Our efforts to sell our solutions in non-healthcare markets may not be successful.
- Our international operations subject us, and may increasingly subject us in the future, to operational, financial, economic and political risks abroad.
- If we are unable to protect our intellectual property rights, our competitive position could be harmed, or we could be required to incur significant expenses to enforce our rights.
- We have indebtedness in the form of convertible senior notes. The provisions of indenture for the Notes, accounting method for the Notes and capped call transaction entered into related to the Notes could have a material effect on our operating results, value of the Notes and our common stock or may deter or prevent a business combination.

Risks related to our business and industry

The COVID-19 outbreak has had a material impact on the U.S. and global economies and could have a material adverse impact on our employees, suppliers, manufacturing and customers, which could adversely and materially impact our business, financial condition and results of operations.

The outbreak of the novel coronavirus, SARS-CoV-2, or COVID-19, is a global pandemic and both a public health and economic emergency. Many federal, state and local governments and private entities have mandated various restrictions, including travel restrictions, restrictions on public gatherings, stay at home orders and advisories and quarantining of people who may have been exposed to the virus. As the COVID-19 pandemic is complex and rapidly evolving, our business may be negatively affected for a prolonged period of time. Since our last filing, COVID-19 infections have continued and are increasing in many geographies of the world. These rates may continue to increase further. At this point, we cannot reasonably estimate the duration and severity of this pandemic, which could have a material adverse impact on our business, results of operations, financial position and cash flows.

The pandemic has affected, and may continue to adversely affect, our customers' operations, our employees and our employee productivity. It may impact the ability of our customers, subcontractors, partners, and suppliers to operate and fulfill their contractual obligations, and result in an increase in payment defaults, collection costs and/or delays or disruptions in performance. In particular, hospitals and healthcare facilities have prioritized the care and treatment of COVID-19 patients above all other actions and have suspended many activities, restricted most visitors and reduced spending unrelated to COVID-19. These customers have also had to suspend elective procedures, which generate a majority of their profits, adding to their financial difficulties. While some elective procedures have resumed, it is uncertain whether consumers will seek those procedures due to concerns about COVID-19, and it is also uncertain if elective procedures will be suspended again if cases increase. In response, some have furloughed staff, including those we ordinarily work with to sell and implement our offerings.

Outside of healthcare, some of our clients in the hospitality and retail industries have suspended operations until stay-at-home orders are lifted, and potentially beyond. Even once lifted, as with healthcare, it is uncertain whether consumers will return to those establishments and how successful these businesses will be. As a result, we have experienced delays in planned deployments and changes in customer demand, and could experience additional delays, discounts, customer payment issues, bad debt, potential terminations and unpredictability as our customers continue to respond to the challenges of treating and containing the COVID-19 pandemic.

We have also experienced some disruptions in our supply chain and our manufacturers have similarly experienced disruptions in their supply chains. To the extent our suppliers prioritize the manufacturing of other products or experience facility or

business disruptions due to sick employees, stay-at-home orders, supply chain disruptions or otherwise, we may be unable to maintain a sufficient supply of our products to meet demand. Additionally, our employees, in many cases, are working remotely and using various technologies to perform their functions, which may create security risks, inefficiencies and reduced productivity, and reduce the effectiveness of our sales team.

These effects on our business, and the direct effect of the virus and the disruption on our employees and operations, may negatively impact our revenue, profit margins and liquidity. Additionally, the disruption and volatility in the global and domestic capital markets may increase the cost of capital and limit our ability to access capital.

The COVID-19 pandemic has also caused us to modify our business practices including employee travel, customer visits, employee work locations, and cancellation of physical participation in meetings, events and conferences which are important to support our sales approach, and we may take further actions as may be required by government authorities or that we determine are in the best interests of our employees, customers and business partners. A prolonged disruption or any further unforeseen delay in our operations or within any of our business activities could result in reduced revenue. We could also be adversely affected if government authorities impose additional restrictions or extend the length of restrictions on public gatherings, human interactions, mandatory closures, seek voluntary closures, restrict hours of operations or impose curfews, restrict the import or export of products or if suppliers issue mass recalls of products. There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus or otherwise be satisfactory to government authorities.

Both the health and economic aspects of the COVID-19 virus are highly fluid and the future course of each is uncertain. For these reasons and other reasons that may come to light as the coronavirus pandemic and associated protective or preventative measures develop, we may experience a material adverse effect on our business operations, revenues and financial condition; however, its ultimate impact is highly uncertain and subject to change.

We have incurred significant losses in the past and will likely experience losses in the future.

We have incurred significant losses in the past and reported a net loss of \$9.7 million for the year ended December 31, 2020. As of December 31, 2020, we had an accumulated deficit of \$160.0 million. If we cannot make consistent progress toward future profitability, our business and our stock price may be adversely affected.

Our ability to be profitable in the future depends upon continued demand for our solutions from existing and new customers. Further adoption of our solutions depends upon our ability to improve quality of care, enhance patient and staff satisfaction, increase hospital efficiency and productivity, and bring value to customers outside of healthcare. In addition, our profitability will be affected by, among other things, our ability to execute on our business strategy, the timing and size of orders, the pricing and costs of our solutions, competitive offerings, macroeconomic conditions affecting the health care industry and the extent to which we invest in sales and marketing, research and development and general and administrative resources.

We depend on sales in the healthcare market for the majority of our revenue, and a decrease in sales in the healthcare market would harm our business.

To date, substantially all of our revenue has been derived from sales to the healthcare market and, in particular, hospitals. Sales to the healthcare market accounted for 98%, 96% and 97% of our revenue for the years ended December 31, 2020, 2019 and 2018, respectively. We anticipate that sales to the healthcare market will represent a significant portion of our revenue for the foreseeable future.

Most of our solutions require a substantial upfront investment by new customers. The cost of the initial deployment depends on the number of users and departments involved, the size and age of the hospital and the condition of the existing wireless infrastructure, if any, within the hospital. Even if hospital personnel determine that our solutions provide compelling benefits over their existing communications methods, their hospitals may not have, or may not be willing to spend, the resources necessary to install and maintain wireless infrastructure to initially deploy and support our solutions or expand our solutions to other departments or users. Hospitals face significant budget constraints from the COVID-19 pandemic, as they have had to postpone elective procedures that provide a significant portion of their revenue. Hospital budgets are also constrained by unpredictable patient population trends and commercial reimbursements, and increasing demands from, and competition for, patients. In addition, both governmental and commercial hospitals are experiencing lower Medicare reimbursement rates and higher compliance demands, which add to these budget pressures. Also as part of the tax reform law that came into effect in December 2017, the tax penalty for violating the individual health insurance mandate under the Patient Protection and Affordable Care Act of 2010 (ACA) was set to zero effective in 2019, essentially repealing it. In November 2020, the United States Supreme Court held oral arguments on the Fifth Circuit U.S. Court of Appeals decision that held that the individual mandate is unconstitutional. It is uncertain how the United States Supreme Court will rule on this case or how healthcare measures of any new administration will impact the ACA and our business. It is uncertain if there will be changes to the ACA with any new administration, but there have been attempts in the past to repeal or amend the ACA, as well as continue to undertake other healthcare reforms. As a consequence of these regulatory and other factors, hospitals may delay or reduce their

spending, which may cause slowdowns and deferral of orders for our solutions, or customers may choose other less expensive solutions, both of which could negatively impact our sales. We might not be able to sustain or increase our revenue from sales of our solutions, or achieve the growth rates that we envision, if hospitals continue to face significant budgetary constraints and reduce their spending on communications systems.

Our sales cycle can be lengthy and unpredictable, which may cause our revenue and operating results to fluctuate significantly.

Our sales cycles can be lengthy and unpredictable. Our sales efforts involve educating our customers about the use and benefits of our solutions, including the technical capabilities of our solutions and the potential cost savings and productivity gains achievable by deploying them. Customers typically undertake a significant evaluation process, which frequently involves not only our solutions but also their existing communications methods and those of our competitors and can result in a lengthy sales cycle that sometimes exceeds twelve months. We spend substantial time, effort and money in our sales efforts without any assurance that our efforts will produce sales. Similarly, our increasing dependence on larger, hospital-wide deployments may increase fluctuations in our revenue and operating results because the failure to complete a significant sale, or the loss of a large customer, will have a greater impact on those results. In addition, purchases of our solutions are frequently subject to budget constraints and shifts, multiple approvals, and unplanned administrative, processing and other delays. We have experienced and may continue to experience elongated sales cycles due to ongoing uncertainty caused by the COVID-19 pandemic, as well as past and future healthcare reform legislation, the impact of shifting federal government budgets, changes to Medicare and Medicaid reimbursement and potential future statutes and rulemaking.

If we fail to offer high-quality products and services, our operating results and our ability to sell these in the future will be harmed.

Our ability to sell our solutions depends on our ability to offer high-quality product and services. Our solutions incorporate complex technology, are deployed in a variety of complex hospital environments and must interoperate with many different types of devices and hospital systems. While we test the components of our solutions for defects and errors prior to release, we or our customers may not discover a defect or error until after we have deployed our solution, integrated it into the hospital environment and our customer has commenced general use of the solution. In addition, our solutions in some cases are integrated with hardware and software offered by “middleware” vendors to interoperate with nurse call systems, device alarms and other hospital systems. Our software may be partnered with third party software to provide for potential joint solutions with such third party. Our software may also be deployed on third party devices, including devices we resell, which creates additional complexity because we share control of the customer experience. If we cannot successfully integrate our solutions with these vendors as needed or if any hardware or software of these vendors contains any defect or error, then our solutions may not perform as designed, or may exhibit a defect or error.

Our professional services team assists our customers with their wireless infrastructure assessment, clinical workflow design, communication solution configuration, clinical integration, training and project management during the pre-deployment and deployment stages. Once our solutions are deployed within a customer’s facility, the customer typically depends on our technical support team to help resolve technical issues, assist in optimizing the use of our solutions and facilitate adoption of new functionality. If we do not effectively assist our customers in deploying our solutions, succeed in helping our customers quickly resolve technical and other post-deployment issues, or provide effective ongoing support services, our ability to expand the use of our solutions with existing customers and to sell our solutions to new customers will be harmed. If deployment of our solutions is deemed unsatisfactory, we may incur significant costs to attain and sustain customer satisfaction or, in extreme cases, our customers may choose not to deploy our solutions. As we hire new services and support personnel, we may inadvertently hire underperforming people who will have to be replaced, or fail to effectively train such employees, leading in some instances to slower growth, additional costs and poor customer relations. In addition, the failure of channel partners to provide high-quality services and support in markets outside the United States could also harm sales of our solutions.

Any defects or errors in, or which are attributed to our solutions, or to products or services we resell, could result in:

- delayed market acceptance of our affected solutions;
- loss of revenue or delay in revenue recognition;
- loss of customers or inability to attract new customers;
- diversion of engineering or other resources for remedying the defect or error;
- damage to our brand and reputation;
- delay in delivery of information;
- increased service and warranty costs, including potential replacement costs for product recalls or returns; and
- legal actions by our customers and hospital patients, including product liability claims.

If any of these occur, our operating results and reputation could be harmed.

As we continue to pursue opportunities for larger deals that have greater technical complexity, including deals that require more complex integrations with our customer's workflows, we may experience a longer time period for our solutions to deploy and as a result, our revenue recognition for these deals may be delayed. These complex deployments may also be delayed as our customers focus on responding to the COVID-19 pandemic. Additionally, as we enter agreements with new and existing customers for larger and more complex deals across multiple sites, we have been, and may continue to be, required to agree to customer acceptance and cancellation clauses. With acceptance clauses, delays may occur in obtaining customer acceptance regardless of the quality of our products and services, and may cause us to defer revenue recognition where such acceptance provisions are substantive in nature, or they may require us to incur additional professional services or other costs in an effort to obtain such customer acceptance. Cancellation clauses may result in a customer canceling an order for our hardware, software and services, which could impact our revenue.

We depend on some sole source and limited source suppliers, and if we are unable to source our components from them, our business and operating results could be harmed.

We depend on sole and limited source suppliers for several hardware components of our solutions, including our batteries and integrated circuits. We purchase inventory generally through individual purchase orders. Any of these suppliers could cease production of our components, cease to provide the necessary levels of support for our use of their components, experience capacity constraints, material shortages, work stoppages, epidemics or contagious diseases, such as the coronavirus outbreak, that negatively impact them and their suppliers, financial difficulties, cost increases or other reductions or disruptions in output, cease operations or be acquired by or enter into exclusive arrangements with, a competitor. For example, we have experienced periodic delays in deliveries from our suppliers as a result of the COVID-19 pandemic. These suppliers typically rely on purchase orders rather than long-term contracts with their suppliers, and as a result, the supplier may not be able to secure sufficient materials at reasonable prices or of acceptable quality to build our components in a timely manner. Any of these circumstances could cause interruptions or delays in the delivery of our solutions to our customers, and this may force us to seek components from alternative sources, which may not have the required specifications, or be available in time to meet demand or on commercially reasonable terms, if at all. Any of these circumstances may also force us to redesign our solutions to incorporate a component from an alternative source if a component becomes unavailable.

Our solutions incorporate multiple software components obtained from licensors on a non-exclusive basis, such as voice recognition software, software supporting the runtime execution of our software platform, and database and reporting software. Our license agreements can be terminated for cause. In many cases, these license agreements specify a limited term and are only renewable beyond that term with the consent of the licensor. If a licensor terminates a license agreement for cause, objects to its renewal or conditions renewal on modified terms and conditions, we may be unable to obtain licenses for equivalent software components on reasonable terms and conditions, including licensing fees, warranties or protection from infringement claims. Some licensors may discontinue licensing their software to us or support of the software version used in our solutions. In such circumstances, we may need to redesign our solutions with substantial cost and time investment to incorporate alternative software components or be subject to higher royalty costs. Any of these circumstances could adversely affect the cost and availability of our solutions.

Third-party licensors generally require us to incorporate specific license terms and conditions in our agreements with our customers. If we are alleged to have failed to incorporate these license terms and conditions, we may be subject to claims by these licensors, incur significant legal costs defending ourselves against such claims and, if such claims are successful, be subject to termination of licenses, monetary damages, or an injunction against the continued distribution of one or more of our solutions.

Because we depend on contract manufacturers and original design manufacturers, our operations could be harmed and we could lose sales if we encounter problems with these manufacturers.

We do not have internal manufacturing capabilities and rely upon two contract manufacturers, Sercomm and SMTC, to make our wearable devices. We have entered into manufacturing agreements with Sercomm and SMTC that are terminable by either party with advance notice and may also be terminated for a material uncured breach. We expect to enter into additional contract manufacturing agreements as we expand our business. We also rely on original design manufacturers, or ODMs, to produce accessories, including batteries, chargers and attachments. Any of these suppliers could cease production of our components, cease to provide the necessary levels of support for our use of their components, experience capacity constraints, material shortages, work stoppages, epidemics or contagious diseases that negatively impact them and their suppliers, financial difficulties, cost increases or other reductions or disruptions in output, cease operations or be acquired by, or enter into exclusive arrangements with, a competitor. If Sercomm, SMTC, or another contract manufacturer or an ODM is unable or unwilling to continue manufacturing components of our solutions in the volumes and timeframes that we require, fails to meet our quality specifications or significantly increases its prices, we may not be able to deliver our solutions to our customers with

the quantities, quality and performance that they expect in a timely manner. As a result, we could lose sales and our operating results could be harmed.

Sercomm, SMTC, other contract manufacturers or ODMs may experience problems that could impact the quantity and quality of hardware components of our solution, including disruptions in their manufacturing operations due to equipment breakdowns, labor strikes or shortages, component or material shortages and cost increases. The majority of the hardware components of our solution are manufactured in Asia or Mexico, and adverse changes in political or economic circumstances, or health related issues such as epidemics or contagious diseases, in those locations could also disrupt our supply and quality of components of our solutions. In addition, U.S. government officials have imposed changes in trade, tariffs, fiscal and tax policies and may do so in the future, and any such changes in the U.S. or in other countries from which we source components of our products could adversely affect our business.

Companies occasionally encounter unexpected difficulties in ramping up production of new products, and we may experience such difficulties with future generations of our products. Sercomm, SMTC, other contract manufacturers and our ODMs also manufacture products for other companies. Generally, our orders represent a relatively small percentage of the overall orders received by Sercomm, SMTC, other contract manufacturers and these ODMs from their customers; therefore, fulfilling our orders may not be a priority in the event Sercomm, SMTC, other contract manufacturers or an ODM is constrained in its ability to fulfill all of its customer obligations. In addition, if Sercomm, SMTC, other contract manufacturers or an ODM is unable or unwilling to continue manufacturing components of our solutions, we may have to identify one or more alternative manufacturers. The process of identifying and qualifying a new contract manufacturer or ODM can be time consuming, and we may not be able to substitute suitable alternative manufacturers in a timely manner or at an acceptable cost. Additionally, transitioning to a new manufacturer may cause us to incur additional costs and delays if the new manufacturer has difficulty manufacturing components of our solutions to our specifications or quality standards.

If we fail to forecast our manufacturing requirements accurately or fail to properly manage our inventory with our contract manufacturer, we could incur additional costs or experience manufacturing delays that could impact the timing of our revenue recognition and adversely affect our operating results.

We place orders with our contract manufacturers, including Sercomm and SMTC, and we and our contract manufacturers place orders with suppliers based on forecasts of customer demand. Because of our international low-cost sourcing strategy, our lead times are long and cause substantially more risk to forecasting accuracy than would result were lead times shorter. Our forecasts are based on multiple assumptions, each of which may introduce errors into our estimates affecting our ability to meet our customers' demands for our solutions. We also may face additional forecasting challenges due to new product introductions, product transitions in the components of our solutions, or to our suppliers discontinuing production of materials and subcomponents required for our solutions. If demand for our solutions increases significantly, we may not be able to meet demand on a timely basis, and we may need to expend a significant amount of time working with our customers to allocate limited supply and maintain positive customer relations, or we may incur additional costs in order to source additional materials and subcomponents to produce components of our solutions or to expedite the manufacture and delivery of additional inventory. If we underestimate customer demand, we and our contract manufacturer may have inadequate materials and subcomponents on hand to produce components of our solutions, which could result in manufacturing interruptions, shipment delays, deferral or loss of revenue, and damage to our customer relationships. Conversely, if we overestimate customer demand, we and our contract manufacturers may purchase more inventory than required for actual customer orders, resulting in excess or obsolete inventory, thereby increasing our costs and harming our operating results.

If we fail to successfully develop and introduce new solutions and features to existing solutions, our revenue, operating results and reputation could suffer.

Our success depends, in part, upon our ability to develop and introduce new solutions and to add features to existing solutions that meet existing and new customer requirements. We may not be able to develop and introduce new solutions or features on a timely basis or in response to customers' changing requirements. Similarly, our new solutions and features may not sufficiently differentiate us from competing solutions such that customers can justify deploying our solutions. We expect to incur costs associated with the development and introduction of new solutions before the anticipated benefits or the returns are realized, if at all. We may experience technical problems and additional costs as we introduce new features to our software platform, deploy future models of our wireless badges, or deploy new smartphone apps, which can require customers to perform software upgrades to their systems, and integrate new solutions with existing customer clinical systems and workflows. In addition, we may face technical difficulties as we expand into non-English speaking countries and incorporate non-English speech recognition capabilities into our solutions. We also may incur substantial costs or delays in the manufacture of any additional new products or models as we seek to optimize production methods and processes at our contract manufacturers. In addition, we expect that we may at least initially achieve lower gross margins on new models, while endeavoring to reduce

manufacturing costs over time. If any of these problems were to arise, our revenue, operating results and reputation could suffer.

Our business has gone through cycles of expansion, relative stability and contraction, and if we are not able to manage such cycles effectively, our operating results may suffer.

We have experienced periods of expansion, relative stability and contraction in our revenues and operations in the past. Such fluctuations have placed, and may continue to place, strains on our management systems, infrastructure and other resources. Especially during growth periods, we hire additional direct sales, professional services and marketing personnel domestically and internationally, acquire complementary businesses, technologies or assets, and increase our investment in research and development. Our future operating results depend to a large extent on our ability to successfully implement such plans and manage such investments. To do so successfully we must, among other things:

- manage our expenses in line with our operating plans and current business environment;
- maintain and enhance our operational, financial and management controls, reporting systems and procedures;
- integrate acquired businesses, technologies or assets;
- manage operations in multiple locations and time zones; and
- develop and deliver new solutions and enhancements to existing solutions efficiently and reliably.

We expect to incur costs associated with the investments made to support our business strategy before the anticipated benefits or the returns are realized, if any. If we are unable to grow our business or manage our future growth effectively, we may not be able to take advantage of market opportunities or develop new solutions or enhancements to existing solutions. We may also fail to satisfy customer requirements, maintain quality, execute our business plan or respond to competitive pressures, which could result in lower revenue and a decline in the share price of our common stock.

Our revenue and operating results have fluctuated, and are likely to continue to fluctuate, making our quarterly results difficult to predict, which may cause us to miss analyst expectations and may cause the price of our common stock to decline.

Our operating results have been and may continue to be difficult to predict, even in the near term, and are likely to fluctuate as a result of a variety of factors, many of which are outside of our control.

Comparisons of our revenue and operating results on a period-to-period basis may not be meaningful. You should not rely on our past results as an indication of our future performance. Each of the following factors, among others, could cause our operating results to fluctuate from quarter to quarter:

- the ongoing impact of the COVID-19 pandemic;
- the financial health of our healthcare customers and budgetary constraints on their ability to upgrade their communications, particularly in light of the pandemic;
- the availability of government funding for healthcare facilities operated by the United States federal, state and local governments;
- changes in customer purchasing patterns or sales cycles;
- market acceptance of our Smartbadge and its impact on orders for our existing Badge and related software;
- changes in the regulatory environment affecting our healthcare customers, including impediments to their ability to obtain reimbursement for their services;
- our ability to expand and improve our sales and marketing operations;
- our ability to successfully integrate acquired businesses, technologies or assets;
- the announcement of new significant contracts or relationships;
- the procurement and deployment cycles of our healthcare customers and the length of our sales cycles;
- changes in how healthcare operating and capital budgets are administered within the enterprise;
- changes in customer deployment timelines;
- variations in the amount of orders booked in a prior quarter but not delivered until later quarters;
- our mix of solutions and the varying revenue recognition rules that apply;
- pricing, including discounts by us or our competitors;
- our ability to expand into non-healthcare markets;
- our ability to develop significant new reseller relationships and maintain existing reseller relationships;
- the financial health of our resellers;
- our ability to successfully deploy our solutions in a timely manner;
- our ability to sell and integrate third-party products and services, and our customer's satisfaction with those third-party products and services;

- our ability to forecast demand and manage lead times for the manufacture of our solutions;
- our ability to develop and introduce new solutions and features to existing solutions that achieve market acceptance;
- the announcement of a new product, which may cause sales cycles to lengthen;
- federal government shutdowns;
- occurrence of health epidemics or contagious diseases and potential effects on our business and manufacturing operations;
- fluctuations in foreign currencies in the international markets in which we operate; and
- future accounting pronouncements and changes in accounting policies.

We primarily compete in the rapidly evolving and competitive healthcare market, and if we fail to effectively respond to competitive pressures, our business and operating results could be harmed.

Our prospective customers primarily use legacy communication solutions such as wired and wireless phones, pagers and overhead intercoms. We believe that our system is superior to these legacy methods. Manufacturers and distributors of product categories such as cellular phones, pagers, mobile radios and in-building wireless telephones continue to sell their products to hospitals. In addition, the growing proliferation of smartphones and related applications, including cloud-based applications, represents another category of competitive offerings. Furthermore, our clinical integrations and middleware solutions compete with a variety of companies that offer clinical integration technology. Similarly we may face a different set of competitors in our patient and family engagement solutions.

We believe currently there is no directly comparable single competitor that provides a solution for the healthcare market as richly-featured as ours, but we could face such competition in the future. Potential competitors in the healthcare or communications markets include large, multinational companies with significantly more resources to dedicate to product development and sales and marketing. These companies, which may include electronic health record vendors or other large software and healthcare IT companies, may have existing relationships within the hospital, which may enhance their ability to gain a foothold in our market. For example, some of the electronic health record vendors offer secure text messaging as an additional service and have said they plan to expand these offerings to complete more directly with us. Some customers may prefer to purchase a more highly integrated or bundled solution from a single provider or an existing supplier rather than a new supplier, regardless of performance or features. Accordingly, if we fail to effectively respond to competitive pressures, we could experience pricing pressure, reduced profit margins, higher sales and marketing expenses, lower revenue and the loss of market share, any of which would harm our business, operating results or financial condition.

If we do not achieve the anticipated strategic or financial benefits from our acquisitions or if we cannot successfully integrate them, our business and operating results could be harmed.

We have acquired, and in the future may acquire, complementary businesses, technologies or assets that we believe to be strategic. For example, we recently acquired EASE Applications, LLC, or EASE Applications, a cloud-based communication platform and mobile application, to help enhance our care team communication with patients and families. We may not achieve the anticipated strategic or financial benefits, or be successful in integrating EASE Applications or any acquired businesses, technologies or assets. If we cannot effectively integrate the acquired business and products into our business, we may not achieve market acceptance for, or derive significant revenue from, these new solutions.

Integrating newly acquired businesses, technologies and assets could strain our resources, could be expensive and time consuming, and might not be successful. Our recent acquisitions expose us, and we will be further exposed, if we acquire or invest in additional businesses, technologies or assets, to a number of risks, including that we may:

- experience technical issues as we integrate acquired businesses, technologies or assets into our existing solutions;
- encounter difficulties leveraging our existing sales and marketing organizations, and direct sales channels, to increase our revenue from acquired businesses, technologies or assets;
- find that the acquisition does not further our business strategy, we overpaid for the acquisition or the economic conditions underlying our acquisition decision have changed;
- have difficulty retaining key personnel of acquired businesses;
- suffer disruption to our ongoing business and diversion of our management's attention as a result of transition or integration issues and the challenges of managing geographically or culturally diverse enterprises;
- experience unforeseen and significant problems or liabilities associated with quality, technology and legal contingencies relating to the acquisition, such as intellectual property or employment matters; and
- incur substantial costs to integrate the acquired business.

If we were to proceed with one or more additional significant acquisitions in which the consideration included cash, we could be required to use a substantial portion of our available cash. To the extent we issue shares of capital stock or other rights to purchase capital stock, including options and warrants, the ownership of existing stockholders would be diluted. In addition,

acquisitions may result in the incurrence of debt, contingent liabilities, large write-offs, or other unanticipated costs, events or circumstances, any of which could harm our operating results.

