

VOCERA COMMUNICATIONS, INC.

Form 10-K

March 12, 2015

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

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FORM 10-K

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(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, 2014

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

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

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Delaware	94-3354663
(State or other jurisdiction of incorporation or organization)	(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)	

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

(Title of class)	(Name of exchange on which registered)
Common Stock, \$0.0003 par value	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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.   
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting 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"/>

(Do not check if a smaller reporting company)

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, 2014, 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 \$225 million based upon the \$13.20 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 March 10, 2015, there were 25,687,696 shares of the registrant's common stock outstanding.

#### Documents Incorporated by Reference

Portions of the registrant's Proxy Statement for its 2015 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, 2014.

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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, 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,” “continue,” “should,” “would,” “could,” “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 solutions, focused on empowering mobile workers in healthcare, hospitality, energy, and other mission-critical mobile work environments, in the U.S. and internationally. Today the significant majority of our business is generated from sales of our solutions in the healthcare market to help our customers improve patient safety and experience, and increase operational efficiency. As of December 31, 2014, our solutions have been installed in more than 1,300 facilities worldwide.

Our Communication solution, which includes an intelligent enterprise software platform; a lightweight, wearable, voice-controlled communication badge; and smartphone applications; enables users to connect instantly with other staff simply by saying the name, function or group name of the desired recipient. It also securely delivers text messages and alerts directly to and from smartphones, replacing legacy pagers.

At the core of our Communication solution is a patent-protected, enterprise-class server software platform. Our software platform is built upon a scalable architecture and recognizes more than 100 spoken commands. Users can instantly communicate with others using the Vocera communication badge or through client applications for iPhone and Android smartphones. Our solution lets users communicate and collaborate with each other using voice or secure text, 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 company. Our Communication solution can be integrated with other clinical systems to provide critical data, alerts and context; and enable consistent workflows, including Electronic Health Records (EHR), nurse call, and patient monitoring. Today, we have integrations with more than 60 other clinical systems.

Beyond healthcare, our Communication solution is used to quickly and contextually connect staff in other mission-critical mobile-worker environments. Our communication solution is used in the nuclear power industry to facilitate instant, efficient communications during shutdowns or emergency situations. In the hospitality industry, Vocera connects front-of-house and back-of-house staff to improve guest experience and staff productivity.

Over our 15-year history, we have significantly enhanced and added features and functionality to this solution through ongoing development based on frequent interactions with our customers.

In early 2014, we expanded our Communication solution by acquiring substantially all of the assets of mVisum, Inc., a provider of alarm management technology for health systems. Using the acquired technology, in the third quarter of 2014, we launched Vocera Alarm Management, a smartphone application powered by a server software platform that helps reduce alarm fatigue and improve patient safety by providing instant access to patient monitoring data. This solution enables nurses and clinicians to prioritize and respond to critical alarms and set better alarm policies via intelligent analytics. We enhanced our Alarm

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Management product further in the fourth quarter of 2014, enabling physicians to securely receive electrocardiogram (EKG) images on their smartphones. In August 2014, we acquired substantially all of the assets of Prana Technologies, Inc. This acquisition provided us with technology to enable cloud-based communication and collaboration for an expanded population of care providers. These technologies are expected to advance our vision of integrating voice, text and content-based workflows, on a range of devices across multiple care locations beyond the hospital.

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

Our Experience Innovation Network, a thought leadership consulting group, is a membership-based program and consulting services practice designed to spread the adoption of leading strategies to improve patient and staff experience.

As of December 31, 2014, our solutions were deployed in 1,044 hospitals and healthcare facilities, including large hospital systems, small and medium-sized local hospitals, and a small number of clinics, surgery centers and aged-care facilities. Over 1,300 facilities, including non-healthcare users, have deployed our solutions. We sell our solutions to our healthcare customers primarily through our direct sales force in the United States, with resellers for certain 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, CA 95126, and our main telephone number is (408) 882 5100. We maintain a website at [www.vocera.com](http://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 solutions for mobile workers in healthcare, hospitality, energy, education and other industries. Healthcare is our largest vertical market.

Hospital communications are 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; not providing "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. Recently, the implementation of healthcare reform and a number of changes to healthcare policy have disrupted the U.S. Healthcare market. Broadly, we believe this reform enhances the need for better communication to meet increasing requirements for care quality, patient safety, efficiency and patient satisfaction. Reform also requires greater coordination of care among clinicians for the industry's shift 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 and to improve safety, quality and cost of care and patient satisfaction. Our communication and patient experience solutions help hospitals increase productivity and reduce costs by streamlining operations, improving patient and staff satisfaction by enabling secure, integrated and intelligent communication.

We also serve other industries, including hospitality, nuclear energy and education. In the hospitality industry, our Communication solution can be used to increase guest experience and loyalty, as well as staff productivity and responsiveness. In the nuclear energy industry, Vocera can be used to instantly connect people and resources, reducing turnaround times and workers' exposure to radiation. Schools can leverage our Communication solution to increase

security and staff communication, and libraries can use our Communication solution to enable their librarians to be more mobile and attentive to their patrons.

Our strategy

Our goal is to extend our leadership position as a provider of communication 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. As of December 31, 2014, our solutions were deployed in approximately 12% of U.S. hospitals. We believe our communication and collaboration platform can provide significant value to both large and small hospitals. We plan to continue to add new customers among hospitals of all sizes, and expand



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to outpatient clinics, skilled nursing facilities and physician practices. We have structured and incentivized our sales organization to focus on sales to new customer sites, particularly within large health systems.

Further penetrate our existing installed customer base. Typically, our customers initially deploy our Communication solution in a few departments of a hospital and gradually expand to additional departments as they come to fully appreciate the value of our solution. We recognize the 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 promoting further adoption of our Communication solution and demonstrating the value of our Care Experience solutions to our existing customers. We plan to continue expanding within our existing customers in order to grow our revenue and maintain and improve 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 communication solutions and further differentiate them from other competing solutions. We plan to invest in product upgrades, product line extensions and new solutions to enhance our portfolio, such as our introduction of the Vocera Collaboration Suite and Vocera Alarm Management applications for iPhone and Android mobile platforms.

Invest in partnerships. In order to gain access to clinical data and patient context needed to create a highly efficient communication system for the entire care team, we plan to continue to broaden our ecosystem of technology partners, including vendors that provide nurse call systems, patient monitoring systems and EHRs. We also intend to develop a range of business partnerships that will broaden our overall market presence and accelerate the sales of our offerings.

Pursue acquisitions of complementary businesses, technologies and assets. We have completed six small acquisitions since 2010 to expand our solutions offering, demonstrating that we can successfully source, acquire and integrate complementary businesses, technologies and assets. 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 primarily into other English-speaking markets, including Canada, the United Kingdom, Australia and New Zealand. As of December 31, 2014, our solutions were deployed in over 140 healthcare facilities outside the United States. We plan both to utilize our direct sales force and leverage channel partners to expand our presence in other English-speaking markets. We have also introduced localized versions of our Communication solution for English speakers in Singapore, Malaysia and Middle Eastern countries including the United Arab Emirates and Saudi Arabia. We believe that the rapid pace of investment in new healthcare facilities in these developing international markets provides a significant opportunity for growth.

Expand our communication solutions in non-healthcare markets. While our primary focus is on the healthcare market, we believe that our communication solutions can also provide value in non-healthcare markets. Our communication solutions have been deployed at over 250 customers in markets beyond healthcare including hospitality, energy and other mission critical mobile worker environments. Currently, this is not a material portion of our revenue, but longer term, we believe these markets could represent potential opportunities for growth.

Our products, technology and services

Our solutions include the Vocera Communication System, Vocera Care Experience suite and our Experience Innovation Network, a thought leadership collaborative. To complement our solutions, we provide services, support and education to help our customers optimize the benefits of our solutions.

Vocera Communication System

The Vocera Communication system is comprised of a unique software platform that connects communication devices, including our hands-free, wearable, voice-controlled communication badges, and third-party mobile devices that use our software applications to become part of the Vocera system. The system transforms the way mobile workers communicate by enabling them to instantly connect with the right person simply by saying 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.



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

**Software platform.** At the heart of our Vocera Communication System is a patent-protected, enterprise-class software platform that runs on our customer’s Windows-based servers. 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. In addition, the platform contains our robust workflow capability that enables customization of workflow patterns for each customer. 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.

**Communication badge.** Our communication badge is a wearable device weighing less than two ounces that operates over customers’ industry-standard Wi-Fi networks. The badge is worn clipped to a shirt or on a lanyard. It can be used to conduct hands-free communication and is the only hands-free device of its kind. It enables instant two-way voice conversations without the need to remember a phone number or use a handset. An over-the-air update mechanism seamlessly updates device software. Our badge also incorporates automatic diagnostic mechanisms that feed data on wireless network performance back to the software platform for reporting and diagnosis of problems. The Vocera B3000 badge, our fourth generation communication badge, offers improved durability, a louder speaker for noisy environments and proprietary acoustic noise reduction technology to improve speech recognition by eliminating background noise. In April 2014 the Vocera B3000 communication badge received FIPS 140-2 certification from the National Institute of Standards and Technology. In January 2015, we received an Authority to Operate (ATO) certification from the U.S. Department of Defense. Both of these certifications are requirements to sell our solutions to U.S. government and military hospital and medical facilities.

**Integration Platform.** Our integration platform contains a diverse set of standards-based and customized adapters to a variety of telephony, clinical and EHR systems along with a robust set of workflow engines. With the ability to integrate and manage workflows with over 60 third-party clinical systems, including nurse call, patient monitoring and EHR systems, our integration platform provides the content, context and workflow that enable the immediate delivery of interactive alerts and contextually relevant data to hospital workers, helping to improve patient safety and satisfaction.

**Vocera Collaboration Suite.** The Vocera Collaboration Suite provides 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. Available and certified for use on commercially-available iOS® and Android® smartphones as well as some dedicated enterprise Wi-Fi devices, the Vocera Collaboration Suite supports both personal (BYOD) and shared device usage models. The Collaboration Suite includes a secure enterprise messaging and alerting solution that provides robust, reliable, HIPAA-compliant delivery of critical pages, text, messages, alarms and alerts. Users can receive and send messages from smartphones, and send through a web-based console, or through integrated third-party clinical systems. Our software platform provides a highly reliable push

messaging mechanism as well as centralized routing intelligence, a directory of clinical users and contacts and the monitoring controls that display a real-time dashboard of delivery and receipt confirmations and responses.

Vocera Alarm Management and Cardiac Consult. As a result of the early 2014 acquisition of mVisum, Inc., we offer an FDA cleared technology that acts as a secondary alarm notification system and provides clinical context, including waveforms, like EKGs and vital signs, providing decision support and insight into the criticality of each alarm. The Alarm Management system uses patented push notification technology to connect with and distribute data from almost any hospital alarm-generating device and deliver alarms and patient details to physicians and specialists on their smartphones. Configurable dashboards allow users to monitor alarms and alarm responses at the floor, nurse and individual bed levels. Vocera Alarm Analytics works in conjunction with the Vocera Alarm Management system and provides hospitals with the evidence needed to manage and improve their alarm management strategy with the goal of reducing alarm fatigue, improving patient safety, and enhancing care team efficiency. In December 2014, our Cardiac Consult solution received

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certification by Australia's Therapeutic Goods Administration (TGA). The TGA is Australia's government agency for regulating medical devices and drugs.

### Vocera Care Experience

Our Care Experience solution is a hosted software suite we developed to improve patient and staff experience. 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 the following modules:

**Pre-Arrival Communication** - Enables organizations to send timely information to patients prior to scheduled procedures, streamlining the arrival process, decreasing no-shows and last minute cancellations and improving patient engagement.

**Good to Go®** - Live discharge instructions are recorded and securely made available for patients, families and other care providers to review at any time, using any device.

**Care Calls** - Streamlines patient follow-up calls and workflows using best practice checklists, risk stratification information and recorded discharge instructions.

**Care Rounds** - Measures and manages patient experience during a hospital stay in real-time to evaluate gaps in satisfaction and provide service recovery interventions.

**Business Intelligence** - Multi-dimensional dashboards identify gaps in communication, compliance and performance for each patient, by department and for the entire enterprise, across the continuum of care.

**PCP (Primary Care Physician) Notification** - Patient updates can be sent by the hospital staff via text and/or email to primary care physicians to keep them up-to-date on their patients' care.

**SNF (Skilled Nursing Facility) Communication** - Patient discharge notifications along with recorded care instructions can be sent to skilled nursing facilities, ensuring safer care transitions.

### 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:

**Experience Innovation Network.** The Experience Innovation Network is a membership program that partners with healthcare provider organizations to further the development of innovations and solutions that improve patient experience and clinical and operational performance. Services offered by the Experience Innovation Network include: advisory services focused on developing organizational alignment around patient experience strategy and priorities, developing process improvement plans to increase patient and caregiver satisfaction, providing curriculum and implementation tools on topics such as improving plan of care communication, service line experience mapping, and developing physician and nurse partnerships.

**Professional services.** Our professional services are key to helping 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, 2014, our professional services team consisted of 39 professionals with expertise in wireless communication, clinical workflow, end-user training, speech science and project management, approximately half of whom are nurses who understand and can assist clients in addressing the challenges of clinical communication issues. 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.

**Technical support.** We provide 24x7 technical support to our customers through our support centers in San Jose, California; Toronto, Canada; Knoxville, Tennessee and Reading, United Kingdom. As of December 31, 2014, our technical support team consisted of 40 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. Each support center includes bilingual French/English engineers. 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. 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.

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### Sales and marketing

#### Sales

Our sales employees call on hospitals and healthcare systems in the United States, the United Kingdom, Australia, New Zealand, Singapore, Malaysia and several countries in the Middle East. As of December 31, 2014, we had 117 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. Certain members of the sales team focus on the development of new customer relationships with large integrated health systems and government healthcare facilities. Our compensation is structured to incentivize new account development, including higher commissions paid for new customers. 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. Sales team members also focus on new customer development with smaller systems and individual hospitals. The sales team further includes account managers who focus on service and additional sales to existing customers. 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 and other mission critical mobile work environments.

We strive to hire sales employees with at least 10 years of experience selling enterprise solutions in healthcare and who have experience selling in competitive and complex environments with multiple decision makers. In markets outside the United States, our sales efforts are supplemented by a select group of resellers and distributors.

#### Marketing

Our marketing efforts focus on building awareness and generating demand. We believe 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, 2014, we had 23 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 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 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 customers include 1,044 hospitals and other healthcare facilities, of which over 140 are outside of the United States. In addition, we have deployed our Vocera Communication solution in over 250 customers in other non-healthcare markets. 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. Our diverse customer base has very low customer revenue concentration.

During 2014 and 2013, non-U.S. markets represented approximately 9.9% and 10.5% of our revenue, respectively. We are developing plans to offer our solutions in a wider range of international markets.

#### 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 on a combination of dedicated, proprietary devices, as well as third-party smartphones and other devices.

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At this time, the primary alternative to our system consists of a combination of traditional communication methods utilizing wired phones, Wi-Fi in-building phones, smartphones, pagers and overhead paging systems. The most significant alternative with which we compete for sales in the hospital are in-building wireless telephones. 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 solution. The market for in-building wireless phones is dominated by large communications companies such as Cisco Systems, Ascom and Spectralink.

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 Collaboration Suite smartphone apps, 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 and the features provided
- 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 competition from large, multinational companies 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.

### Research and development

Our continued investment in research and development is critical to our business. We have assembled 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; Knoxville, Tennessee; Toronto, Canada and Bangalore, India. There were 90 full-time research and development employees as of December 31, 2014. We also utilized small teams of contractors in India and Ukraine to assist with quality assurance testing and automation, and targeted development efforts. Our research and development expenditures were \$18.0 million, \$14.9 million and \$11.6 million in 2014, 2013 and 2012, respectively.

### 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, as of December 31, 2014, 20 U.S. patents, including patents on many capabilities of our software platform and communication badge. The expiration dates of these patents range from 2018 through 2032. One or more utility patents have also been issued in Australia, Canada, India, Japan and the European Patent Office (with validation in Germany, France, the United Kingdom and the Netherlands). A European Community design patent has been issued that protects the design in multiple European jurisdictions. As of December 31, 2014, we had three patent applications pending in the United States, and one or more utility patent applications are pending in Canada and other 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 device products to original design manufacturers and contract manufacturer, SMTC Corporation (SMTC). Our communication badge is currently built in Mexico using custom tools and test equipment owned by

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us. Initial volumes of new products may be manufactured by our contract manufacturer in U.S. facilities. Most of our accessories, including batteries, chargers and attachments, are built by original design manufacturers 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.

### Employees

As of December 31, 2014, we had 375 employees, consisting of 21 in manufacturing and quality operations, 90 in research and development, 140 in sales and marketing, 79 in services and 45 in general and administrative. None of our employees are covered by a collective bargaining agreement or are represented by a labor union. We consider current employee relations to be good.

### Backlog

Our backlog of undelivered orders was \$33.1 million and \$24.4 million at December 31, 2014 and 2013, respectively. Of the current backlog, all but \$3.1 million is expected to be delivered in 2015.