In addition, from time to time we may enter into negotiations for acquisitions that are not ultimately consummated. These negotiations could result in significant diversion of management time, as well as substantial out-of-pocket costs.

We could be required to record adjustments to our recorded asset balance for intangible assets, including goodwill, that could significantly impact our operating results.

Our balance sheet includes significant intangible assets, including goodwill and other acquired intangible assets. The determination of related estimated useful lives and whether these assets have been impaired involves significant judgment and is subject to certain factors and events over which we have no control. The introduction of new competitive products or services into our markets could impair the value of our intangible assets if they create market conditions that adversely affect the competitiveness of our products and services. Further, declines in our market capitalization may be an indicator that our intangible assets or goodwill carrying values exceed their fair values, which could lead to potential impairment charges that could impact our operating results.

Developments in the healthcare industry and governing regulations have negatively affected and may continue to negatively affect our business.

Substantially all of our revenue is derived from customers in the healthcare industry, in particular, hospitals. The healthcare industry is highly regulated and is subject to changing political, legislative, regulatory and other influences. Developments generally affecting the healthcare industry, including new regulations or new interpretations of existing regulations, could adversely affect spending on information technology and capital equipment by reducing funding, changing healthcare pricing or delivery or creating impediments for obtaining healthcare reimbursements, which together with declining admission trends, could cause our sales to decline and negatively impact our business. For example, the margins of our hospital customers are modest, and potential decreases in reimbursement for healthcare costs may reduce the overall solvency of our customers or cause further deterioration in their financial or business condition.

In the past bills were signed into law that impact the U.S. healthcare system, including the Affordable Care Act (ACA). Uncertainty surrounding the status of the ACA and its regulations may impact the spending of our healthcare customers, and we cannot predict the effect on our business of any new legislation and regulations that may be adopted if the ACA is significantly changed or repealed or of additional regulations.

Federal budget activities also impact our customers. Our customers include healthcare facilities run by the Department of Defense and the U.S. Department of Veterans Affairs. During the years ended December 31, 2020, 2019 and 2018, we generated approximately 18%, 17% and 18%, respectively, of our revenue from these customers. Our reseller to the Department of Defense and the U.S. Department of Veterans Affairs represented 33% and 19% of our accounts receivable as of December 31, 2020 and 2019, respectively. These customers have been and may continue to be impacted by budgetary and legislative actions.

In the past certain departments of the U.S. federal government temporarily stopped operating as a result of failure by the legislative and executive branches of the government to pass bills to keep them operating. There is a risk that the government could be shut down again. Any past or future shutdown may impact our US government customers' spending decisions, as well as those of our non-US government customers. Any reduction or delay in our customers', or potential customers' spending decisions may result in a delay, or reduction, to our revenue.

In addition, many state governments are changing or expanding their healthcare laws, adding additional complexity to understanding the potential impacts.

We are unable to predict the full impact of these new and changing rules on our hospital customers and others in the healthcare industry. Impacts of these rules have affected and could continue to affect materially our customers' ability to budget for or purchase our products. The healthcare industry has changed significantly in recent years and we expect that significant changes will continue to occur. We cannot provide assurance that the markets for our solutions will continue to exist at current levels or that we will have adequate technical, financial and marketing resources to react to changes in those markets.

If we fail to increase market awareness of our brand and solutions, and expand our sales and marketing operations, our business could be harmed.

We intend to continue to add personnel and resources in sales and marketing as we focus on expanding awareness of our brand and solutions and capitalize on sales opportunities with new and existing customers. Our efforts to improve sales of our

solutions will result in an increase in our sales and marketing expense and general and administrative expense, and these efforts may not be successful. Some newly hired sales and marketing personnel may subsequently be determined to be unproductive and have to be replaced, resulting in operational and sales delays and incremental costs. If we are unable to significantly increase the awareness of our brand and solutions or effectively manage the costs associated with these efforts, our business, financial condition and operating results could be harmed.

Failure to protect our information technology infrastructure against cyber-based attacks, network security breaches, service interruptions, or data corruption could significantly disrupt our operations and adversely affect our business and operating results.

We rely on information technology and telephone networks and systems, including the Internet, to process and transmit sensitive electronic information and to manage or support a variety of business processes and activities, including sales, billing, customer service, procurement and our supply chain. We use enterprise information technology systems to record, process, and summarize financial information and results of operations for internal reporting purposes and to comply with regulatory financial reporting, legal, and tax requirements. In the ordinary course of our business, we also collect, store, process, use and transmit large amounts of confidential information, including intellectual property, protected health information, proprietary business information and personal information. Our information technology systems, some of which are managed by third-parties, may be susceptible to damage, disruptions or shutdowns due to computer viruses, attacks by computer hackers, failures during the process of upgrading or replacing software, databases or components thereof, power outages, hardware failures, telecommunication failures, user errors or catastrophic events. Most of our workforce is currently working remotely as a result of the COVID-19 pandemic, which also increases risks related to information security. Although we have developed systems and processes that are designed to protect confidential information and prevent data loss and other security breaches, including systems and processes designed to reduce the impact of a security breach, such measures cannot provide absolute security. The risk of a security breach or disruption or data loss, particularly through cyber-attacks or cyber intrusion, including by computer hackers, foreign governments and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. We may not be able to anticipate all types of security threats, and we may not be able to implement preventive measures effective against all such security threats. Although we maintain cybersecurity insurance, if our systems are breached or suffer severe damage, disruption or shutdown and we are unable to effectively resolve the issues in a timely manner, our business and operating results may significantly suffer and we may be subject to litigation, government enforcement actions or potential liability beyond our insurance coverage. In addition, such a breach may require notification to governmental agencies, the media and/or affected individuals pursuant to various federal, state (including regulations promulgated by the Federal Trade Commission and state breach notification laws) and international privacy (including GDPR) and security laws, if applicable, including HIPAA or HITECH and its implementing rules and regulations. Security breaches could also cause us to incur significant remediation costs, result in product development delays, disrupt key business operations, adversely impact customer relationships, damage our reputation and divert attention of management and key information technology resources.

Earlier this year, one of our vendors, SolarWinds, was the victim of a cyberattack that inserted a vulnerability in their platform. We use SolarWinds services for our internal corporate network so this introduced a potential vulnerability in our internal systems. We have removed the vulnerable software from our network and have not found any indication that the vulnerability was exploited. There are still uncertainties about the full scope of this cyberattack and we may learn of other vulnerabilities and potential network intrusions by third parties.

If hospitals do not have and are not willing to install, upgrade and maintain the wireless and other information technology infrastructure required to effectively operate our solutions, then they may experience technical problems or not purchase our solutions at all.

The effectiveness of our solutions depends upon the quality and compatibility of the communications environment that our healthcare customers maintain. Our solutions require voice-grade wireless (Wi-Fi) installed through large enterprise environments, which can vary from hospital to hospital and from department to department within a hospital. Many hospitals have not installed a voice-grade wireless infrastructure. If potential customers do not have a wireless network that can properly and fully interoperate with our solutions, then such a network must be installed, or an existing Wi-Fi network must be upgraded or modified, for example, by adding access points in stairwells, for our solutions to be fully functional. The additional costs of installing or upgrading a Wi-Fi network may dissuade potential customers from installing our solutions. Furthermore, if changes to a customer's physical or information technology environment cause integration issues or degrade the effectiveness of our solutions, or if the customer fails to upgrade or maintain its environment as may be required for software deployments, releases and updates, the customer may not be able to fully utilize our solutions or may experience technical problems, or these changes may impact the performance of other wireless equipment being used. If such circumstances arise, prospective

customers may not purchase or existing customers may not expand their use of or deploy upgraded versions of our solutions, thereby harming our business and operating results.

If we fail to achieve and maintain certification for certain U.S. federal standards, our sales to U.S. government customers will suffer.

We believe that a significant opportunity exists to continue to sell our products to healthcare facilities in the Veterans Administration and Department of Defense (DoD). These customers require independent certification of compliance with specific requirements relating to encryption, security, interoperability and scalability, including Federal Information Processing Standard (FIPS) 140-2 and, as to DoD, certification by its Joint Interoperability and Test Command and under its Information Assurance Certification and Accreditation Process. We have received certification under certain of these standards for military-specific configurations of our solution incorporating our Badge, but we do not have these certifications for our new Smartbadge. We continue to carry out further compliance activities and recertifications, as required. A failure on our part to achieve and maintain compliance and to respond to new threats and vulnerabilities, both as to current products and as to new product versions, could adversely impact our revenue.

Our efforts to sell our solutions in non-healthcare markets may not be successful.

In recent years, we have actively engaged in sales efforts to customers outside the healthcare markets, including hospitality, retail, energy, education and other mobile work environments. We may not be successful in further penetrating the non-healthcare markets upon which we are initially focusing, or other new markets. To date, our solutions have been selected by over 400 customers in non-healthcare markets. Total revenue from non-healthcare customers accounted for 3%, 4% and 3% of our revenue during the years ended December 31, 2020, 2019 and 2018, respectively. If we cannot maintain these customers by providing solutions that meet their requirements, if we cannot successfully expand our solutions in non-healthcare markets, or if adoption of our solutions remains slow, we may not obtain significant revenue from these markets. We may experience challenges as we expand in non-healthcare markets, including pricing pressure on our solutions, budget constraints due to the COVID-19 pandemic and technical issues as we adapt our solutions for the requirements of new markets. For example, some of our hospitality and retail customers have been significantly impacted by the COVID-19 pandemic and they have been forced to close locations and face significant revenue declines. Our solutions also may not contain the functionality required by these non-healthcare markets or may be too expensive or may not sufficiently differentiate us from competing solutions such that customers can justify deploying our solutions.

We generally recognize revenue from maintenance and support contracts and subscription arrangements over the contract term, and changes in sales may not be immediately reflected in our operating results.

We generally recognize revenue from our customer subscription and support contracts, extended warranty contracts and subscription arrangements ratably over the contract term, which is typically 12 months, in some cases subject to an early termination right. Revenue from our subscription and support contracts accounted for 40%, 38% and 35% of our revenue for the years ended December 31, 2020, 2019 and 2018, respectively. A portion of the revenue we report in each quarter is derived from the recognition of deferred revenue relating to subscription and support contracts entered into during previous quarters. Consequently, a decline in new or renewed subscription and support, extended warranty contracts or subscription agreements by our customers in any one quarter may not be immediately reflected in our revenue for that quarter. Such a decline, however, will negatively affect our revenue in future quarters. Accordingly, the effect of significant downturns in sales and market acceptance of our services and potential changes in our rate of renewals may not be fully reflected in our operating results until future periods.

Our success depends upon our ability to attract, integrate and retain key personnel, and our failure to do so could harm our ability to grow our business.

Our success depends, in part, on the continuing services of our senior management and other key personnel, and our ability to continue to attract, integrate and retain highly skilled personnel, particularly in engineering, sales and marketing. Competition for highly skilled personnel is intense, particularly in the technology field. If we fail to create work environments viewed as attractive and integrate and retain key personnel our ability to grow our business could be harmed.

The members of our senior management and other key personnel are at-will employees and may terminate their employment at any time without notice. If one or more members of our senior management terminate their employment, we may not be able to find qualified individuals to replace them on a timely basis or at all, and our senior management may need to divert their attention from other aspects of our business. Former employees may also become employees of a competitor. We may also have to pay additional compensation to attract and retain key personnel. We also anticipate hiring additional engineering,

marketing and sales, and services personnel to grow our business. Often, significant amounts of time and resources are required to train these personnel. We may incur significant costs to attract, integrate and retain them, and we may lose them to a competitor or another company before we realize the benefit of our investments in them.

Our international operations subject us, and may increasingly subject us in the future, to operational, financial, economic and political risks abroad.

Although we derive a relatively small portion of our revenue from customers outside the United States, we believe that non-U.S. customers could represent an increasing share of our revenue in the future. During the years ended December 31, 2020, 2019 and 2018, we generated 10.7%, 8.7% and 10.2% of our revenue, respectively, from customers outside of the United States, including Canada, the United Kingdom, Australia, New Zealand and Middle Eastern countries including the United Arab Emirates, Saudi Arabia and Qatar. We also operate an innovation center in India and a sales office in Dubai, United Arab Emirates. Accordingly, we are subject to risks and challenges that we would not otherwise face if we conducted our business solely in the United States, including:

- challenges incorporating non-English speech recognition capabilities into our solutions if we expand into non-English speaking markets;
- difficulties integrating our solutions with wireless infrastructures with which we do not have experience;
- difficulties integrating local dialing plans and applicable PBX standards;
- challenges associated with delivering support, training and documentation in several languages;
- difficulties in staffing and managing personnel and resellers;
- the need to comply with a wide variety of foreign laws and regulations, including increasingly stringent data privacy regulations, requirements for export controls for encryption technology, employment laws, changes in tax laws and tax audits by government agencies;
- political and economic instability in, or foreign conflicts that involve or affect, the countries of our customers;
- the impacts associated with epidemics or contagious diseases;
- adverse effects on us directly, or on our customers and suppliers, of changes in trade, fiscal or tax policies, including the imposition of tariffs;
- difficulties in collecting accounts receivable and longer accounts receivable payment cycles;
- exposure to competitors who are more familiar with local markets;
- risks associated with the Foreign Corrupt Practices Act and local anti-bribery law compliance;
- difficulties associated with resolving contract disputes in foreign countries with varied legal systems;
- limited or unfavorable intellectual property protection in some countries; and
- currency exchange rate fluctuations, which could affect the price of our solutions relative to locally produced solutions.

Any of these factors could harm our existing international business, impair our ability to expand into international markets or harm our operating results.

We face potential liability related to the privacy and security of personal information collected through our solutions.

In connection with our healthcare business, we handle and have access to “Protected Health Information” or “PHI” subject in the United States to the Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) as amended and supplemented by the Health Information Technology for Economic and Clinical Health Act of 2009 (“HITECH”), regulations issued pursuant to these statutes, state privacy and security laws and regulations, and associated contractual obligations as a “business associate” of healthcare providers. These statutes, regulations and contractual obligations impose numerous requirements regarding the use and disclosure of PHI with which we must comply. Among other things, HITECH made certain aspects of HIPAA’s rules, notably the “HIPAA Security Rule,” directly applicable to business associates, independent contractors or agents of covered entities that create, receive, maintain or transmit PHI in connection with providing a function on behalf of, or a service to, a covered entity (e.g., health care communication solutions). HITECH also created four new tiers of civil monetary penalties, amended HIPAA to make civil and criminal penalties directly applicable to business associates and gave state attorneys general new authority to file civil actions for damages or injunctions in federal court to enforce the federal HIPAA regulation and seek attorney’s fees and costs associated with pursuing federal civil actions. The U.S. Department of Health & Human Services Office for Civil Rights (“OCR”) has increased its focus on compliance and continues to train state attorneys general for enforcement purposes. The OCR has recently increased both its efforts to audit HIPAA compliance and its level of enforcement, with one recent penalty exceeding \$16 million. Our failure to accurately anticipate the application or interpretation of these statutes, regulations and contractual obligations as we develop our solutions, a failure by us to comply with their requirements (e.g., evolving encryption and security requirements) or an allegation that defects in our products have resulted in noncompliance by our customers could create material civil and/or criminal liability for us, resulting in adverse publicity and negatively affecting our business.

In addition, the use and disclosure of personal health information is subject to laws and regulations in other jurisdictions in which we do business or expect to do business in the future. Any developments stemming from enactment or modification of these laws and regulations, or the failure by us to comply with their requirements or to accurately anticipate the application or interpretation of these laws could create material liability to us, result in adverse publicity and negatively affect our business.

For example, in May 2016, the EU formally adopted the General Data Protection Regulation (GDPR), which became effective in May 2018. The GDPR greatly increased the European Commission's jurisdictional reach of its laws and adds a broad array of requirements for handling personal information, including, for example, requirements to establish a legal basis for processing, higher standards for obtaining consent from individuals to process their personal information, more robust disclosures to individuals and a strengthened individual data rights regime, requirements to implement safeguards to protect the security and confidentiality of personal information that requires the adoption of administrative, physical and technical safeguards, shortened timelines for data breach notifications to appropriate data protection authorities or data subjects, limitations on retention and secondary use of information, increased requirements pertaining to health data and additional requirements that we impose certain contractual obligations on third-party processors in connection with the processing of the personal information. EU member states are tasked under the GDPR to enact, and have enacted, certain implementing legislation that adds to and/or further interprets the GDPR requirements and potentially extends our obligations and potential liability for failing to meet such obligations. The GDPR, together with national legislation, regulations and guidelines of the EU member states governing the processing of personal information, impose strict obligations and restrictions on the ability to collect, use, retain, protect, disclose, transfer and otherwise process personal information. In particular, the GDPR includes obligations and restrictions concerning the consent and rights of individuals to whom the personal information relates, the transfer of personal information out of the European Economic Area, security breach notifications and the security and confidentiality of personal information. The GDPR authorizes fines for certain violations of up to 4% of global annual revenue or €20 million, whichever is greater, and other administrative penalties. Additionally, the United Kingdom ("UK") implemented the Data Protection Act effective in May 2018 and statutorily amended in 2019, that substantially implements the GDPR and contains provisions, including UK-specific derogations, for how GDPR is applied in the UK. Since the beginning of 2021 (when the transitional period following Brexit expired), we also have to continue to comply with the GDPR and the Data Protection Act, with each regime having the ability to fine up to the greater of €20 million (£17 million) or 4% of global turnover. The costs of compliance with, and other burdens imposed by, such laws and regulations that are applicable to our business operations may limit the use and adoption of our services and reduce overall demand for them. Changes in these legislations may add additional complexity, variation in requirements, restrictions and potential legal risk, require additional investment in resources for compliance programs, could impact strategies and availability of previously useful data, and could result in increased compliance costs and/or changes in business practices and policies.

Any legislation or regulation in the area of privacy and security of personal information could affect the way we operate our services and could harm our business. For example, the GDPR imposes strict rules on the transfer of personal information out of the EU to the United States. These obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other requirements or our practices. In addition, these rules are consistently under scrutiny. For example, on July 16, 2020, the Court of Justice of the European Union (the Court of Justice) invalidated the European Union-United States (EU-U.S.) Privacy Shield on the grounds that the EU-U.S. Privacy Shield failed to offer adequate protections to EU personal information transferred to the United States. While the Court of Justice upheld the use of other data transfer mechanisms, such as the Standard Contractual Clauses, the decision has led to some uncertainty regarding the use of such mechanisms for data transfers to the United States, and the court made clear that reliance on Standard Contractual Clauses alone may not necessarily be sufficient in all circumstances. The use of Standard Contractual Clauses for the transfer of personal information specifically to the United States also remains under review by a number of European data protection supervisory authorities. For example, German and Irish supervisory authorities have indicated that the Standard Contractual Clauses alone provide inadequate protection for EU-U.S. data transfers. Use of the data transfer mechanisms must now be assessed on a case-by-case basis taking into account the legal regime applicable in the destination country, in particular applicable surveillance laws and rights of individuals. The European Data Protection Board (the EDPB) issued additional guidance regarding the Court of Justice's decision on November 11, 2020 which imposes higher burdens on the use of data transfer mechanisms, such as the Standard Contractual Clauses, for cross-border data transfers.

To comply with this guidance, we may need to implement additional safeguards to further enhance the security of data transferred out of the EU, which could increase our compliance costs, expose us to further regulatory scrutiny and liability, and adversely affect our business. Further, the European Commission published new versions of the Standard Contractual Clauses for comment. While the comment period ended in December 2020, the European Commission is expected to finalize and implement the new Standard Contractual Clauses in early 2021. Additionally, other countries (e.g., Australia and Japan) have adopted certain legal requirements for cross-border transfers of personal information. These obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other requirements or our practices. Further, since the transition period for Brexit ended December 31, 2020, there remains some uncertainty regarding cross-border data transfers from the EU to the United Kingdom. The EU is expected to either issue an adequacy decision for

such transfers in early 2021, or an adequacy mechanism such as the Standard Contractual Clauses will be required for transfer of personal information from the EU to the United Kingdom. The costs of compliance with, and the other burdens imposed by, these and other laws or regulatory actions may prevent us from selling our solutions or increase the costs associated with selling our solutions and may affect our ability to invest in or jointly develop solutions in the United States and in foreign jurisdictions. If we are required to implement additional measures to transfer data from the EU, this could increase our compliance costs, and could adversely affect our business, financial condition and results of operations. Further, we cannot guarantee that our privacy and security policies and practices will be found sufficient to protect us from liability or adverse publicity relating to the privacy and security of personal information.

In the U.S., California enacted the California Consumer Privacy Act, or the CCPA, on June 28, 2018, which took effect on January 1, 2020, and became enforceable by the California Attorney General on July 1, 2020, along with related regulations which came into force on August 14, 2020. Among other things, the CCPA requires covered companies to provide new disclosures to California consumers about their data collection, use and sharing practices and provide such consumers new data protection and privacy rights, including the ability to opt out of certain sales of personal information, right to request correction, access, and deletion of their personal information, the right to opt out of certain personal information sharing, and the right to receive detailed information about how their personal information is processed. The CCPA provides for civil penalties for violations, as well as a private right of action for data breaches that result in the loss of personal information. This private right of action may increase the likelihood of, and risks associated with, data breach litigation. Although the CCPA includes limited exceptions from its prescriptions, including exceptions for PHI collected by covered entities or business associates subject to HIPAA, among others, the CCPA may regulate or impact our processing of personal information depending on the context. Some observers have noted that the CCPA could mark the beginning of a trend toward more stringent privacy legislation in the U.S., and, indeed, a number of state legislatures are considering privacy and/or data protection laws, which could increase our potential liability and adversely affect our business. Additionally, California voters recently approved the California Privacy Rights Act, or the CPRA. The CPRA significantly modifies the CCPA and will impose additional data protection obligations on companies doing business in California, including additional consumer rights processes and opt outs for certain uses of sensitive data. While the CPRA will not take effect until January 2023, it will establish a California privacy regulator before that date. The CCPA and the CPRA may significantly impact our business activities and require substantial compliance costs that adversely affect business, operating results, prospects and financial condition. The interplay of federal and state laws (e.g., in addition to California, Massachusetts and Nevada have adopted laws requiring the implementation of certain security measures to protect personal information, and all 50 states and the District of Columbia, Puerto Rico and Guam, have adopted breach notification laws) may be subject to varying interpretations by courts and government agencies, creating complex compliance issues for us and our customers and potentially exposing us to additional expense, adverse publicity and liability. Further, as regulatory focus on privacy, security and data use issues continues to increase and laws and regulations concerning the protection of personal information expand and become more complex, these potential risks to products and services could intensify.

If our efforts to protect the security of information collected by our customers are unsuccessful, we could become subject to costly government enforcement actions and private litigation, and our sales and reputation could suffer.

The nature of our business involves the receipt and storage of information about our customers, including personal information and PHI. We have implemented programs to detect and alert us to data security incidents. However, because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time, we may be unable to anticipate these techniques or implement adequate preventive measures. Companies are increasingly subject to a wide variety of security incidents, cyber-attacks and other attempts to gain unauthorized access. These threats can come from a variety of sources, ranging in sophistication from an individual hacker to malfeasance by employees, consultants or other service providers to state-sponsored attacks. Cyber threats may be generic, or they may be custom crafted against our information systems. In recent times, cyber-attacks have become more prevalent and much harder to detect and defend against. Our network and storage applications may be vulnerable to cyber-attack, malicious intrusion, malfeasance, loss of data privacy or other significant disruption and may be subject to unauthorized access by hackers, employees, consultants or other service providers. In addition, hardware, software or applications we develop or procure from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. Unauthorized parties may also attempt to gain access to our systems or facilities through fraud, trickery or other forms of deceiving our employees, contractors and temporary staff. If we experience significant data security breaches or fail to detect and appropriately respond to significant data security breaches, we could be exposed to government enforcement actions and private litigation, as well as potentially incur significant costs and diversion of resources to comply with our contractual obligations to notify our customers of such security breaches, particularly with respect to any protected health information affected. Moreover, if a computer security breach affects our systems or results in the unauthorized access, use or disclosure of personal information, our reputation could be materially damaged. In addition, such a breach may require notification to governmental agencies, the media and/or affected individuals pursuant to various federal, state and international

privacy and security laws, if applicable, including HIPAA or HITECH and its implementing rules and regulations, as well as regulations promulgated by the Federal Trade Commission and state breach notification laws. We would also be exposed to a risk of loss or litigation and potential liability under laws, regulations and contracts that protect the privacy and security of personal information. For example, as stated above, the CCPA imposes a private right of action for security breaches that could lead to some form of remedy including regulatory scrutiny, fines, private right of action settlements, and other consequences. The financial exposure from the events referenced above could either not be insured against or not be fully covered through any insurance that we may maintain, and there can be no assurance that the limitations of liability in any of our contracts would be enforceable or adequate or would otherwise protect us from liabilities or damages as a result of the events referenced above. Any of the foregoing could have a material adverse effect on our business, reputation, results of operations, financial condition and prospects. In addition, our customers could lose confidence in our ability to protect their information, which could cause them to discontinue using our products or purchasing from us altogether.

The failure of our equipment lease customers to pay us under leasing agreements with them that we do not sell to third party lease finance companies could harm our revenue and operating results.

In 2012, we began offering our solutions to our customers through multi-year equipment lease agreements. We sell the bulk of these leases, including the related accounts receivables, to third party lease finance companies on a non-recourse basis. We retain unsold leases in-house, which exposes us to the creditworthiness of such lease customers over the lease term. For the leases that we retain in-house, our ability to collect payments from a customer or to recognize revenue for the sale could be impaired if the customer fails to meet its obligations to us such as in the case of its bankruptcy filing or deterioration in its financial position, or has other creditworthiness issues, any of which could harm our revenue and operating results.

Our use of open source and non-commercial software components could impose risks and limitations on our ability to commercialize our solutions.

Our solutions contain software modules licensed under open source and other types of non-commercial licenses, including the GNU Public License, the Apache License and others. We also may incorporate open source and other licensed software into our solutions in the future. Use and distribution of such software may entail greater risks than use of third-party commercial software, as licenses of these types generally do not provide warranties or other contractual protections regarding infringement claims or the quality of the code. Some of these licenses require the release of our proprietary source code to the public if we combine our proprietary software with open source software in certain manners. This could allow competitors to create similar products with lower development effort and time and ultimately result in a loss of sales for us.