### Government regulations and standards

Substantially 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. Healthcare reform has been recently enacted at the federal level. We expect federal and state legislatures and agencies to continue to consider 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 new 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, the European Union (EU) adopted the Data Protection Directive (DPD) (officially Directive 95/46/EC ), imposing strict regulations and establishing a series of requirements regarding the storage of personally identifiable information on computers or recorded on other electronic media. This has been implemented by all EU member states through national laws. DPD provides for specific regulations requiring all non-EU countries doing business with EU member states to provide adequate data privacy protection when receiving personal data from any of the EU member states. Similarly, 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.

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

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business in the event we fail to do so. These include, without limitation, civil fines, criminal sanctions in certain circumstances, contractual liability to our customer, 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 data under our control on password-protected systems in secure facilities, counseling our customers as to best practices in using our solutions, and encrypting such information.

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 devices 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 our products. In this event, we would be subject to extensive 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 our products from the FDA prior to commercial distribution. Some of the new products acquired as a result of the mVisum acquisition are regulated by the FDA as Class II medical devices under applicable law and FDA regulations, including being subject to the current 2.3% excise tax under the Affordable Care Act. 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. Further, for other products we could become subject to the 2.3% excise tax if the FDA were to determine in the future that they constitute medical devices.

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.

Information about segment and geographic revenue

Information about segment and geographic revenue is set forth in Note 9 of the Notes to Consolidated Financial Statements under Item 8 of this Annual Report on Form 10-K. In addition, financial information regarding our operations, assets and liabilities, including our total net revenue and net income (loss) for the years ended December 31, 2014, 2013 and 2012, and our total assets as of December 31, 2014 and 2013, is included in our Consolidated Financial Statements under Item 8 of this Annual Report on Form 10-K.

Executive officers

The names of our executive officers, their ages as of March 12, 2015, and their positions are shown below.

Name	Age	Position
Brent D. Lang	47	President and Chief Executive Officer
Justin R. Spencer	43	Executive Vice President and Chief Financial Officer
Jay M. Spitzen, Ph.D., J.D.	65	General Counsel and Corporate Secretary
M. Bridget Duffy, M.D.	55	Chief Medical Officer
Paul Johnson	51	Executive Vice President of Sales and Services

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 effective June 1, 2013. 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,

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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 holds a bachelor's degree in accounting from the University of Utah and a master's degree from The Wharton School of Business.

Dr. Jay M. Spitzten has served as our General Counsel since April 2011 and as our Corporate Secretary since June 2011. Dr. Spitzten has served as our counsel since our founding in February 2000. From 1994 to 2000, he was a partner at Gray Cary Ware & Freidenrich LLP (now DLA Piper LLP), a law firm. From September 1988 to 1994, Dr. Spitzten was an attorney with Ware & Freidenrich P.C., a law firm. From 1982 to 1985, he held positions as an engineering manager and vice president of planning for Convergent Technologies, Inc., a workstation company that he co-founded in 1979. From 1978 to 1979, Dr. Spitzten was a staff scientist with Xerox Corporation, a document management company. From September 1974 to March 1978, he worked as a software engineer with SRI International, Inc., an independent, nonprofit research institute. Dr. Spitzten earned an A.B. degree in Applied Mathematics from Harvard College, Ph.D. and S.M. degrees in Applied Mathematics from Harvard University, and a J.D. degree from Harvard Law School.

M. Bridget Duffy, M.D. has served as our Chief Medical Officer since January 2013. From November 2010 to December 2012, she served as the Chief Executive Officer of ExperiaHealth. 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 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 our website at [www.vocera.com](http://www.vocera.com), as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission, or SEC. Additionally, copies of materials filed by us with the SEC may be accessed at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 or at [www.sec.gov](http://www.sec.gov). For information about the SEC's Public Reference Room, contact 1-800-SEC-0330.

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.

Risks related to our business and industry

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



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We have incurred significant losses in the past and reported a net loss of \$28.3 million for the year ended December 31, 2014. As of December 31, 2014, we had an accumulated deficit of \$92.7 million. If we cannot achieve profitability in future periods, our business and our stock price may be adversely affected.

Our ability to be profitable in the future depends upon continued demand for our communication solutions from existing and new customers. Further market adoption of our solutions, including increased penetration within our existing customers, depends upon our ability to improve patient safety and satisfaction and increase hospital efficiency and productivity, and to bring value to customers outside of healthcare. Additionally, further adoption of our solutions in non-healthcare markets depends on our ability to modify our products to successfully respond to the challenges in those markets and our sales efforts to reach the customers in those markets. 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, 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 of our Vocera Communication solution in the healthcare market for substantially all of our revenue, and any further decrease in sales would harm our business.

To date, substantially all of our revenue has been derived from sales of our Vocera Communication solution to the healthcare market and, in particular, hospitals. Sales of our Vocera Communication solution to the healthcare market accounted for 90%, 91% and 92% of our revenue for the years ended December 31, 2014, December 31, 2013 and 2012, respectively. We anticipate that sales of our Vocera Communication solution will represent a significant portion of our revenue for the foreseeable future. Total product revenue declined 18.1% for the year ended December 31, 2014 compared to the year ended December 31, 2013, due to a decline in sales of our Vocera Communication Solution. A further decrease in revenue from sales of our Vocera Communications solution would harm our business.

We obtain a significant portion of our sales from existing hospital customers. While we are seeking to sell our Vocera Communications solution to non-healthcare customers, we do not anticipate that sales of our Vocera Communication solution in non-healthcare markets will represent a significant portion of our revenue for the foreseeable future.

Our success depends in part upon the deployment of our Vocera Communication solution by new hospital customers, the expansion and upgrade of our solution at existing customers, and our ability to continue to provide on a timely basis cost-effective solutions that meet the requirements of our hospital customers. Our Vocera Communication solution requires a substantial upfront investment by customers. Typically, our hospital customers initially deploy our solution for specific users in specific departments before expanding our solution into other departments or for other users. 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 Vocera Communication solution provides 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 solution or expand our solution to other departments or users. Hospitals are currently facing significant budget constraints from unpredictable patient population trends and commercial reimbursements, and increasing demands from, and competition for, patients. In addition, hospitals, including both governmental and commercial, are experiencing declining Medicare reimbursement rates and increasing compliance demands, and penalties from the implementation of the Patient Protection and Affordable Care Act of 2010 (ACA) and other healthcare reform legislation. As a consequence, we may continue to experience a slowdown and deferral of orders for our Vocera Communication solution that could negatively impact our sales. We believe hospitals are currently prioritizing allocation of funds for capital and infrastructure improvements to benefit from electronic health records incentives and for compliance with ICD-10 diagnosis coding requirements, which may impact their ability to purchase and deploy our solution. We might not be

able to sustain or increase our revenue from sales of our Vocera Communication solution, 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 of nine to twelve months or more. We spend substantial time, effort and money in our sales efforts without any

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assurance that our efforts will produce any sales. In addition, purchases of our solutions are frequently subject to budget constraints, multiple approvals, and unplanned administrative, processing and other delays. For example, we experienced elongated sales cycles due to uncertainty surrounding healthcare reform and lower hospital admission trends in 2013 and 2014. At this time, hospitals in the U.S. face significant uncertainty over the continuing impact of federal government budgets, and continuing changes in the implementation and deadlines for compliance with the ACA and other healthcare reform legislation, as well as potential future statutes and rulemaking.

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 fluctuation has placed, and may continue to place, strains on our management systems, infrastructure and other resources. Especially during growth periods, we may plan to hire additional direct sales 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 at all. 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 result in 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 financial health of our healthcare customers and budgetary constraints on their ability to upgrade their communications;
- changes in the regulatory environment affecting our healthcare customers, including impediments to their ability to obtain reimbursement for their services;
- our ability to expand our sales and marketing operations;
- the procurement and deployment cycles of our healthcare customers and the length of our sales cycles;
- variations in the amount of orders booked in a prior quarter but not delivered until later quarters;
- our mix of solutions and pricing, including discounts by us or our competitors;
- our ability to expand into non-healthcare markets;
- our ability to develop impactful reseller partnerships;

- our ability to forecast demand and manage lead times for the manufacture of our solutions; and
- our ability to develop and introduce new solutions and features to existing solutions that achieve market acceptance.

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,

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could cause our sales to decline and negatively impact our business. For example, the profit margins of our hospital customers are modest, and pending changes in reimbursement for healthcare costs may reduce the overall solvency of our customers or cause further deterioration in their financial or business condition.

Since 2009, three significant bills were signed into law that impact the U.S. healthcare system. Those bills include The Health Information Technology for Economic and Clinical Health Act, enacted under Title XIII of the American Recovery and Reinvestment Act of 2009 (HITECH Act), the ACA, and the Health Care and Education Reconciliation Act of 2010. Together, these acts drive substantive changes over several years to the operating processes, reimbursements and rules governing the U.S. healthcare system. The actual end effect of these laws on the marketplace is not yet fully understood.

We believe that our healthcare customers are unsure of the impact that a number of the elements of those acts will have on their business, and cannot predict the timing and requirements of the final rules issued by the U.S. Department of Health and Human Services (HHS) for these statutes, making managing their business operations more difficult. Further, as has been experienced since 2010, as rules and agency guidance pursuant to these statutes are implemented and revised by HHS, a number of aspects of the acts have been interpreted, modified or delayed. For example, sudden changes in the rules for individuals buying insurance through state or federal health insurance exchanges, and individual and employer mandates to have and offer insurance coverage, have challenged hospitals' abilities to forecast patient utilization and revenues, and to set operational plans and budget accordingly.

Federal budget activities also impact our customers. We believe that it is likely that additional legislative changes by Congress and rulemaking by HHS will continue. 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.

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.

We believe that at this time the primary competition for our Vocera Communication solution consists of traditional methods using wired and wireless phones, pagers and overhead intercoms. While we believe that our system is superior to these legacy methods, our solution requires a significant infrastructure investment by a hospital and many hospitals' spending is severely constrained by other priorities.

Manufacturers and distributors of product categories such as cellular phones, smartphone applications, pagers, mobile radios and in-building wireless telephones attempt to sell their products to hospitals as components of an overall communication system. Of these product categories, in-building wireless telephones represent the most significant competition for the sale of our solution. The market for in-building wireless phones is dominated by communications companies such as Cisco Systems, Ascom and Spectralink. In addition, the proliferation of smartphones and related applications may represent a new category of competitive offerings. While we consider secured text-messaging using smartphones a feature valued by many customers, we do not believe most of our potential customers would consider that feature alone an adequate substitute for a voice communication solution. However, some customers may choose free text-messaging solutions even if not HIPAA-compliant, given their budget constraints.

While we do not have a directly comparable competitor that provides a solution as richly-featured as the Vocera Communication system for the healthcare market, 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 may have existing relationships within the hospital, which may enhance their ability to gain a foothold in our market. 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 fail to increase market awareness of our brand and solutions, and expand our sales and marketing operations, our business could be harmed.

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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.

If we fail to offer high-quality services and support for any of our solutions, our ability to sell those solutions will be harmed.

Our ability to sell our Vocera Communication or Care Experience solutions is dependent upon our professional services and technical support teams providing high-quality services and support. Our professional services team assists our customers with their wireless infrastructure assessment, clinical workflow design, communication solution configuration, 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 unsatisfactory, as has been the case with certain third-party deployments in the past, we may incur significant costs to attain and sustain customer satisfaction. As we rapidly 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.

We depend on a number of 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 Vocera Communication solution, 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, 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. These suppliers typically rely on purchase orders rather than long-term contracts with their suppliers, and as a result, even if available, 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 if a component becomes unavailable in order to incorporate a component from an alternative source.

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 at substantial cost 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.



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Because we depend upon a contract manufacturer, our operations could be harmed and we could lose sales if we encounter problems with this manufacturer.

We do not have internal manufacturing capabilities and rely upon a contract manufacturer, SMTC, to produce the primary hardware component of our Vocera Communication solution. We have entered into a manufacturing agreement with SMTC that is terminable by either party with advance notice and that may also be terminated for a material uncured breach. 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, 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 SMTC or an ODM is unable or unwilling to continue manufacturing components of our solutions in the volumes 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.

SMTC or ODMs may experience problems that could impact the quantity and quality of components of our Vocera Communication solution, including disruptions in their manufacturing operations due to equipment breakdowns, labor strikes or shortages, component or material shortages and cost increases. SMTC and these ODMs generally rely on purchase orders rather than long-term contracts with their suppliers, and as a result, may not be able to secure sufficient components or other materials at reasonable prices or of acceptable quality to build components of our solutions in a timely manner. The majority of the components of our Vocera Communication solution are manufactured in Asia or Mexico and adverse changes in political or economic circumstances in those locations could also disrupt our supply and quality of components of our solutions.

Companies occasionally encounter unexpected difficulties in ramping up production of new products, and we may experience such difficulties with future generations of our products. SMTC and our ODMs also manufacture products for other companies. Generally, our orders represent a relatively small percentage of the overall orders received by SMTC and these ODMs from their customers; therefore, fulfilling our orders may not be a priority in the event SMTC or an ODM is constrained in its ability to fulfill all of its customer obligations. In addition, if SMTC 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 and experience manufacturing delays, which can adversely affect our operating results.

We place orders with our contract manufacturer, SMTC, and we and SMTC 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 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, 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 SMTC 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 hospitals do not have and are not willing to install, upgrade and maintain the wireless infrastructure required to effectively operate our Vocera Communication solution, then they may experience technical problems or not purchase our solution at all.

The effectiveness of our Vocera Communication solution depends upon the quality and compatibility of the communications environment that our healthcare customers maintain. Our solutions require voice-grade wireless, or Wi-Fi, installed through

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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 Vocera Communication solution, 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 Vocera Communication solution to be fully functional. The additional cost of installing or upgrading a Wi-Fi network may dissuade potential customers from installing our solution. Furthermore, if changes to a customer's physical or information technology environment cause integration issues or degrade the effectiveness of our solution, or if the customer fails to upgrade or maintain its environment as may be required for software releases or updates or to ensure our solution's effectiveness, the customer may not be able to fully utilize our solution 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 Vocera Communication solution, 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 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 the Vocera communication solution incorporating the B2000 and B3000 badges. We are continuing to carry out further compliance activities. A failure on our part to achieve and maintain compliance, both as to current products and as to new product versions, could adversely impact our revenue.

Our efforts to sell our communications 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, energy 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 Vocera Communication solution has been deployed in over 250 customers in non-healthcare markets. Total revenue from non-healthcare customers accounted for 3% of our revenue for each of the years ended December 31, 2014, 2013 and 2012. If we cannot maintain these customers by providing communications solutions that meet their requirements, if we cannot successfully expand our communications solutions in non-healthcare markets, or if adoption of our solutions is 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 and technical issues as we adapt our solutions for the requirements of new markets. Our communications solutions also may not contain the functionality required by these non-healthcare markets or may not sufficiently differentiate us from competing solutions such that customers can justify deploying our solutions.

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 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, or that sufficiently differentiate us from competing solutions such that customers can justify deploying our solutions. We may experience

technical problems and additional costs as we introduce new features to our software platform, deploy future models of our wireless badges 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 Vocera Communication solution. 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 manufacturer. In addition, we expect that we will 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.

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, such as our acquisitions of mVisum in the first quarter of 2014 and Prana Technologies in the third quarter of 2014.

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We may not achieve the anticipated strategic or financial benefits, or be successful in integrating 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 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 communications 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 the 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; and
- 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.

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. If we were to proceed with one or more 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.

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

We generally recognize revenue from our customer maintenance and support contracts ratably over the contract term, which is typically 12 months, in some cases subject to an early termination right. Revenue from our maintenance and support contracts accounted for 37%, 31% and 26% of our revenue for the years ended December 31, 2014, December 31, 2013 and 2012, respectively. A portion of the revenue we report in each quarter is derived from the recognition of deferred revenue relating to maintenance and support contracts entered into during previous quarters. Consequently, a decline in new or renewed maintenance and support 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 Silicon Valley where our headquarters are located. If we fail to attract, 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.

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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, 2014, December 31, 2013 and 2012, we generated 9.9%, 10.5% and 10.7% of our revenue, respectively, from customers outside of the United States, including Canada, the United Kingdom, Australia, the Republic of Ireland and New Zealand. In the second quarter of 2014, we opened a new 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 as we expand into non-English speaking jurisdictions;
- 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;
- 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;
- 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.

Our solutions are highly complex and may contain software or hardware defects that could harm our reputation and operating results.

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 in order to interoperate with nurse call systems, device alarms and other hospital systems. If we cannot successfully integrate our solution with these vendors as needed or if any hardware or software of these vendors contains any defect or error, then our solution may not perform as designed, or may exhibit a defect or error.

Any defects or errors in, or which are attributed to, our solutions, 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; 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.

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

In connection with our healthcare communications business, we handle and have access to personal health information subject in the United States to HIPAA or 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



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and contractual obligations impose numerous requirements regarding the use and disclosure of personal health information with which we must comply. 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 regulation in other jurisdictions in which we do business or expect to do business in the future. Those jurisdictions may attempt to apply their laws, including new and modified laws enacted in the future, extraterritorially or through treaties or other arrangements with U.S. governmental entities and we might unintentionally violate these laws. Any such developments, or developments stemming from enactment or modification of other laws, 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, the EU adopted the DPD, imposing strict regulations and establishing a series of requirements regarding the storage of personally identifiable information on computers or recorded on other electronic media. This has been implemented by all EU member states through national laws. DPD provides for specific regulations requiring all non-EU countries doing business with EU member states to provide adequate data privacy protection when receiving personal data from any of the EU member states. Similarly, Canada's Personal Information and Protection of Electronic Documents Act, as well as a variety of provincial statutes, 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. A finding that we have failed to comply with applicable laws and regulations regarding the collection, use and disclosure of personal information could create liability for us, result in adverse publicity and negatively affect our business.

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. 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. Further, we cannot assure you 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.

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 badges and related hardware accessories to our customers through multi-year equipment lease agreements. In connection with each sale, we recognize product-related revenue at the net present value of the lease payment stream once our obligations related to such sale have been met. We plan to sell the bulk of these leases, including the related accounts receivables, to third party lease finance companies on a non-recourse basis. We will have to retain unsold leases in-house, which will expose us to the creditworthiness of such equipment 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,

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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.

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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. It is possible that 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.

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 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. 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. Any of our products deemed to be medical devices would be subject to the 2.3% excise tax under the ACA. 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. A clinical communications product acquired from mVisum is regulated by the FDA as a Class II medical device.

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. A significant natural disaster, such as an earthquake, fire or a flood, 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,

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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 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.

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 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, 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.

As an “emerging growth company” under the JOBS Act, we are permitted to, and may, rely on exemptions from certain disclosure and governance requirements.

As an “emerging growth company” under the Jumpstart Our Business Startups Act (JOBS Act), we are permitted to, and may, rely on exemptions from certain disclosure and governance requirements. For example, for so long as we are an emerging growth company, which can last, at most, until the first fiscal year following the fifth anniversary of our initial public offering, we will not be required to:

- have our independent registered public accounting firm report on our internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley Act);

- comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements;

- provide the “compensation discussion and analysis” and certain compensation tables for our named executive officers in our Form 10-K or annual proxy statement; and

- submit certain executive compensation matters to stockholder advisory votes, such as “say on pay” and “say on frequency.”

We could be an emerging growth company until the first fiscal year following the fifth anniversary of our initial public offering. However, if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of June 30th of any year, we could cease to be an “emerging growth company” as of the following December 31st. This threshold was not reached for June 30, 2014. After exceeding the threshold, as of each fiscal year end, our independent registered public accounting firm will be required to evaluate and report on our internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act. While management has established plans to accommodate the additional assessment and attestation procedures and related costs of Section 404(b) compliance, we may incur additional costs or require additional management time to comply with Section 404(b) in a timely manner.

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.



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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 (once such opinion is required under the Sarbanes-Oxley Act), 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, even though we as an “emerging growth company” may rely upon the disclosure and governance exemptions under the JOBS Act. 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 are currently, 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. For example, on August 1, 2013 and August 21, 2013, purported securities class actions were filed in the United States District Court for the Northern District of California against us and certain of our officers, our board of directors, a former director and the underwriters for our initial public offering. The suits purport to allege claims for allegedly misleading statements in the registration statement for our initial public offering and in subsequent communications regarding our business and financial results. 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.

The SEC “conflict minerals” rule has caused us to incur additional expenses, could limit the supply and increase the cost of certain metals used in manufacturing our products and could make us less competitive in our target markets. We are required to disclose the origin, source and chain of custody of specified minerals, known as conflict minerals, that are necessary to the functionality or production of products manufactured or contracted to be manufactured. The SEC requires companies to obtain sourcing data from suppliers, engage in supply chain due diligence and file annually with the SEC a specialized disclosure report on Form SD covering the prior calendar year. The rule could limit our ability to source at competitive prices and to secure sufficient quantities of certain minerals used in the manufacture of our products, as the number of suppliers that provide conflict-free minerals may be limited. In addition, we have incurred, and may continue to incur, costs associated with complying with the rule, such as costs related to the determination of the origin, source and chain of custody of the minerals used in our products, the adoption of conflict minerals-related governance policies, processes and controls and possible changes to products or sources of supply as a result of such activities. Within our supply chain, we may not be able to sufficiently verify the origins of the relevant minerals used in our products through the data collection and due diligence procedures that we implement, which may harm our reputation. Furthermore, we may encounter challenges in satisfying those customers that require that all of the components of our products be certified as conflict free, and if we cannot satisfy these customers, they may choose a competitor’s products. We continue to investigate the presence of conflict materials within our supply chain.

Risks related to our common stock

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;

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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;

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 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;

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 or incidents of terrorism.

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.

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.

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

## 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 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	April 1, 2016
Knoxville, Tennessee	7,502	Development, sales and support	March 31, 2016
San Francisco, California	3,093	Vocera Care Experience offices	May 31, 2016
Toronto, Canada	4,578	Development, sales and support	April 30, 2017
Reading, United Kingdom	865	Sales and support	December 31, 2017
Bangalore, India	3,906	Development	March 31, 2017
Dubai, United Arab Emirates	180	Sales and support	May 15, 2015

## Item 3. Legal Proceedings

From time to time, we 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.

## Securities Litigation

On August 1 and 21, 2013, two putative securities class action suits were filed in the United States District Court for the Northern District of California against us and certain of our officers, our board of directors, a former director and the underwriters for the initial public offering. On November 20, 2013, the court consolidated the actions as *In re Vocera Communications, Inc. Securities Litigation* and appointed Lead Plaintiffs. Lead Plaintiffs filed their consolidated complaint on September 19, 2014. The consolidated complaint names certain current and former officers and directors and the underwriters for our initial public offering and secondary offering and alleges claims under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933, as amended (Securities Act) and Section 10(b) and 20(a) of the Exchange Act based on allegedly false and materially misleading statements and omissions in the registration statement for our initial public offering and secondary offering and in communications regarding its business and financial results. The suit is purportedly brought on behalf of purchasers of our securities between March 28, 2012 and May 2, 2013, and seeks compensatory damages, rescission, fees and costs, as well as other relief. On November 3, 2014 Defendants moved to dismiss the consolidated complaint. On January 15, 2015, the Court denied Defendants' motion to dismiss the Exchange Act claims, but granted with leave to amend Defendants' motion to dismiss the Securities Act claims. The time for Lead Plaintiffs to amend the consolidated complaint has not yet passed.

Due to the inherent uncertainties of litigation, we cannot accurately predict the ultimate outcome of this matter. We are unable at this time to determine whether the outcome of the litigation would have a material impact on our results of operations, financial condition or cash flow. We have not established any reserve for any potential liability relating to this lawsuit.

## Item 4. Mine Safety Disclosures

None.

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## 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. Prior to that date, there was no public trading market for our common stock. The following table sets forth for the periods indicated the high and low sales prices per share of our common stock as reported on the New York Stock Exchange:

	High	Low
Year ending December 31, 2014		
First Quarter	\$ 19.29	\$ 15.67
Second Quarter	\$ 16.44	\$ 11.86
Third Quarter	\$ 13.91	\$ 8.06
Fourth Quarter	\$ 10.53	\$ 7.64
	High	Low
Year ending December 31, 2013		
First Quarter	\$ 29.47	\$ 21.32
Second Quarter	\$ 23.96	\$ 11.99
Third Quarter	\$ 19.71	\$ 13.72
Fourth Quarter	\$ 18.99	\$ 14.71

## Holders of Common Stock

As of March 10, 2015, we had 76 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 & Poors 1500 Health Care Technology Index since the pricing of the initial public offering of Vocera's common stock on March 28, 2012. An investment of \$100 is assumed to have been made in our common stock and in each of the indexes on March 31, 2012, including reinvestment of dividends, and its relative performance is tracked through December 31, 2014.



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	03/28/12	12/31/12	12/31/13	12/31/14
Vocera Communications Inc.	100.00	119.35	74.23	49.55
NYSE Composite	100.00	105.02	132.62	141.57
S&P Health Care Technology	100.00	101.94	146.38	169.80
Issuer Purchases of Equity Securities				

During the three months ended December 31, 2014, we did not repurchase any of our securities.



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## 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, 2014, 2013 and 2012 and the consolidated balance sheet data as of December 31, 2014 and 2013 from our audited financial statements included elsewhere in this report. We derived the consolidated statement of operations data for the years ended December 31, 2011 and 2010 and the consolidated balance sheet data as of December 31, 2012, 2011 and 2010 from our audited 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,				
	2014	2013	2012	2011	2010
Consolidated statements of operations data:					
Total revenue	\$95,421	\$102,498	\$100,957	\$79,503	\$56,803
Gross profit	58,185	64,189	64,336	47,996	35,628
Net (loss) income	(28,297 )	(10,465 )	2,893	(2,479 )	1,210
Less: undistributed earnings attributable to participating securities	—	—	(1,366 )	—	(1,210 )
Net (loss) income attributable to common stockholders	\$(28,297 )	\$(10,465 )	\$1,527	\$(2,479 )	\$—
Net (loss) income per share attributable to common stockholders					
Basic and diluted	\$(1.12)	\$(0.43)	\$0.08	\$(0.74)	\$0.00
Weighted average shares used to compute net (loss) income per share attributable to common stockholders					
Basic	25,329	24,621	17,979	3,370	2,223
Diluted	25,329	24,621	20,608	3,370	2,846
As of December 31,					
(in thousands)	2014	2013	2012	2011	2010
Consolidated balance sheet data:					
Cash, cash equivalents and short-term investments	\$116,261	\$127,676	\$127,510	\$14,898	\$8,642
Total assets	159,628	173,107	167,305	49,818	33,933
Total borrowings	—	—	—	8,333	5,405
Convertible preferred stock warrant liability	—	—	—	1,853	1,127
Convertible preferred stock	—	—	—	53,013	52,758
Total stockholders’ equity (deficit)	109,712	125,563	123,125	(49,399 )	(50,364 )

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### 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 that involve risks, uncertainties and assumptions, such as statements of our plans, objectives, expectations and intentions. 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 solutions, focused on empowering mobile workers in healthcare, hospitality, energy, and other mission-critical mobile work environments, in the U.S. and internationally. Today the significant majority of our business is generated from sales of our solutions in the healthcare market to help our customers improve patient safety and experience, and increase operational efficiency. As of December 31, 2014, our solutions have been installed in more than 1,300 facilities worldwide.

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 manufacturer, 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 sales and unanticipated shifts in sales volume and mix.

We primarily sell products, software maintenance and professional services directly to end users. To date, substantially all of our revenue has been derived from sales of our Vocera Communication solution, including software product maintenance and related services. Total revenue declined 6.9% to \$95.4 million in 2014 from \$102.5 million in 2013, and our 2013 revenue grew 1.5% from \$101.0 million in 2012. For the year ended December 31, 2014, we recorded a net loss of \$28.3 million compared to a net loss of \$10.5 million for the year ended December 31, 2013.

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 are not reliant on any one customer. While we have international customers in other English speaking countries such as Canada, the United Kingdom and Australia, most of our customers are located in the United States. International customers represented 9.9% and 10.5% of our revenue in 2014 and in 2013, respectively. We are developing plans to expand our presence in other English-speaking markets and enter non-English speaking markets.

U.S. hospital spending was a challenge in 2014, with information technology capital spending predominantly directed toward further investment in electronic health records and preparation for utilizing new ICD-10 diagnosis coding, which are both driven by increasing regulatory requirements and reimbursement earn-back incentives from federal healthcare reform. In addition, as patient volumes and reimbursement levels continued to be at lower levels for many healthcare providers, hospitals exercised strong expense limits and reductions, impacting capital purchases and departmental operating budgets through which our solutions are purchased.

Internationally, mature markets in Canada, the United Kingdom and France have experienced continuing budget challenges as well. However, emerging international markets, especially the Middle East and Asia-Pacific regions, offer more opportunities, as these regions are investing in expansions of their healthcare system capacities and quality.

#### 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 and deferred revenue" below, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collection is reasonably assured.

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. Software revenue is derived primarily from the sale of perpetual licenses to our Vocera Communication System. We derive additional software revenue from the sale of term licenses and services provided, which can be renewed on a subscription basis. Product revenue is generally recognized upon shipment

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of hardware and perpetual licenses and, in the case of term licenses or subscription services, ratably over the applicable term.

Service. We receive service revenue from sales of software maintenance, extended hardware warranties and professional services. 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, write-offs 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. Sales commissions are earned when an order is received from a customer, and as a result, in some cases these commissions are expensed in an earlier period than the period in which the related revenue is recognized. Historically, our bookings have tended to peak in the fourth quarter of each year, driving higher sales commissions, and to be lowest in the first quarter. We intend to continue to expand our direct sales force and invest in sales support functions and new marketing programs for the foreseeable future.

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, interest expense 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 includes interest expense related to debt and financing obligations resulting from our credit facility and security agreement, which was paid off in full on April 3, 2012. Since then interest expense has been immaterial, but could potentially fluctuate in the future with changes in our borrowings.

Other income (expense), net. Other income (expense), net consists primarily of the change in the fair value of our convertible preferred stock warrants. Our convertible preferred stock warrants were classified as liabilities and, as such, were marked-to-market at each balance sheet date with the corresponding gain or loss from the adjustment recorded as other income (expense), net. Upon the consummation of our initial public offering, on April 2, 2012, these warrants converted into warrants to purchase common stock and are no longer marked-to-market. Other income (expense), net also includes any 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

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reduce deferred tax assets to the amount reasonably expected to be realized. Changes in valuation allowances are reflected as component of provision for income taxes.

At December 31, 2014, we held a \$30.1 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, 2014, 2013 and 2012.

(in thousands, except percentages)	Years ended December 31,						
	2014		2013		2012		
	Amount	% Revenue	Amount	% Revenue	Amount	% Revenue	
Consolidated statements of operations data:							
Revenue							
Product	\$51,095	53.5	% \$62,393	60.9	% \$65,028	64.4	%
Service	44,326	46.5	40,105	39.1	35,929	35.6	
Total revenue	95,421	100.0	102,498	100.0	100,957	100.0	
Cost of revenue							
Product	18,766	19.7	21,714	21.2	21,551	21.3	
Service	18,470	19.3	16,595	16.2	15,070	14.9	
Total cost of revenue	37,236	39.0	38,309	37.4	36,621	36.3	
Gross profit	58,185	61.0	64,189	62.6	64,336	63.7	
Operating expenses							
Research and development	18,035	18.9	14,915	14.6	11,618	11.5	
Sales and marketing	49,611	52.0	44,928	43.8	33,432	33.1	
General and administrative	18,062	18.9	14,906	14.5	14,390	14.3	
Restructuring	556	0.6	—	—	—	—	
Total operating expenses	86,264	90.4	74,749	72.9	59,440	58.9	
(Loss) income from operations	(28,079 )	(29.4 )	(10,560 )	(10.3 )	4,896	4.8	
Interest income	355	0.4	257	0.3	171	0.2	
Interest expense	—	—	—	—	(84 )	(0.1 )	
Other expense, net	(249 )	(0.3 )	(53 )	(0.1 )	(1,463 )	(1.4 )	
(Loss) income before income taxes	(27,973 )	(29.3 )	(10,356 )	(10.1 )	3,520	3.5	
Provision for income taxes	(324 )	(0.4 )	(109 )	(0.1 )	(627 )	(0.6 )	
Net (loss) income	\$(28,297 )	(29.7 )%	\$(10,465 )	(10.2 )%	\$2,893	2.9	%

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Year ended December 31, 2014 compared to year ended December 31, 2013

Revenue:

(in thousands, except percentages)	Years ended December 31,		Change Amount	%	
	2014 Amount	2013 Amount			
Product Revenue					
Device	\$37,455	\$46,636	\$(9,181)	(19.7)	)%
Software	13,640	15,757	(2,117)	(13.4)	)
Total product revenue	51,095	62,393	(11,298)	(18.1)	)
Service revenue					
Maintenance and support	35,353	31,559	3,794	12.0	
Professional services and training	8,973	8,546	427	5.0	
Total service revenue	44,326	40,105	4,221	10.5	
Total revenue	\$95,421	\$102,498	\$(7,077)	(6.9)	)

Total revenue decreased \$7.1 million, or 6.9%, for the year ended December 31, 2014 compared to the year ended December 31, 2013. The decrease in total revenue was primarily a result of an \$11.3 million decrease in product revenue, partially offset by a \$4.2 million increase in service revenue.

Product revenue decreased \$11.3 million, or 18.1%, for the year ended December 31, 2014 compared to the year ended December 31, 2013. Device revenue decreased \$9.2 million, or 19.7%, and software revenue decreased \$2.1 million, or 13.4% for the year ended December 31, 2014 compared to the year ended December 31, 2013. The decrease in device revenue, which related entirely to our Voice Communication solution, was driven primarily by a decrease in unit sales of badges and related accessories. We believe that our product revenue for the year ended December 31, 2014 was adversely affected by the conditions affecting the U.S. healthcare industry as described above. The decrease in software revenue was mainly a result of a decrease in sales of Voice Communication software licenses.