The terms of many open source and other non-commercial licenses have not been judicially interpreted, and there is a risk that such licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to commercialize our solutions. In such event, in order to continue offering our solutions, we could be required to seek licenses from alternative licensors, which may not be available on a commercially reasonable basis or at all, to re-engineer our solutions or to discontinue the sale of our solutions in the event we cannot obtain a license or re-engineer our solutions on a timely basis, any of which could harm our business and operating results. In addition, if an owner of licensed software were to allege that we had not complied with the conditions of the corresponding license agreement, we could incur significant legal costs defending ourselves against such allegations. In the event such claims were successful, we could be subject to significant damages, be required to disclose our source code, or be enjoined from the distribution of our solutions.

Claims of intellectual property infringement could harm our business.

Vigorous protection and pursuit of intellectual property rights has resulted in protracted and expensive litigation for many companies in our industry. Although claims of this kind have not materially affected our business to date, there can be no assurance of the absence of such claims in the future. Any claims or proceedings against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time, result in the diversion of significant operational resources, or require us to enter into royalty or licensing agreements, any of which could harm our business and operating results.

Intellectual property lawsuits are subject to inherent uncertainties due to the complexity of the technical issues involved, and we cannot be certain that we will be successful in defending ourselves against intellectual property claims. In addition, we currently have a limited portfolio of issued patents compared to many other industry participants, and therefore may not be able to effectively utilize our intellectual property portfolio to assert defenses or counterclaims in response to patent infringement claims or litigation brought against us by third parties. Further, litigation may involve patent holding companies or other adverse patent owners who have no relevant products and against whom our potential patents may provide little or no deterrence.

Many potential litigants have the capability to dedicate substantially greater resources to enforce their intellectual property rights and to defend claims that may be brought against them. Furthermore, a successful claimant could secure a judgment that requires us to pay substantial damages or prevents us from distributing certain solutions or performing certain services. We might also be required to seek a license and pay royalties for the use of such intellectual property, which may not be available on commercially acceptable terms or at all. Alternatively, we may be required to develop non-infringing technology, which could require significant effort and expense and may ultimately not be successful.

If we are unable to protect our intellectual property rights, our competitive position could be harmed, or we could be required to incur significant expenses to enforce our rights.

Our success depends, in part, on our ability to protect our proprietary technology. We protect our proprietary technology through patent, copyright, trade secret and trademark laws in the United States and similar laws in other countries. We also protect our proprietary technology through licensing agreements, nondisclosure agreements and other contractual provisions. These protections may not be available in all cases or may be inadequate to prevent our competitors from copying, reverse engineering or otherwise obtaining and using our technology, proprietary rights or solutions in an unauthorized manner. The laws of some foreign countries may not be as protective of intellectual property rights as those in the United States, and mechanisms for enforcement of intellectual property rights may be inadequate. In addition, third parties may seek to challenge, invalidate or circumvent our patents, trademarks, copyrights and trade secrets, or applications for any of the foregoing. Our competitors may independently develop technologies that are substantially equivalent, or superior, to our technology or design around our proprietary rights. In each case, our ability to compete could be significantly impaired.

To prevent unauthorized use of our intellectual property rights, it may be necessary to prosecute actions for infringement or misappropriation of our proprietary rights. Any such action could result in significant costs and diversion of our resources and management's attention, and there can be no assurance that we will be successful in such action. Furthermore, many of our current and potential competitors have the ability to dedicate substantially greater resources to enforce their intellectual property rights than us. Accordingly, despite our efforts, we may not be able to prevent third parties from infringing or misappropriating our intellectual property. While we plan to continue to protect our intellectual property with, among other things, patent protection, there can be no assurance that:

- current or future U.S. or foreign patent applications will be approved;
- our issued patents will protect our intellectual property and not be held invalid or unenforceable if challenged by third parties;
- we will succeed in protecting our technology adequately in all key jurisdictions in which we develop technology, or we or our competitors operate; or
- others will not independently develop similar or competing products or methods or design around any patents that may be issued to us.

Our failure to obtain patents with claims of a scope necessary to cover our technology, or the invalidation of our patents, or our inability to protect any of our intellectual property, may weaken our competitive position and harm our business and operating results. We might be required to spend significant resources to monitor and protect our intellectual property rights. We may initiate claims or litigation against third parties for infringement of our proprietary rights or to establish the validity of our proprietary rights. Any litigation, whether or not it is resolved in our favor, could result in significant expense to us and divert the efforts of our technical and management personnel, which may harm our business, operating results and financial condition.

Product liability or other liability claims could cause us to incur significant costs, adversely affect the sales of our solutions and harm our reputation.

Our solutions are utilized by healthcare professionals and others in the course of providing patient care. As a result, patients, family members, physicians, nurses or others may allege we are responsible for harm to patients or healthcare professionals due to defects in, the malfunction of, the characteristics of, or the operation of, our solutions. Any such allegations could harm our reputation and ability to sell our solutions.

Our solutions utilize lithium-ion batteries and electronic components that may overheat or otherwise malfunction as a result of physical or environmental damage. Components of our solutions emit radio frequency (RF) emissions which have been alleged, in connection with cellular phones, to have adverse health consequences. Magnets in our badges may emit electromagnetic radiation and may be alleged to interfere with implanted medical or other devices. While these components of our solutions comply with applicable guidelines, some may allege that these components of our solutions cause adverse health consequences. Also, applicable guidelines may change making these components of our solutions non-compliant. Any such allegations or non-compliance, or any regulatory developments, could negatively impact the sales of our solutions, require costly modifications to our solutions, and harm our reputation.

Although our customer agreements contain terms and conditions, including disclaimers of liability, that are intended to reduce or eliminate our potential liability, we could be required to spend significant amounts of management time and resources to defend ourselves against product liability, tort, warranty or other claims. If any such claims were to prevail, we could be forced to pay damages, comply with injunctions or stop distributing our solutions. Even if potential claims do not result in liability to us, investigating and defending against these claims could be expensive and time consuming and could divert management's attention away from our business. We maintain general liability insurance coverage, including coverage for errors and omissions; however, this coverage may not be sufficient to cover large claims against us or otherwise continue to be available on acceptable terms. Further, the insurer could attempt to disclaim coverage as to any particular claim.

We may require additional capital to support our business growth, and such capital may not be available.

We intend to continue to make investments to support business growth and may require additional funds to respond to business challenges, which include the need to develop new solutions or enhance existing solutions, enhance our operating infrastructure, expand our sales and marketing capabilities, expand into non-healthcare markets, and acquire complementary businesses, technologies or assets. Accordingly, we may need to engage in additional equity or debt financing to secure funds. Equity and debt financing, however, might not be available when needed or, if available, might not be available on terms satisfactory to us. If we raise additional funds through equity financing, our stockholders may experience dilution. Debt financing, if available, may involve covenants restricting our operations or our ability to incur additional debt. If we are unable to obtain adequate financing or financing on terms satisfactory to us in the future, our ability to continue to support our business growth and to respond to business challenges could be significantly limited as we may have to delay, reduce the scope of or eliminate some or all of our initiatives, which could harm our operating results.

Some of our solutions are, and others could become, subject to regulation by the U.S. Food and Drug Administration or similar foreign agencies, which could increase our operating costs.

We provide certain products that are, and others that may become, subject to regulation by the Food and Drug Administration (FDA) and similar agencies in other countries, or the jurisdiction of these agencies could be expanded in the future to include our solutions. The FDA regulates certain products, including software-based products, as "medical devices" based, in part, on the intended use of the product and the risk the device poses to the patient should the device fail to perform properly. For example, the clinical alert notification solution we acquired as part of our acquisition of Extension Healthcare and the clinical communications product we acquired from mVisum are regulated by the FDA as Class II medical devices. Although we have concluded that our wireless badge is a general-purpose communications device not subject to FDA regulation, the FDA could disagree with our conclusion, or changes in our solutions or the FDA's evolving regulation could lead to FDA regulation of our solutions. Canada and many other countries in which we sell or may sell our solutions could also have similar regulations applicable to our solutions, some of which may be subject to change or interpretation. We may incur substantial operating costs if we are required to register our solutions or components of our solutions as regulated medical devices under U.S. or foreign regulations, obtain premarket approval from the FDA or foreign regulatory agencies, and satisfy the extensive reporting requirements. In addition, failure to comply with these regulations could result in enforcement actions and monetary penalties.

Environmental and social (E&S) regulations, policies and provisions, as well as customer demand, may make our supply chain more complex and may adversely affect our relationships with customers.

There is an increasing focus on the governance of environmental and social risks in our industry. A number of our customers have adopted, or may adopt, procurement policies that include E&S provisions that their suppliers must comply with, or they may seek to include such provisions in their procurement terms and conditions. An increasing number of participants in the industry are also joining voluntary E&S initiatives, such as the Responsible Business Alliance. These E&S provisions and initiatives are subject to change, can be unpredictable, and may be difficult and expensive for us to comply with, given the complexity of our supply chain and our outsourced manufacturing. If we are unable to comply or are unable to cause our suppliers or contract manufacturers to comply, with such policies or provisions, a customer may stop purchasing products from us, and may take legal action against us, which could harm our reputation, revenue and results of operations.

In addition, as part of their E&S programs, an increasing number of customers are seeking to source products that do not contain minerals sourced from areas where proceeds from the sale of such minerals are likely to be used to fund armed conflict, such as in the Democratic Republic of the Congo. This could adversely affect the sourcing, availability and pricing of minerals used in the manufacture of our equipment. Since our supply chain is complex, we are not currently able to definitively ascertain the origins of all of the minerals and metals used in our products. As a result, we may face difficulties in satisfying these customers' demands, which may harm our sales and operating results.

Risks Related to our Notes

We have indebtedness in the form of convertible senior notes.

As a result of the Notes offering, we incurred \$143.75 million principal amount of indebtedness, the principal amount of which we may be required to pay at maturity in 2023. Holders of the Notes will have the right to require us to repurchase their Notes upon the occurrence of a “fundamental change” (as defined in the indenture governing the Notes) at a purchase price equal to 100% of the principal amount of the Notes to be purchased, plus accrued and unpaid interest, if any. In addition, the indenture for the Notes provides that we are required to repay amounts due under the indenture in the event that there is an event of default for the Notes that results in the principal, premium, if any, and interest, if any, becoming due prior to maturity date of the Notes. There can be no assurance that we will be able to repay this indebtedness when due, or that we will be able to refinance this indebtedness on acceptable terms or at all. In addition, this indebtedness could, among other things:

- heighten our vulnerability to adverse general economic conditions and heightened competitive pressures;
- require us to dedicate a larger portion of our cash flow from operations to interest payments, limiting the availability of cash for other purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and industry; and
- impair our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes.

In addition, our ability to purchase the Notes or repay prior to maturity any accelerated amounts under the Notes upon an event of default or pay cash upon conversions of the Notes may be limited by law, by regulatory authority or by agreements governing our indebtedness outstanding at the time. Our failure to repurchase Notes at a time when the repurchase is required by the indenture (whether upon a fundamental change or otherwise under the indenture) or pay cash payable on future conversions of the Notes (unless we elect to deliver solely shares of our common stock to settle such conversion) as required by the indenture would constitute a default under the indenture. A default under the indenture or the fundamental change itself could also lead to a default under agreements governing any future indebtedness. If the repayment of any related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness, repurchase the Notes or make cash payments upon conversions thereof.

Provisions in the indenture for the Notes may deter or prevent a business combination that may be favorable to you.

If a fundamental change occurs prior to the maturity date of the Notes, holders of the Notes will have the right, at their option, to require us to repurchase all or a portion of their Notes. In addition, if a make-whole fundamental change occurs prior to the maturity date, we will in some cases be required to increase the conversion rate for a holder that elects to convert its notes in connection with such make-whole fundamental change. Furthermore, the indenture for the Notes prohibits us from engaging in certain mergers or acquisitions unless, among other things, the surviving entity assumes our obligations under the Notes. These and other provisions in the indenture could deter or prevent a third party from acquiring us even when the acquisition may be favorable to our stockholders.

The accounting method for convertible debt securities that may be settled in cash, such as the Notes, could have a material effect on our reported financial results.

Under Accounting Standards Codification 470-20, Debt with Conversion and Other Options (ASC 470-20), an entity must separately account for the liability and equity components of the convertible debt instruments (such as the Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer’s economic interest cost. The effect of ASC 470-20 on the accounting for the Notes is that the equity component is required to be included in the additional paid-in capital section of stockholders’ equity on our consolidated balance sheet at the issuance date and the value of the equity component would be treated as debt discount for purposes of accounting for the debt component of the Notes. We are required to record a non-cash interest expense for the amortization of this debt discount for the term of the Notes which will adversely affect our financial results while the Notes are outstanding.

In addition, under certain circumstances, convertible debt instruments (such as the Notes) that may be settled entirely or partly in cash may be accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of such Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of such Notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we

elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable, or otherwise elect not to, use the treasury stock method in accounting for the shares issuable upon conversion of the Notes, then our diluted earnings per share could be adversely affected.

The capped call transactions may affect the value of the Notes and our common stock.

In connection with the issuance of the Notes, we entered into capped call transactions with certain financial institutions (the option counterparties). The capped call transactions are expected generally to reduce the potential dilution upon any conversion of the Notes and/or offset any cash payments we are required to make in excess of the principal amount upon conversion of the Notes, with such reduction and/or offset subject to a cap. In connection with establishing their initial hedges of the capped call transactions, the option counterparties and/or their respective affiliates purchased shares of our common stock and/or entered into various derivative transactions with respect to our common stock. This activity could have increased (or reduced the size of any decrease in) the market price of our common stock or the Notes at that time. In addition, the option counterparties and/or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock in secondary market transactions (and are likely to do so during any observation period related to a conversion of notes or following any repurchase of notes by us on any fundamental change repurchase date or otherwise). This activity could also cause or avoid an increase or a decrease in the price of our common stock or the Notes. The potential effect, if any, of these transactions and activities on the price of our common stock or the Notes will depend in part on market conditions and cannot be ascertained at this time. Any of these activities could adversely affect the value of our common stock.

Risks related to our common stock

We have never paid cash dividends on our capital stock, and we do not anticipate paying any dividends in the foreseeable future.

We have never paid cash dividends on any of our capital stock and currently intend to retain our future earnings to fund the development and growth of our business. As a result, capital appreciation, if any, of our common stock will be the sole source of gain for the foreseeable future.

Our charter documents and Delaware law could discourage, delay or prevent a change of control of our company or change in our management that stockholders consider favorable and cause our stock price to decline.

Certain provisions of our restated certificate of incorporation and restated bylaws and Delaware law could discourage, delay or prevent a change of control of our company or change in our management that the stockholders of our company consider favorable. These provisions:

- authorize the issuance of “blank check” preferred stock that our board of directors could issue to increase the number of outstanding shares and to discourage a takeover attempt;
- prohibit stockholder action by written consent, requiring all stockholder actions to be taken at a meeting of stockholders;
- establish advance notice procedures for nominating candidates to our board of directors or proposing matters that can be acted upon by stockholders at stockholder meetings;
- limit the ability of our stockholders to call special meetings of stockholders;
- prohibit stockholders from cumulating their votes for the election of directors;
- permit newly created directorships resulting from an increase in the authorized number of directors or vacancies on our board of directors to be filled only by majority vote of our remaining directors, even if less than a quorum is then in office;
- provide that our board of directors is expressly authorized to make, alter or repeal our bylaws;
- establish a classified board of directors so that not all members of our board are elected at one time;
- provide that our directors may be removed only for “cause” and only with the approval of the holders of at least 66 2/3rds percent of our outstanding stock; and
- require super-majority voting to amend certain provisions in our certificate of incorporation and bylaws.

Section 203 of the Delaware General Corporation Law may also discourage, delay or prevent a change of control of our company.

The exclusive forum provision in our amended and restated bylaws may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or any of our directors, officers, or other employees, which may discourage lawsuits with respect to such claims.

Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all claims brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder. In April 2020, we amended and restated our restated bylaws to provide that the federal district courts of the United States of America will, to the fullest extent permitted by law, be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act (a Federal Forum Provision). Our decision to adopt a Federal Forum Provision followed a decision by the Supreme Court of the State of Delaware holding that such provisions are facially valid under Delaware law. While there can be no assurance that federal courts or other state courts will follow the holding of the Delaware Supreme Court or determine that the Federal Forum Provision should be enforced in a particular case, application of the Federal Forum Provision generally means that suits brought by our stockholders to enforce any duty or liability created by the Securities Act must be brought in federal court and cannot be brought in state court. While neither the exclusive forum provision nor the Federal Forum Provision applies to suits brought to enforce any duty or liability created by the Exchange Act, Section 27 of the Exchange Act creates exclusive federal jurisdiction over all claims brought to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder. Accordingly, actions by our stockholders to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder also must be brought in federal court. Our stockholders will not be deemed to have waived our compliance with the federal securities laws and the regulations promulgated thereunder.

Any person or entity purchasing or otherwise acquiring or holding any interest in any of our securities shall be deemed to have notice of and consented to our exclusive forum provisions, including the Federal Forum Provision. These provisions may limit a stockholder's ability to bring a claim in a judicial forum of their choosing for disputes with us or our directors, officers, or other employees, which may discourage lawsuits against us and our directors, officers, and other employees.

General risk factors

The market price of our common stock has been, and may continue to be, volatile, and your investment in our stock could suffer a decline in value.

There has been significant volatility in the market price and trading volume of equity securities, which is often unrelated or disproportionate to the financial performance of the companies issuing the securities. These broad market fluctuations may negatively affect the market price of our common stock. The market price of our common stock could fluctuate significantly in response to the factors described in this "Risk Factors" section and elsewhere in this Form 10-K and other factors, many of which are beyond our control, including:

- actual or anticipated variation in anticipated operating results of us or our competitors;
- the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;
- announcements by us or our competitors of new solutions, new or terminated significant contracts, commercial relationships or capital commitments;
- changes in the regulatory environment affecting our healthcare customers, including impediments to their ability to obtain reimbursement for their services, and other actual or anticipated legal or regulatory developments in the United States or foreign countries;
- actual or anticipated developments in our competitors' businesses or the competitive landscape generally;
- failure of securities analysts to maintain coverage of us, changes in financial estimates by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- developments or disputes concerning our intellectual property or other proprietary rights;
- commencement of, or our involvement in, litigation;
- announced or completed acquisitions of businesses, technologies or assets by us or our competitor;
- changes in operating performance and stock market valuations of other technology companies generally, or those in our industry in particular;
- price and volume fluctuations attributable to inconsistent trading volume levels of our common stock;
- our decision to seek additional equity or debt financing;
- our public float relative to the total number of shares of our common stock that are issued and outstanding;
- price and volume fluctuations in the overall stock market, including as a result of trends in the economy as a whole;
- rumors and market speculation involving us or other companies in our industry;
- the dissemination of adverse or misleading reports or opinions about our business;
- any major change in our management;

- unfavorable economic conditions and slow or negative growth of our markets; and
- other events or factors, including those resulting from war, incidents of terrorism or health epidemics or contagious diseases.

Our business is subject to the risks of earthquakes, fire, floods and other natural catastrophic events, and to interruption by man-made problems such as power disruptions or terrorism.

Our corporate headquarters are located in the San Francisco Bay Area, a region known for seismic activity, and many critical components of our solutions are sourced in Asia and Mexico, regions known to suffer natural disasters and epidemics or contagious diseases. A significant natural disaster, such as an earthquake, fire or a flood, or epidemic or contagious disease, occurring at our headquarters, our other facilities or where our contract manufacturer or its suppliers are located, could harm our business, operating results and financial condition. In addition, acts of terrorism could cause disruptions in our business, the businesses of our customers and suppliers, or the economy as a whole. We also rely on information technology systems to communicate among our workforce located worldwide, and in particular, our senior management, general and administrative, and research and development activities that are coordinated with our corporate headquarters in the San Francisco Bay Area. Any disruption to our internal communications, whether caused by a natural disaster, an epidemic or contagious disease, or by man-made problems, such as power disruptions, in the San Francisco Bay Area, Asia or Mexico could delay our research and development efforts, cause delays or cancellations of customer orders or delay deployment of our solutions, which could harm our business, operating results and financial condition.

If we do not maintain effective internal control over financial reporting or disclosure controls and procedures in the future, the accuracy and timeliness of our financial reporting may be adversely affected.

The Sarbanes-Oxley Act requires, among other things, that we assess the effectiveness of our internal control over financial reporting annually and disclosure controls and procedures quarterly. In particular, we must obtain confidence in our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting as required by Section 404 of the Sarbanes-Oxley Act. To the extent we find a material weakness or other deficiency in our internal control over financial reporting, the accuracy and timeliness of our financial reporting may be adversely affected.

Multiple negative consequences could ensue if a material weakness in our internal control over financial reporting is identified in the future, or we are not able to comply with the requirements of Section 404 in a timely manner, or we do not maintain effective controls. For example, our reported financial results could be materially misstated or could be restated, we could receive an adverse opinion regarding our controls from our independent registered public accounting firm, or we could be subject to investigations or sanctions by regulatory authorities. All of these outcomes would require additional financial and management resources, and the market price of our stock could decline.

We will continue to incur substantial costs as a result of operating as a public company and our management devotes substantial time to public company compliance obligations.

As a public company, we incur substantial legal, accounting and other expenses. The Sarbanes-Oxley Act, Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and rules subsequently implemented by the SEC and our stock exchange, impose various requirements on public companies, including certain corporate governance practices. Our management and other personnel devote a substantial amount of time to these compliance requirements. Moreover, these rules and regulations, along with compliance with accounting principles and regulatory interpretations of such principles, as amended by the JOBS Act, have increased and will continue to increase our legal, accounting and financial compliance costs and have made and will continue to make some activities more time-consuming and costly.

We face risks related to securities litigation that could result in significant legal expenses and settlement or damage awards.

We have in the past been, and may in the future become, subject to claims and litigation alleging violations of the securities laws or other related claims, which could harm our business and require us to incur significant costs. Regardless of the outcome, these matters or future litigation may require significant attention from management and could result in significant

legal expenses, settlement costs or damage awards that could have a material impact on our financial position, results of operations and cash flows.

If securities or industry analysts issue an adverse or misleading opinion regarding our stock or do not publish research or reports about our business, our stock price could decline.

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us and our business. We do not control these analysts or the content and opinions included in their reports. The price of our common stock could decline if one or more analysts downgrade our common stock or if those analysts issue other unfavorable commentary or cease publishing reports about us or our business. If one or more analysts cease coverage of our company or fail to regularly publish reports about our company, we could lose visibility in the financial market, which in turn could cause our stock price to decline. Further, securities or industry analysts may elect not to provide research coverage of our common stock and such lack of research coverage may adversely affect the market price of our common stock.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

We do not currently own any of our facilities. The following table sets forth the location, approximate size, primary use and lease expiration dates of our material leased facilities. Our facilities are in good operating condition and adequately serve our business needs.

Location	Approximate square feet	Primary use	Lease expiration date
San Jose, California	70,000	Corporate headquarters and product warehousing	March 31, 2022
Fort Wayne, Indiana	27,860	Development, sales and support	February 28, 2023
Toronto, Canada	2,289	Development, sales and support	April 30, 2023
Reading, United Kingdom	1,366	Sales and support	June 6, 2022
Bangalore, India	20,734	Development	July 24, 2022
Bangalore, India	20,734	Development	July 1, 2024
Dubai, United Arab Emirates	1,905	Sales and support	December 20, 2022
Pleasanton, California	842	Development, sales and support	January 31, 2024
Orlando, Florida	5,083	Sales and support	May 31, 2026
Queensland, Australia	1,100	Sales and support	June 23, 2021

Item 3. Legal Proceedings

We are currently, and may from time to time be, involved in lawsuits, claims, investigations and proceedings, consisting of intellectual property, commercial, employment and other matters which arise in the ordinary course of business.

Item 4. Mine Safety Disclosures

None.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock has been listed on the New York Stock Exchange under the symbol “VCRA” since March 28, 2012.

Holders of Common Stock

As of February 22, 2021, we had 34 holders of record of our common stock. The actual number of stockholders is greater than this number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

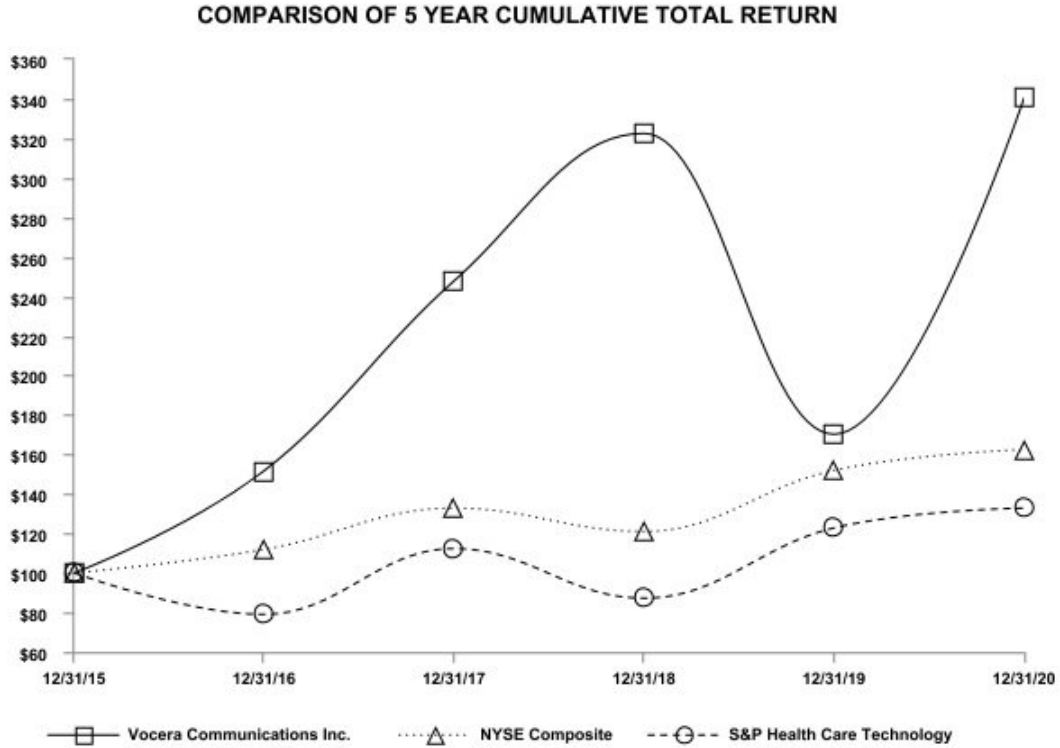
Dividend policy

We have never declared or paid any cash dividends on our capital stock, and we do not currently intend to pay any cash dividends on our common stock for the foreseeable future. We expect to retain future earnings, if any, to fund the development and growth of our business. Any future determination to pay dividends on our common stock will be at the discretion of our board of directors and will depend upon, among other factors, our financial condition, operating results, current and anticipated cash needs, plans for expansion and other factors that our board of directors may deem relevant.