Service revenue increased \$4.2 million, or 10.5%, for the year ended December 31, 2014 compared to the year ended December 31, 2013. Software maintenance and support revenue increased \$3.8 million, or 12.0%, and professional services and training revenue increased minimally, for the year ended December 31, 2014 compared to the year ended December 31, 2013. The increase in software maintenance and support revenue was primarily a result of having a larger customer base purchasing our maintenance and extended warranty offerings which increased software maintenance revenue by \$2.8 million and extended warranty revenue by \$1.0 million. Professional services and training revenue increased \$0.4 million, or 5%, for the year ended December 31, 2014 compared to the year ended December 31, 2013. This increase was due to an increase in the total number of deployments in 2014, primarily related to our existing customer base.

Cost of revenue:

(in thousands, except percentages)	Years ended December 31,		Change Amount	%	
	2014 Amount	2013 Amount			
Cost of revenue					
Product	\$18,766	\$21,714	\$(2,948)	(13.6)	)%
Service	18,470	16,595	1,875	11.3	)
Total cost of revenue	\$37,236	\$38,309	\$(1,073)	(2.8)	)
Gross margin					
Product	63.3	% 65.2	% (1.9)	)%	
Service	58.3	58.6	(0.3)	)	
Total gross margin	61.0	62.6	(1.6)	)	

Cost of product revenue decreased \$2.9 million, or 13.6%, for the year ended December 31, 2014 compared to the year ended December 31, 2013. The cost of product revenue decreased primarily due to a decrease in the number of units of

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communication badges and related accessories sold, lower standard warranty expense, partially offset by higher overhead costs.

Cost of service revenue increased \$1.9 million, or 11.3%, for the year ended December 31, 2014 compared to the year ended December 31, 2013. This increase was primarily due to a \$1.4 million increase in employee wages and other personnel costs and a \$0.3 million increase in travel related expenses in our services organization to support growth in customer deployments and technical support. Extended warranty expenses increased \$0.2 million due to an increase in badges under the extended warranty program and related warranty claims.

Operating expenses:

(in thousands, except percentages)	Years ended December 31,			
	2014	2013	Change	
	Amount	Amount	Amount	%
Operating expenses:				
Research and development	\$18,035	\$14,915	\$3,120	20.9 %
Sales and marketing	49,611	44,928	4,683	10.4
General and administrative	18,062	14,906	3,156	21.2
Restructuring	556	—	556	100.0
Total operating expenses	\$86,264	\$74,749	\$11,515	15.4

Research and development expense. Research and development expense increased \$3.1 million, or 20.9%, for the year ended December 31, 2014 compared to the year ended December 31, 2013. This increase was primarily due to a \$2.2 million increase in personnel costs and other expenses associated with increases in headcount, including acquisitions, a \$0.5 million increase due to additional external resources for research and development projects, a \$0.2 million increase in materials for research and development projects and a \$0.2 million increase in stock-based compensation.

Sales and marketing expense. Sales and marketing expense increased \$4.7 million, or 10.4%, for the year ended December 31, 2014 compared to the year ended December 31, 2013. This increase was primarily due to a \$2.7 million in increased employee wages, commissions and personnel costs and \$1.2 million in increased stock-based compensation.

General and administrative expense. General and administrative expense increased \$3.2 million, or 21.2%, from the year ended December 31, 2014 compared to the year ended December 31, 2013. This increase was due primarily to an increase of \$1.2 million in personnel costs, an increase of \$0.8 million in stock-based compensation, an increase of \$0.4 million in legal expenses primarily related to litigation, an increase of \$0.3 million in depreciation associated with the SAP ERP deployment, an increase of \$0.2 million in facilities-related expenses and an increase of \$0.1 million in business insurance.

Restructuring expense. Restructuring expense increased \$0.6 million for the year ended December 31, 2014 compared to the year ended December 31, 2013. During the fourth quarter of 2014, we initiated a restructuring plan that resulted in \$0.7 million of severance charges, of which \$0.1 million was recorded to cost of revenue and \$0.6 million was recorded to operating expenses. See Note 6, Consolidated balance sheet components, in the Notes to the Consolidated Financial Statements in Item 8 of this Report, for further discussion of our restructuring activities.

(in thousands, except percentages)	Years ended December 31,			
	2014	2013	Change	
Non-operating income (expense) elements:				
Interest income	\$355	\$257	\$98	
Other expense, net	(249)	(53)	(196)	)
Income taxes:				
Provision for income taxes	(324)	(109)	(215)	)
Loss before income taxes	(27,973)	(10,356)	(17,617)	)
Effective tax rate %	(1.2)	(1.1)	(0.1)	)%

Interest income. Interest income increased \$0.1 million for the year ended December 31, 2014 compared to the year ended December 31, 2013 due to the shift in these periods from cash equivalents to higher interest-bearing short-term investments.

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Other expense, net. Other expense, net increased \$0.2 million for the year ended December 31, 2014 compared to the year ended December 31, 2013, primarily due to foreign exchange fluctuations.

Provision for income taxes. The \$0.3 million provision on \$28.0 million of loss before income taxes in 2014 represented a negative effective tax rate of 1.2%. The negative effective tax rate for 2014 was due primarily to the impact of pre-tax losses in the U.S. operations, offset by income taxes from foreign operations. The negative effective tax rate of 1.1% in 2013 is due primarily to the impact of pre-tax losses in the U.S. operations, offset by income taxes from foreign operations.

Year ended December 31, 2013 compared to year ended December 31, 2012

Revenue:

(in thousands, except percentages)	Years ended December 31,		Change	
	2013 Amount	2012 Amount	Amount	%
Product Revenue				
Device	\$46,636	\$47,725	\$(1,089)	(2.3)%
Software	15,757	17,303	(1,546)	(8.9)
Total product revenue	62,393	65,028	(2,635)	(4.1)
Service revenue				
Maintenance and support	31,559	26,237	5,322	20.3
Professional services and training	8,546	9,692	(1,146)	(11.8)
Total service revenue	40,105	35,929	4,176	11.6
Total revenue	\$102,498	\$100,957	\$1,541	1.5

Total revenue increased \$1.5 million, or 1.5%, from 2012 to 2013.

Product revenue decreased \$2.6 million, or 4.1% in 2013. Device revenue decreased \$1.1 million, or 2.3%, and software revenue decreased \$1.5 million, or 8.9%. The 2013 decrease in device revenue, which related entirely to our Vocera Communication solution, was due primarily to a decrease in the average selling price for badges and, to a lesser extent, a slight decrease in the number of badges sold. The lower average selling price was primarily a result of a promotion in the second quarter of 2013. The list prices for our products did not change substantially in 2013. The 2013 decrease in software revenue was primarily due to a decrease in the number of server license seats sold for customer expansions for our Voice Communication solution. We believe this decrease is due to the impact on hospital operating budgets from the federal budget sequestration in March 2013 and uncertainty around the impact of healthcare reform within the U.S. healthcare market, resulting in greater scrutiny of expenses and elongation of the sales cycle.

Service revenue increased \$4.2 million, or 11.6% in 2013. Software maintenance and support revenue increased \$5.3 million, or 20.3%, and professional services and training revenue decreased \$1.1 million, or 11.8%. The 2013 increase in software maintenance and support revenue was primarily a result of a larger customer base but also included \$2.1 million from extended warranty contracts. The 2013 decrease in professional services and training revenue was due to a reduction in the number of deployments completed in 2013, particularly related to our existing customer base.

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## Cost of revenue:

(in thousands, except percentages)	Years ended December 31,				
	2013	2012	Change		
	Amount	Amount	Amount	%	
Cost of revenue					
Product	\$21,714	\$21,551	\$163	0.8	%
Service	16,595	15,070	1,525	10.1	
Total cost of revenue	\$38,309	\$36,621	\$1,688	4.6	
Gross margin					
Product	65.2	% 66.9	% (1.7	)%	
Service	58.6	58.1	0.5		
Total gross margin	62.6	63.7	(1.1	)	

Cost of product revenue increased \$0.2 million, or 0.8%, from 2012 to 2013. This increase was primarily due to a \$1.4 million increase in warranty expenses and a \$0.7 million increase in overhead expenses, offset by decreases in product costs of \$2.3 million due to lower per unit material and manufacturing costs as a result of increased unit volume. The increase in warranty expenses was primarily based on a manufacturing defect impacting a discrete batch of badges, resulting in an increase in warranty expense of \$0.7 million.

Cost of service revenue increased \$1.5 million, or 10.1%, from 2012 to 2013. This increase was primarily due to a \$1.2 million increase in employee wages and other personnel costs in our technical support and professional services organizations to support growth in customer deployments and in our installed base.

## Operating expenses:

(in thousands, except percentages)	Years ended December 31,				
	2013	2012	Change		
	Amount	Amount	Amount	%	
Operating expenses					
Research and development	\$14,915	\$11,618	\$3,297	28.4	%
Sales and marketing	44,928	33,432	11,496	34.4	
General and administrative	14,906	14,390	516	3.6	
Total operating expenses	\$74,749	\$59,440	\$15,309	25.8	

Research and development expense. Research and development expense increased \$3.3 million, or 28.4%, from 2012 to 2013. This increase was primarily due to an increase in employee wages and other personnel related costs of \$2.3 million, a \$0.4 million increase in stock compensation expenses and \$0.4 million increase in other support costs.

Sales and marketing expense. Sales and marketing expense increased \$11.5 million, or 34.4%, from 2012 to 2013. This increase was primarily due to a \$6.6 million increase in employee wages and other personnel costs, a \$1.7 million increase in stock compensation expenses, a \$1.3 million increase in travel, a \$1.6 million increase in marketing expenses and a \$0.8 million increase in outside services, offset by a \$0.5 million decrease in equipment and supplies.

General and administrative expense. General and administrative expense increased \$0.5 million, or 3.6%, from 2012 to 2013. This increase was due to a \$1.7 million increase in stock compensation expense, a \$0.6 million increase in employee wages and other personnel costs, a \$0.2 million increase in outside services, offset by a \$1.7 million decrease of bonus accrual and a \$0.2 million decrease in administrative/other.

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(in thousands, except percentages)	Years ended December 31,		
	2013	2012	Change
Non-operating income (expense) elements:			
Interest income	\$257	\$171	\$86
Interest expense	—	(84)	) 84
Other (expense) income, net	(53)	) (1,463)	) 1,410
Income taxes:			
Provision for income taxes	(109)	) (627)	) 518
Income (loss) before income taxes	(10,356)	) 3,520	(13,876)
Effective tax rate %	(1.1)	)% 17.8	% (18.9)

Interest income. Interest income increased \$0.1 million from 2012 to 2013 due to higher cash balances from the proceeds of our initial public offering and follow-on offering completed in 2012.

Interest expense. Interest expense decreased \$0.1 million from 2012 to 2013 as we paid all outstanding debt upon completion of our initial public offering.

Other income (expense), net. Other expense decreased \$1.4 million from 2012 to 2013 as 2012 included \$1.6 million of expense related to the fair market value of convertible preferred stock warrants. This decrease was offset by a \$0.1 million increase in interest expense related to our lease financing program and a \$0.1 million increase in foreign exchange losses.

Provision for income taxes. The \$0.1 million provision on \$10.4 million of pretax loss in 2013 represented a negative effective tax rate of 1.1%. For 2012, the provision of \$0.6 million on the consolidated pretax income of \$3.5 million represented an effective tax rate of 17.8%. The negative effective tax rate for 2013 was due primarily to the impact of pre-tax losses in the U.S. operations, offset by income taxes from foreign operations. The effective tax rate of 17.8% for 2012 is due primarily to the impact of the utilization of the valuation allowance on net deferred tax assets, together with permanent tax adjustments for stock options.

## Liquidity and capital resources

(in thousands)	Years ended December 31,		
	2014	2013	2012
Consolidated statements of cash flow data:			
Net cash (used in) provided by operating activities	\$(4,692)	) \$(1,259)	) \$12,294
Net cash used in investing activities	(14,427)	) (56,717)	) (37,532)
Net cash provided by financing activities	2,082	5,107	102,861
Net (decrease) increase in cash and cash equivalents	\$(17,037)	) \$(52,869)	) \$77,623

As of December 31, 2014, we had cash and cash equivalents and short-term investments of \$116.3 million and no debt.

On April 2, 2012, we completed our initial public offering in which we and existing stockholders sold 6,727,500 shares of common stock at \$16.00 per share, before underwriting discounts and commissions. We sold 5,000,000 shares and existing stockholders sold an aggregate of 1,727,500 shares, including 877,500 shares as a result of the underwriters' exercise of their over-allotment option. We recorded net proceeds of \$70.5 million from the initial public offering, after subtraction of underwriters' discounts and commissions, and offering expenses incurred in both 2011 and 2012. We did not receive any proceeds from the sale of shares by existing stockholders in our initial public offering.

On September 12, 2012, we completed a follow-on public offering in which we and existing stockholders sold 5,548,750 shares of common stock at \$28.75 per share, before underwriting discounts and commissions. We sold 1,337,500 shares and existing stockholders sold an aggregate of 4,211,250 shares, including an aggregate of 723,750 shares as a result of the underwriters' exercise of their over-allotment option. We received net proceeds of approximately \$36.0 million, after deducting underwriting discounts and commissions and other expenses of the offering. We did not receive any proceeds from the sale of shares by existing stockholders in our follow-on public

offering.

We have also financed a portion of our operations and acquisitions with term loans, equipment lines of credit and revolving lines of credit. In January 2009, we entered into a loan and security agreement with Comerica Bank, N.A., or Comerica, which

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was subsequently amended in February 2010 and December 2010. These amendments renewed the working capital line of credit for \$5.0 million, and increased the term loan facility from \$2.0 million to \$5.0 million. In April 2012, we used a portion of the proceeds from our initial public offering to pay in full the outstanding revolving line of credit of \$4.5 million and the outstanding term loan balance of \$3.3 million. We allowed this line of credit to expire in April 2012.

Proceeds from transfers of our 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 components are accounted for as financing liabilities.

We are not a capital-intensive business, nor do we expect to be in the future. During 2014, 2013 and 2012, our purchases of property and equipment were \$2.0 million, \$3.8 million and \$2.6 million, respectively. The expenditures in 2014 primarily relate to leasehold improvements and computer equipment. The expenditures in 2013 included completion of the first phase of our ERP implementation in August 2013 and build out of additional leased space available in April 2013. The expenditures in 2012 included those for our ERP implementation, as well as spending to support headcount growth with computer and equipment needs.

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 used by operating activities was \$4.7 million in 2014, due in part to the 2014 net loss of \$28.3 million, partially offset by non-cash items such as depreciation and amortization of \$3.0 million for property and equipment and acquired intangible assets and stock-based compensation of \$11.1 million. With respect to changes in assets and liabilities, cash was provided by a decrease in accounts receivable of \$5.7 million, which is attributable to collection on prior periods' invoices exceeding the current period's billings, a decrease of \$1.9 million in inventory, a \$1.1 million increase in accrued liabilities and a \$2.8 million increase in deferred revenue. These factors were offset by certain cash outflows, including a \$1.7 million decrease in accounts payable and \$0.3 million increase in prepaid expenses.

Cash used by operating activities was \$1.3 million in 2013, due in part to the 2013 net loss of \$10.5 million, together with inventory growth of \$3.0 million attributable to downward revision of projections for our 2013 shipments which did not significantly reduce the lagged inventory receipt commitments until year-end, accounts receivable growth of \$1.9 million, and decrease in accrued and other liabilities of \$1.9 million. These were partially offset by non-cash items, including stock-based compensation of \$8.7 million and depreciation of property and equipment and intangibles amortization of \$2.5 million. Additional offset was provided by the increase in deferred revenues of \$4.2 million and the increase of \$0.7 million in accounts payable.

Cash provided by operating activities was \$12.3 million in 2012, due in part to net income in 2012 of \$2.9 million, based on 3.3% higher gross margins on a 27% increase in revenues. Operating cash flow also excludes the following non-cash items: depreciation of property and equipment and intangibles amortization of \$2.6 million, the mark-to-market valuation of preferred stock warrants of \$1.6 million prior to our initial public offering, and stock-based compensation of \$4.2 million, which was higher in 2012 than in 2011 due to the higher quantity and fair value of stock option and RSU grants. Additional operating cash inflows were generated by the \$5.8 million increase in deferred revenues and \$2.8 million increase in accrued and other liabilities, both driven by our continued business growth. These items were partially offset by operating cash outflows of \$5.9 million for the growth-driven increase in

accounts receivable, \$1.3 million for the increase in prepaid expenses and other current assets, and \$1.1 million for the decrease in accounts payable.

Investing activities

Cash used in investing activities was \$14.4 million in 2014, which was primarily attributable to \$7.0 million for the acquisitions of mVisum and Prana Technologies, net of cash acquired, and \$112.3 million for purchases of short-term investments, net of maturities received of \$102.7 million and \$3.9 million in sales of short-term investment. An additional \$2.0 million of cash was used for the purchase of property and equipment, partly offset by the release of \$0.3 million in restricted cash.