Stock Performance

This stock performance graph shall not be deemed “soliciting material” or to be “filed” with the SEC for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of Vocera Communications, Inc. under the Securities Act or the Exchange Act.

The following stock performance graph compares the cumulative total return provided to holders of the common stock of Vocera Communications, Inc. relative to the cumulative total returns of the New York Stock Exchange Composite Index and the Standard & Poor’s 1500 Health Care Technology Index over a five-year period. An investment of \$100 is assumed to have been made in our common stock and in each of the indexes on December 31, 2015, including reinvestment of dividends, and its relative performance is tracked through December 31, 2020.



	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20
Vocera Communications Inc.	100.00	151.56	247.70	322.54	170.16	340.41
NYSE Composite	100.00	111.94	132.90	121.01	151.87	162.49
S&P Health Care Technology	100.00	78.73	112.00	87.15	122.90	132.86

Purchases of Equity Securities by the Issuer and Affiliated Purchases

During the three months ended December 31, 2020, we did not repurchase any of our securities.

Securities Authorized for Issuance under Equity Compensation Plans

The information required for this Item is incorporated by reference from our Proxy Statement to be filed for our 2021 Annual Meeting of Stockholders.

Recent Sales of Unregistered Securities

None.

Item 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and related notes included in Item 8, “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K. The selected consolidated financial data in this section are not intended to replace the consolidated financial statements and are qualified in their entirety by the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

We derived the consolidated statement of operations data for the years ended December 31, 2020, 2019 and 2018 and the consolidated balance sheet data as of December 31, 2020 and 2019 from our audited financial statements included elsewhere in this report. We derived the consolidated statement of operations data for the years ended December 31, 2017 and 2016 and the consolidated balance sheet data as of December 31, 2018, 2017 and 2016 from our audited consolidated financial statements that do not appear in this report. Our historical results are not necessarily indicative of the results to be expected in the future.

(in thousands, except per share data)	Years ended December 31,				
	2020	2019	2018	2017	2016
Consolidated statements of operations data:					
Total revenue	\$ 198,420	\$ 180,501	\$ 179,630	\$ 165,989	\$ 132,026
Gross profit	128,617	109,099	111,887	101,062	82,951
Net loss	(9,656)	(17,980)	(9,674)	(10,897)	(11,400)
Net loss attributable to common stockholders	\$ (9,656)	\$ (17,980)	\$ (9,674)	\$ (10,897)	\$ (11,400)
Net loss per share attributable to common stockholders					
Basic and Diluted	\$ (0.30)	\$ (0.57)	\$ (0.32)	\$ (0.38)	\$ (0.42)
Weighted average shares used to compute net loss per share attributable to common stockholders					
Basic and Diluted	32,215	31,273	30,041	28,655	26,859
(in thousands)	As of December 31,				
	2020	2019	2018	2017	2016
Consolidated balance sheet data:					
Cash, cash equivalents and short-term investments	\$ 230,203	\$ 229,868	\$ 221,170	\$ 81,233	\$ 74,066
Total assets	406,821	370,455	352,098	204,973	192,495
Long-term debt	124,376	117,178	110,540	—	—
Total stockholders’ equity	181,016	163,825	162,867	128,000	119,146

Item 7. 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 together with our consolidated financial statements and related notes included in Item 8, "Financial Statements and Supplementary Data" included in this Annual Report on Form 10-K. This discussion and analysis contains forward-looking statements reflecting our current expectations that involve risks and uncertainties which are subject to safe harbors under the Securities Act of 1933, as amended, or the Securities Act, and the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements include, but are not limited to, statements concerning our plans, objectives, expectations and intentions, future financial position, future revenues, projected costs, expectations regarding demand and acceptance for our technologies, growth opportunities and trends in the market in which we operate, prospects and plans and objectives of management, and the expected impact of the COVID-19 pandemic on our operations. The words "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," "projects," "will," "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. The cautionary statements made in this Annual Report on Form 10-K should be read as applying to all related forward-looking statements wherever they appear in this Annual Report on Form 10-K. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to those set forth under Item 1A, "Risk factors" and elsewhere in this Annual Report on Form 10-K.

Business overview

We are a provider of secure, integrated, intelligent communication and clinical workflow solutions, focused on empowering mobile workers in healthcare, hospitality, retail, energy, education and other mission-critical mobile work environments, in the United States and internationally. The significant majority of our business is generated from sales of our solutions in the healthcare market to help our customers enhance quality of care, safety, patient and staff experience and improve operational efficiency. As of December 31, 2020, care teams at approximately 1,900 healthcare facilities worldwide have selected our solutions.

We primarily sell products, software subscriptions and support and professional services directly to our customers. Total revenue increased 9.9% to \$198.4 million in 2020 from \$180.5 million in 2019, and our 2019 revenue increased 0.5% from \$179.6 million in 2018. For the year ended December 31, 2020, we recorded a net loss of \$9.7 million compared to a net loss of \$18.0 million for the year ended December 31, 2019.

Our diverse customer base ranges from large hospital systems to small local hospitals, as well as other healthcare facilities and customers in non-healthcare markets. We do not rely on any one customer for a substantial portion of our revenue. While we have international customers in other English-speaking countries such as Canada, the United Kingdom, Australia, New Zealand and parts of the Middle East, most of our customers are located in the United States. International customers represented 10.7% and 8.7% of our revenue in 2020 and in 2019, respectively. We believe certain international markets represent attractive growth opportunities. We are exploring plans to expand our presence in other English-speaking markets and enter non-English speaking markets.

We outsource the manufacturing of our hardware products. Our outsourced manufacturing model allows us to scale our business without the significant capital investment and on-going expenses required to establish and maintain manufacturing operations. We work closely with our contract manufacturers, including Sercomm and SMTC Corporation, and key suppliers to manage the procurement, quality and cost of components. We seek to maintain an optimal level of finished goods inventory to meet our forecast for sales and unanticipated shifts in sales volume and mix.

In the third quarter of 2020, we acquired EASE Applications, LLC, or EASE Applications, (now referred to as Vocera Ease) for \$24.2 million, net of \$0.3 million of cash acquired. In addition to the purchase consideration, the agreement includes an earn-out pool with total potential payout amounts of \$5 million subject to the achievement of certain performance thresholds as well as an employee retention bonus plan of \$5 million subject to the achievement of certain performance thresholds and continuing employment. Vocera Ease offers a cloud-based communication platform and mobile application built to improve the patient experience by enabling friends and family members to receive timely updates about the progress of their loved one in the hospital.

A discussion and analysis of our financial condition and results of operations for the year ended December 31, 2018 is included in Item 7 of Part II, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on February 26, 2020.

COVID-19 Pandemic

The outbreak of the novel coronavirus, SARS-CoV-2, or COVID-19, is a global pandemic and public health emergency. Many federal, state and local governments and private entities have mandated various restrictions, including travel restrictions, restrictions on public gatherings, stay at home orders and advisories and quarantining of people who may have been exposed to the virus. Since our last filing, COVID-19 infections have continued and are increasing in many geographies of the world and these rates may continue to increase. The COVID-19 pandemic has affected our business in several ways, including the following:

- We have taken measures to protect the health and safety of our employees, primarily by shifting the majority of our employees to remote work.
- We booked some urgent orders during the year ended December 31, 2020 to serve hospitals focused on preparations for COVID-19.
- During the year ended December 31, 2020, we issued some free “surge” software licenses to our customers that can be used for a limited time while they are responding to the pandemic.
- Our access to our healthcare customers’ locations for sales and implementation activities was limited in many cases. The sales cycle and implementation timeline for broader strategic deals in some cases has been elongated as they shifted their primary focus to preparing for and responding to the pandemic.
- We have experienced some delays in receiving parts due to supplier and shipping issues.

Overall, the outbreak has not had a material impact on our operating results or business in the year ended December 31, 2020. While future impacts cannot be predicted at this time, the shift in hospital resources, attention to treatment of COVID-19 patients and declines in hospital revenues may result in reduced demand for our products and solutions, longer sales cycles and/or delays of customer implementations, which could negatively impact our financial condition.

We have generated operating cash flows in the past and our \$230.2 million in cash and short-term investments provides us with ample liquidity to meet our current needs. However, given the dynamic nature of this situation, we cannot accurately estimate the impacts of COVID-19 on our financial condition, results of operations or cash flows.

Components of operating results

Revenue. We generate revenue from the sale of products and services. As discussed further in the section titled “Critical accounting policies and estimates—Revenue recognition”, revenue is recognized utilizing a five-step approach which depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenue is comprised of the following:

- **Product.** Our solutions include both hardware and software. We refer to hardware revenue as device revenue, which includes revenue from sales of our communication badges and badge accessories, which include batteries, battery chargers, lanyards, clips and other ancillary badge components as well as revenue from the resale of third-party devices and related accessories. Software revenue is derived primarily from the sale of perpetual licenses to our Vocera Communication and Workflow System. We derive additional software revenue from the sale of term licenses and cloud-based subscriptions, which can be renewed on a subscription basis. Product revenue is generally recognized upon shipment of hardware and perpetual licenses and, in the case of subscription software, ratably over the applicable term.
- **Service.** We receive service revenue from sales of cloud-based subscriptions, sales of software maintenance, extended hardware warranties and professional services. Subscription revenue is generally recognized ratably over the application term. Software maintenance is typically invoiced annually in advance, recorded as deferred revenue, and recognized as revenue ratably over the service period. Our professional services revenue is based on both time and materials, and fixed price contracts, and is recognized as the services are provided. Extended warranties are invoiced in advance, recorded as deferred revenue, and recognized ratably over the extended warranty period.

Cost of revenue. Cost of revenue is comprised of the following:

- **Cost of product.** Cost of product is comprised primarily of materials costs, software license costs, provisions for excess and obsolete inventory, warranty, and manufacturing overhead costs for test engineering, material requirements planning and our shipping and receiving functions. These overhead costs also include facilities, equipment depreciation, amortization of developed technology and stock-based compensation expenses. We expect material costs to vary with the product life cycle of our devices.
- **Cost of service.** Cost of service is comprised primarily of employee wages, benefits and related personnel expenses of our technical support team, our professional consulting personnel and our training teams. Cost of service also includes facility

and information technology costs. We expect our cost of service will increase as we continue to invest in support services to meet the needs of our customer base.

Operating expenses. Operating expenses are comprised of the following:

- *Research and development.* Research and development expenses consist primarily of employee wages, benefits and related personnel expenses, hardware materials, and consultant fees and expenses related to the design, development, testing and enhancements of our solutions. We intend to continue to invest in improving the functionality of our solutions and the development of new solutions.
- *Sales and marketing.* Sales and marketing expenses consist primarily of employee wages, benefits and related personnel expenses, as well as trade shows, marketing programs and collateral and public relations programs.
- *General and administrative.* General and administrative expenses consist primarily of employee wages, benefits and related personnel expenses, consulting, accounting fees, legal fees and other general corporate expenses.

Interest income and other income (expense), net.

- *Interest income.* Interest income consists primarily of interest income earned on our cash, cash equivalent and short-term investment balances. Our interest income will vary each reporting period depending on our average cash, cash equivalent and short-term investment balances during the period and market interest rates.
- *Interest expense.* Interest expense consists of amortization of debt discount and debt issuance costs as well as the contractual interest incurred of the issuance of the Convertible Senior Notes which are discussed in further detail in Note 8 of the Notes to Consolidated Financial Statements.
- *Other income (expense), net.* Other income (expense), net consists primarily of foreign exchange gains and losses.

Provision for income taxes. We are subject to income taxes in the countries where we sell our solutions. We anticipate that in the future as we expand our sale of solutions to customers outside the United States, we will become subject to taxation based on the foreign statutory rates in the countries where these sales took place and our effective tax rate could fluctuate accordingly. Currently, each of our international subsidiaries is operating under cost plus agreements where the U.S. parent company reimburses the international subsidiary for its costs plus an arm's length profit.

Income taxes are computed using the asset and liability method, under which deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances have been established to reduce deferred tax assets to the amount reasonably expected to be realized. Changes in valuation allowances are reflected as a component of provision for income taxes.

At December 31, 2020, we held a \$39.9 million valuation allowance against our deferred tax assets. We review on a quarterly basis our conclusions about the appropriate amount of our deferred income tax asset valuation allowance.

Results of operations

The following table is a summary of our consolidated statements of operations for the years ended December 31, 2020, 2019 and 2018. The period-to-period comparisons of results are not necessarily indicative of results for future periods. The Company renamed the “maintenance and support” portion of service revenue to “subscription and support” due to the nature of this revenue, which now includes subscription revenue from Vocera Ease and the reclassification of other immaterial revenue streams.

(in thousands, except percentages)	Years ended December 31,			
	2020		2019	
	Amount	% Revenue	Amount	% Revenue
Consolidated statements of operations data:				
Revenue				
Product	\$ 100,567	50.7 %	\$ 92,561	51.3 %
Service	97,853	49.3	87,940	48.7
Total revenue	198,420	100.0	180,501	100.0
Cost of revenue				
Product	28,805	14.5	29,039	16.1
Service	40,998	20.7	42,363	23.5
Total cost of revenue	69,803	35.2	71,402	39.6
Gross profit	128,617	64.8	109,099	60.4
Operating expenses				
Research and development	38,820	19.6	34,280	19.0
Sales and marketing	65,494	33.0	63,168	35.0
General and administrative	28,382	14.3	25,774	14.3
Total operating expenses	132,696	66.9	123,222	68.3
Loss from operations	(4,079)	(2.1)	(14,123)	(7.8)
Interest income	3,169	1.6	5,110	2.8
Interest expense	(9,354)	(4.7)	(8,789)	(4.8)
Other expense, net	(640)	(0.3)	(158)	(0.1)
Loss before income taxes	(10,904)	(5.5)	(17,960)	(10.0)
Provision for (benefit from) income taxes	1,248	0.6	(20)	—
Net loss	\$ (9,656)	(4.9) %	\$ (17,980)	(10.0) %

Year ended December 31, 2020 compared to year ended December 31, 2019
Revenue:

(in thousands, except percentages)	Years ended December 31,		Change	
	2020	2019	Amount	%
	Amount	Amount		
Product Revenue				
Device	\$ 69,321	\$ 61,224	\$ 8,097	13.2 %
Software	31,246	31,337	(91)	(0.3)
Total product revenue	100,567	92,561	8,006	8.6
Service revenue				
Subscription and support	78,532	68,846	9,686	14.1
Professional services and training	19,321	19,094	227	1.2
Total service revenue	97,853	87,940	9,913	11.3
Total revenue	\$ 198,420	\$ 180,501	\$ 17,919	9.9 %

Total revenue increased \$17.9 million, or 9.9%, for the year ended December 31, 2020 compared to the year ended December 31, 2019. The increase in total revenue was a result of an increase in device and services revenue.

Product revenue increased \$8.0 million, or 8.6%, for the year ended December 31, 2020 compared to the year ended December 31, 2019. Device revenue increased \$8.1 million, or 13.2%, and software revenue decreased \$0.1 million, or 0.3%, for the year ended December 31, 2020, compared to the year ended December 31, 2019. The increase in device revenue was driven primarily by an increase in unit volume of badges and related accessories. The decrease in software revenue was due to the timing of software deployments from our backlog.

Service revenue increased \$9.9 million, or 11.3%, for the year ended December 31, 2020 compared to the year ended December 31, 2019. Subscription and support revenue increased \$9.7 million, or 14.1%, and professional services and training revenue increased \$0.2 million, or 1.2%, for the year ended December 31, 2020 compared to the year ended December 31, 2019. The increase in subscription and support revenue was primarily a result of having a larger customer base with recurring contracts. The increase in professional services and training revenue was due to an increase in implementation services for our solutions.

Cost of revenue:

(in thousands, except percentages)	Years ended December 31,		Change	
	2020	2019	Amount	%
	Amount	Amount		
Cost of revenue				
Product	\$ 28,805	\$ 29,039	\$ (234)	(0.8)%
Service	40,998	42,363	(1,365)	(3.2)
Total cost of revenue	\$ 69,803	\$ 71,402	\$ (1,599)	(2.2)%
Gross margin				
Product	71.4 %	68.6 %	2.8 %	
Service	58.1	51.8	6.3	
Total gross margin	64.8 %	60.4 %	4.4 %	

Cost of product revenue decreased \$0.2 million, or 0.8%, for the year ended December 31, 2020 compared to the year ended December 31, 2019. The cost of product revenue decreased primarily due to lower amortization of intangibles, partially offset by an increase in devices shipped. Product gross margin as a percentage of product revenue increased in the year ended December 31, 2020 compared to the year ended December 31, 2019 due to improved device margins and a lower mix of third-party smartphone sales.

Cost of service revenue decreased \$1.4 million, or 3.2%, for the year ended December 31, 2020 compared to the year ended December 31, 2019. Cost of service revenue decreased primarily as a result of a decrease in professional services costs, primarily related to a reduction in travel due to the COVID-19 pandemic. We expect these costs to increase when the virus is controlled. This decrease was partially offset by an increase in subscription and support costs related to higher revenue. Service gross margin as a percentage of service revenue increased for the year ended December 31, 2020 compared to the year ended December 31, 2019 primarily due to an increase in subscription and support revenue, an increase in utilization of the professional services team and a decrease in travel costs.

Operating expenses:

(in thousands, except percentages)	Years ended December 31,		Change	
	2020	2019	Amount	%
	Amount	Amount	Amount	
Operating expenses:				
Research and development	\$ 38,820	\$ 34,280	\$ 4,540	13.2 %
Sales and marketing	65,494	63,168	2,326	3.7
General and administrative	28,382	25,774	2,608	10.1
Total operating expenses	\$ 132,696	\$ 123,222	\$ 9,474	7.7 %

Research and development expense. Research and development expense increased \$4.5 million, or 13.2%, for the year ended December 31, 2020 compared to the year ended December 31, 2019. This increase was primarily due to a \$3.1 million increase in compensation and benefits associated with increased headcount, partially attributable to the acquisition of EASE Applications, a \$0.8 million increase in research and development equipment and a \$0.6 million increase in outside services and development.

Sales and marketing expense. Sales and marketing expense increased \$2.3 million, or 3.7%, for the year ended December 31, 2020 compared to the year ended December 31, 2019. This was primarily due to a \$6.4 million increase in compensation and benefits resulting from higher headcount and commissions which was related to increased revenue and the acquisition of EASE Applications as well as an increase of \$0.5 million in outside services and equipment. This was partially offset by a decrease in travel expense of \$3.4 million and a decrease in marketing development expense of \$1.2 million as a result of the COVID-19 pandemic.

General and administrative expense. General and administrative expense increased \$2.6 million, or 10.1%, for the year ended December 31, 2020 compared to the year ended December 31, 2019. This was primarily due to a \$2.5 million increase in compensation, benefits and hiring costs resulting from increased headcount and achievement of performance related compensation targets and a \$0.4 million increase in equipment and supplies. This increase was partially offset by a decrease in travel and entertainment costs of \$0.7 million as a result of the COVID-19 pandemic.

(in thousands, except percentages)	Years ended December 31,		Change
	2020	2019	
Non-operating income (expense) elements:			
Interest income	\$ 3,169	\$ 5,110	\$ (1,941)
Interest expense	(9,354)	(8,789)	(565)
Other expense, net	(640)	(158)	(482)
Income taxes:			
Benefit from (provision for) income taxes	1,248	(20)	1,268
Loss before income taxes	(10,904)	(17,960)	7,056
Effective tax rate %	11.4 %	(0.1)%	11.5 %

Interest income. Interest income decreased \$1.9 million for the year ended December 31, 2020, compared to the year ended December 31, 2019. This decrease was due to earning a lower rate of return on our investments.

Interest expense. Interest expense increased \$0.6 million for the year ended December 31, 2020, compared to the year ended December 31, 2019. The increase was due to the amortization of debt discount and debt issuance costs and the contractual interest incurred on the issuance of the Notes.

Other expense, net. The change in other expense, net for the year ended December 31, 2020, compared to the year ended December 31, 2019, was primarily due to foreign exchange fluctuations.

Benefit from (provision for) income taxes. The \$1.2 million tax benefit on \$10.9 million of loss before income taxes in 2020 represented an effective tax rate of 11.4%. The effective tax rate for 2020 was due primarily to the release of the valuation allowance as a result of the EASE Applications acquisition, partially offset by income taxes on foreign operations and the amortization of goodwill. The \$20 thousand provision on \$18.0 million of loss before income taxes in 2019 represented an effective tax rate of (0.1)%. The effective tax rate for 2019 was due primarily to income taxes on our foreign operations and amortization of goodwill, partially offset by the tax benefit related to the gain in other comprehensive income.

Liquidity and capital resources

(in thousands)	Years ended December 31,	
	2020	2019
Consolidated statements of cash flow data:		
Net cash provided by operating activities	\$ 26,858	\$ 15,778
Net cash used in investing activities	(20,441)	(20,536)
Net cash provided by (used in) financing activities	2,855	(3,814)
Net (decrease) increase in cash and cash equivalents	\$ 9,272	\$ (8,572)

As of December 31, 2020, we had cash and cash equivalents and short-term investments of \$230.2 million.

In May 2018, we issued Convertible Senior notes with a 1.5% interest rate for an aggregate principal amount of \$143.75 million. There are no required principal payments prior to the maturity of the Notes. As a result of the Company's stock price trading at over 130% of the conversion price of \$32.25 for over 20 trading days during January 2021 the notes are currently convertible. For additional information, see Note 8 and Note 14 of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

During 2020 and 2019, our purchases of property and equipment were \$4.2 million and \$4.6 million, respectively. The expenditures in 2020 primarily related to leasehold improvements, computer equipment and manufacturing tools and equipment. The expenditures in 2019 primarily related to leasehold improvements, computer equipment and manufacturing tools and equipment.

We believe that our existing sources of liquidity will satisfy our anticipated working capital and capital requirements for at least the next twelve months. Our future liquidity and capital requirements will depend upon numerous factors, including our rate of growth, the rate at which we add personnel to generate and support future growth, and potential future acquisitions.

In the future, we may seek to sell additional equity securities or borrow funds. The sale of additional equity or convertible securities may result in additional dilution to our stockholders. If we raise additional funds through the issuance of debt securities or other borrowings, these securities or borrowings could have rights senior to those of our common stock and could contain covenants that could restrict our operations. Any required additional capital may not be available on reasonable terms, if at all.

Operating activities

Cash provided by operating activities was \$26.9 million in 2020, due in part to non-cash items such as stock-based compensation of \$25.7 million, amortization of debt discount and issuance costs of \$7.2 million, and depreciation and amortization of \$6.4 million for property and equipment and acquired intangible assets, partially offset by a decrease in lease-related performance liabilities of \$1.2 million and the 2020 net loss of \$9.7 million. With respect to changes in assets and liabilities, we experienced an increase in accounts receivable of \$2.7 million, an increase of \$5.3 million in inventories, an increase of \$1.2 million in prepaid expenses and other assets, an increase in deferred commissions of \$1.8 million, a decrease of \$2.6 million in accounts payable, an increase of \$8.3 million in accrued payroll and other liabilities and a \$2.1 million increase in deferred revenue.

Cash provided by operating activities was \$15.8 million in 2019, due in part to non-cash items such as stock-based compensation of \$23.9 million, amortization of debt discount and issuance costs of \$6.6 million, and depreciation and amortization of \$7.3 million for property and equipment and acquired intangible assets, partially offset by a decrease in lease-related performance liabilities of \$1.2 million and the 2019 net loss of \$18.0 million. With respect to changes in assets and

liabilities, we experienced an increase in accounts receivable of \$2.4 million, an increase of \$2.1 million in other receivables, an increase of \$0.3 million in inventories, an increase of \$0.9 million in prepaid expenses and other assets, an increase in deferred commissions of \$0.2 million, an increase of \$1.5 million in accounts payable, an increase of \$2.4 million in accrued payroll and other liabilities and a \$2.8 million increase in deferred revenue.

Investing activities

Cash used in investing activities was \$20.4 million in 2020, which was primarily attributable to \$139.7 million in purchases of short-term investments and the acquisition of Vocera Ease for \$24.2 million, offset by \$118.3 million in short-term investment maturities and of \$29.4 million sales of short-term investments. An additional \$4.2 million of cash was used for the purchase of property and equipment and leasehold improvements.

Cash used in investing activities was \$20.5 million in 2019, which was primarily attributable to \$137.5 million in purchases of short-term investments, offset by \$121.5 million in short-term investment maturities. An additional \$4.6 million of cash was used for the purchase of property and equipment and leasehold improvements.

Financing activities

Cash provided by financing activities was \$2.9 million in 2020, primarily attributable to \$3.5 million of proceeds from stock option exercises, \$3.7 million of proceeds from issuance of common stock from the employee stock purchase plan and \$2.0 million of cash from lease-related performance obligations. These items were offset by a \$6.4 million decrease for employee taxes paid on net share settlement on the vesting of restricted stock awards.

Cash used in financing activities was \$3.8 million in 2019, primarily attributable to \$2.4 million of proceeds from stock option exercises, \$3.5 million of proceeds from issuance of common stock from the employee stock purchase plan and \$1.7 million of cash from lease-related performance obligations. These items were offset by a \$11.5 million decrease for employee taxes paid on net share settlement on the vesting of restricted stock awards.

Critical accounting policies and estimates

The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We evaluate our estimates on an ongoing basis, including those related to product warranties, goodwill and intangible assets, revenue recognition, stock-based compensation, bonuses, accounting for business combinations, contingent consideration, and the provision for income taxes. We base our estimates and judgments on our historical experience, knowledge of factors affecting our business and our belief as to what could occur in the future considering available information and assumptions that we believe to be reasonable under the circumstances.

The accounting estimates we use in the preparation of our consolidated financial statements will change as events occur, more experience is acquired, additional information is obtained and our operating environment changes. Changes in estimates are made when circumstances warrant. Such changes in estimates and refinements in estimation methodologies are reflected in our reported results of operations and, if material, the effects of changes in estimates are disclosed in the notes to our consolidated financial statements. By their nature, these estimates and judgments are subject to an inherent degree of uncertainty and actual results could differ materially from the amounts reported based on these estimates.