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Cash used in investing activities was \$56.7 million in 2013, which was primarily attributable to the purchase of short-term investments of \$118.7 million, net of maturities received of \$65.7 million, plus the purchase of property and equipment and leasehold improvements of \$3.8 million. The short-term investment purchases primarily reflected our decision in early 2013 to migrate all investment and cash equivalents from our single asset manager into new portfolios, split between two new asset managers. The maturities reflected the proceeds from the liquidation of the former asset manager's portfolio, as well as fairly short-term maturities on the new portfolios, leading to a short-term investments balance of \$88.0 million as of December 31, 2013, with the remainder invested in cash equivalents. Cash used in investing activities was \$37.5 million in 2012, which was primarily attributable to the purchase of short-term investments of \$104.9 million, net of maturities received of \$69.9 million, plus the purchase of property and equipment and leasehold improvements of \$2.6 million. The short-term investment purchases reflected investment for higher yields of the proceeds from the April 2012 IPO and September 2012 follow-on offerings. We allowed the short-term investments to liquidate down to a \$35.0 million balance as of December 31, 2012, with the difference invested in cash equivalents from the maturities.

## Financing activities

Cash provided by financing activities was \$2.1 million in 2014, which was attributable to employee stock purchase plan proceeds of \$1.6 million, exercises of stock options of \$1.1 million and cash from lease-related performance obligations of \$0.6 million, partially offset by \$1.2 million of taxes paid on behalf of employees for net share settlement.

Cash provided by financing activities was \$5.1 million in 2013, which was attributable to employee stock purchase plan proceeds of \$3.0 million, exercises of stock options of \$1.8 million, cash from lease-related performance obligations of \$0.8 million, exercise of common stock warrants of \$0.2 million, partially offset by \$0.7 million of taxes paid on behalf of employees for net share settlement.

Cash provided by financing activities was \$102.9 million in 2012, which was primarily attributable to the net proceeds received from our initial public offering of \$72.1 million and the net proceeds from our follow-on offering of \$36.0 million, partially offset by the \$8.3 million repayment of our credit facility and term loan. Additional financing activities that contributed cash included \$1.7 million of proceeds from the exercise of stock options and \$1.1 million of cash received for future executory costs for lease-related performance obligations.

## Contractual obligations

The following table summarizes our contractual obligations as of December 31, 2014:

(in thousands)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating leases <sup>(1)</sup>	\$2,481	\$1,764	\$717	\$—	\$—
Non-cancelable purchase commitments <sup>(2)</sup>	1,914	1,914	—	—	—
Total	\$4,395	\$3,678	\$717	\$—	\$—

(1) Consists of contractual obligations from non-cancelable office space under operating leases.

(2) Consists of minimum purchase commitments with our independent contract manufacturer and other vendors.

As of December 31, 2014, we had \$0.3 million of net deferred tax liabilities and \$0.2 million from uncertain tax positions, both recorded within other long-term liabilities. The timing and amounts of any payments that could result from the net deferred tax liabilities and unrecognized tax benefits will depend upon a number of factors. Accordingly, the timing and amounts of any eventual payment cannot be estimated for inclusion in the table above. We do not expect a significant tax payment related to these obligations to occur within the next 12 months. Such tax contingencies are separately disclosed and discussed in Note 10.

## Off-balance sheet arrangements

During 2014, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.



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### 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 revenue recognition, stock-based compensation, accounting for business combinations 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

We derive revenue from the sales of communication badges, smartphones, perpetual software licenses for software that is essential to the functionality of the communication badges, software maintenance, extended warranty and professional services. We also derive revenue from the sale of licenses for software that is not essential to the functionality of the communication badges, as well as certain subscription-based revenues. Sales tax is excluded from reported total revenue.

Revenue is recognized when all of the below criteria are met:

- there is persuasive evidence that an arrangement exists, in the form of a written contract, amendments to that contract, or purchase orders from a third party;
- delivery has occurred or services have been rendered;
- the price is fixed or determinable after evaluating the risk of concession; and
- collectability is reasonably assured based on customer creditworthiness and past history of collection.

A typical sales arrangement involves multiple elements, such as sales of communications badges, perpetual software licenses, professional services and maintenance services which entitle customers to unspecified upgrades, bug fixes, patch releases and telephone support. Revenue from the sale of communication badges and perpetual software licenses is recognized upon shipment or delivery at the customers’ premises as the contractual provisions governing sales of these products do not include any provisions regarding acceptance, performance or general right of return or cancellation or termination provisions adversely affecting revenue recognition. Revenue from the sale of maintenance services on software licenses is recognized over the period during which the services are provided, which is generally one year. Revenue from professional services is recognized either on a fixed fee basis based on milestones or on a time and materials basis as the services are provided, both of which generally take place over a period of two to twelve weeks.

We also derive revenue from the provision of hosted services on a subscription basis. Revenue from these products is recognized ratably over the term of the arrangement.

In arrangements with multiple deliverables, assuming all other revenue criteria are met, we recognize revenue for individual delivered items if they have value to the customer on a standalone basis. We allocate arrangement consideration at the inception of the arrangement to all deliverables using the relative selling price method. This method requires us to determine the selling price at which each deliverable could be sold if it were sold regularly on a standalone basis. When available, we use vendor-specific objective evidence (“VSOE”) of the selling price. VSOE represents the price charged for a deliverable when it is sold separately, or for a deliverable not yet being sold separately, the price established by management with the relevant authority. We have established VSOE of the selling

price for our post-installation technical support services. When VSOE of selling price is not available, third-party evidence ("TPE") of selling price for similar products and services is acceptable; however, our offerings and market strategy differ from those of our competitors, such that we cannot obtain sufficient comparable information about third parties' prices. If neither VSOE nor TPE are available, we use our best estimates of selling prices ("BESP"). We determine BESP considering factors such as market conditions, sales channels, internal costs and product margin objectives and pricing practices. We regularly review and update our VSOE and BESP information. The relative selling price method allocates total arrangement consideration proportionally to each deliverable on the basis of its estimated selling price. In addition, the amount recognized for any delivered items cannot exceed that which is contingent upon delivery of any remaining deliverables in the arrangement.

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A portion of our 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, we recognize 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. We recognize revenue related to certain executory costs, including maintenance and extended warranty, ratable over the term of the underlying arrangements. We recognize revenue related to battery refresh executory costs when such executory costs are incurred.

For non-essential software arrangements with multiple-deliverables, including license, professional services and maintenance, we recognize license revenue using the residual method of accounting pursuant to relevant software revenue recognition guidance. Under the residual method, revenue is recognized when VSOE for fair value exists for all of the undelivered elements in the arrangement, but does not exist for one or more of the delivered elements in the arrangement. If evidence of fair value cannot be established for the undelivered elements, all of the revenue is deferred until evidence of fair value can be established, or until the items for which evidence of fair value cannot be established are delivered. For maintenance and certain professional services, we have established VSOE. Our revenue arrangements do not include a general right of return relative to the delivered products.

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 initially as financing liabilities, with subsequent amortization recorded in revenue, for maintenance, extended warranty and battery refresh programs, offset by interest expense.

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 repair 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 provide no warranty 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 2014 was \$0.7 million, compared to \$1.7 million in 2013 and \$0.3 million in 2012. 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 compensationStock options

We record all stock-based awards, which consist of stock option grants, 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 expenses relating to these awards have been reflected in our financial statements. Stock options granted to our employees vest over periods of 12 to 48 months.

We use the Black-Scholes option-pricing model to calculate the fair value of stock options on their grant date. This model requires the following major inputs: the estimated fair value of the underlying common stock, the expected life of the option, the expected volatility of the underlying common stock over the expected life of the option, the risk-free interest rate and expected dividend yield. The following assumptions were used for each respective period for employee stock-based compensation:

	Years ended December 31,		
	2014	2013	2012
Expected term (in years)	5.41 - 5.45	5.38 - 5.43	5.23 - 5.60
Volatility	41.4% - 48.2%	46.7% - 48.1%	47.9% - 48.7%
Risk-free interest rate	1.59% - 1.78%	0.81% - 1.80%	0.72% - 1.03%
Dividend yield	0.0%	0.0%	0.0%

We base the risk-free rate for the expected term of options on the U.S. Treasury Constant Maturity Rate as of the grant date. The computation of expected life was determined based on the historical exercise and forfeiture behavior of our employees, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior. The expected stock price volatility for our common stock was estimated based on the historical volatility of a group

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of comparable companies for the same expected term of our options. The comparable companies were selected based on industry and market capitalization data. We assumed the dividend yield to be zero, as we have never declared or paid dividends and do not expect to do so in the foreseeable future.

Stock-based compensation expense is recognized based on a straight-line amortization method over the respective vesting period of the award and has been reduced for estimated forfeitures. We estimated the expected forfeiture rate based on our historical experience, considering voluntary termination behaviors, trends of actual award forfeitures, and other events that will impact the forfeiture rate. To the extent our actual forfeiture rate is different from our estimate, the stock-based compensation expense is adjusted accordingly.

### Restricted Stock Units

During the year ended December 31, 2012, we began incorporating restricted stock units as an element of our compensation plans. Beginning in May 2012, we granted certain employees restricted stock units, which 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. We did not grant any restricted stock units prior to May 2012. 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. Beginning with 2012, RSU's have formed the largest amount of stock compensation expense, in terms of grant type.

### 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 as of September 30th, or more often if events or changes in circumstances indicate the carrying value may not be recoverable. No impairment was recorded in 2014, 2013 or 2012. As of December 31, 2014, 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 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 units. The intangible assets are allocated to the Product asset group, given that the Product asset group is 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 2014, 2013 or 2012.

Significant judgments required in assessing the impairment of goodwill and intangible assets include the identification of reporting units, 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.

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### 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, 2014, 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, 2014, we had a valuation allowance against net deferred tax assets of \$30.1 million. We intend to 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 2009 are subject to tax authority examinations. Additionally, our net operating losses and research credits prior to 2013 are subject to tax authority adjustment.

### Recently issued accounting guidance

In May 2014, the FASB together with the International Accounting Standards Board issued converged guidance for revenue recognition that will replace most existing guidance, eliminate industry-specific guidance and provide a unified model for determining how and when revenue from contracts with customers should be recognized. Under the new guidance, an entity should 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. The standard will also introduce additional disclosures, changes in asset and liability accounting, and changes in gain/loss recognition for asset transfers unrelated to customer transactions.

Our effective date for this standard will be the first quarter of 2017; no early application is permitted. Two methods of transition are provided: a full retrospective approach, with certain practical expedients allowed, and a cumulative effect method, with balance sheet adjustment as of January 1, 2017. We are evaluating the effect the new standard will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the future effect of the standard on its financial position or results of operations.

### 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, 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.

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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.

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Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheet of Vocera Communications, Inc. and subsidiaries (the "Company") as of December 31, 2014, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for the year ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such 2014 consolidated financial statements present fairly, in all material respects, the financial position of Vocera Communications, Inc. and subsidiaries as of December 31, 2014, and the results of their operations and their cash flows for the year ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

San Jose, California

March 12, 2015

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Report of Independent Registered Public Accounting Firm

To The Board of Directors and Stockholders  
of Vocera Communications, Inc.:

In our opinion, the consolidated balance sheet as of December 31, 2013 and the related consolidated statements of operations, of stockholders' equity (deficit), comprehensive income (loss) and cash flows for each of the two years in the period ended December 31, 2013 present fairly, in all material respects, the financial position of Vocera Communications, Inc. and its subsidiaries at December 31, 2013, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PRICEWATERHOUSECOOPERS LLP  
San Jose, California  
March 17, 2014

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Vocera Communications, Inc.

Consolidated Balance Sheets

(In Thousands, Except Share and Par Amounts)

	December 31,	
	2014	2013
Assets		
Current assets		
Cash and cash equivalents	\$22,615	\$39,652
Short-term investments	93,646	88,024
Accounts receivable, net	18,008	23,543
Other receivables	694	882
Inventories	3,462	5,665
Prepaid expenses and other current assets	2,017	1,892
Total current assets	140,442	159,658
Property and equipment, net	5,122	5,365
Intangible assets, net	3,171	1,544
Goodwill	9,988	5,575
Other long-term assets	905	965
Total assets	\$159,628	\$173,107
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	\$1,913	\$3,531
Accrued payroll and other current liabilities	10,863	9,841
Deferred revenue, current	28,474	26,133
Total current liabilities	41,250	39,505
Deferred revenue, long-term	6,974	6,398
Other long-term liabilities	1,692	1,641
Total liabilities	49,916	47,544
Commitments and contingencies (Note 7)		
Stockholders' equity		
Preferred stock, \$0.0003 par value - 5,000,000 shares authorized as of December 31, 2014 and December 31, 2013; zero shares issued and outstanding	—	—
Common stock, \$0.0003 par value - 100,000,000 shares authorized as of December 31, 2014 and December 31, 2013; 25,644,010 and 24,967,140 shares issued and outstanding as of December 31, 2014 and December 31, 2013, respectively		7
Additional paid-in capital	202,515	189,966
Accumulated other comprehensive income	(81	) 23
Accumulated deficit	(92,730	) (64,433 )
Total stockholders' equity	109,712	125,563
Total liabilities and stockholders' equity	\$159,628	\$173,107

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

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

	Years ended December 31,		
	2014	2013	2012
Revenue			
Product	\$51,095	\$62,393	\$65,028
Service	44,326	40,105	35,929
Total revenue	95,421	102,498	100,957
Cost of revenue			
Product	18,766	21,714	21,551
Service	18,470	16,595	15,070
Total cost of revenue	37,236	38,309	36,621
Gross profit	58,185	64,189	64,336
Operating expenses			
Research and development	18,035	14,915	11,618
Sales and marketing	49,611	44,928	33,432
General and administrative	18,062	14,906	14,390
Restructuring	556	—	—
Total operating expenses	86,264	74,749	59,440
(Loss) income from operations	(28,079)	) (10,560	) 4,896
Interest income	355	257	171
Interest expense	—	—	(84)
Other expense, net	(249)	) (53	) (1,463)
(Loss) income before income taxes	(27,973)	) (10,356	) 3,520
Provision for income taxes	(324)	) (109	) (627)
Net (loss) income	(28,297)	) (10,465	) 2,893
Less: undistributed earnings attributable to participating securities	—	—	(1,366)
Net (loss) income attributable to common stockholders	\$(28,297)	) \$(10,465	) \$1,527
Net (loss) income per share attributable to common stockholders			
Basic and diluted	\$(1.12)	\$(0.43)	\$0.08
Weighted average shares used to compute net income (loss) per share attributable to common stockholders			
Basic	25,329	24,621	17,979
Diluted	25,329	24,621	20,608

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



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Vocera Communications, Inc.

Consolidated Statements of Comprehensive Income (Loss)

(In Thousands)

	Years ended December 31,		
	2014	2013	2012
Net (loss) income	\$(28,297	) \$(10,465	) \$2,893
Other comprehensive (loss) income, net:			
Change in unrealized (loss) gain on investments, net of tax	(104	) 18	5
Comprehensive (loss) income	\$(28,401	) \$(10,447	) \$2,898

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

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Vocera Communications, Inc.

Consolidated Statements of Stockholders' Equity (Deficit)

(In Thousands, except share and per share amounts)

	Common stock		Additional paid-in capital	Accum. other comprehensive income (loss)	Accumulated deficit	Total stockholders' equity (deficit)
	Shares	Amount				
Balance at January 1, 2012	3,780,490	\$1	\$7,461	—	\$ (56,861 )	\$(49,399 )
Conversion of preferred stock to common stock	12,937,750	4	53,352	—	—	53,356
Issuance of common stock upon initial public offering	5,000,000	2	70,533	—	—	70,535
Issuance of common stock upon follow-on offering	1,337,500	—	35,975	—	—	35,975
Reclassification of preferred stock warrant liability into additional paid-in capital upon initial public offering	—	—	3,141	—	—	3,141
Exercise of stock options	1,073,732	—	1,684	—	—	1,684
Vesting of early exercised stock options	—	—	307	—	—	307
Cashless exercise of common stock warrants	78,487	—	—	—	—	—
Issuance of restricted stock awards	24,152	—	—	—	—	—
Non-employee stock-based compensation expense	—	—	29	—	—	29
Employee stock-based compensation expense	—	—	4,203	—	—	4,203
Income tax benefits from employee stock plans	—	—	406	—	—	406
Repurchase of early exercised options	(2,755 )	—	(10 )	—	—	(10 )
Net income	—	—	—	—	2,893	2,893
Other comprehensive income	—	—	—	5	—	5
Balance at December 31, 2012	24,229,356	7	177,081	5	(53,968 )	123,125
Exercise of stock options	420,492	—	1,657	—	—	1,657
RSUs released and tax settlement	71,824	—	(703 )	—	—	(703 )
Common stock issued under employee stock purchase plan	215,039	—	2,993	—	—	2,993
Vesting of early exercised stock options	—	—	123	—	—	123
Cash exercise of common stock warrants	34,142	—	226	—	—	226
Employee stock-based compensation expense	—	—	8,667	—	—	8,667
Income tax shortfall from employee stock plans	—	—	(64 )	—	—	(64 )
Repurchase of early exercised options	(3,713 )	—	(14 )	—	—	(14 )
Net loss	—	—	—	—	(10,465 )	(10,465 )
Other comprehensive income	—	—	—	18	—	18
Balance at December 31, 2013	24,967,140	7	189,966	23	(64,433 )	125,563
Exercise of stock options	293,615	1	1,096	—	—	1,097
RSUs released and tax settlement	225,149	—	(1,270 )	—	—	(1,270 )
	160,936	—	1,588	—	—	1,588

Common stock issued under employee stock purchase plan							
Vesting of early exercised stock options	—	—	54	—	—	54	
Employee stock-based compensation expense	—	—	11,084	—	—	11,084	
Repurchase of early exercised options	(2,830	)—	(3	)—	—	(3	)
Net loss	—	—	—	—	(28,297	) (28,297	)
Other comprehensive loss	—	—	—	(104	) —	(104	)
Balance at December 31, 2014	25,644,010	\$8	\$202,515	\$ (81	) \$ (92,730	) \$109,712	

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

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

	Years ended December 31,		
	2014	2013	2012
Cash flows from operating activities			
Net (loss) income	\$(28,297	) \$(10,465	) \$2,893
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	3,014	2,542	2,615
Non-cash interest income	(7	) (71	) (18
Loss on disposal of property and equipment	77	—	27
Bad debt expense (recovery)	61	16	—
Inventory write-down	310	136	224
Change in lease-related performance liabilities	(595	) (207	) (3
Stock-based compensation expense	11,084	8,667	4,232
Excess tax benefits from employee stock plans	—	—	(325
Change in fair value of warrant liability	—	—	1,631
Changes in assets and liabilities			
Accounts receivable	5,660	(1,861	) (5,916
Other receivables	188	(434	) 417
Inventories	1,894	(3,029	) 367
Prepaid expenses and other assets	(330	) 446	(1,348
Accounts payable	(1,678	) 690	(1,145
Accrued payroll and other liabilities	1,100	(1,887	) 2,803
Deferred revenue	2,827	4,198	5,840
Net cash (used in) provided by operating activities	(4,692	) (1,259	) 12,294
Cash flows from investing activities			
Payment for purchase of property and equipment	(2,022	) (3,770	) (2,565
Business acquisitions, net of cash acquired	(6,950	) —	—
Purchase of short-term investments	(112,299	) (118,661	) (104,869
Maturities of short-term investments	102,656	65,714	69,902
Sales of short-term investments	3,923	—	—
Changes in restricted cash	265	—	—
Net cash used in investing activities	(14,427	) (56,717	) (37,532
Cash flows from financing activities			
Cash from lease-related performance obligations	635	847	1,114
Principal payment of borrowings	—	—	(8,333
Proceeds from initial public offering, net of offering costs	—	—	72,070
Proceeds from secondary public offering, net of offering costs	—	—	35,975
Payment for repurchase of common stock	(12	) (14	) (10
Excess tax benefits from employee stock plans	—	—	325
Proceeds from issuance of common stock from the employee stock purchase plan	1,588	2,993	—
Proceeds from exercise of stock options	1,096	1,758	1,720
Tax withholdings paid on behalf of employees for net share settlement	(1,225	) (703	) —
Proceeds from exercise of common stock warrants	—	226	—
Net cash provided by financing activities	2,082	5,107	102,861
Net (decrease) increase in cash and cash equivalents	(17,037	) (52,869	) 77,623

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Cash and cash equivalents at beginning of period	39,652	92,521	14,898
Cash and cash equivalents at end of period	\$22,615	\$39,652	\$92,521
Supplemental cash flow information			
Cash paid for interest	\$—	\$—	91
Cash paid for income taxes	175	54	556
Supplemental disclosure of non-cash investing and financing activities			
Property and equipment in accounts payable and accrued liabilities	16	104	321

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

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### Notes to Consolidated Financial Statements

#### 1. The Company and Summary of Significant Accounting Policies

##### Background

Vocera Communications, Inc. and its subsidiaries (the "Company") is a provider of secure, integrated, intelligent communication solutions, focused on empowering mobile workers in healthcare, hospitality, energy, and other mission-critical mobile work environments, in the U.S. and internationally. The significant majority of the Company's business is generated from sales of its solutions in the healthcare market to help our customers improve patient safety and experience, and increase operational efficiency. As of December 31, 2014, the Company's solutions have been installed in more than 1,300 facilities worldwide.

The Vocera Communication System, which includes an intelligent enterprise software platform, a lightweight, wearable, voice-controlled communication badge, and smartphone applications, enables users to connect instantly with other staff simply by saying the name, function or group name of the desired recipient. It also securely delivers text messages and alerts directly to and from smartphones, replacing legacy pagers.

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 Hand-Off, Inc., Vocera Canada, Ltd. and ExperiaHealth, Inc. in 2010 and Vocera Communications India Private Ltd. in 2013. In August 2013, we merged Vocera Hand-Off Communications, Inc. and ExperiaHealth, Inc. into our parent company, Vocera Communications, Inc.

Since its inception, the Company has incurred significant losses and, as of December 31, 2014, had an accumulated deficit of \$92.7 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, before the IPO, from the issuances of convertible preferred stock and from borrowings under its term loan facility and the utilization of its line of credit. As of December 31, 2014, the Company had cash, cash equivalents and short-term investments of \$116.3 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

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, inventory reserves, stock-based compensation expense, provisions for income taxes 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.

##### 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, municipal debt 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 less than three months are classified as cash equivalents, all those with longer maturities are classified as short-term investments, which are available-for-sale.

##### Restricted cash

Restricted cash was \$0.1 million and \$0.3 million at December 31, 2014 and 2013, respectively, the majority of which is security for a corporate travel card facility and credit card processing services. All restricted cash is classified as current, under prepaids and other current assets on the consolidated balance sheet, based on the underlying terms of

the arrangements.

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## Allowance for doubtful accounts

The allowance for doubtful accounts reflects the Company's best estimate of probable losses inherent in the Company's receivables portfolio determined on the basis of historical experience, specific allowances for known troubled accounts and other currently available evidence. The Company has not experienced significant credit losses from its accounts receivable. The Company performs a regular review of its customers' payment histories and associated credit risks as it does not require collateral from its customers.

The following table presents the changes in the allowance for doubtful accounts:

(in thousands)	Years ended December 31,		
	2014	2013	2012
Allowance—beginning of period	\$(6	) \$—	\$—
Provisions for bad debts	(53	) (29	) —
Recoveries from bad debts	4	13	—
Write-offs and other	2	10	—
Allowance—end of period	\$(53	) \$(6	) \$—

## 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 and other risks and uncertainties

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 component of the Company's products is currently manufactured by a third-party contractor in Mexico. A significant disruption in the operations of this contractor 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, 2014 and 2013, no customer accounted for 10% or more of accounts receivable. For the years ended December 31, 2014, 2013 and 2012, no customer represented 10% or more of revenue.

## 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 or developed software also generally has a three year useful economic life, except for major ERP implementations, for which the Company assumes a five year useful economic life. 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 discounted 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 impairment charges.

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### 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 when development is complete and is amortized on a straight-line basis over the estimated useful life of the related asset, generally three years, except that five years is assumed for major ERP implementations. 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, 2014, 2013 and 2012, the Company capitalized costs of \$0.2 million, \$2.1 million and \$1.1 million, respectively.

### 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 as of September 30, or more often if events or changes in circumstances indicate the carrying value may not be recoverable. As of December 31, 2014, no changes in circumstances indicate that goodwill carrying values may not be recoverable. The Company has identified two operating segments (Product and Service) which management also considers to be reporting units.

### 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 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 2014, 2013 or 2012.

### Convertible preferred stock

Prior to the Company's IPO, the Company had issued and outstanding six series of convertible preferred stock. In connection with the Company's IPO, in April 2012, each share of then-outstanding preferred stock automatically converted into common stock. In the statement of shareholders' equity for the year ended December 31, 2012, this was recorded as non-cash conversion of \$53.4 million from preferred stock to common stock.

### Revenue recognition

The Company derives revenue from the sales of communication badges, smartphones, perpetual software licenses for software that is essential to the functionality of the communication badges, software maintenance, extended product warranty and professional services. The Company also derives revenue from the sale of licenses for software that is not essential to the functionality of the communication badges. Sales tax is excluded from reported total revenue. Revenue is recognized when all of the below criteria are met:

- there is persuasive evidence that an arrangement exists, in the form of a written contract, amendments to that contract, or purchase orders from a third party;
- delivery has occurred or services have been rendered;
- the price is fixed or determinable after evaluating the risk of concession; and
- collectability is reasonably assured based on customer creditworthiness and past history of collection.

In arrangements with multiple deliverables, assuming all other revenue criteria are met, the Company recognizes revenue for individual delivered items if they have value to the customer on a standalone basis. The Company allocates arrangement consideration at the inception of the arrangement to all deliverables using the relative selling price method. This method requires us to determine the selling price at which each deliverable could be sold if it were sold regularly on a standalone basis. When available, we use vendor-specific objective evidence ("VSOE") of the selling price. VSOE represents the price charged for a deliverable when it is sold separately, or for a deliverable not

yet being sold separately, the price established by management with the relevant authority. The Company has established VSOE of the selling price for our post-installation technical support services and professional services. When VSOE of selling price is not available, third-party evidence ("TPE") of selling price for similar products and services is acceptable; however, our offerings and market strategy differ from those of

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our competitors, such that the Company cannot obtain sufficient comparable information about third parties' prices. If neither VSOE nor TPE are available, the Company uses its best estimates of selling prices ("BESP"). The Company determines BESP considering factors such as market conditions, sales channels, internal costs and product margin objectives and pricing practices. The Company regularly reviews and update our VSOE and BESP information. The relative selling price method allocates total arrangement consideration proportionally to each deliverable on the basis of its estimated selling price. In addition, the amount recognized for any delivered items cannot exceed that which is contingent upon delivery of any remaining items in the arrangement.

A typical sales arrangement involves multiple elements, such as sales of communication badges, perpetual software licenses, professional services and maintenance services which entitle customers to unspecified upgrades, bug fixes, patch releases and telephone support. Revenue from the sale of communication badges and perpetual software licenses is recognized upon shipment or delivery at the customers' premises as the contractual provisions governing sales of these products do not include any provisions regarding acceptance, performance or general right of return or cancellation or termination provisions adversely affecting revenue recognition. Revenue from the sale of maintenance services on software licenses is recognized over the period during which the services are provided, which is generally one year. Revenue from professional services is recognized either on a fixed fee basis based on milestones or on a time and materials basis as the services are provided, both of which generally take place over a period of two to twelve weeks.

For non-essential software arrangements with multiple-deliverables, including license, professional services and maintenance, the Company recognizes license revenue using the residual method of accounting pursuant to relevant software revenue recognition guidance. Under the residual method, revenue is recognized when VSOE for fair value exists for all of the undelivered elements in the arrangement, but does not exist for one or more of the delivered elements in the arrangement. If evidence of fair value cannot be established for the undelivered elements, all of the revenue is deferred until evidence of fair value can be established, or until the items for which evidence of fair value cannot be established are delivered. For maintenance and certain professional services, the Company has established VSOE. The Company's revenue arrangements do not include a general right of return relative to the delivered products.

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, ratable 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, 2014, the Company transferred \$1.4 million of lease receivables, recording an immaterial net loss and \$0.6 million of new financing liabilities for future performance of executory service obligations. For the year ended December 31, 2013, the Company transferred \$2.2 million of lease receivables, recording an immaterial net gain and \$0.8 million of new financing liabilities for future performance of executory service obligations.

For lease receivables retained as of December 31, 2014 and 2013, the Company recorded \$0.9 million and \$1.4 million, respectively, of net investment in sales-type leases, equivalent to the minimum lease payments for the delivered product.

Commissions expense

Sales commissions are recorded as sales and marketing expense and accrued as a current liability as orders are recorded; thus no contract acquisition costs are capitalized.

Shipping and handling costs

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

Research and development expenditures

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Research and development costs are charged to operations as incurred. Software development costs incurred 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 revenues, 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.

### Advertising costs

Advertising costs are included in sales and marketing expense and are expensed as incurred. Advertising costs for the years ended December 31, 2014, 2013 and 2012 were immaterial.

### 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 sales.

### Stock-based compensation

For options granted to employees, stock-based compensation is measured at grant date based on the fair value of the award and is expensed on a straight-line basis over the requisite service period. The Company determines the grant date fair value of the options using the Black-Scholes option-pricing model. Restricted stock awards and restricted stock units, first awarded in 2012, result in compensation expense, and are recognized on a straight-line basis over the requisite service period, based on the award date closing stock price. Equity instruments issued to non-employees are recorded at their fair value on the measurement date and are subject to periodic adjustment as the underlying equity instruments vest. The fair value of options granted to non-employees is amortized over the vesting period, on a straight-line basis.

For stock options issued to employees and non-employees with specific performance criteria, the Company makes a determination at each balance sheet date whether the performance criteria are probable of being achieved.

Compensation expense is recognized until such time as the performance criteria are met or when it is probable that the criteria will not be met.

The Company will only recognize a tax benefit from stock-based awards in additional paid-in capital if an incremental tax benefit is realized after all other tax attributes currently available to the Company have been utilized. In addition, the Company has elected to account for the indirect effects of stock-based awards on other tax attributes, such as the research tax credit, through its statement of operations.

### 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

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be realized as of December 31, 2014 and 2013, respectively. Accordingly, the Company has recorded a full valuation allowance on its deferred tax assets for these years.

At December 31, 2014, the Company had a valuation allowance against net deferred tax assets of \$30.1 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 prior to 2014 are subject to tax authority adjustment and all years after 2010 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.

### Segments

Operating segments are components of an enterprise for which separate financial information is available and is evaluated regularly by the Company's chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is the Chief Executive Officer. The Company has two operating segments which are both reportable business segments: (i) Product; and (ii) Service. See Note 9 for further analysis of the Company's determined operating segments.

### Comprehensive income (loss)

For the years ended December 31, 2014, 2013 and 2012, the Company had nominal unrealized gains on available-for-sale securities. There were no other components within other comprehensive income for the years ended December 31, 2014, 2013 or 2012.

### Related party transactions

During the years ended December 31, 2014, 2013 and 2012, the Company billed a related party, the University of Chicago Medical Center (UCMC), \$0.3 million, \$0.5 million and \$0.5 million, respectively, for consulting services and technology solutions. One of the Company's board members is the President of UCMC. These transactions were recorded at arms-length prices. During the year ended December 31, 2013, the Company billed a related party, the Hewlett-Packard Company, approximately \$9,200 for software and support, at arms' length prices. Through July of 2013, John N. McMullen, one of the Company's directors, served as Treasurer & Senior Vice President at Hewlett-Packard. There were no material related party transactions for Hewlett-Packard in the year ended December 31, 2012.

### Recent accounting pronouncements

In May 2014, the FASB together with the International Accounting Standards Board issued converged guidance for revenue recognition that will replace most existing guidance, eliminate industry-specific guidance and provide a unified model for determining how and when revenue from contracts with customers should be recognized. Under the new guidance, an entity should 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. The standard will also introduce additional disclosures, changes in asset and liability accounting, and



changes in gain/loss recognition for asset transfers unrelated to customer transactions.

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The Company's effective date for this standard will be the first quarter of 2017; early application is not permitted. Two methods of transition are provided: a full retrospective approach, with certain practical expedients allowed, and a cumulative effect method, with balance sheet adjustment as of January 1, 2017. The Company is evaluating the effect the new standard will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the future effect of the standard on its financial position or results of operations.

## 2. Fair value of financial instruments

The carrying values of the Company's cash and cash equivalents and short-term investments approximate their fair value due to their short-term nature. As a basis for determining the fair value of its assets and liabilities, the Company established 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, 2014, 2013 and 2012 there have been no transfers between Level 1 and Level 2 fair value instruments and no transfers in or 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 are 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. The Company does not have any financial instruments which are valued using Level 3 inputs.

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, 2014 and 2013, respectively. There were no liabilities measured at fair value on a recurring basis for these dates.

(in thousands)	December 31, 2014			December 31, 2013		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets						
Money market funds	\$7,795	\$—	\$7,795	\$22,991	\$—	\$22,991
Commercial paper	—	3,225	3,225	—	900	900
U.S. government agency securities	—	5,955	5,955	—	11,279	11,279
U.S. Treasury securities	—	4,043	4,043	—	5,235	5,235
Municipal debt securities	—	3,924	3,924	—	4,765	4,765
Corporate debt securities	—	82,517	82,517	—	67,055	67,055
Total assets measured at fair value	\$7,795	\$99,664	\$107,459	\$22,991	\$89,234	\$112,225

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.