While our significant accounting policies are more fully described in Note 1 of the “Notes to our consolidated financial statements” included in Item 8, “Financial Statements and Supplementary Data,” we believe the following reflects our critical accounting policies and our more significant judgments and estimates used in the preparation of our financial statements.

Revenue Recognition

Some of our contracts with customers contain multiple performance obligations. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. For these contracts, we account for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price (SSP) basis. If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. For performance obligations that we routinely sell separately, such as support and maintenance on our core offerings, we determine SSP by evaluating the standalone sales over the trailing 12 months. For those that are not sold routinely, we determine SSP based on our overall pricing trends and objectives, taking into consideration market conditions and other factors, including the value of our contracts, the products sold and geographic locations.

Standard product warranties

We provide for the estimated costs of product warranties at the time the related revenue is recognized. Costs are estimated based on historical and projected product failure rates, historical and projected replacement costs, and knowledge of specific

product failures (if any). The specific product warranty includes parts and labor over a period generally ranging from one to three years. We generally do not provide performance warranties for software. We regularly assess our estimates to evaluate the adequacy of the recorded warranty liabilities and adjust the amounts as necessary. The total warranty expense under our standard warranty in 2020 was \$0.3 million, compared to \$0.2 million in 2019 and \$0.2 million in 2018. The key drivers to the warranty reserve calculation are the installed base of products under standard warranty, the estimated return rate of the installed base of products under standard warranty, and the availability of refurbished units to fulfill expected warranty claims.

Stock-based compensation

Restricted Stock Units and Performance Stock Units

We record all stock-based awards, which consist of restricted stock units (RSUs) and performance stock units (PSUs), at fair value as of the grant date and recognize the expense over the requisite service period (generally over the vesting period of the award). The restricted stock units generally vest one third on the first anniversary of the grant, one third on the second anniversary of the grant and one third upon the third anniversary of the grant. The grant date fair value of the RSUs is the closing market price on the date of grant; this amount is charged to expense ratably over the requisite service period. The PSUs consist of grants of performance-based restricted stock units to certain members of executive management that vest contingent upon the achievement of predetermined market and service conditions. The fair value of our PSUs is estimated using a Monte-Carlo simulation model which is a probabilistic approach for calculating the fair value of the awards.

Goodwill and intangible assets

We allocate the purchase price of any acquisitions to tangible assets and liabilities and identifiable intangible assets acquired. Any residual purchase price is recorded as goodwill. The allocation of the purchase price requires management to make significant estimates in determining the fair values of assets acquired and liabilities assumed, especially with respect to intangible assets. These estimates are based on information obtained from management of the acquired companies and historical experience. These estimates can include, but are not limited to, the cash flows that an asset is expected to generate in the future, and the cost savings expected to be derived from acquiring an asset. These estimates are inherently uncertain and unpredictable, and if different estimates were used the purchase price for the acquisition could be allocated to the acquired assets and liabilities differently from the allocation that we have made. In addition, unanticipated events and circumstances may occur which affect the accuracy or validity of such estimates, and if such events occur we may be required to record a charge against the value ascribed to an acquired asset or an increase in the amounts recorded for assumed liabilities.

Goodwill

Goodwill is tested for impairment at the reporting unit level at least annually, or more often if events or changes in circumstances indicate the carrying value may not be recoverable. Our annual assessment date is October 1st and the results of our assessment performed indicated that an impairment was not required. No impairment was recorded in 2020, 2019 or 2018. As of December 31, 2020, no changes in circumstances indicate that goodwill carrying values may not be recoverable. Application of the goodwill impairment test requires judgment. Circumstances that could affect the valuation of goodwill include, among other things, a significant change in our business climate and the buying habits of our customers along with changes in the costs to provide our products and services.

Intangible assets

Intangible assets are amortized over their estimated useful lives. Upon completion of development, acquired in-process research and development assets are generally considered amortizable, finite-lived assets and are amortized over their estimated useful lives.

Finite-lived intangible assets consist of customer relationships, developed technology, trademarks, backlog and non-compete agreements. We evaluate our intangible assets for impairment at the asset group level, which means the intangibles grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Management has concluded that our asset groups align with our reporting unit. The intangible assets are allocated to the Product and Services asset groups, given that the Product and Services asset groups are the lowest level for which discrete cash flow information are identifiable, independent from other assets. We assess the recoverability of these assets whenever adverse events or changes in circumstances or business climate indicate that expected undiscounted future cash flows related to such intangible assets may not be sufficient to support the net book value of such assets. An impairment is recognized in the period of identification to the extent the carrying amount of an asset exceeds the fair value of such asset. No impairment of intangible assets was recorded in 2020, 2019 or 2018.

Significant judgments required in assessing the impairment of goodwill and intangible assets include the identification of the reporting unit, identifying whether events or changes in circumstances require an impairment assessment, estimating future cash flows, determining appropriate discount and growth rates and other assumptions. Changes in these estimates and assumptions

could materially affect the determination of fair value as to whether an impairment exists and, if so, the amount of that impairment.

Income taxes

We use the asset and liability method of accounting for income taxes. Under this method, we record deferred income taxes based on temporary differences between the financial reporting and tax bases of assets and liabilities and use enacted tax rates and laws that we expect will be in effect when we recover those assets or settle those liabilities, as the case may be, to measure those taxes. In cases where the expiration date of tax carryforwards or the projected operating results indicate that realization is not likely, we provide for a valuation allowance. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

We have deferred tax assets, resulting from deductible temporary differences that may reduce taxable income in future periods. A valuation allowance is required when it is more likely than not that all or a portion of a deferred tax asset will not be realized. In assessing the need for a valuation allowance, we estimate future taxable income, considering the feasibility of ongoing tax-planning strategies and the realizability of tax loss carryforwards. Valuation allowances related to deferred tax assets can be impacted by changes in tax laws, changes in statutory tax rates and future taxable income levels. If we were to determine that we would be able to realize our deferred tax assets in the future in excess of the net carrying amounts, we would decrease the recorded valuation allowance through an increase to income in the period in which that determination is made. Due to the amount of net operating losses available for income tax purposes through December 31, 2020, we had a full valuation allowance against our deferred tax assets. We continue to evaluate the realizability of our U.S. and Canadian deferred tax assets. If our financial results improve, we will reassess the need for a full valuation allowance each quarter and, if we determine that it is more likely than not the deferred tax assets will be realized, we will adjust the valuation allowance.

At December 31, 2020, we had a valuation allowance against net deferred tax assets of \$39.9 million. We review on a quarterly basis our conclusions about the appropriate amount of our deferred tax asset valuation allowance. There is inherent uncertainty in evaluating the sustainability of the income tax positions we take on our tax returns. We assess our income tax positions and record tax benefits for all years subject to examination based upon our management's evaluation of the facts, circumstances and information available at the reporting date. For those tax positions where it is more likely than not that a tax benefit will be sustained, we have recorded the highest amount of tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not more likely than not that a tax benefit will be realizable, no tax benefit has been recognized in our financial statements.

We include interest and penalties with income taxes on the accompanying statement of operations. Our tax years after 2013 are subject to tax authority examinations. Additionally, our net operating losses and research credits are subject to tax authority adjustment.

Recently issued accounting guidance

See "Note 1. The Company and Summary of Significant Accounting Policies" of the Notes to Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" for a full description of recent accounting pronouncements including the respective expected dates of adoption and estimated effects, if any on our consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The primary objective of our investment activities is to preserve principal while maximizing yields without significantly increasing risk. To achieve this objective, historically we have invested in money market funds. With the proceeds from our two public offerings in 2012 and our Notes offering in 2018, we have invested in a broader portfolio of high credit quality short-term securities. To minimize the exposure due to an adverse shift in interest rates, we maintain an average portfolio duration of one year or less.

Our primary exposure to market risk is interest income and expense sensitivity, which is affected by changes in the general level of the interest rates in the United States. However, because of the short-term nature of our interest-bearing securities, a 10% change in market interest rates would not be expected to have a material impact on our consolidated financial condition or results of operations.

Historically our operations have consisted of research and development and sales activities in the United States. As a result, our financial results have not been materially affected by factors such as changes in foreign currency exchange rates or economic conditions in foreign markets. We are developing plans to expand our international presence. Accordingly, we expect that our exposure to changes in foreign currency exchange rates and economic conditions may increase in future periods.

Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Vocera Communications, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Vocera Communications, Inc. and subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2021, expressed an unqualified opinion on the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 7 to the financial statements, the Company has changed its method of accounting for leases effective January 1, 2019 using a modified retrospective approach due to adoption of Accounting Standards Codification ("ASC") No. 2016-02, *Leases* (Topic 842).

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Revenue Recognition - Refer to Note 2 to the Financial Statements

Critical Audit Matter Description

The Company recognizes revenue upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. The Company offers products and services including its proprietary communication badges, perpetual software licenses, professional services, maintenance and support services, and extended hardware warranties. Product revenue was \$100.6 million and service revenue was \$97.9 million for the year ended December 31, 2020.

Significant judgment is exercised by the Company in determining revenue recognition for the Company's customer contracts, and includes the following:

- Identification and evaluation of terms and conditions within contracts that impact revenue recognition
- Determination of whether promised goods or services, such as hardware and software licenses, are capable of being distinct and are distinct in the context of the Company's customer contracts which leads to whether they should be accounted for as individual or combined performance obligations
- Determination of stand-alone selling prices for each distinct performance obligation and for products and services that are not sold separately
- Determination of transaction price and allocation of transaction price to identified performance obligations

We identified revenue recognition as a critical audit matter because of these significant judgments required by management. This required a high degree of auditor judgment and an increased extent of effort when performing audit procedures to evaluate whether revenue was recognized to depict the transfer of promised products or services to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

How the Critical Audit Matter Was Addressed in the Audit

Our principal audit procedures related to the Company's revenue recognition for these customer agreements included the following:

- We tested the effectiveness of controls related to the identification and evaluation of terms and conditions in contracts, determination of distinct performance obligations, determination of the standalone selling prices, determination of 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.
- We evaluated management's significant accounting policies related to revenue recognition for reasonableness.
- We selected a sample of recorded revenue transactions and performed the following procedures:
 - Obtained and read customer purchase orders and the underlying contract for each selection, including master agreements and related amendments to evaluate if relevant contractual terms have been appropriately considered by management.
 - Evaluated management's application of their accounting policy and tested revenue recognition for specific performance obligations by comparing management's conclusions to the underlying master agreement and any related amendments.
 - Tested the mathematical accuracy of management's calculations of revenue and the associated timing of revenue recognized in the financial statements.
- We evaluated the reasonableness of management's estimate of standalone selling prices for products and services that are not sold separately by performing the following:
 - Assessed the appropriateness of the Company's methodology and mathematical accuracy of the determined standalone selling prices.
 - Tested the completeness and accuracy of the source data utilized in management's calculations.

Business Acquisitions — Refer to Note 12 to the Financial Statements

Critical Audit Matter Description

The Company completed the acquisition of EASE Applications, LLC ("EASE") for consideration of \$24.2 million, exclusive of contingent consideration accruals, on August 18, 2020. The Company accounted for the acquisition of EASE under the acquisition method of accounting for business combinations. Accordingly, the purchase price was allocated on a preliminary basis, to the assets acquired and liabilities assumed based on their respective fair values, including customer relationship identified intangible assets with an aggregate fair value of approximately \$5.4 million. The Company estimated the fair value of the customer relationship intangible assets using an income-based valuation methodology, which is a specific discounted cash flow method.

Significant judgment is exercised by the Company in determining the fair value of the acquired customer relationship intangible assets, including the following:

- Future expected cash flows for existing customers,
- Selection of customer attrition rates,
- Valuation methodology, and
- Discount rates.

Given the fair value determination of acquired customer relationship identified intangible assets requires management to make significant estimates related to the above assumptions, performing audit procedures to evaluate the reasonableness of these assumptions required a high degree of auditor judgment and an increased extent of effort, including the need to involve our fair value specialists. Thus, we deemed this to be a critical audit matter.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the fair value of customer relationship intangible assets acquired for EASE included the following, among others:

- We tested the effectiveness of controls over the purchase price allocation, including management's controls over the forecast utilized, and the valuation methodology and inputs for estimating the fair value of customer relationship intangible assets acquired.
- Our internal valuation specialists assisted us in evaluating the reasonableness of the (1) valuation techniques used for customer relationship intangible assets acquired, (2) valuation assumptions used in the excess earning method including long-term growth rate, weighted average cost of capital, weighted average return on assets and internal rate of return, (3) discount rates, including testing the mathematical accuracy of the calculation of estimated fair value of the customer relationship intangible acquired assets, and developing a range of independent estimates and comparing our estimates to those used by management.
- We assessed the reasonableness of management's projections of economic useful life, percentage of revenue attributable to the intangible asset, sales and marketing adjustment for new customers by comparing the assumptions used in the projections to external market sources, existing contracts, historical data, and results from other areas of the audit.

/s/ Deloitte & Touche LLP

San Jose, California
February 25, 2021

We have served as the Company's auditor since 2014.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Vocera Communications, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Vocera Communications, Inc. and subsidiaries (the “Company”) as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2020, of the Company and our report dated February 25, 2021 expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management’s Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

San Jose, California
February 25, 2021

Vocera Communications, Inc.
Consolidated Balance Sheets
(In Thousands, Except Share and Par Amounts)

	December 31,	
	2020	2019
Assets		
Current assets		
Cash and cash equivalents	\$ 34,976	\$ 25,704
Short-term investments	195,227	204,164
Accounts receivable, net	45,653	42,547
Other receivables	6,170	6,312
Inventories	10,159	4,576
Prepaid expenses and other current assets	6,317	5,149
Total current assets	298,502	288,452
Property and equipment, net	8,103	8,661
Intangible assets, net	12,788	5,461
Goodwill	69,168	49,246
Deferred commissions	12,293	10,477
Other long-term assets	5,967	8,158
Total assets	\$ 406,821	\$ 370,455
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	\$ 3,127	\$ 6,036
Accrued payroll and other current liabilities	23,195	14,757
Deferred revenue, current	54,785	50,033
Total current liabilities	81,107	70,826
Deferred revenue, long-term	9,948	11,442
Convertible senior notes, net	124,376	117,178
Other long-term liabilities	10,374	7,184
Total liabilities	225,805	206,630
Commitments and contingencies (Note 9)		
Stockholders' equity		
Preferred stock, \$0.0003 par value - 5,000,000 shares authorized as of December 31, 2020 and December 31, 2019; zero shares issued and outstanding	—	—
Common stock, \$0.0003 par value - 100,000,000 shares authorized as of December 31, 2020 and December 31, 2019; 32,692,561 and 31,660,709 shares issued and outstanding as of December 31, 2020 and December 31, 2019, respectively	10	9
Additional paid-in capital	340,515	313,963
Accumulated other comprehensive income	473	179
Accumulated deficit	(159,982)	(150,326)
Total stockholders' equity	181,016	163,825
Total liabilities and stockholders' equity	\$ 406,821	\$ 370,455

The accompanying notes are an integral part of these consolidated financial statements.

Vocera Communications, Inc.
Consolidated Statements of Operations
(In Thousands, Except Per Share Amounts)

	Years ended December 31,		
	2020	2019	2018
Revenue			
Product	\$ 100,567	\$ 92,561	\$ 97,447
Service	97,853	87,940	82,183
Total revenue	<u>198,420</u>	<u>180,501</u>	<u>179,630</u>
Cost of revenue			
Product	28,805	29,039	27,425
Service	40,998	42,363	40,318
Total cost of revenue	<u>69,803</u>	<u>71,402</u>	<u>67,743</u>
Gross profit	<u>128,617</u>	<u>109,099</u>	<u>111,887</u>
Operating expenses			
Research and development	38,820	34,280	30,879
Sales and marketing	65,494	63,168	62,214
General and administrative	28,382	25,774	25,099
Total operating expenses	<u>132,696</u>	<u>123,222</u>	<u>118,192</u>
Loss from operations	<u>(4,079)</u>	<u>(14,123)</u>	<u>(6,305)</u>
Interest income	3,169	5,110	3,044
Interest expense	(9,354)	(8,789)	(5,241)
Other expense, net	(640)	(158)	(1,523)
Loss before income taxes	<u>(10,904)</u>	<u>(17,960)</u>	<u>(10,025)</u>
Benefit from (provision for) income taxes	1,248	(20)	351
Net loss	<u>(9,656)</u>	<u>(17,980)</u>	<u>(9,674)</u>
Net loss per share:			
Basic and diluted	<u>\$ (0.30)</u>	<u>\$ (0.57)</u>	<u>\$ (0.32)</u>
Weighted average shares used to compute net loss per share:			
Basic and diluted	<u>32,215</u>	<u>31,273</u>	<u>30,041</u>

The accompanying notes are an integral part of these consolidated financial statements.

Vocera Communications, Inc.
Consolidated Statements of Comprehensive Loss
(In Thousands)

	Years ended December 31,		
	2020	2019	2018
Net loss	\$ (9,656)	\$ (17,980)	\$ (9,674)
Other comprehensive loss, net:			
Change in unrealized gain (loss) on investments, net of tax	294	622	(252)
Comprehensive loss	<u>\$ (9,362)</u>	<u>\$ (17,358)</u>	<u>\$ (9,926)</u>

The accompanying notes are an integral part of these consolidated financial statements.

Vocera Communications, Inc.
Consolidated Statements of Stockholders' Equity
(In Thousands, except share amounts)

	Common stock		Additional paid-in capital	Accum. other comprehensive income (loss)	Accumulated deficit	Total stockholders' equity
	Shares	Amount				
Balance at January 1, 2018	29,412,116	\$ 9	\$ 250,854	\$ (191)	\$ (122,672)	\$ 128,000
Exercise of stock options	531,788	—	7,334	—	—	7,334
RSUs released net of shares withheld for tax settlement	606,808	—	(10,082)	—	—	(10,082)
Common stock issued under employee stock purchase plan	157,426	—	3,270	—	—	3,270
Equity component of convertible senior notes, net	—	—	23,307	—	—	23,307
Employee stock-based compensation expense	—	—	20,964	—	—	20,964
Net loss	—	—	—	—	(9,674)	(9,674)
Other comprehensive loss	—	—	—	(252)	—	(252)
Balance at December 31, 2018	30,708,138	9	295,647	(443)	(132,346)	162,867
Exercise of stock options	187,174	—	2,439	—	—	2,439
RSUs released net of shares withheld for tax settlement	610,024	—	(11,460)	—	—	(11,460)
Common stock issued under employee stock purchase plan	155,373	—	3,472	—	—	3,472
Employee stock-based compensation expense	—	—	23,865	—	—	23,865
Net loss	—	—	—	—	(17,980)	(17,980)
Other comprehensive gain	—	—	—	622	—	622
Balance at December 31, 2019	31,660,709	9	313,963	179	(150,326)	163,825
Exercise of stock options	305,596	—	3,460	—	—	3,460
RSUs released net of shares withheld for tax settlement	485,663	1	(6,372)	—	—	(6,371)
Common stock issued under employee stock purchase plan	240,593	—	3,739	—	—	3,739
Employee stock-based compensation expense	—	—	25,725	—	—	25,725
Net loss	—	—	—	—	(9,656)	(9,656)
Other comprehensive gain	—	—	—	294	—	294
Balance at December 31, 2020	32,692,561	\$ 10	\$ 340,515	\$ 473	\$ (159,982)	\$ 181,016

The accompanying notes are an integral part of these consolidated financial statements

Vocera Communications, Inc.
Consolidated Statements of Cash Flows
(In Thousands)

	Years ended December 31,		
	2020	2019	2018
Cash flows from operating activities			
Net loss	\$ (9,656)	\$ (17,980)	\$ (9,674)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	6,387	7,289	7,662
Change in lease-related performance obligations	(1,234)	(1,173)	(998)
Stock-based compensation expense	25,725	23,865	20,964
Amortization of debt discount and issuance costs	7,198	6,638	3,899
Deferred income taxes	(2,056)	—	—
Non-cash lease expense	2,566	1,741	—
Other	1,013	(658)	384
Changes in assets and liabilities			
Accounts receivable	(2,662)	(2,420)	(5,017)
Other receivables	40	(2,064)	(2,810)
Inventories	(5,259)	(293)	(1,898)
Prepaid expenses and other assets	(1,196)	(880)	(592)
Deferred commissions	(1,816)	(174)	(2)
Accounts payable	(2,615)	1,475	1,527
Accrued payroll and other liabilities	8,325	(2,431)	(2,629)
Deferred revenue	2,098	2,843	3,482
Net cash provided by operating activities	<u>26,858</u>	<u>15,778</u>	<u>14,298</u>
Cash flows from investing activities			
Payment for purchase of property and equipment	(4,236)	(4,576)	(4,892)
Business acquisitions, net of cash acquired	(24,218)	—	—
Purchase of short-term investments	(139,677)	(137,508)	(206,824)
Maturities of short-term investments	118,309	121,548	72,183
Sales of short-term investments	29,381	—	—
Net cash used in investing activities	<u>(20,441)</u>	<u>(20,536)</u>	<u>(139,533)</u>
Cash flows from financing activities			
Cash from lease-related performance obligations	2,027	1,735	340
Proceeds from issuance of the convertible senior notes, net of issuance costs	—	—	138,854
Payments for purchase of capped costs	—	—	(8,907)
Proceeds from issuance of common stock from the employee stock purchase plan	3,739	3,472	3,269
Proceeds from exercise of stock options	3,460	2,440	7,327
Tax withholdings paid on behalf of employees for net share settlement	(6,371)	(11,461)	(10,098)
Net cash provided by (used in) financing activities	<u>2,855</u>	<u>(3,814)</u>	<u>130,785</u>
Net increase (decrease) in cash and cash equivalents	9,272	(8,572)	5,550
Cash and cash equivalents at beginning of period	25,704	34,276	28,726
Cash and cash equivalents at end of period	<u>\$ 34,976</u>	<u>\$ 25,704</u>	<u>\$ 34,276</u>
Supplemental cash flow information			
Cash paid for interest	\$ 2,156	\$ 2,156	\$ 1,066
Cash paid for income taxes	\$ 407	\$ 345	\$ 216
Supplemental disclosure of non-cash investing and financing activities			
Property and equipment in accounts payable and accrued liabilities	\$ 157	\$ 458	\$ 114

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

1. The Company and Summary of Significant Accounting Policies

Background

Vocera Communications, Inc. and its subsidiaries (collectively, the "Company" or "Vocera") is a provider of secure, integrated, intelligent communication and clinical workflow solutions, focused on empowering mobile workers in healthcare, hospitality, retail, energy, education and other mission-critical mobile work environments, in the United States and internationally. The significant majority of the Company's business is generated from sales of its solutions in the healthcare market to help its customers improve quality of care, safety, patient and staff experience and increase operational efficiency.

The Vocera communication and collaboration solution includes: an intelligent enterprise software platform; a lightweight, wearable, voice-controlled communication badge and Smartbadge; and smartphone applications. The solution enables users to connect instantly with other staff simply by saying the name, function or group name of the desired recipient. It also delivers HIPAA-compliant secure text messages, alerts and alarms directly to a range of smartphones or the Smartbadge both inside and outside the hospital, replacing legacy pagers and in-building wireless phones.

The Company was incorporated in Delaware on February 16, 2000. The Company formed wholly-owned subsidiaries Vocera Communications UK Ltd and Vocera Communications Australia Pty Ltd. in 2005, Vocera Canada, Ltd. in 2010, Vocera Communications India Private Ltd. in 2013, Vocera Communications Middle East FZ LLC in 2014, acquired Extension, LLC in 2016 and Ease Applications, LLC ("Ease") in 2020.

Since its inception, the Company has incurred significant losses and, as of December 31, 2020, had an accumulated deficit of \$160.0 million. The Company has funded its operations primarily with customer payments for its products and services, proceeds from the issuance of common stock in connection with its initial public offering (IPO) and follow-on offering and proceeds from the issuance of convertible senior notes. As of December 31, 2020, the Company had cash, cash equivalents and short-term investments of \$230.2 million.

The Company believes that its existing sources of liquidity will satisfy its working capital and capital requirements for at least the next twelve months.

Basis of presentation

The consolidated financial statements include the accounts of Vocera Communications, Inc. and its wholly owned subsidiaries. All inter-company transactions and balances have been eliminated in consolidation. The accompanying notes are prepared in accordance with accounting principles generally accepted in the United States ("GAAP").

Use of estimates and reclassifications

The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting periods. The estimates include, but are not limited to, revenue recognition, warranty reserves, accounts receivable reserves, inventory reserves, bonuses, goodwill and intangible assets, stock-based compensation expense, provisions for income taxes, contingent consideration and contingencies. Actual results could differ from these estimates, and such differences could be material to the Company's financial position and results of operations.

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These reclassifications had no impact on the previously reported net loss or accumulated deficit.

Cash, cash equivalents and short-term investments

The Company's cash equivalents and short-term investments consist of money market funds, commercial paper, U.S. government agency notes, U.S. Treasury notes and corporate debt. These investments are classified as available-for-sale securities and are carried at fair value with the unrealized gains and losses reported as a component of stockholders' equity. Management determines the appropriate classification of its investments at the time of purchase and re-evaluates the available-for-sale designations as of each balance sheet date. Investments with an original purchase maturity of three months or less are classified as cash equivalents, all those with longer maturities are classified as short-term investments, which are available-for-sale.

The Company's marketable securities are recorded at their estimated fair value. Unrealized gains or losses on available-for-sale securities are reported in other comprehensive income (loss). The Company periodically assesses whether its securities are in an unrealized loss position which may become a realized loss in order to determine if an allowance for credit losses is required.

Accounts receivable and allowance for credit losses

Accounts receivable primarily include amounts related to receivables from customers. The Company monitors collectability of accounts receivable primarily through review of the accounts receivable aging. The Company performs a regular review of its customers' payment histories and associated credit risks as it does not require collateral from its customers. When collection is at risk, the Company assesses the impact on amounts recorded for credit losses and, if necessary, record a charge in the period such a determination is made, reflecting the Company's best estimate of probable losses inherent in the Company's receivables portfolio. The Company has not experienced significant credit losses from its accounts receivable. No allowance for credit losses was recorded in the years ended December 31, 2020, 2019 and 2018.

Inventories

Inventories are valued at the lower of standard cost (which approximates actual cost on a first-in, first-out basis) or market (net realizable value or replacement cost). The Company assesses the valuation of inventory and periodically writes down the value for estimated excess and obsolete inventory based upon assumptions about future demand and market conditions.