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## 3. Cash, Cash Equivalents and Short-Term Investments

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

As of December 31, 2014

(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair value
Cash and cash equivalents:				
Demand deposits and other cash	\$8,802	\$—	\$—	\$8,802
Money market funds	7,795	—	—	7,795
Commercial paper	1,365	—	—	1,365
U.S. government agency securities	100	—	—	100
Corporate debt securities	4,553	—	—	4,553
Total cash and cash equivalents	22,615	—	—	22,615
Short-Term Investments:				
Commercial paper	1,860	—	—	1,860
U.S. government agency securities	5,856	1	(2	) 5,855
U.S. Treasury securities	4,042	1	—	4,043
Municipal debt securities	3,922	2	—	3,924
Corporate debt securities	78,044	5	(85	) 77,964
Total short-term investments	93,724	9	(87	) 93,646
Total cash, cash equivalents and short-term investments	\$ 116,339	\$9	\$(87	) \$ 116,261

As of December 31, 2013

(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair value
Cash and cash equivalents:				
Demand deposits and other cash	\$ 15,451	\$—	\$—	\$ 15,451
Money market funds	22,991	—	—	22,991
Commercial paper	150	—	—	150
Corporate debt securities	1,060	—	—	1,060
Total cash and cash equivalents	39,652	—	—	39,652
Short-Term Investments:				
Commercial paper	750	—	—	750
U.S. government agency securities	11,275	5	(1	) 11,279
U.S. Treasury securities	5,233	2	—	5,235
Municipal debt securities	4,758	7	—	4,765
Corporate debt securities	65,982	20	(7	) 65,995
Total short-term investments	87,998	34	(8	) 88,024
Total cash, cash equivalents and short-term investments	\$ 127,650	\$34	\$(8	) \$ 127,676

The Company has determined that the unrealized losses on its short-term investments as of December 31, 2014 and 2013 do not constitute an "other than temporary impairment". The unrealized losses for the short-term investments as of December 31, 2014 and 2013 have all been in a continuous unrealized loss position for less than twelve months. The Company's conclusion of no "other than temporary impairment" is based on the high credit quality of the securities, their short remaining maturity (less than five months, weighted average) and the Company's intent and ability to hold such loss securities until maturity.



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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, 2014			
Cash and cash equivalents (1)	\$22,615	\$—	\$22,615
Short-term investments	76,917	16,729	93,646
Cash, cash equivalents and short-term investments	99,532	16,729	116,261
Balances as of December 31, 2013			
Cash and cash equivalents (1)	\$39,652	\$—	\$39,652
Short-term investments	71,464	16,560	88,024
Cash, cash equivalents and short-term investments	\$111,116	\$16,560	\$127,676

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

All the above tables exclude restricted cash, primarily held in certificates of deposit, of \$0.1 million and \$0.3 million as of December 31, 2014 and December 31, 2013, respectively, which is classified in prepaids and other current assets on the consolidated balance sheet.

#### 4. Income (loss) per share

For the year ended December 31, 2012, basic and diluted net income per common share is presented in conformity with the two-class method required for participating securities. Immediately prior to the completion of the Company's IPO on April 2, 2012, holders of Series A through Series F preferred stock were each entitled to receive non-cumulative dividends at the annual rate of 8% per share per annum, respectively, payable prior and in preference to any dividends on any shares of the Company's common stock. In the event a dividend is paid on common stock, the holders of preferred stock were entitled to a proportionate share of any such dividend as if they were holders of common stock (on an as-if converted basis). The holders of the preferred stock did not have a contractual obligation to share in the losses of the Company. The Company considered its preferred stock to be participating securities. Additionally, the Company considers shares issued upon the early exercise of options subject to repurchase and unvested restricted shares to be participating securities as the holders of these shares have a nonforfeitable right to dividends. In accordance with the two-class method, earnings allocated to these participating securities and the related number of outstanding shares of the participating securities, which include contractual participation rights in undistributed earnings, have been excluded from the computation of basic and diluted net income per common share. Under the two-class method, net income attributable to common stockholders is determined by allocating undistributed earnings, calculated as net income less income attributable to participating securities between common stock and participating securities. In computing diluted net income attributable to common stockholders for calculation of diluted net income per share, undistributed earnings are re-allocated to reflect the potential impact of dilutive securities. Basic net income per common share is computed by dividing the net income attributable to common stockholders by the weighted-average number of common shares outstanding during the period. All participating securities are excluded from basic weighted-average common shares outstanding. Diluted net income per share attributable to common stockholders is computed by dividing the net income attributable to common stockholders for calculation of diluted net income per share by the weighted-average number of common shares outstanding, including potential dilutive common shares assuming the dilutive effect of outstanding stock options using the treasury stock method.

For the year ended December 31, 2013 and 2014, the two-class method is not applicable due to the net loss, which must be attributed entirely to the common shareholders. Additionally, as of December 31, 2014 and 2013, there are only 2,364 and 26,463, respectively of participating securities, consisting of repurchasable shares issued from early exercise of options and unvested restricted shares, so that the future effect of participating securities would generally be immaterial, even in years with net income.



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

(in thousands, except for share and per share amounts)	Years ended December 31,		
	2014	2013	2012
Numerator:			
Net (loss) income	\$(28,297 )	\$(10,465 )	\$2,893
Less: undistributed earnings attributable to participating securities	—	—	(1,366 )
Net (loss) income attributable to common stockholders	\$(28,297 )	\$(10,465 )	\$1,527
Reallocation of undistributed earnings attributable to participating securities	—	—	32
Net (loss) income attributable to common stockholders for diluted net (loss) income per share	\$(28,297 )	\$(10,465 )	\$1,559
Denominator:			
Weighted-average shares used to compute basic net income (loss) per common share	25,329	24,621	17,979
Effect of potentially dilutive securities:			
Employee stock options and restricted stock units	—	—	2,547
Stock warrants	—	—	82
Weighted average shares used to compute diluted income (loss) per common share	25,329	24,621	20,608
Net (loss) income per share			
Net (loss) income per common share - basic and diluted	\$(1.12)	\$(0.43)	\$0.08

For the years ended December 31, 2014, 2013 and 2012, the following securities were not included in the calculation of diluted shares outstanding as the effect would have been anti-dilutive:

(in thousands)	As of December 31,		
	2014	2013	2012
Options to purchase common stock	3,573	3,335	367
Common stock subject to repurchase	5	25	—
Warrants to purchase common stock	44	44	—
Restricted stock units	981	623	25
Restricted stock awards	—	12	—

## 5. Goodwill and intangible assets

### Goodwill

The Company had \$10.0 million and \$5.6 million of goodwill as of December 31, 2014 and 2013, respectively. The additions to goodwill during the year ended December 31, 2014 of \$4.4 million were based on the purchase price allocations of the acquisitions completed during 2014 (See Note 11). 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 two reporting units: Product and Service; as of December 31, 2014 all of the Company's goodwill resides in the Product reporting unit. The Company performed the annual required test of impairment of goodwill as of September 30, 2014 by performing Step 1 under authoritative accounting guidance. The Company's annual impairment test indicated that the fair value exceeded the carrying value for each of its reporting units. For both 2013 and 2012, the Company used the qualitative assessment permitted under authoritative accounting guidance. Among the qualitative factors considered were changes since the prior impairment 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 / product life cycle stage and earnings quality and sustainability. No impairment was recorded in 2014, 2013 or 2012. As of December 31, 2014, no changes in circumstances indicate that goodwill carrying values may not be recoverable.

### Intangible assets





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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. To date there has been no impairment of the Company's intangible assets. The estimated useful lives and carrying value of acquired intangible assets are as follows:

(in thousands)	Weighted average useful life (years)	December 31, 2014			December 31, 2013		
		Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Intangible assets:							
Customer relationships	7 to 9	\$2,520	\$ 1,722	\$798	\$2,350	\$ 1,449	\$901
Developed technology	4 to 7	\$2,710	\$ 1,693	\$1,017	\$1,880	\$ 1,264	\$616
Trademarks	4 to 7	\$110	\$ 63	\$47	\$70	\$ 43	\$27
Non-compete Agreements	2 to 4	460	91	369	70	70	—
Intangible assets - finite life		\$5,800	\$ 3,569	\$2,231	\$4,370	\$ 2,826	\$1,544
In-process R&D	n/a	\$940	\$ —	\$940	\$—	\$ —	\$—
Intangible assets, net book value		\$6,740	\$ 3,569	\$3,171	\$4,370	\$ 2,826	\$1,544

Amortization of intangible assets was \$0.8 million, \$0.7 million and \$0.9 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Amortization of acquired intangible assets is reflected in the cost of revenues for developed technology and in operating expenses for the other intangibles. The estimated future amortization of acquired intangible assets as of December 31, 2014 was as follows:

(in thousands)	Future amortization
2015	727
2016	562
2017	394
2018	275
2019	229
Thereafter	44
Future amortization expense	\$2,231

## 6. Consolidated balance sheet components

## Inventories

(in thousands)	December 31,	
	2014	2013
Raw materials	\$759	\$806
Finished goods	2,703	4,859
Total inventories	\$3,462	\$5,665

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## Property and equipment, net

	December 31,	
(in thousands)	2014	2013
Computer equipment and software	\$8,772	\$7,345
Furniture, fixtures and equipment	962	924
Leasehold improvements	2,298	2,125
Manufacturing tools and equipment	3,795	3,081
Construction in process	122	555
Property and equipment, at cost	15,949	14,030
Less: Accumulated depreciation	(10,827	) (8,665
Property and equipment, net	\$5,122	\$5,365

Depreciation and amortization expense for property and equipment for the years ended December 31, 2014, 2013 and 2012 was \$2.2 million, \$1.8 million and \$1.7 million, respectively.

## Net investment in sales-type leases

The Company has sales-type leases with terms of 1.25 to 4 years. Sales-type lease receivables are collateralized by the underlying equipment. The components of our net investment in sales-type leases are as follows:

	December 31,	
(in thousands)	2014	2013
Net minimum lease payments to be received	\$1,882	\$2,597
Less: Unearned interest income and executory revenue portion	(962	) (1,167
Net investment in sales-type leases	920	1,430
Less: Current portion	(564	) (620
Non-current net investment in sales-type leases	\$356	\$810

There were no allowances for doubtful accounts on these leases as of December 31, 2014 and 2013. 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, 2014 were as follows:

(in thousands)	Future lease payments
2015	\$877
2016	705
2017	291
2018	9
Thereafter	—
Total	\$1,882

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## Accrued payroll, restructuring and other current liabilities

(in thousands)	December 31,	
	2014	2013
Payroll and related expenses	\$7,009	\$5,065
Accrued payables	1,715	2,259
Deferred rent, current portion	299	490
Lease financing, current portion	645	528
Product warranty	497	840
Customer prepayments	283	281
Sales and use tax payable	293	259
Other	122	119
Total accrued payroll and other current liabilities	\$10,863	\$9,841

Included in payroll and related expenses above is \$0.2 million of accrued severance-related restructuring charges that will be paid by March 31, 2015. During the fourth quarter of 2014, the Company initiated a restructuring plan which resulted in \$0.7 million of severance charges, of which \$0.1 million was recorded to cost of revenue and \$0.6 million was recorded to operating expenses.

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.

A reconciliation of the changes in the Company's warranty reserve for the years ended December 31, 2014, 2013 and 2012 is as follows:

(in thousands)	Years ended December 31,		
	2014	2013	2012
Warranty balance at the beginning of the period	\$840	\$297	\$983
Warranty expense accrued for shipments during the period	723	1,185	540
Changes in estimate related to pre-existing warranties	(68	) 536	(242
Warranty settlements made	(998	) (1,178	) (984
Warranty balance at the end of the period	\$497	\$840	\$297

## 7. Commitments and contingencies

## Non-cancelable purchase commitments

The Company enters into non-cancelable purchase commitments with its third-party manufacturer 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, 2014 and 2013, approximately \$1.9 million and \$3.1 million, respectively, of raw material inventory was purchased and held by the third-party manufacturer which was subject to such purchase requirements.

## Leases

The Company leases office space for its headquarters and subsidiaries under non-cancelable operating leases, which will expire between May 2015 and December 2017. The San Jose, California headquarters lease ends March 31, 2016, with a single three-year extension option at rates approximating then-fair market value. Total rent expense for the years ended December 31, 2014, 2013 and 2012 was \$2.0 million, \$2.0 million and \$1.9 million, respectively. The Company recognizes rent expense on a straight-line basis over the lease period, and has accrued for rent expense incurred but not paid.



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Future minimum lease payments at December 31, 2014 under non-cancelable operating leases are as follows:

(in thousands)	Operating leases
2015	1,764
2016	610
2017	107
Total minimum lease payments	\$2,481

**Indemnifications**

The Company undertakes, in the ordinary course of business, to (i) defend customers and other parties from certain third-party claims associated with allegations of trade secret misappropriation, infringement of copyright, patent or other intellectual property right, or tortious damage to persons or property and (ii) indemnify and hold harmless such parties from certain resulting damages, costs and other liabilities. The term of these undertakings may be perpetual and the maximum potential liability of the Company under certain of these undertakings is not determinable. Based on its historical experience, the Company believes the liability associated with these undertakings is minimal.

The Company has entered into indemnification agreements with its directors and officers that may require the Company to indemnify its directors and officers against liabilities that may arise by reason of their status or service as directors or officers, other than liabilities arising from willful misconduct of the individual. The Company currently has directors and officers insurance. As there has been no significant history of losses, no expense accrual has been made.

**Securities Litigation**

On August 1 and 21, 2013, two putative securities class action suits were filed in the United States District Court for the Northern District of California against the Company and certain of its officers, its board of directors, a former director and the underwriters for the Company's initial public offering. On November 20, 2013, the court consolidated the actions as *In re Vocera Communications, Inc. Securities Litigation* and appointed Lead Plaintiffs. Lead Plaintiffs filed their consolidated complaint on September 19, 2014. The consolidated complaint names certain current and former officers and directors and the underwriters for the Company's initial public offering and secondary offering and alleges claims under Sections 11, 12(a)(2) and 15 of the Securities Act and Section 10(b) and 20(a) of the Exchange Act based on allegedly false and materially misleading statements and omissions in the registration statement for the Company's initial public offering and secondary offering and in communications regarding its business and financial results. The suit is purportedly brought on behalf of purchasers of the Company's securities between March 28, 2012 and May 2, 2013, and seeks compensatory damages, rescission, fees and costs, as well as other relief. On November 3, 2014 Defendants moved to dismiss the consolidated complaint. On January 15, 2015, the Court denied Defendants' motion to dismiss the Exchange Act claims, but granted with leave to amend Defendants' motion to dismiss the Securities Act claims. The time for Lead Plaintiffs to amend the consolidated complaint has not yet passed.

Due to the inherent uncertainties of litigation, the Company cannot accurately predict the ultimate outcome of this matter. The Company is unable at this time to determine whether the outcome of the litigation would have a material impact on its results of operations, financial condition or cash flow. The Company has not established any reserve for any potential liability relating to this lawsuit because this contingency is not considered probable and reasonably estimable.

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

**8. 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, 2014, the Company has reserved shares for issuance of common stock as follows:



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	Common Shares
Reserved under stock option plans	622,343
Warrants to purchase common stock	44,491
Total reserved for issuance	666,834

## Incentive stock option plans

The Company has three equity incentive plans: the 2000 Stock Option Plan (the “2000 Plan”), the 2006 Stock Option Plan (the “2006 Plan”) and the 2012 Stock Option Plan (the “2012 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. All options currently outstanding under the 2000 Plan and the 2006 Plan continue to be governed by the terms and conditions of those plans. Under the 2012 Plan, the Company has the ability to issue incentive stock options (“ISOs”), stock appreciation rights, restricted stock, restricted stock units (“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. Options granted to new hires generally vest over a 4-year period with 25% vesting at the end of one year and the remaining vest monthly thereafter, options granted as merit awards generally vest monthly over a four-year period. Options granted generally are exercisable up to 10 years. As of December 31, 2014, there were 622,343 shares remaining available for future issuance under the 2012 Plan.

## Early exercise of stock options

The Company typically allows employees to exercise options granted under the 2000 and 2006 Plans prior to vesting. The unvested shares are subject to the Company’s repurchase right at the original purchase price. The proceeds initially are recorded as an accrued liability from the early exercise of stock options and reclassified to common stock as the Company’s repurchase right lapses. At December 31, 2014, 2013 and 2012, there were unvested shares in the amount of 2,358, 14,360 and 48,260, respectively, which were subject to repurchase at an aggregate price of \$12,000, \$0.1 million and \$0.2 million, respectively.

## 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			Aggregate intrinsic value (in thousands)
	Number of options	Weighted average exercise price	Weighted average remaining contractual term (in years)	
Outstanding at December 31, 2013	3,287,207	\$9.62	6.45	\$24,880
Options granted	1,055,949	11.54		
Options exercised	(293,615 )	3.73		
Options canceled	(630,917 )	14.59		
Outstanding at December 31, 2014	3,418,624	\$9.8	6.24	\$12,167
Options vested and expected to vest as of December 31, 2014	3,318,085	\$9.72	6.15	\$12,100
Options vested and exercisable as of December 31, 2014	2,076,366	\$7.35	4.49	\$11,346

At December 31, 2014, there was \$6.4 million of unrecognized net compensation cost related to options which is expected to be recognized over a weighted-average period of 2.8 years

During the year ended December 31, 2014, the Company modified 35,528 outstanding restricted stock units and 84,758 stock options to allow for continued vesting of the awards pursuant to the terms of consulting arrangements entered into with the Company’s former Chief Financial Officer and Executive Chairman. The stock-based compensation expense recognized during the period and remaining unamortized stock-based compensation expense as

of December 31, 2014 for the awards were not material and will be fully recognized by June 30, 2015, the quarter in which the consulting arrangements are expected to terminate. The share amounts and related compensation expense are included in the options and RSU tables below, as well as

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in the income statement allocation table. The Company did not grant non-employee options in year ended December 31, 2013.