Concentration of credit risk

Financial instruments that subject the Company to concentration of credit risk consist primarily of cash, cash equivalents and short-term investments. The Company's cash and cash equivalents are primarily deposited with high quality financial institutions and in money market funds. Deposits at these institutions and funds may, at times, exceed federally insured limits. Management believes that these financial institutions and funds are financially sound and, accordingly, that minimal credit risk exists. The Company has not experienced any losses on its deposits of cash and cash equivalents. Marketable securities are stated at fair value and accounted for as available-for-sale within short-term investments. The counterparties to the agreements relating to the Company's investment securities consist of major corporations, financial institutions and government agencies of high credit standing.

The primary hardware components of the Company's products are currently manufactured by third-party contractors in Mexico and Taiwan. A significant disruption in the operations of these contractors may impact the production of the Company's products for a substantial period of time, which could harm the Company's business, financial condition and results of operations.

Concentration of credit risk with respect to trade accounts receivable is considered to be limited due to the diversity of the Company's customer base and geographic sales areas. At December 31, 2020 and 2019, no customer accounted for 10% or more of accounts receivable. At December 31, 2020 and 2019, one reseller represented 32.7% and 19.3%, respectively of accounts receivable. For the years ended December 31, 2020, 2019 and 2018, no customer represented 10% or more of revenue.

Other risks and uncertainties

The outbreak of the novel coronavirus, SARS-CoV-2, or COVID-19, is a global pandemic and public health emergency. Many federal, state and local governments and private entities have mandated various restrictions, including travel restrictions, restrictions on public gatherings, stay at home orders and advisories and quarantining of people who may have been exposed to the virus. Since the Company's last filing, COVID-19 infections have continued and are increasing in many geographies of the world and these rates may continue to increase. In response to the ongoing and rapidly evolving COVID-19 pandemic, the Company considered the impact of the estimated economic implications on critical and significant accounting estimates, including assessment of collectability of customer contracts and the valuation of accounts receivable. Overall, the outbreak has not had a material impact on the Company's operating results or business in the year ended December 31, 2020. While future impacts cannot be predicted at this time, the shift in hospital resources, attention to treatment of COVID-19 patients and declines in hospital revenues may result in reduced demand for the Company's products and solutions, longer sales cycles and/or delays of customer implementations, which could negatively impact financial condition.

Property and equipment

Property and equipment are stated at cost and depreciated on a straight-line basis over the estimated useful economic lives of the assets. Assets generally have useful economic lives of three years except for leasehold improvements, which are amortized using the straight-line method over the shorter of the remaining lease term or the estimated useful life of the related assets. Purchased software also generally has a useful economic life of three years, except for major ERP implementations, for which the Company assumes a useful economic life of five years. Upon retirement or sale, the cost and related accumulated depreciation and amortization are removed from the consolidated balance sheet and the resulting gain or loss is reflected in operations. Maintenance and repairs which are not considered improvements and do not extend the useful life of the assets are charged to operations as incurred.

The Company periodically reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset is impaired or the estimated useful lives are no longer appropriate. Fair value is estimated based on undiscounted future cash flows. If indicators of impairment exist and the undiscounted projected cash flows

associated with such assets are less than the carrying amount of the asset, an impairment loss is recorded to write the asset down to its estimated fair values. To date, the Company has not recorded any material impairment charges.

Internal-use software development costs

For internal-use software, the Company capitalizes certain internal and external costs incurred in its acquisition and creation. Capitalized internal-use software is included in property and equipment amortized on a straight-line basis over the estimated useful life of the related asset, generally three years. Based on the authoritative guidance, costs incurred either before or after the period satisfying the capitalization criteria, together with costs incurred for training and maintenance, are expensed as incurred. For the years ended December 31, 2020, 2019 and 2018, the Company capitalized costs of \$0.5 million, \$0.6 million and \$0.7 million, respectively.

Segments

The Company's chief operating decision maker ("CODM") receives and regularly reviews financial information on an entity-wide basis, beginning in the third quarter of fiscal year 2020. This change coincided with the Company's acquisition of EASE and resulted in the CODM considering entity-wide financial information in deciding how to allocate resources in assessing performance of the Company's communication and clinical workflow solutions and services business. There are no segment managers who are held accountable for operations, operating results or plans for levels or components. The Company's CODM is its Chief Executive Officer. As a result, beginning in the third quarter of fiscal year 2020, the Company reports its financial performance consistent with its single reporting segment and operating unit structure. For comparability purposes, segment reporting for prior periods have been recast to conform to the current presentation. Financial information related to revenue and cost of revenue for the Company's previously reported segments (i) Product and (ii) Service can be found in the Company's consolidated statements of operations.

Goodwill and intangible assets

The Company allocates the purchase price of any acquisitions to tangible assets and liabilities and identifiable intangible assets acquired. Any residual purchase price is recorded as goodwill.

Goodwill

Goodwill is tested for impairment at the reporting unit level at least annually, or more often if events or changes in circumstances indicate the carrying value may not be recoverable. The Company has identified one operating segment which management also considers to be a reporting unit. In testing for goodwill impairment, the Company may elect to utilize a qualitative assessment to evaluate whether it is more likely than not that the fair value of the reporting unit is less than its carrying value. If such qualitative assessment indicates that goodwill impairment is more likely than not, the Company performs a quantitative impairment test. The Company performed its goodwill impairment assessment on October 1, 2020 using a qualitative assessment and determined that no impairment existed as of the date of the impairment test because the fair value of the Company's reporting unit more likely than not exceeded its carrying value. As of December 31, 2020, no changes in circumstances indicate that goodwill carrying values may not be recoverable.

Intangible assets

Intangible assets are amortized over their estimated useful lives. Upon completion of development, acquired in-process research and development assets are generally considered amortizable, finite-lived assets and are amortized over their estimated useful lives. Finite-lived intangible assets consist of customer relationships, developed technology, trademarks, backlog and non-compete agreements. The Company evaluates intangible assets for impairment by assessing the recoverability of these assets whenever adverse events or changes in circumstances or business climate indicate that expected undiscounted future cash flows related to such intangible assets may not be sufficient to support the net book value of such assets. An impairment is recognized in the period of identification to the extent the carrying amount of an asset exceeds the fair value of such asset. No impairment of intangible assets was recorded in the years ended December 31, 2020, 2019 or 2018.

Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in other long-term assets, accrued payroll and other current liabilities and other long-term liabilities on the consolidated balance sheets. Sales-type leases are included in other receivables, accrued payroll and other current liabilities and other long-term liabilities on the consolidated balance sheets.

The Company has elected an accounting policy to not recognize short-term leases (one year or less) on the consolidated balance sheet. The Company also elected the package of practical expedients which applies to leases that commenced before the adoption date. By electing the package of practical expedients, the Company did not need to reassess whether any existing contracts are or contained a lease or the lease classification for any existing leases.

Operating lease right-of-use assets and operating lease liabilities are recognized based on the present value of the lease payments over the lease term at commencement date. As most of the Company's leases do not provide an implicit rate, the incremental borrowing rate is used based on the information available at commencement date in determining the present value of future payments. For those leases that existed as of January 1, 2019, the Company used the incremental borrowing rate based on information available at that date. The Company applies a portfolio approach for determining the incremental borrowing rate based on the applicable lease terms and the current economic environment and utilizes available information regarding borrowing rates. The operating lease right-of-use asset also includes any lease payments made and excludes lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. The Company accounts for lease components and non-lease components as a single lease component.

Business combination

Acquisitions are accounted for using the acquisition method. Goodwill is measured at the acquisition date as the excess of the purchase price over the fair value of the assets acquired and liabilities assumed. Significant estimates and assumptions are made by management to value such assets and liabilities. Although the Company believes that those estimates and assumptions are reasonable and appropriate, they are inherently uncertain and subject to refinement. Additional information related to the acquisition date fair value of acquired assets and assumed liabilities obtained during the measurement period, not to exceed one year, may result in changes to the recorded values of such assets and liabilities, resulting in an offsetting adjustment to the goodwill associated with the business acquired. Uncertain tax positions and tax-related valuation allowances are initially established in connection with a business combination as of the acquisition date. The Company continues to collect information and reevaluate these estimates and assumptions. Any contingent consideration payable is recognized at fair value at the acquisition date. Liability-classified contingent consideration is remeasured each reporting period, with changes in fair value recognized in earnings until the contingent consideration is settled. Acquisition related costs incurred in connection with a business combination are expensed as incurred.

Revenue recognition

The core principle of Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers (Topic 606)* is to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This principle is achieved through applying the following five-step approach:

- *Identification of the contract, or contracts, with a customer* - A contract with a customer exists when (i) the Company enters into an enforceable contract with a customer that defines each party's rights regarding the goods or services to be transferred and identifies the payment terms related to these goods or services, (ii) the contract has commercial substance and, (iii) the Company determines that collection of substantially all consideration for goods or services that are transferred is probable based on the customer's intent and ability to pay the promised consideration. The Company applies judgment in determining the customer's ability and intention to pay, which is based on a variety of factors including the customer's historical payment experience or, in the case of a new customer, published credit and financial information pertaining to the customer. Customer payments received by the Company are non-refundable.
- *Identification of the performance obligations in the contract* - Performance obligations promised in a contract are identified based on the goods or services that will be transferred to the customer that are capable of being both: a) functionally distinct, whereby the customer can benefit from the goods or service either on their own or together with other resources that are readily available from third parties or from the Company, and b) contractually distinct, whereby the transfer of the goods or services is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised goods or services, the Company applies judgment to determine whether promised goods or services are capable of being distinct and distinct in the context of the contract. If these criteria are not met the promised goods or services are accounted for as a combined performance obligation.
- *Determination of the transaction price* - The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring goods or services to the customer.
- *Allocation of the transaction price to the performance obligations in the contract* - If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price, (SSP) basis. The Company determines standalone selling price based on the price at which the performance obligation is sold separately. If the standalone selling price is not observable through past transactions, the Company estimates the standalone selling price taking into account available information such as market conditions and internally approved pricing guidelines related to the performance obligations.
- *Recognition of revenue when, or as, the Company satisfies a performance obligation* - The Company satisfies performance obligations either over time or at a point in time as discussed in further detail below. Revenue is

recognized at the time the related performance obligation is satisfied by transferring a promised good or service to a customer.

Device revenue - In transactions where the Company delivers hardware, the Company considers itself to be the principal in the transaction and records revenue and costs of goods sold on a gross basis. Hardware revenue is generally recognized upon transfer of control to the customer.

Software revenue - Revenue from the Company's software products is generally recognized upon transfer of control to the customer. Revenue is generally recognized upon shipment of hardware and perpetual licenses.

Subscription and support revenue - The Company generates subscription and support revenue primarily from post contract support ("PCS") contracts, cloud-based subscription sales, and sales of extended warranties on the Vocera Badge. Subscription revenue is generally recognized ratably over the applicable term. The majority of software sales are in conjunction with PCS contracts, which generally have one-year terms. The Company recognizes revenue from PCS contracts ratably over the contractual service period. The service period typically commences upon transfer of control of the corresponding software products to the customer. The Company recognizes revenue from extended warranty contracts ratably over their contractual service period, which is primarily two years. This period starts one year from the date on which the transfer of control on the underlying hardware occurs because the hardware generally carries a one-year warranty.

Professional services and training revenue - Professional services and training revenue is generated when the Company installs and configures its software and devices at new or existing customer sites. The Company recognizes revenue related to professional services as they are performed.

Contracts with multiple performance obligations - Some of the Company's contracts with customers contain multiple performance obligations. For these contracts, the Company accounts for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations on a relative stand-alone selling price (SSP) basis. For deliverables that are routinely sold separately, such as subscription and support on the core offerings, the Company determines SSP by evaluating renewals over the trailing 12-months. For those that are not sold routinely, the Company determines SSP based on its overall pricing trends and objectives, taking into consideration market conditions and other factors, including the value of the contracts and the products sold.

Contract assets - The timing of revenue recognition may differ from the timing of invoicing to customers. Accounts receivable are recorded at the invoiced amount and in the period the Company delivers goods or provides services or when the Company's right to consideration is unconditional. Payment terms on invoiced amounts are typically 30 days. The balance of accounts receivable, net of allowance for doubtful accounts, as of December 31, 2020 and 2019 is presented in the accompanying consolidated balance sheets. In situations where revenue recognition occurs before invoicing, an unbilled receivable is created, which represents a contract asset. As of December 31, 2020 and 2019 contract assets totaling \$4.2 million and \$4.3 million, respectively, were included in other receivables in the consolidated balance sheet. Contract assets are evaluated for impairment whenever changes in events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. There were no impairment losses incurred for the year ended December 31, 2020.

Revenue from sales-type leases

A portion of the Company's sales are made through multi-year lease agreements with customers. When these arrangements are considered sales-type leases, upon delivery of leased products to customers, the Company recognizes revenue for such products in an amount equal to the net present value of the minimum lease payments. Unearned income is recognized as part of product revenue under the effective interest method. The Company recognizes revenue related to certain executory costs, including maintenance and extended warranty, ratably over the term of the underlying arrangements. The Company recognizes revenue related to battery refresh executory costs when such executory costs are incurred.

Proceeds from transfers of sales-type leases to third-party financial companies are allocated between the net investment in sales-type leases and the executory cost component for remaining service obligations based on relative present value. The difference between the amount of proceeds allocated to the net investment in lease and the carrying value of the net investment in lease is included in product revenue. Proceeds allocated to the executory cost component are accounted for as financing liabilities.

For the year ended December 31, 2020, the Company transferred \$2.5 million of lease receivables, recording a net loss of \$0.2 million and \$2.0 million of new financing liabilities for future performance of executory service obligations. For the year ended December 31, 2019, the Company transferred \$3.5 million of lease receivables, recording a net loss of \$0.3 million and \$1.7 million of new financing liabilities for future performance of executory service obligations.

For lease receivables retained as of December 31, 2020 and 2019, the Company recorded \$0.7 million and \$0.9 million, respectively, of net investment in sales-type leases, equivalent to the minimum lease payments for the delivered product.

Shipping and handling costs

Shipping and handling costs charged to customers are included in revenue and the associated expense is recorded in cost of revenue in the consolidated statements of operations for all periods presented.

Research and development expenditures

Research and development costs are charged to operations as incurred. Software development costs incurred for external products prior to the establishment of technological feasibility are included in research and development and are expensed as incurred. After technological feasibility is established, material software development costs up to general availability of the software will be capitalized and amortized on a straight-line basis over the estimated product life, or based on the ratio of current revenues to total projected product revenue, whichever is greater. To date, the time between the establishment of technological feasibility and general availability has been very short and therefore no significant costs have been incurred. Accordingly, the Company has not capitalized any software development costs related to research and development expenditures.

Advertising costs

Advertising costs are included in sales and marketing expense and are expensed as incurred. Advertising costs for the years ended December 31, 2020, 2019 and 2018 were \$0.6 million, \$0.3 million, and \$0.3 million, respectively.

Product warranties

The Company offers warranties on certain products and records a liability for the estimated future costs associated with warranty claims, which is based upon historical experience and the Company's estimate of the level of future costs. The Company provides for the estimated costs of hardware warranties at the time the related revenue is recognized. Costs are estimated based on historical and projected product failure rates, historical and projected repair costs, and knowledge of specific product failures (if any). The specific hardware warranty includes parts and labor over a period generally ranging from one to three years. The Company provides no warranty for software. The Company regularly re-evaluates its estimates to assess the adequacy of the recorded warranty liabilities and adjust the amounts as necessary. Warranty costs are reflected in the consolidated statement of operations as cost of revenue.

Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, the Company records deferred income taxes based on temporary differences between the financial reporting and tax bases of assets and liabilities and use enacted tax rates and laws that the Company expects will be in effect when they recover those assets or settle those liabilities, as the case may be, to measure those taxes. In cases where the expiration date of tax carryforwards or the projected operating results indicate that realization is not likely, the Company provides for a valuation allowance. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

The Company has deferred tax assets, resulting from net operating losses, research and development credits and temporary differences that may reduce taxable income in future periods. A valuation allowance is required when it is more likely than not that all or a portion of a deferred tax asset will not be realized. In assessing the need for a valuation allowance, the Company estimates future taxable income, considering the feasibility of ongoing tax-planning strategies and the realizability of tax loss carryforwards. Valuation allowances related to deferred tax assets can be impacted by changes in tax laws, changes in statutory tax rates and future taxable income levels. If the Company were to determine that it would be able to realize its deferred tax assets in the future in excess of the net carrying amounts, it would decrease the recorded valuation allowance through an increase to income in the period in which that determination is made. Due to the history of losses the Company has generated in the past, the Company believes that it is not more likely than not that all of the deferred tax assets in the U.S. and Canada can be realized as of December 31, 2020 and 2019, respectively. Accordingly, the Company has recorded a full valuation allowance on its deferred tax assets for these years.

At December 31, 2020, the Company had a valuation allowance against net deferred tax assets of \$39.9 million.

There is inherent uncertainty in evaluating the sustainability of the income tax positions the Company takes on its tax returns. The Company assesses its income tax positions and records tax benefits for all years subject to examination based upon management's evaluation of the facts, circumstances and information available at the reporting date. For those tax positions where it is more likely than not that a tax benefit will be sustained, the Company has recorded the highest amount of tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not more likely than not that a tax benefit will be realizable, no tax benefit has been recognized in the financial statements.

The Company includes interest and penalties with income taxes in the accompanying statement of operations. All of the Company's net operating losses and research credit carryforwards are subject to adjustment by tax authorities and all years after 2013 are still subject to tax authority examinations. The Company is currently not subject to any income tax audit examinations by tax authorities in any jurisdictions including U.S. federal, state and local or foreign countries.

Foreign currency translation

The functional currency of the Company's foreign subsidiaries is the U.S. dollar. Accordingly, monetary assets and liabilities in non-functional currency of these subsidiaries are remeasured using exchange rates in effect at the end of the period. Revenues and costs in local currency are remeasured using average exchange rates for the period, except for costs related to those consolidated balance sheet items that are remeasured using historical exchange rates. The resulting remeasurement gains and losses are included in the Company's consolidated statements of operations. Translation gains and losses have not been significant to date.

Comprehensive loss

For the years ended December 31, 2020, 2019 and 2018, the only component of other comprehensive loss was unrealized (losses) gains on available-for-sale securities.

Related party transactions

During the years ended December 31, 2020, 2019 and 2018, the Company had revenue transactions with a related party, the University of Chicago Medical Center ("UCMC"), for \$1.0 million, \$1.3 million and \$0.4 million, respectively, relating to consulting services and technology solutions. One of the Company's board members was the President of UCMC until her retirement in July of 2020.

Recently adopted accounting pronouncements

In June 2016, the FASB issued new guidance related to the accounting for credit losses on instruments for both financial services and non-financial services entities. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The new guidance was effective for the Company beginning January 1, 2020. The Company applied the guidance using a modified retrospective approach requiring that the Company recognize the cumulative effect of initially applying the impairment standard as an adjustment to opening accumulated deficit in the period of initial application. There was no adjustment to the Company's opening accumulated deficit in the period as there were no incremental impairment losses as a result of the adoption.

In January 2017, the FASB issued new guidance to simplify the accounting for goodwill impairment. The guidance simplifies the measurement of goodwill impairment by removing step 2 of the goodwill impairment test, which requires the determination of the fair value of individual assets and liabilities of a reporting unit. The new guidance requires goodwill impairment to be measured as the amount by which a reporting unit's carrying value exceeds its fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The amendments should be applied on a prospective basis. The new standard was effective for the Company beginning January 1, 2020. The adoption of this guidance did not have an impact on the Company's consolidated financial statements.

In December 2019, the FASB issued new guidance simplifying the accounting for income taxes, which removes certain exceptions for intra period allocations, recognizing deferred taxes for investments and calculating income taxes in interim periods. This guidance also reduces complexity in certain areas, including recognizing deferred taxes for tax goodwill and allocating taxes to members of a consolidated group. The new standard is effective for the Company for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. In the second quarter of fiscal year 2020, the Company early adopted the guidance on a prospective basis. The adoption did not have a material impact on the Company's consolidated financial statements.

Recently issued and not yet adopted accounting pronouncements

In August 2020, the FASB issued new guidance to simplify the accounting for convertible instruments by removing certain separation models. Under the amendments, the embedded conversion features are no longer separated from the host contract for convertible instruments with conversion features that are not required to be accounted for as derivatives, or that do not result in substantial premiums accounted for as paid-in capital. A convertible debt instrument will be accounted for as a single liability measured at its amortized cost and a convertible preferred stock will be accounted for as a single equity instrument measured at its historical cost, as long as no other features require bifurcation and recognition as derivatives. The guidance will be effective

beginning January 1, 2022. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020. The Company is currently evaluating the impact of this new guidance on its consolidated financial statements.

2. Revenue, deferred revenue and deferred commissions

Disaggregation of Revenue

A typical sales arrangement involves multiple arrangements, such as sales of the Company's proprietary communication device ("Vocera Badge"), perpetual software licenses, professional services, cloud-based subscription, and subscription and support services which entitles customers to unspecified upgrades, patch releases and telephone-based support. The following table depicts the disaggregation of revenue according to revenue type and is consistent with how the Company evaluates its financial performance:

(in thousands)	Years ended December 31,		
	2020	2019	2018
Revenue			
Product			
Device	\$ 69,321	\$ 61,224	\$ 60,130
Software	31,246	31,337	37,317
Total product	100,567	92,561	97,447
Service			
Subscription and support	78,532	68,846	62,267
Professional services and training	19,321	19,094	19,916
Total service	97,853	87,940	82,183
Total revenue	\$ 198,420	\$ 180,501	\$ 179,630

Costs to obtain and fulfill a contract

The Company capitalizes certain incremental contract acquisition costs consisting primarily of commissions paid and the related payroll taxes when customer contracts are signed. The Company determines whether costs should be deferred based on its sales compensation plans, if the commissions are incremental and would not have been incurred absent the execution of the customer contract. Sales commissions for renewals of customer contracts are not commensurate with the commissions paid for the acquisition of the initial contract given the substantive difference in commission rates in proportion to their respective contract values. Commissions paid upon the initial acquisition of a contract are amortized over the estimated period of benefit, which may exceed the term of the initial contract. Accordingly, amortization of deferred costs is recognized on a systematic basis that is consistent with the pattern of revenue recognition allocated to each performance obligation and is included in sales and marketing expense in the consolidated statements of operations. The Company determines its estimated period of benefit, up to five years, by evaluating the expected renewals of its customer contracts, the duration of its relationships with its customers and other factors. Deferred costs are periodically reviewed for impairment. Changes in the balance of total deferred commissions (contract asset) during the year ended December 31, 2020 and 2019 are as follows:

(in thousands)	December 31, 2019	Additions	Commissions Recognized	December 31, 2020
Deferred commissions	\$ 10,477	\$ 10,469	\$ (8,653)	\$ 12,293

(in thousands)	December 31, 2018	Additions	Commissions Recognized	December 31, 2019
Deferred commissions	\$ 10,303	\$ 7,761	\$ (7,587)	\$ 10,477

Of the \$12.3 million total deferred commissions balance as of December 31, 2020, the Company expects to recognize approximately 38.6% as commission expense over the next 12 months and the remainder thereafter.

Deferred revenue

The Company records deferred revenue when cash payments are received in advance of the performance under the contract. The current portion of deferred revenue represents the amounts that are expected to be recognized as revenue within one year of the consolidated balance sheet date. Changes in the balance of total deferred revenue (contract liability) during the years ended December 31, 2020 and 2019 are as follows:

(in thousands)	December 31, 2019		Additions	Revenue Recognized		December 31, 2020		
Deferred revenue	\$	61,475	\$	89,951	\$	(86,692)	\$	64,733

(in thousands)	December 31, 2018		Additions	Revenue Recognized		December 31, 2019		
Deferred revenue	\$	58,632	\$	82,042	\$	(79,199)	\$	61,475

Revenue recognized during the year ended December 31, 2020 from deferred revenue balances as of December 31, 2019 was \$53.4 million. Revenue recognized during the year ended December 31, 2019 from deferred revenue balances as of December 31, 2018 was \$48.6 million.

The “contracted but not recognized” performance obligations represent the Company’s deferred revenue and non-cancelable backlog amounts. This balance as of December 31, 2020 was \$157.0 million, of which the Company expects to recognize approximately 70% of the revenue over the next 12 months and the remainder thereafter.

3. Fair value of financial instruments

The Company’s cash, cash equivalents and short-term investments are carried at their fair values with any differences from their amortized cost recorded in equity as unrealized gains (losses) on marketable securities. As a basis for determining the fair value of its assets and liabilities, the Company follows a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs other than the quoted prices in active markets that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data which requires the Company to develop its own assumptions. This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. For the years ended December 31, 2020, 2019 and 2018, there have been no transfers between Level 1 and Level 2 fair value instruments and no transfers out of Level 3.

The Company’s money market funds are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. The fair value of the Company’s Level 2 fixed income securities is obtained from independent pricing services, which may use quoted market prices for identical or comparable instruments or model-driven valuations using observable market data or other inputs, corroborated by observable market data.

In addition to its cash, cash equivalents and short-term investments, the Company measures the fair value of its Convertible Senior Notes on a quarterly basis for disclosure purposes. The Company considers the fair value of the Convertible Senior Notes at December 31, 2020 to be a Level 2 measurement due to limited trading activity of the Convertible Senior Notes. Refer to Note 8 to the consolidated financial statements for further information.

The agreement for the acquisition of EASE Applications includes contingent payments to the owners of EASE Applications, payable based on achievement of post-acquisition financial metrics. This contingent consideration is a Level 3 fair value measurement and the valuation of the Company’s contingent consideration obligation was estimated as the present value of total expected contingent consideration payments which are determined using a Monte Carlo simulation. This analysis reflects the contractual terms of the purchase agreements and utilizes assumptions with regard to future sales, probabilities of achieving such future sales, the likelihood and timing of expected payments and a discount rate. Significant increases with respect to assumptions as to future sales and probabilities of achieving such future sales would result in a higher fair value measurement, while an increase in the discount rate would result in a lower fair value measurement. The unobservable inputs in the valuation include revenue volatility of 13%, a risk-free rate of 0.10%, and the amounts are expected to be paid in the second quarters of

2022 and 2023. The fair value adjustment for the contingent consideration of \$0.8 million for the year ended December 31, 2020 was recorded as other income and expense.

The table below summarizes the Company's assets that are measured at fair value on a recurring basis, by level, within the fair value hierarchy as of December 31, 2020 and 2019, respectively.

(in thousands)	December 31, 2020				December 31, 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Money market funds	\$ 363	\$ —	\$ —	\$ 363	\$ 4,086	\$ —	\$ —	\$ 4,086
Commercial paper	—	21,950	—	21,950	—	12,854	—	12,854
U.S. government agency securities	—	—	—	—	—	3,000	—	3,000
U.S. Treasury securities	—	6,000	—	6,000	—	—	—	—
Corporate debt securities	—	173,277	—	173,277	—	188,310	—	188,310
Total assets measured at fair value	\$ 363	\$ 201,227	\$ —	\$ 201,590	\$ 4,086	\$ 204,164	\$ —	\$ 208,250
Liabilities								
Contingent consideration	\$ —	\$ —	\$ 2,959	\$ 2,959	\$ —	\$ —	\$ —	\$ —
Total liabilities measured at fair value	\$ —	\$ —	\$ 2,959	\$ 2,959	\$ —	\$ —	\$ —	\$ —

The financial accounts that are not subject to recurring fair value measurement include trade and other receivables, prepaid expenses and other current assets, total current liabilities and deferred revenues, both current and long-term. Due to their short maturities, the carrying amounts of these accounts approximate their fair values.

The table below provides a roll-forward of the fair value of the Company's liabilities that use significant unobservable inputs (Level 3).

	Year ended December 31, 2020
Beginning balance	\$ —
Issuance of contingent consideration in connection with acquisition	2,162
Settlements of contingent consideration liabilities	—
Fair value adjustment for contingent consideration included in earnings	797
Ending balance	\$ 2,959

4. Cash, Cash Equivalents and Short-Term Investments

The following tables display gross unrealized gains and losses for cash, cash equivalents and available-for-sale investments for the periods presented:

(in thousands)	December 31, 2020			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair value
Cash and cash equivalents:				
Demand deposits and other cash	\$ 28,613	\$ —	\$ —	\$ 28,613
Money market funds	363	—	—	363
U.S. treasury securities	6,000	—	—	6,000
Total cash and cash equivalents	34,976	—	—	34,976
Short-Term Investments:				
Commercial paper	21,961	—	(11)	21,950
Corporate debt securities	172,768	543	(34)	173,277
Total short-term investments	194,729	543	(45)	195,227
Total cash, cash equivalents and short-term investments	\$ 229,705	\$ 543	\$ (45)	\$ 230,203

(in thousands)	December 31, 2019			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair value
Cash and cash equivalents:				
Demand deposits and other cash	\$ 21,618	\$ —	\$ —	\$ 21,618
Money market funds	4,086	—	—	4,086
Total cash and cash equivalents	25,704	—	—	25,704
Short-Term Investments:				
Commercial paper	12,861	—	(7)	12,854
U.S. government agency securities	3,000	—	—	3,000
Corporate debt securities	187,866	499	(55)	188,310
Total short-term investments	203,727	499	(62)	204,164
Total cash, cash equivalents and short-term investments	\$ 229,431	\$ 499	\$ (62)	\$ 229,868

The Company has determined that no credit losses related to marketable securities were required as of as of December 31, 2020 and 2019. The unrealized losses for the short-term investments as of December 31, 2020 and 2019 have all been in a continuous unrealized loss position for less than twelve months. The Company's conclusion is based on the high credit quality of the securities, their short remaining maturity and the Company's intent and ability to hold such loss securities until maturity.

Classification of the cash, cash equivalent and short-term investments by contractual maturity was as follows:

(in thousands)	One year or shorter	Between 1 and 2 years	Total
Balances as of December 31, 2020			
Cash and cash equivalents (1)	\$ 34,976	\$ —	\$ 34,976
Short-term investments	141,582	53,645	195,227
Cash, cash equivalents and short-term investments	\$ 176,558	\$ 53,645	\$ 230,203
Balances as of December 31, 2019			
Cash and cash equivalents (1)	\$ 25,704	\$ —	\$ 25,704
Short-term investments	113,010	91,154	204,164
Cash, cash equivalents and short-term investments	\$ 138,714	\$ 91,154	\$ 229,868

(1) Includes demand deposits and other cash, money market funds and other cash equivalent securities, all with 0-90 day maturities at purchase.

5. Net loss per share

The following table presents the calculation of basic and diluted net loss per share:

(in thousands, except for share and per share amounts)	Years ended December 31,		
	2020	2019	2018
Numerator:			
Net loss	\$ (9,656)	\$ (17,980)	\$ (9,674)
Denominator:			
Weighted-average shares used to compute net loss per common share - basic and diluted	32,215	31,273	30,041
Net loss per share			
Basic and diluted	\$ (0.30)	\$ (0.57)	\$ (0.32)

For the years ended December 31, 2020, 2019 or 2018, the following securities were not included in the calculation of diluted shares outstanding as the effect would have been anti-dilutive:

(in thousands)	December 31,		
	2020	2019	2018
Options to purchase common stock	496	523	1,085
Restricted stock units and performance stock units	2,014	1,461	1,925

6. Goodwill and intangible assets

Goodwill

The Company had \$69.2 million and \$49.2 million of goodwill as of December 31, 2020 and 2019, respectively. The addition to goodwill during the year ended December 31, 2020 of \$19.9 million was based on the purchase price allocations of the acquisition completed during the third quarter of 2020 (See Note 12). Goodwill is tested for impairment at the reporting unit level at least annually or more often if events or changes in circumstances indicate the carrying value may not be recoverable. The Company has a single reporting unit. The Company performed an impairment assessment which determined that no impairment existed. For the years ended December 31, 2020 and 2019, the Company used the qualitative assessment permitted under authoritative accounting guidance. Among the qualitative factors considered were changes since the prior impairment test in the following: industry and competitive environment, business strategy, product mix, buyer and supplier bargaining power, potential market size, consistency in operating margins and cash flows, change in reporting unit or product life cycle stage and earnings quality and sustainability. No impairment was recorded in the years ended December 31, 2020, 2019 or 2018.

The changes in the carrying amount of goodwill are as follows:

Balance at December 31, 2019	\$49,246
Acquired in acquisition	19,922
Balance at December 31, 2020	\$69,168

Intangible assets

The fair values for acquired intangible assets were determined by management with consideration of, in part, valuations performed by independent valuation specialists. Acquisition-related intangible assets are amortized over the life of the assets on an accelerated basis that approximates the expected economic benefit of the assets. This assumption results in amortization that is higher in earlier periods of the useful life. The estimated useful lives and carrying value of acquired intangible assets are as follows:

(in thousands)	Weighted average useful life (years)	December 31, 2020			December 31, 2019		
		Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Intangible assets:							
Customer relationships	8.0	\$ 16,350	\$ 7,143	\$ 9,207	\$ 10,920	\$ 5,819	\$ 5,101
Developed technology	3.9	12,360	10,255	2,105	10,050	9,803	247
Trademarks	3.0	1,770	1,191	579	1,110	1,110	—
Backlog	3.4	2,240	1,343	897	1,400	1,287	113
Non-compete agreements		460	460	—	460	460	—
Intangible assets, net book value		<u>\$ 33,180</u>	<u>\$ 20,392</u>	<u>\$ 12,788</u>	<u>\$ 23,940</u>	<u>\$ 18,479</u>	<u>\$ 5,461</u>

Amortization of intangible assets was \$1.9 million, \$3.6 million, and \$4.5 million for the years ended December 31, 2020, 2019 and 2018, respectively.

Amortization of acquired intangible assets is reflected in the cost of revenues for developed technology and backlog and in operating expenses for the other intangibles. The estimated future amortization of acquired intangible assets as of December 31, 2020 was as follows:

(in thousands)	Future amortization
2021	\$ 3,349
2022	2,965
2023	2,445
2024	1,564
2025	679
Thereafter	1,786
Future amortization expense	<u>\$ 12,788</u>

7. Consolidated balance sheet components

Inventories

(in thousands)	December 31,	
	2020	2019
Raw materials	\$ 462	\$ 831
Finished goods	9,697	3,745
Total inventories	<u>\$ 10,159</u>	<u>\$ 4,576</u>

Property and equipment, net

(in thousands)	December 31,	
	2020	2019
Computer equipment and software	\$ 15,912	\$ 13,596
Furniture, fixtures and equipment	2,570	2,430
Leasehold improvements	5,306	5,283
Manufacturing tools and equipment	2,506	2,435
Construction in process	629	582
Property and equipment, at cost	26,923	24,326
Less: Accumulated depreciation	(18,820)	(15,665)
Property and equipment, net	<u>\$ 8,103</u>	<u>\$ 8,661</u>

Depreciation and amortization expense for property and equipment for the years ended December 31, 2020, 2019 and 2018 was \$4.5 million, \$3.7 million, and \$3.2 million, respectively.

Net investment in sales-type leases

The Company has sales-type leases with terms of 3 to 4 years. Sales-type lease receivables are collateralized by the underlying equipment. The components of the net investment in sales-type leases are as follows:

(in thousands)	December 31,	
	2020	2019
Minimum payments to be received on sales-type leases	\$ 1,440	\$ 2,078
Less: Unearned interest income and executory revenue portion	(731)	(1,190)
Net investment in sales-type leases	709	888
Less: Current portion	(360)	(452)
Non-current net investment in sales-type leases	<u>\$ 349</u>	<u>\$ 436</u>

Sales-type lease activity recognized in the consolidated statement of operations are as follows:

(in thousands)	Years ended December 31,		
	2020	2019	2018
Lease revenue	\$ 4,513	\$ 6,394	\$ 2,697
Less: Cost of lease shipments	(702)	(1,670)	(212)
Gross profit	\$ 3,811	\$ 4,724	\$ 2,485
Interest expense, net on lease receivable	\$ (16)	\$ (18)	\$ (6)
Initial direct cost incurred	\$ 224	\$ 277	\$ 140

There were no allowances for doubtful accounts on these leases as of December 31, 2020 and 2019. There is no guaranteed or unguaranteed residual value on the leased equipment. The current and non-current net investments in sales-types leases are reported as components of the consolidated balance sheet captions "other receivables" and "other long-term assets", respectively.

The minimum lease payments expected for future years under sales-type leases as of December 31, 2020 were as follows:

(in thousands)	Future lease payments
2021	\$ 740
2022	505
2023	167
2024	28
Total	<u>\$ 1,440</u>

Accrued payroll and other current liabilities

(in thousands)	December 31,	
	2020	2019
Payroll and related expenses	\$ 9,043	\$ 6,053
Accrued payables	3,160	2,674
Operating lease liabilities, current portion	2,529	2,323
Lease financing, current portion	1,034	1,033
Product warranty	453	420
Customer prepayments	4,292	631
Sales and use tax payable	476	599
Other taxes payable	852	—
Other	1,356	1,024
Total accrued payroll and other current liabilities	\$ 23,195	\$ 14,757

A reconciliation of the changes in the Company's warranty reserve for the years ended December 31, 2020, 2019 and 2018 is as follows:

(in thousands)	Years ended December 31,		
	2020	2019	2018
Warranty balance at the beginning of the period	\$ 420	\$ 376	\$ 353
Warranty expense accrued for shipments during the period	424	435	468
Changes in estimate related to pre-existing warranties	(123)	(192)	(223)
Warranty settlements made	(268)	(199)	(222)
Total product warranty	\$ 453	\$ 420	\$ 376

Leases

The Company has operating leases for office space at its headquarters and subsidiaries under non-cancelable operating leases. Leases with an initial term of 12 months or less are not recorded on the balance sheet; lease expense for these leases is recognized on a straight-line basis over the lease term. Effective January 1, 2019 the Company adopted Accounting Standards Update 2016-02, Leases ("Topic 842"), using the modified retrospective approach. The Company determines if an arrangement is a lease at inception. Some lease agreements contain lease and non-lease components, which are accounting for as a single lease component. The Company's leases have remaining lease terms of approximately one to five years. Operating lease cost, including short-term operating leases was \$3.4 million, \$2.7 million, and \$2.7 million for the years ended December 31, 2020, 2019 and 2018, respectively. In December 2020, the Company made the decision to abandon the San Francisco office lease resulting in an impairment charge of \$0.4 million.

Supplemental balance sheet information related to leases was as follows:

(in thousands)	December 31, 2020	December 31, 2019
Other long-term assets	\$ 4,014	\$ 6,251
Accrued payroll and other current liabilities	2,529	2,323
Other long-term liabilities	2,288	4,866
Total operating lease liabilities	\$ 4,817	\$ 7,189

Other information related to leases was as follows:

(in thousands)	Year ended December 31,	
	2020	2019
<i>Supplemental Cash Flow Information</i>		
Cash paid for amounts included in the measurement of lease liabilities	\$ 3,022	\$ 2,689
Right-of-use assets obtained in exchange for lease obligations	\$ 327	\$ 2,830
Weighted average remaining lease term	2.11 years	2.90 years
Weighted average discount rate	8 %	8 %

Maturities of lease liabilities as of December 31, 2020 are as follows:

(in thousands)	Operating leases
2021	\$ 2,939
2022	1,446
2023	516
2024	337
Total maturities of lease liabilities	5,238
Less imputed interest	\$ (421)
Total	\$ 4,817

As of December 31, 2020, the Company has entered into an operating lease that has not yet commenced of \$0.6 million. This lease will commence in the first quarter of 2021 with a lease term of approximately five years.

8. Convertible Senior Notes

In May 2018, the Company issued \$143.75 million aggregate principal amount of 1.50% Convertible Senior Notes due 2023, including \$18.75 million aggregate principal amount of such notes pursuant to the exercise in full of options granted to the initial purchasers, collectively the “Notes.” The Notes are unsecured, unsubordinated obligations and bear interest at a fixed rate of 1.50% per annum, payable semi-annually in arrears on May 15 and November 15 of each year, commencing on November 15, 2018. The total net proceeds from the offering, after deducting initial purchase discounts and estimated debt issuance costs, were approximately \$138.9 million.

Each \$1,000 principal amount of the Notes will initially be convertible into 31.0073 shares of the Company’s common stock, the “Conversion Option,” which is equivalent to an initial conversion price of approximately \$32.25 per share, subject to adjustment upon the occurrence of specified events. The Notes will be convertible at the option of the holders at any time prior to the close of business on the business day immediately preceding February 15, 2023, only under the following circumstances:

(1) during any calendar quarter commencing after the calendar quarter ending on June 30, 2018 (and only during such calendar quarter), if the last reported sale price of the Company common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price of the Notes on each applicable trading day;

(2) during the five business day period after any ten consecutive trading day period in which the trading price per \$1,000 principal amount of the Notes for each day of that ten day consecutive trading day period was less than 98% of the product of the last reported sale price of the Company’s common stock and the conversion rate of the Notes on such trading day; or

(3) upon the occurrence of specified corporate events (as set forth in the indenture governing the Notes).

On or after February 15, 2023 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their Notes at any time, regardless of the foregoing circumstances. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of the Company’s common stock, or a combination of cash and shares of the Company’s common stock, at the Company’s election. If certain specified fundamental changes occur (as set forth in the indenture governing the Notes) prior to the maturity date, holders of the Notes may require the Company to repurchase for cash all or any portion of their Notes at a repurchase price equal to 100% of the principal amount of the Notes to be

repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date. In addition, if specific corporate events occur prior to the applicable maturity date, the Company will increase the conversion rate for a holder who elects to convert their notes in connection with such a corporate event in certain circumstances. It is the Company's current intent and policy to settle conversions through combination settlement which involves repayment of the principal portion in cash and any excess of the conversion value over the principal amount in shares of its common stock. During the year ended December 31, 2020, the conditions allowing holders of the Notes to convert have not been met. The Notes are therefore not convertible during the year ended December 31, 2020 and are classified as long-term debt.

In accounting for the transaction, the Notes were separated into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar debt instrument that does not have an associated convertible feature. The carrying amount of the equity component representing the Conversion Option was \$33.4 million and was determined by deducting the fair value of the liability component from the par value of the Notes. The equity component was recorded in additional paid-in capital and will be remeasured as long as it continues to meet the conditions for equity classification. The excess of the principal amount of the liability component over its carrying amount, the "debt discount," is amortized to interest expense over the contractual term of the Notes at an effective interest rate of 7.6%.

In accounting for the debt issuance costs of \$4.9 million related to the Notes, the Company allocated the total amount incurred to the liability and equity components of the Notes based on their relative values. Issuance costs attributable to the liability component were \$3.8 million and will be amortized to interest expense using the effective interest method over the contractual term of the Notes. Issuance costs attributable to the equity component were \$1.1 million and are included with the equity component in additional paid-in capital.

The Notes consist of the following:

(in thousands)	December 31, 2020	December 31, 2019
Liability:		
Principal	\$ 143,750	\$ 143,750
Unamortized debt discount	(17,411)	(23,880)
Unamortized issuance costs	(1,963)	(2,692)
Net carrying amount	<u>\$ 124,376</u>	<u>\$ 117,178</u>
Stockholders' equity:		
Debt discount for conversion option	\$ 33,350	\$ 33,350
Issuance costs	(1,136)	(1,136)
Net carrying amount	<u>\$ 32,214</u>	<u>\$ 32,214</u>

The total estimated fair value of the Notes as of December 31, 2020 was approximately \$205.4 million. The fair value was determined based on the closing trading price per \$100 of the Notes as of the last day of trading for the period. The fair value of the Notes is primarily affected by the trading price of the Company's common stock and market interest rates. Based on the closing price of the Company's common stock of \$41.53 on December 31, 2020, the if-converted value of the Notes of \$185.1 million was greater than their principal amount.

Interest expense related to the Notes is as follows:

(in thousands)	Year ended December 31,	
	2020	2019
Contractual interest expense	\$ 2,156	\$ 2,150
Amortization of debt discount	6,469	5,966
Amortization of issuance costs	729	673
Total interest expense	<u>\$ 9,354</u>	<u>\$ 8,789</u>

Capped Calls

In connection with the pricing of the Notes, the Company entered into privately negotiated capped call transactions with certain counterparties, the (“Capped Calls”). The Capped Calls each have an initial strike price of approximately \$32.25 per share, subject to certain adjustments, which correspond to the initial conversion price of the Notes. The Capped Calls have initial cap prices of \$38.94 per share, subject to certain adjustments. The Capped Calls cover, subject to anti-dilution adjustments, approximately 4.5 million shares of the Company’s common stock. Conditions that cause adjustments to the initial strike price of the Capped Calls mirror conditions that result in corresponding adjustments for the Notes. The Capped Calls are generally intended to reduce or offset the potential dilution to the Company’s common stock upon any conversion of the Notes with such reduction or offset, as the case may be, subject to a cap based on the cap price. For accounting purposes, the Capped Calls are separate transactions, and not part of the terms of the Notes. As these transactions meet certain accounting criteria, the Capped Calls are recorded in stockholders’ equity and are not accounted for as derivatives. The cost of \$8.9 million incurred in connection with the Capped Calls was recorded as a reduction to additional paid-in capital.

The net impact to the Company’s stockholders’ equity, included in additional paid-in capital, of the above components of the Notes is as follows:

(in thousands)	December 31, 2020
Conversion option	\$ 33,350
Purchase of capped calls	\$ (8,907)
Issuance costs	\$ (1,136)
Total	<u>\$ 23,307</u>

Impact on Earnings Per Share

The Notes will not have an impact on the Company’s diluted earnings per share until they meet the criteria for conversion, as discussed above, as the Company intends to settle the principal amount of the Notes in cash upon conversion. Under the treasury stock method, in periods when the Company reports net income, the Company is required to include the effect of additional shares that may be issued under the Notes when the price of its common stock exceeds the conversion price. However, upon conversion, there will be no economic dilution from the Notes until the average market price of the Company’s common stock exceeds the cap price of \$38.94 per share, as exercise of the capped calls offsets any dilution from the Notes from the conversion price up to the cap price. Capped Calls are excluded from the calculation of diluted earnings per share, as they would be anti-dilutive under the treasury stock method.

9. Commitments and contingencies

Non-cancelable purchase commitments

The Company enters into non-cancelable purchase commitments with its third-party manufacturers whereby the Company is required to purchase any inventory held by the third-party manufacturer that have been purchased by them based on confirmed orders from the Company. As of December 31, 2020 and 2019, approximately \$6.1 million and \$9.7 million, respectively, of raw material inventory was purchased and held by the third-party manufacturer which was subject to such purchase requirements.

Litigation

The Company is currently, and from time to time, the Company may be, involved in lawsuits, claims, investigations and proceedings, consisting of intellectual property, commercial, employment and other matters which arise in the ordinary course of business. The Company defends itself vigorously against any such claims. Although the outcome of these matters is currently not determinable, management expects that any losses from existing matters that are probable or reasonably possible of being incurred as a result of these matters would not be material to the financial statements as a whole.

10. Common Stock and Share-based Compensation

The Company’s certificate of incorporation, as amended, authorizes the Company to issue 100 million shares of \$0.0003 par value common stock.

At December 31, 2020, the Company has 844,022 shares of common stock reserved for issuance under stock option plans.

Incentive stock option plans

The Company has five equity incentive plans: the 2000 Stock Option Plan ("the 2000 Plan"), the 2006 Stock Option Plan ("the 2006 Plan"), the 2012 Stock Option Plan ("the 2012 Plan"), the 2016 Equity Inducement Plan ("the 2016 Plan") and the 2020 Equity Inducement Plan ("the 2020 Plan"). On March 26, 2012, all shares that were reserved under the 2006 Plan but not subject to outstanding awards became available for grant under the 2012 Plan. No additional shares will be issued under the 2006 Plan. The 2000 Plan terminated in March 2010 and no additional shares will be issued under this plan. The 2016 Plan and 2020 Plan were adopted by the Company's Board of Directors without shareholder approval pursuant to the inducement exemption provided under the NYSE listing rules for the issuance of restricted stock units ("RSUs") to employee's who joined the Company after the acquisition of Extension Healthcare and Ease, respectively. No additional shares will be issued under the 2016 Plan or 2020 Plan. Under the 2012 Plan, the Company has the ability to issue incentive stock options ("ISOs"), stock appreciation rights, restricted stock awards, RSUs, performance awards and stock bonuses. The ISOs will be granted at a price per share not less than the fair value at date of grant.

Valuation Assumptions

Compensation expense for all share-based payment awards, including stock options, restricted stock units ("RSUs"), and performance stock units ("PSUs"), are measured based on the estimated fair value of the award on the grant date over the related vesting or performance periods.

The fair value of stock-based awards is estimated as follows:

Restricted Stock Units. The fair value of restricted stock units is determined based on the quoted market price of the Company's common stock on the date of grant.

Performance Stock Units. Performance stock units consist of grants of performance-based restricted stock units to certain members of executive management that vest contingent upon the achievement of predetermined market and service conditions (referred to herein as "performance stock units"). The fair value of performance stock units is estimated using a Monte-Carlo simulation model which is a probabilistic approach for calculating the fair value of the awards. The Monte-Carlo simulation is a statistical technique used, in this instance, to simulate future stock prices of the Company relative to constituents in the S&P 600 Health Care Equipment and Services Index. Key assumptions for the Monte-Carlo simulation model are the risk-free interest rate, expected volatility, expected dividends and correlation coefficient.

Stock Options and Employee Stock Purchase Plan. The fair value of stock options and stock purchase rights granted pursuant to the Company's equity incentive plans and 2012 Employee Stock Purchase Plan ("ESPP"), respectively, is estimated using the Black-Scholes valuation model based on the multiple-award valuation method. Key assumptions of the Black-Scholes valuation model are the risk-free interest rate, expected volatility, expected term and expected dividends. The risk-free interest rate is based on U.S. Treasury yields in effect at the time of grant for the expected term of the option. Expected volatility is based on a combination of historical stock price volatility. An expected term is estimated based on historical exercise behavior, post-vesting termination patterns, options outstanding and future expected exercise behavior.

Stock Option Activity

The following table summarizes the combined stock option activity under the 2000 Plan, the 2006 Plan and the 2012 Plan and non-plan stock option agreements:

	Options outstanding			
	Number of options	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value (in thousands)
Outstanding at December 31, 2019	606,327	\$ 13.41	3.62	\$ 4,566
Options exercised	(305,596)	\$ 11.32		
Options canceled	(1,700)	\$ 9.40		
Outstanding at December 31, 2020	299,031	\$ 15.58	2.68	\$ 7,761
Options vested and expected to vest as of December 31, 2020	299,031	\$ 15.58	2.68	\$ 7,761
Options vested and exercisable as of December 31, 2020	299,031	\$ 15.58	2.68	\$ 7,761

At December 31, 2020, there was no unrecognized compensation cost related to options.

No options were granted during the years ended December 31, 2020, 2019 and 2018. Further information regarding the value of employee options vested and exercised during the years ended December 31, 2020, 2019 and 2018 is set forth below.

(in thousands)	Years ended December 31,		
	2020	2019	2018
Intrinsic value of options exercised during period	\$ 5,026	\$ 3,700	\$ 10,243

Employee Stock Purchase Plan

The Company's 2012 ESPP program 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 any plan limitations. The ESPP provides for six-month offering periods.

At the end of each offering period, eligible employees are able to purchase shares at 85% of the lower of the fair market value of the Company's common stock on the first trading day of the offering period or on the last day of the offering period. During the years ended December 31, 2020 and 2019, employees purchased 240,593 and 155,373 shares, respectively, of common stock at an average purchase price of \$15.54 and \$22.35, respectively. As of December 31, 2020, 949,025 shares remained available for future issuance under the ESPP.

The Company uses the Black-Scholes option-pricing model to calculate the fair value of periodic ESPP offerings on their offer date. The following assumptions were used for each respective period for the ESPP:

	Years ended December 31,		
	2020	2019	2018
Expected term (in years)	0.5	0.5	0.5
Volatility	50.0% - 55.0%	33.0% - 50.0%	33.0% - 37.8%
Risk-free interest rate	0.12% - 1.59%	1.59% - 2.51%	2.09% - 2.51%
Dividend yield	0.0%	0.0%	0.0%

Restricted Stock Units and Performance Stock Units

The Company issues RSUs and PSUs as part of its compensation plans.

A summary of the RSU and PSU activity for the year ended December 31, 2020 is presented below:

	Restricted Stock Units and Performance Stock Units	
	Number of shares	Weighted Average Grant Date Fair Value per Share
Outstanding at December 31, 2019	1,550,646	\$ 28.94
Granted	1,441,817	22.63
Vested	(781,913)	27.94
Forfeited	(69,787)	25.89
Outstanding at December 31, 2020	<u>2,140,763</u>	<u>\$ 25.16</u>

At December 31, 2020, there was \$36.8 million of unrecognized compensation cost related to RSUs and PSUs, which is expected to be recognized over a weighted-average period of 1.77 years.

During the second quarter of this fiscal year 145,877 PSUs were granted to certain executives under the 2012 Equity Incentive Plan (the "2012 Plan"). PSUs are contingent on the achievement of comparative market-based returns. On the date of grant, the fair value of the total shareholder return ("TSR") component of the PSUs is estimated using a Monte Carlo valuation model. The PSUs will vest over a three-year performance period. The number of shares the PSU holder receives is based on the extent to which the corresponding market conditions have been achieved. For awards subject to service and market conditions, the number of shares of stock issued pursuant to the award can range from 0% to 200% of the target amount. Compensation expense for awards with performance-based and service-based conditions is recognized over the requisite service period if it is probable that the performance condition will be satisfied. The expense for performance-based awards is evaluated each quarter based on the achievement of the performance conditions. These grants were reduced from shares of common stock reserved for issuance under stock option plans as if 200% of the target amount were achieved. The assumptions used to determine the fair value are level 3 fair value measurements which include unobservable inputs that are significant to the measurement of the fair value of the assets or liabilities that are supported by little or no market data.

The assumptions used in the Monte Carlo valuation model to value the PSUs were as follows:

	December 31, 2020
Grant date fair value per share	\$ 30.70
Expected term (in years)	3
Volatility	42.68 %
Risk-free interest rate	0.20 %
Dividend yield	— %

Allocation of Stock-Based Compensation Expense

Stock-based compensation expense is recognized based on a straight-line amortization method over the respective vesting period of the award. For the years ended December 31, 2020, 2019 and 2018 the straight-line amortization is reduced by actual forfeitures.

The following table presents the allocation of stock-based compensation expense:

(in thousands)	Years ended December 31,		
	2020	2019	2018
Cost of revenue	\$ 4,161	\$ 4,441	\$ 3,614
Research and development	4,180	3,955	2,976
Sales and marketing	7,934	7,014	6,560
General and administrative	9,450	8,455	7,814
Total stock-based compensation	<u>\$ 25,725</u>	<u>\$ 23,865</u>	<u>\$ 20,964</u>

11. Income taxes

The components of loss before income taxes are as follows:

(in thousands)	Years ended December 31,		
	2020	2019	2018
United States	\$ (12,230)	\$ (19,022)	\$ (10,852)
International	1,326	1,062	827
Total loss before income taxes	<u>\$ (10,904)</u>	<u>\$ (17,960)</u>	<u>\$ (10,025)</u>

The components of the provision for (benefit from) income taxes are as follows:

(in thousands)	Years ended December 31,		
	2020	2019	2018
Current			
State	\$ 110	\$ (25)	\$ 53
Foreign	181	240	368
	<u>291</u>	<u>215</u>	<u>421</u>
Deferred			
Federal	(1,401)	(43)	(822)
State	(197)	7	99
Foreign	59	(159)	(49)
	<u>(1,539)</u>	<u>(195)</u>	<u>(772)</u>
Total income tax provision (benefit)	<u>\$ (1,248)</u>	<u>\$ 20</u>	<u>\$ (351)</u>

The Company had an effective tax rate of 11.4%, (0.1)% and 3.5% for the years ended December 31, 2020, 2019 and 2018, respectively.

As of December 31, 2020, the Company has provided a valuation allowance against certain federal and state deferred tax assets. Management continues to evaluate the realizability of deferred tax assets and the related valuation allowance. If management's assessment of the deferred tax assets or the corresponding valuation allowance were to change, the Company would record the related adjustment to income during the period in which management makes the determination.

On August 18, 2020, as part of the acquisition of EASE Applications, the Company recorded \$2.1 million in deferred tax liabilities, related to the intangible assets acquired. Changes in the acquiring company's deferred tax assets or liabilities subsequent to a business combination are required to be recorded in income during the period in which the transaction occurs. The Company was able to offset these deferred tax liabilities with a release of a portion of the Company's valuation allowance. Accordingly, the \$2.1 million decrease in the Company's net deferred tax assets resulted in the release of a corresponding \$2.1 million valuation allowance and recognition of a tax benefit for the year ended December 31, 2020.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was enacted and signed into law. The CARES Act, among other things, permits NOL carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. The Company has determined that the NOL provisions of the CARES Act will not result in a material benefit to the Company since the Company has been generating taxable losses.

In addition, the CARES Act allows for the deferral of payment on the Company's share of the 6.2% Social Security tax on wages paid beginning on March 27, 2020 and ending on December 31, 2020. Deferred amounts are payable in two installments, with 50% of such taxes totaling \$0.9 million due on December 31, 2021, and the remainder of \$0.9 million due on December 31, 2022.

Reconciliation of the provision for income taxes at the statutory rate to the Company's provision for income tax is as follows:

(in thousands)	Years ended December 31,		
	2020	2019	2018
U.S. federal (tax benefit) provision at statutory rate	\$ (2,290)	\$ (3,772)	\$ (2,105)
State (tax benefit) income taxes, net of federal benefit	(367)	(646)	(373)
Foreign income taxes at rates other than the US rate	(115)	(145)	92
Stock-based compensation	1,060	(2,119)	(3,503)
Change in valuation allowance	(258)	5,136	4,710
Non-deductible executive compensation	1,107	2,383	2,418
Research and development credits	(1,102)	(1,209)	(994)
Indefinite net operating losses carryforward	—	(33)	(1,470)
Other	717	425	874
Total income tax provision (benefit)	\$ (1,248)	\$ 20	\$ (351)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The following table presents the significant components of the Company's deferred tax assets and liabilities for the periods presented:

(in thousands)	December 31,	
	2020	2019
Deferred tax assets		
Net operating loss carryforward	\$ 32,219	\$ 32,723
Research and development credits	9,359	8,449
Reserves and accruals	9,851	9,349
Total deferred tax assets	51,429	50,520
Valuation allowance	(39,896)	(40,436)
Net deferred tax assets	11,533	10,084
Deferred tax liabilities - convertible senior notes	(4,382)	(5,848)
Indefinite lived intangible assets	(3,757)	(2,899)
Depreciation and amortization	(158)	2,402
Deferred tax liabilities - other	(3,978)	(4,197)
Net deferred tax liabilities	\$ (742)	\$ (458)

The Company's deferred tax liabilities are primarily related to tax deductible goodwill. The Company determines its valuation allowance on deferred tax assets by considering both positive and negative evidence in order to ascertain whether it is more likely than not that deferred tax assets will be realized. Realization of deferred tax assets is dependent upon the generation of future taxable income, if any, the timing and amount of which are uncertain. Due to the history of losses the Company has generated in the past, the Company believes that it is not more likely than not that all of the deferred tax assets in the U.S. and Canada can be realized as of December 31, 2020; accordingly, the Company has recorded a full valuation allowance on its deferred tax assets.

The Company's valuation allowance increased by \$0.5 million and \$0.4 million for the years ended December 31, 2020 and 2019, respectively. The change in the 2020 valuation allowance was primarily due to the addition of current year loss carryforwards and EASE acquisition related tax benefits. The change in the 2019 valuation allowance was primarily due to the addition of current year loss carryforwards and federal rate reduction.

At December 31, 2020, the Company had \$135 million and \$67 million, respectively, of federal and state net operating loss carryforwards. The federal net operating loss carryforward generated in the years ended December 31, 2002 through 2017 begin expiring in 2022.

Net operating losses originating before January 1, 2018 are eligible to offset taxable income, if not otherwise limited under IRS Section 382. Net operating losses generated after December 31, 2017 have an indefinite carryforward period and subject to 80% deduction limitation based upon pre-net operating deduction taxable income. The CARES Act temporarily removes the

80% taxable income limitation for tax years beginning before 2021. Furthermore, it allows for a five-year carryback of Federal net operating losses that arose in 2020, 2019, and 2018.

In addition, the Company has federal research and development tax credits carryforwards of approximately \$6.1 million and state research and development tax credit carryforwards of approximately \$6.2 million. The federal credit carryforwards begin expiring in 2026 and the state credits carry forward indefinitely. The Internal Revenue Code contains provisions which limit the amount of net operating loss ("NOL") and research credit carryforwards that can be used in any given year if a significant change in ownership has occurred. As of December 31, 2020, \$1.7 million of the Company's NOL carryovers are subject to an annual limitation of \$0.6 million.

The following table displays by contributing factor the changes in the valuation allowance for deferred tax assets since January 1, 2019:

(in thousands)	Years Ended December 31,		
	2020	2019	2018
Balance at the beginning of the period	\$ 40,436	\$ 40,070	\$ 45,255
Net operating loss carryforwards generated	(504)	2,925	2,509
R&D tax credit increase	910	1,609	1,014
Depreciation and amortization increase	(2,560)	(605)	925
Reserves and accruals decrease	502	(312)	(581)
Deferred tax assets increase	1,112	(3,251)	(9,052)
Balance at the end of the period	\$ 39,896	\$ 40,436	\$ 40,070

The following table reflects changes in the unrecognized tax benefits since January 1, 2019:

(in thousands)	Years ended December 31,	
	2020	2019
Gross amount of unrecognized tax benefits as of the beginning of the period	\$ 2,251	\$ 1,931
Decreases related to prior year tax provisions	(91)	(78)
Increases related to current year tax provisions	271	398
Gross amount of unrecognized tax benefits as of the end of the period	\$ 2,431	\$ 2,251

As a result of the Company's historical losses and related valuation allowances, the Company has recorded substantially all of the uncertain tax amounts above as reductions to deferred tax assets which are subject to a full valuation allowance in its consolidated balance sheet with an insignificant portion recorded in other long-term liabilities. The Company recognizes interest and penalties relating to uncertain tax positions in income tax expense. As the Company is not currently under examination, it is reasonable to assume that the balance of gross unrecognized tax benefits will likely not change in the next twelve months.

The Company files income tax returns in the United States on a federal basis and in various states. The Company is not currently under any international or any United States federal, state and local income tax examinations for any taxable years. All of the Company's net operating losses and research credit carryforwards prior to 2020 are subject to tax authority adjustment and all years after 2013 are still subject to the tax authority examinations.

As of December 31, 2020, no income taxes have been provided on the undistributed earnings of the Company's foreign subsidiaries since these earnings have been, and under current plans will continue to be, indefinitely reinvested outside the United States.

12. Business Acquisitions

Acquisition of EASE Applications, LLC

On August 18, 2020, the Company acquired all of the outstanding equity interest of EASE Applications for \$24.2 million in cash, net of \$0.3 million of cash acquired. EASE Applications, now called Vocera Ease, offers a cloud-based communication platform and mobile application built to improve the patient experience by enabling friends and family members to receive timely updates about the progress of their loved one in the hospital. Vocera Ease enables nurses and other care team members to send Health Insurance and Portability and Accountability Act ("HIPAA")-compliant texts, photos, and video updates to

patients' loved ones, putting them at ease and saving valuable time. With this acquisition, Vocera further strengthened its ability to fulfill its mission to improve the lives of patients, families and care teams.

The following table presents the preliminary fair value of the identifiable assets acquired and liabilities assumed as of the acquisition date:

(in thousands, except useful lives)	Fair value acquired	Useful life (years)
Assets		
Current Assets		
Accounts receivable, net	\$ 444	
Prepaid expenses and other current assets	18	
Total current assets	462	
Intangibles assets		
Customer relationships	5,430	8
Developed technology	2,310	3
Trademarks	660	3
Backlog	840	4
Goodwill	19,922	
Total assets	\$ 29,624	
Liabilities		
Current liabilities		
Accounts payable	\$ 6	
Accrued payroll and other current liabilities	22	
Deferred revenue, current	1,011	
Total current liabilities	1,039	
Deferred revenue, long term	149	
Other long-term liabilities	4,218	
Total liabilities	5,406	
Net assets acquired	\$ 24,218	

The estimated fair values of identifiable intangible assets were primarily determined using discounted cash flow models. The estimation of the fair value of the intangible assets required the use of valuation techniques and entailed consideration of all the relevant factors that might affect the fair value, such as present value factors and estimates of future revenues and costs. The amortization of developed technology and backlog is recorded in "cost of revenues" for product and the amortization for the remaining intangibles is recorded in "sales and marketing" expenses on the consolidated statement of operations.

The excess of the acquisition consideration over the fair values of the underlying net assets acquired was recorded as goodwill. Goodwill is largely attributed to the synergy of EASE Applications proprietary solutions with the Company's existing customer base, dedicated sales force and cross selling opportunities with the Company's other solutions. Goodwill is not amortized but instead is tested for impairment at least annually or more frequently if indicators of impairment are present.

The agreement also included contingent payments to the owners of EASE Applications, payable based on achievement of post-acquisition financial metrics as of December 31, 2021 and December 31, 2022. If these financial metrics are achieved the Company will owe additional purchase price consideration of \$2.5 million as of December 31, 2021 and 2022. This contingent consideration was fair valued in connection with the acquisition and resulted in a liability of \$2.2 million as of the acquisition date. The estimated fair value was determined using a Monte Carlo valuation model. The fair value of this liability will be remeasured each reporting period and the change in fair value will be recorded as other income and expense. For the year ended December 31, 2020 this fair value adjustment was \$0.8 million

The Company incurred \$0.6 million of acquisition-related costs that were expensed as incurred. These costs are recorded as general and administrative expenses in the consolidated statement of operations. Additionally, in connection with the

acquisition the Company established a retention bonus plan for continuing EASE Applications employees with potential additional compensation over a two-year period of approximately \$5.0 million, based on achievement of financial metrics and continued employment. Such amounts are not considered part of the purchase consideration and are being recorded as compensation expense as earned. During the year ended December 31, 2020, \$1.1 million of this retention bonus was recorded as compensation expense.

The acquisition did not result in material contributions to revenue or net income in the consolidated financial statements during the year ended December 31, 2020. Additionally, pro forma financial information is not provided for consolidated revenue and net income as such amounts attributable to EASE Applications were insignificant.

13. Quarterly results of operations (unaudited)

The following tables present certain unaudited consolidated quarterly financial information for each of the eight quarters ended December 31, 2020. This quarterly information has been prepared on the same basis as the consolidated financial statements and includes all adjustments necessary to state fairly the information for the periods presented.

(In thousands, except per share data)

2020	Quarters Ended			
	March 31,	June 30,	September 30,	December 31,
Total revenue	\$ 40,673	\$ 47,347	\$ 53,815	\$ 56,585
Gross profit	\$ 23,786	\$ 29,943	\$ 36,330	\$ 38,558
Net income (loss)	\$ (10,470)	\$ (3,468)	\$ 4,161	\$ 121
Net income (loss) attributable to common stockholders	\$ (10,470)	\$ (3,468)	\$ 4,161	\$ 121
Net income (loss) per share attributable to common stockholders:				
Basic	\$ (0.33)	\$ (0.11)	\$ 0.13	\$ 0.00
Diluted	\$ (0.33)	\$ (0.11)	\$ 0.13	\$ 0.00
Weighted average shares used to compute net income (loss) per share attributable to common stockholders:				
Basic	31,738	32,152	32,394	32,570
Diluted	31,738	32,152	33,018	34,670

2019	Quarters Ended			
	March 31,	June 30,	September 30,	December 31,
Total revenue	\$ 35,309	\$ 44,759	\$ 50,781	\$ 49,652
Gross profit	\$ 19,685	\$ 27,016	\$ 31,888	\$ 30,510
Net income (loss)	\$ (11,735)	\$ (4,857)	\$ 298	\$ (1,686)
Net income (loss) attributable to common stockholders	\$ (11,735)	\$ (4,857)	\$ 298	\$ (1,686)
Net income (loss) per share attributable to common stockholders:				
Basic	\$ (0.38)	\$ (0.16)	\$ 0.01	\$ (0.05)
Diluted	\$ (0.38)	\$ (0.16)	\$ 0.01	\$ (0.05)
Weighted average shares used to compute net income (loss) per share attributable to common stockholders:				
Basic	30,800	31,242	31,459	31,579
Diluted	30,800	31,242	31,944	31,579

14. Subsequent events

Convertible Senior Notes

The terms of the Company's debt agreement for the Notes state that the Notes will be convertible at the option of the holders at any time prior to the close of business on the business day immediately preceding February 15, 2023, if during any calendar quarter commencing after the calendar quarter ending on June 30, 2018 (and only during such calendar quarter), if the last reported sale price of the Company common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price of the Notes on each applicable trading day. The reported sale price of the Company common stock was trading at over 130% of the conversion price of \$32.25 for over 20 trading days during January 2021 triggering convertibility of the Notes. As of the date of this filing, the Company has not received communication from the holders of the Notes of their intent to convert.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to management, including principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

As of December 31, 2020, we carried out an evaluation under the supervision of, and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based on our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2020.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our management conducted an assessment of the effectiveness of our internal control over financial reporting based on the criteria set forth in the 2013 version of the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on the assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2020 based on these criteria.

The effectiveness of our internal control over financial reporting as of December 31, 2020, has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which appears herein

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the three months ended December 31, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures and Internal Control over Financial Reporting

In designing and evaluating the disclosure controls and procedures and internal controls over financial reporting, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures and internal control over financial reporting must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required for this Item 10 is incorporated by reference from our Proxy Statement to be filed in connection with our 2021 Annual Meeting of Stockholders.

Item 11. Executive Compensation

The information required for this Item is incorporated by reference from our Proxy Statement to be filed for our 2021 Annual Meeting of Stockholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required for this Item is incorporated by reference from our Proxy Statement to be filed for our 2021 Annual Meeting of Stockholders.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required for this Item is incorporated by reference from our Proxy Statement to be filed for our 2021 Annual Meeting of Stockholders.

Item 14. Principal Accounting Fees and Services

The information required for this Item is incorporated by reference from our Proxy Statement to be filed for our 2021 Annual Meeting of Stockholders.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as a part of this Annual Report on Form 10-K:

1. Financial Statements:

The financial statements filed as part of this report are listed in the “Index to Financial Statements” under Part II, Item 8 of this report.

2. Financial Statement Schedule:

All schedules are omitted as the required information is inapplicable or the information is presented in the Consolidated Financial Statements or Notes to Consolidated Financial Statements under Item 8.

3. Exhibits:

EXHIBIT INDEX

Exhibit Number	Exhibit title	Incorporated by reference				Filed herewith
		Form	File No.	Date	Number	
3.01	Restated Certificate of Incorporation of the Registrant.	S-1	333-183546	August 24, 2012	3.01	
3.02	Amended and Restated stated Bylaws of Vocera Communications, Inc.	8-K	001-35469	April 23, 2020	3.01	
4.01	Amended and Restated Investor Rights Agreement, dated as of October 10, 2006, by and among the Registrant and certain investors of the Registrant.	S-1	333-175932	August 1, 2011	4.02	
4.02	Indenture dated May 17, 2018 by and among the Registrant and U.S. Bank National Association.	8-K	011-35469	May 17, 2018	4.01	
4.03	Description of the Registrant's Securities	10-K	011-35469	February 26, 2020	4.03	
10.01	Forms of Indemnity Agreement by and between the Registrant and each of its directors and executive officers.	S-1	333-175932	August 1, 2011	10.01	
10.02+	2006 Stock Option Plan, as amended, and form of stock option agreement.	S-1(A2)	333-175932	February 24, 2012	10.03	
10.03+	2012 Equity Incentive Plan and forms of equity award agreements.	8-K	001-35460	June 6, 2018	10.01	
10.04+	Form of 2012 Equity Incentive Plan Notice of Performance Stock Unit Award and Performance Stock Unit Award Agreement	8-K	011-35469	May 6, 2020	10.1	
10.05+	2012 Employee Stock Purchase Plan.	S-1(A3)	333-175932	March 13, 2012	10.05	
10.06+	Form of Option Agreement dated July 31, 2007, by and between the Registrant and each of Brent Lang and Robert Zollars.	S-1	333-175932	August 1, 2011	10.06	
10.07+	2010 Stock Option Agreement to purchase common stock, dated as of November 3, 2010, issued by the Registrant to DS Consulting Associates, LLC and 2011 Stock Option Agreement to purchase common stock, dated as of November 3, 2010 issued by the Registrant to DS Consulting Associates, LLC.	S-1	333-175932	August 1, 2011	10.07	
10.08+	2016 Equity Inducement Plan.	10-Q	001-35469	November 7, 2016	10.02	

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10.09+	Form of Global Agreements under the 2016 Equity Inducement Plan.	10-Q	001-35469	November 7, 2016	10.04	
10.10	Lease Agreement, dated as of September 26, 2007, by and between 525 Race Street, LLC and the Registrant, as amended on February 17, 2011.	S-1	333-175932	August 1, 2011	10.11	
10.11†	Original Equipment Manufacturer Agreement, dated as of April 25, 2002, by and between Nuance Communications, Inc. and the Registrant, as amended through April 4, 2006.	S-1	333-175932	August 1, 2011	10.13	
10.12†	Contract Manufacturing Agreement, dated as of June 7, 2010, by and between SMTC Corporation and the Registrant.	S-1	333-175932	August 1, 2011	10.14	
10.13+	Form of Change of Control Severance Agreement by and between the Registrant and each of its executive officers.	S-1(A2)	333-175932	February 24, 2012	10.15	
10.14+	Form of non-plan Restricted Stock Purchase Agreement for non-employee directors.	S-1(A2)	333-175932	February 24, 2012	10.17	
10.15	Second Amendment to Lease, dated April 20, 2015, by and between the Registrant and 525 Race Street, LLC	10-Q	001-35469	August 6, 2015	10.01	
10.16	Membership Interest Purchase Agreement, dated October 27, 2016 by and among the Registrant, each of the members of Extension, LLC and the Sellers Representative named therein.	10-Q	001-35469	November 7, 2016	10.01	
10.17	Form of Base Capped Call Confirmation	8-K	001-35469	May 17, 2018	99.1	
10.18	Form of Additional Capped Call Confirmation	8-K	001-35469	May 17, 2018	99.2	
10.19+	2020 Equity Inducement Plan	S-8	333-248410	August 25, 2020	99.1	
10.20+	Form of Global Agreements under the 2020 Equity Inducement Plan	S-8	333-248410	August 25, 2020	99.2	
21.01	List of subsidiaries.					X
23.01	Consent of Deloitte & Touche LLP, independent registered public accounting firm.					X
24.01	Power of Attorney (included on signature page).					X

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31.01*	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X
31.02*	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X
32.01	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
101.INS	Inline XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.	X
101.SCH	Inline XBRL Taxonomy Schema Linkbase Document	X
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document	X
101.DEF	Inline XBRL Taxonomy Definition Linkbase Document	X
101.LAB	Inline XBRL Taxonomy Labels Linkbase Document	X
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document	X
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)	X

+ Indicates management contract or compensatory plan or arrangement.

† Portions of have been granted confidential treatment by the SEC.

* This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

VOCERA COMMUNICATIONS, INC.

Date: February 25, 2021

By: /s/ Brent D. Lang

Brent D. Lang
Chief Executive Officer
(Principal Executive Officer)

Date: February 25, 2021

By: /s/ Justin R. Spencer

Justin R. Spencer
Chief Financial Officer
(Principal Accounting and Financial Officer)

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Brent D. Lang, Justin R. Spencer and Douglas A. Carlen, and each of them, as his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitutes, may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated:

Signature	Title	Date
<hr/> <i>/s/ Brent D. Lang</i> Brent D. Lang	Chief Executive Officer (Principal Executive Officer)	February 25, 2021
<hr/> <i>/s/ Justin R. Spencer</i> Justin R. Spencer	Chief Financial Officer (Principal Accounting and Financial Officer)	February 25, 2021
<hr/> <i>/s/ Michael Burkland</i> Michael Burkland	Director	February 25, 2021
<hr/> <i>/s/ Julie Iskow</i> Julie Iskow	Director	February 25, 2021
<hr/> <i>/s/ Howard E. Janzen</i> Howard E. Janzen	Director	February 25, 2021
<hr/> <i>/s/ Alexa King</i> Alexa King	Director	February 25, 2021
<hr/> <i>/s/ John N. McMullen</i> John N. McMullen	Director	February 25, 2021
<hr/> <i>/s/ Sharon O'Keefe</i> Sharon O'Keefe	Director	February 25, 2021
<hr/> <i>/s/ Ronald A. Paulus</i> Ronald A. Paulus	Director	February 25, 2021
<hr/> <i>/s/ Bharat Sundaram</i> Bharat Sundaram	Director	February 25, 2021

LIST OF SUBSIDIARIES
VOCERA COMMUNICATIONS, INC.

Vocera Communications UK Ltd. (United Kingdom)

Vocera Communications Australia Pty Ltd. (Australia)

Vocera Canada, Ltd. (Canada)

Vocera Communications India Private Limited

Vocera Communications Middle East FZ LLC

Extension, LLC

Ease Applications, LLC

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-222457 on Form S-3 and in Registration Statements Nos. 333-180417, 333-186818, 333-194632, 333-202705, 333-210173, 333-216717, 333-223454, 333-229909, and 333-236663 on Form S-8 of our reports dated February 25, 2021, relating to the consolidated financial statements of Vocera Communications, Inc. and its subsidiaries (the “Company”), and the effectiveness of the Company’s internal control over financial reporting appearing in this Annual Report on Form 10-K of the Company for the year ended December 31, 2020.

/s/ DELOITTE & TOUCHE LLP

San Jose, California
February 25, 2021

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF
THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY
ACT OF 2002**

I, Brent D. Lang, certify that:

1. I have reviewed this Quarterly Report on Form 10-K of Vocera Communications, Inc.:
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2021

/s/ Brent D. Lang

Brent D. Lang

Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF
THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY
ACT OF 2002**

I, Justin R. Spencer, certify that:

1. I have reviewed this Quarterly Report on Form 10-K of Vocera Communications, Inc.:
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2021

/s/ Justin R. Spencer

Justin R. Spencer
Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Brent D. Lang, Chief Executive Officer of Vocera Communications, Inc. (the "Company"), and Justin R. Spencer, Chief Financial Officer of the Company, each hereby certifies that, to his knowledge:

1. The Company's Quarterly Report on Form 10-K for the year ended December 31, 2020, to which this Certification is attached as Exhibit 32.01 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

In Witness Whereof, the undersigned have set their hands hereto as of the 25th day of February 2021.

/s/ Brent D. Lang

Brent D. Lang
Chief Executive Officer

/s/ Justin R. Spencer

Justin R. Spencer
Chief Financial Officer