Using the Black-Scholes option-pricing model, the weighted-average grant-date fair value of options granted to employees during the years ended December 31, 2014, 2013 and 2012 was \$4.77 per share, \$7.34 per share and \$10.19 per share, respectively. Further information regarding the value of employee options vested and exercised during the years ended December 31, 2014, 2013 and 2012 is set forth below.

(in thousands)	Years ended December 31,		
	2014	2013	2012
Intrinsic value of options exercised during period	\$2,997	\$5,896	\$24,846

The Company uses the Black-Scholes option-pricing model to calculate the fair value of stock options on their grant date. This model requires the following major inputs: the estimated fair value of the underlying common stock, the expected term of the option, the expected volatility of the underlying common stock over the expected life of the option, the risk-free interest rate and expected dividend yield. The following assumptions were used for each respective period for employee stock-based compensation:

	Years ended December 31,		
	2014	2013	2012
Expected Term (in years)	5.41 - 5.45	5.38 - 5.43	5.23 - 5.60
Volatility	41.4% - 48.2%	46.7% - 48.1%	47.9% - 48.7%
Risk-free interest rate	1.59% - 1.78%	0.81% - 1.80%	0.72% - 1.03%
Dividend yield	0.0%	0.0%	0.0%

The computation of expected term is based on the historical exercise and forfeiture behavior of the Company's employees, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior. For the expected term so determined, the risk-free rate is the U.S. Treasury Rate for that term on the grant date. The Company's expected common stock price volatility is based on the historical volatility of a peer group of publicly-traded companies, using the same expected term. The peer group was selected based on industry and market capitalization data. The Company assumes the dividend yield to be zero, as the Company has never declared or paid dividends and does not expect to do so in the foreseeable future.

Employee Stock Purchase Plan

In March 2012, the Company's board of directors and stockholders approved the 2012 Employee Stock Purchase Plan (ESPP). The ESPP allows eligible employees to purchase shares of the Company's 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, except for the first offering period which was for 11 months. Additionally, in April 2013, the Company's compensation committee determined that following the February 15, 2013 six-month offering period, the next offering period under the ESPP would last for three months (commencing August 15, 2013 and expiring on November 14, 2013) and, following the expiration of such offering period, offering periods thereafter will commence on November 15, 2013, and May 15, 2014 and so on, each consisting of a single six-month purchase period.

At the end of each offering period, 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 year ended December 31, 2014 and 2013, employees purchased 160,936 and 215,039 shares, respectively, of common stock at an average purchase price of \$9.87 and \$13.92, respectively. As of December 31, 2014, 282,655 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,		
	2014	2013	2012
Expected Term (in years)	0.5	0.25 - 0.50	0.50 - 0.88
Volatility	35.9% - 57.7%	33.3% - 36.0%	43.2% - 50.0%
Risk-free interest rate	0.05% - 0.10%	0.05% - 0.13%	0.14% - 0.18%

Dividend yield	0.0%	0.0%	0.0%
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## Restricted Stock Awards and Restricted Stock Units

In 2012, the Company began incorporating restricted stock awards and RSUs as an element of its compensation plans. In February 2012, the Company granted certain of its directors restricted stock awards that vest 50% on the first anniversary of the grant, and 50% on the second anniversary of the grant. In May 2012, the Company granted certain employees RSUs, which 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.

A summary of the restricted stock activity for the year ended December 31, 2014 is presented below:

	Restricted Stock Awards		Restricted Stock Units	
	Number of shares	Weighted Average Grant Date Fair Value per Share	Number of shares	Weighted Average Grant Date Fair Value per Share
Outstanding at December 31, 2013	12,076	\$12.42	755,271	\$19.24
Granted	—	—	823,554	11.64
Vested	(12,076)	) 12.42	(327,562)	) 19.11
Forfeited	—	—	(188,673)	) 16.97
Outstanding at December 31, 2014	—	\$—	1,062,590	\$13.79

At December 31, 2014, there was no remaining unrecognized net compensation cost related to restricted stock awards.

At December 31, 2014, there was \$9.7 million of unrecognized net compensation cost related to RSUs, which is expected to be recognized over a weighted-average period of 1.9 years.

## 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 and has been reduced for estimated forfeitures. The Company estimated the expected forfeiture rate based on its historical experience, considering voluntary termination behaviors, trends of actual award forfeitures, and other events that will impact the forfeiture rate. To the extent the Company's actual forfeiture rate is different from the estimate, the stock-based compensation expense is adjusted accordingly.

The following table presents the stock-based compensation allocation of expense (both for employees and non-employees):

(in thousands)	Years ended December 31,		
	2014	2013	2012
Cost of revenue	\$1,178	\$967	\$421
Research and development	1,056	861	449
Sales and marketing	4,111	2,942	1,262
General and administrative	4,739	3,897	2,100
Total stock-based compensation	\$11,084	\$8,667	\$4,232

## Exercise of common stock warrants

Prior to the April 2012 IPO, outstanding warrants to purchase preferred stock were classified as liabilities, which were adjusted to fair value at each reporting period until the earlier of their exercise or expiration or the completion of a liquidation event, including the completion of an initial public offering, at which time the preferred stock warrant liability automatically converted into a warrant to purchase shares of common stock and was reclassified to stockholders' equity (deficit). The Company recorded an expense in other income (expense), net of \$1.6 million for the year ended December 31, 2012, respectively, to reflect the change in the fair value of the outstanding preferred stock warrants. Since April 2012, the converted common stock warrants are classified within stockholder's equity (deficit).

## 9. Segments

The Company has two operating segments which are both reportable segments: (i) Product; and (ii) Service, which are comprised of the Company's and its wholly-owned subsidiaries' results from operations. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated

regularly by the chief

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operating decision maker (CODM), or decision making group, in deciding how to allocate resources and in assessing performance. The Company's CODM is its Chief Executive Officer.

The CODM regularly receives information related to revenue, cost of revenue, and gross profit for each operating segment, and uses this information to assess performance and make resource allocation decisions. All other financial information, including operating expenses and assets, is prepared and reviewed by the CODM on a consolidated basis. Assets are not a measure used to assess the performance of the Company by the CODM, therefore the Company does not report assets by segment internally or in its financial statements.

The following table presents a summary of the operating segments:

(in thousands)	Years ended December 31,		
	2014	2013	2012
Revenue			
Product	\$51,095	\$62,393	\$65,028
Service	44,326	40,105	35,929
Total revenue	95,421	102,498	100,957
Cost of revenue			
Product	18,766	21,714	21,551
Service	18,470	16,595	15,070
Total cost of revenue	37,236	38,309	36,621
Gross profit			
Product	32,329	40,679	43,477
Service	25,856	23,510	20,859
Total gross profit	58,185	64,189	64,336
Operating expenses	86,264	74,749	59,440
Interest income (expense), net and other	106	204	(1,376)
(Loss) income before income taxes	\$(27,973)	\$(10,356)	\$3,520

The following tables present the Company's revenue by product line, as well as revenue and long-lived assets by geographic region.

(in thousands)	Years ended December 31,		
	2014	2013	2012
Revenue			
Product			
Device	\$37,455	\$46,636	\$47,725
Software	13,640	15,757	17,303
Total product	51,095	62,393	65,028
Service			
Maintenance and support	35,353	31,559	26,237
Professional services and training	8,973	8,546	9,692
Total service	44,326	40,105	35,929
Total revenue	\$95,421	\$102,498	\$100,957

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The Company's revenue by geographic region, based on customer location, is summarized as follows:

(in thousands)	Years ended December 31,		
	2014	2013	2012
Revenue			
United States	\$86,007	\$91,763	\$90,108
International	9,414	10,735	10,849
Total revenue	\$95,421	\$102,498	\$100,957

The Company's tangible long-lived assets by geographic region, consisting of net property and equipment, are summarized as follows:

(in thousands)	December 31,		
	2014	2013	2012
Property and equipment, net			
United States	\$4,852	\$5,249	\$3,465
International	270	116	166
Total property and equipment, net	\$5,122	\$5,365	\$3,631

## 10. Income taxes

The components of (loss) income before income taxes are as follows:

(in thousands)	Years ended December 31,		
	2014	2013	2012
United States	\$(28,442 )	\$(10,812 )	\$3,205
International	469	456	315
Total (loss) income before income taxes	\$(27,973 )	\$(10,356 )	\$3,520

The components of the provision for income taxes are as follows:

(in thousands)	Years ended December 31,		
	2014	2013	2012
Current			
Federal	\$—	\$—	\$7
State	14	(40 )	512
Foreign	204	74	38
	218	34	557
Deferred			
Federal	134	60	60
State	(4 )	4 )	10
Foreign	(24 )	11 )	—
	106	75	70
Total income tax provision	\$324	\$109	\$627

The Company had an effective tax rate of (1.2)%, (1.1)% and 17.8% for the years ended December 31, 2014, 2013 and 2012, respectively.

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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,		
	2014	2013	2012
U.S. federal (tax benefit) provision at statutory rate	\$ (9,511	) \$ (3,567	) \$ 1,197
State (tax benefit) income taxes, net of federal benefit	(895	) (338	) 151
Foreign income taxes at rates other than the US rate	43	(28	) (10
Stock-based compensation	763	549	397
Change in valuation allowance	10,203	3,911	(1,494
Non-deductible warrant expense	—	—	625
Research and development credits	(466	) (527	) (220
Other	187	109	(19
Total	\$ 324	\$ 109	\$ 627

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)	As of December 31,	
	2014	2013
Deferred tax assets		
Net operating loss carryforward	\$ 19,190	\$ 11,873
Research and development credits	3,360	2,809
Depreciation and amortization	650	288
Reserves and accruals	6,900	6,060
Total deferred tax assets	30,100	21,030
Valuation allowance	(30,072	) (21,030
Net deferred tax assets	28	—
Deferred tax liabilities	(352	) (216
Net deferred tax liabilities	\$ (324	) \$ (216

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, 2014; accordingly, the Company has recorded a full valuation allowance on its deferred tax assets.

The Company's valuation allowance increased by \$9.0 million and decreased by \$0.2 million for the years ended December 31, 2014 and 2013, respectively. The change in the 2014 valuation allowance was primarily due to the addition of current year loss carryforwards, whereas the decrease in 2013 was primarily due to the expiration and/or limitation of previous loss carryforwards.

At December 31, 2014, the Company had \$71.4 million and \$42.6 million, respectively, of federal and state net operating loss carryforwards. Included in the gross amount, approximately \$33.9 million of net operating loss is created by excess stock option deduction. A credit to APIC will be recorded when the excess stock option deduction reduces the income tax payable.

The federal net operating loss carryforward begins expiring in 2022, and the state net operating loss carryforward begins expiring in 2015, if not utilized.

In addition, the Company has federal research and development tax credits carryforwards of approximately \$2.0 million and state research and development tax credit carryforwards of approximately \$3.0 million. The federal credit carryforwards begin expiring 2021 and the state credits carry forward indefinitely. The Internal Revenue Code (IRC)

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, 2014, \$12.2 million of the Company's NOL carryovers and \$0.5



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million of credit carryovers are subject to an annual \$0.6 million limitation, of which \$7.5 million NOLs would be available to offset future taxable income in the twenty-year carryforward period.

The following table displays by contributing factor the changes in the valuation allowance for deferred tax assets since January 1, 2012:

(in thousands)	Years Ended December 31,		
	2014	2013	2012
Balance at the beginning of the period	\$21,030	\$21,193	\$22,687
Net operating loss carryforwards generated (utilization)	7,317	(2,397 )	(3,505 )
R&D tax credit increase	551	172	272
Depreciation and amortization increase	362	204	29
Reserves and accruals increase	840	1,558	1,273
Deferred tax assets decrease (increase)	(28 )	300	437
Balance at the end of the period	\$30,072	\$21,030	\$21,193

The following table reflects changes in the unrecognized tax benefits since January 1, 2013:

(in thousands)	Years ended December 31,	
	2014	2013
Gross amount of unrecognized tax benefits as of the beginning of the period	\$1,092	\$1,079
Increases related to prior year tax provisions	25	30
Decreases related to prior year tax provisions	—	(239 )
Increases related to current year tax provisions	148	222
Gross amount of unrecognized tax benefits as of the end of the period	\$1,265	\$1,092

As a result of the Company's historic 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. For the years ended December 31, 2014 and 2013, penalties and interest were \$13,000 and \$26,000, respectively. 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 2014 are subject to tax authority adjustment and all years after 2008 are still subject to the tax authority examinations.

The Company has not provided for U.S. federal and foreign withholding taxes on \$1.2 million of the Company's non-U.S. subsidiaries' undistributed earnings as of December 31, 2014, since the Company intends to reinvest this amount outside the U.S. indefinitely.

## 11. Business acquisitions

### Acquisition of mVisum net assets

On January 13, 2014, the Company acquired substantially all assets of mVisum, Inc., an innovative provider of alarm management technology solutions for health systems (mVisum), for \$3.5 million in cash consideration. The acquisition enabled the Company to enhance its existing platform with complementary communications solutions for healthcare and other mission-critical environments.

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

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(in thousands)	Fair value of net assets acquired
Accounts receivable	\$ 187
Intangibles	
Developed technology	830
Non-compete agreement	260
Customer relationships	170
Trademarks and trade names	40
Goodwill	2,103
Total assets	3,590
Deferred revenue	(90
Net assets acquired	\$ 3,500

The estimated fair values of identifiable intangible assets were primarily determined using discounted cash flow models. The acquired intangible assets are amortized over their estimated useful lives of 4.0 to 7.0 years with a weighted average amortization period of 5.7 years.

The excess of the acquisition consideration over the fair values of the underlying net assets acquired was recorded as goodwill. Goodwill is largely attributable to the synergy of mVisum's 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. For federal income tax purposes, the entire purchase consideration, including goodwill, is deductible over fifteen years. The goodwill recorded from the acquisition of mVisum is attributed to the Product reporting unit.

The Company incurred \$0.2 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 mVisum with potential additional compensation over a two-year period of approximately \$0.5 million, based on achievement of operating objectives and continued employment. Such amounts are not considered part of the purchase consideration and are being recorded as compensation expense as earned. The acquisition did not result in material contributions to revenue or net loss in the consolidated financial statements since the acquisition date. Additionally, pro forma financial information is not provided for consolidated revenue and net loss as such amounts attributable to mVisum were insignificant.

#### Acquisition of Prana Technologies assets

On August 8, 2014, the Company acquired substantially all assets of Prana Technologies, Inc. (Prana) for \$3.45 million in cash consideration. The acquisition provides the Company with technology critical to cloud-based applications extending its communication and collaboration network to include physicians and other geographically dispersed users. The Company believes this will advance its vision of integrating voice, text, and content-based workflows, on a range of devices and desktop solutions, across all care locations.

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

(in thousands)	Fair value of net assets acquired
Intangibles	
Non-compete agreement	200
In-process research and development	940
Goodwill	2,310
Total assets acquired	3,450

The estimated fair values of identifiable intangible assets were primarily determined using discounted cash flow models. The non-compete intangible has an estimated useful life of two years and the in-process research and development is classified as an asset with an indefinite life. When the in-process research and development is applied in a generally-available product

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Net loss per share attributable to common  
stockholders:

Basic and diluted	\$ (0.14	)	\$ (0.08	)	\$ (0.13	)	\$ (0.07	)
Weighted average shares used to compute net loss per common share:								
Basic and diluted	24,282		24,555		24,747		24,893	

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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, 2014, 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, 2014.

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, 2014 based on these criteria. This Annual Report on Form 10-K does not include an attestation report of our registered public accounting firm on our internal control over financial reporting due to an exemption established by the JOBS Act for "emerging growth companies."

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, 2014 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 2015 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 2015 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 2015 Annual Meeting of Stockholders.



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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 2015 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 2015 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:

See Exhibit Index following the signature page of this report.



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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: March 12, 2015

By: /S/ Brent D. Lang  
Brent D. Lang  
Chief Executive Officer  
(Principal Executive Officer)

Date: March 12, 2015

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 Jay M. Spitzten, 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:

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Signature	Title	Date
/s/ Brent D. Lang Brent D. Lang	Chief Executive Officer (Principal Executive Officer)	March 12, 2015
/s/ Justin R. Spencer Justin R. Spencer	Chief Financial Officer (Principal Accounting and Financial Officer)	March 12, 2015
/s/ Brian D. Ascher Brian D. Ascher	Director	March 12, 2015
/s/ John B. Grotting John B. Grotting	Director	March 12, 2015
/s/ Jeffrey H. Hillebrand Jeffrey H. Hillebrand	Director	March 12, 2015
/s/ Howard E. Janzen Howard E. Janzen	Director	March 12, 2015
/s/ John N. McMullen John N. McMullen	Director	March 12, 2015
/s/ Hany M. Nada Hany M. Nada	Director	March 12, 2015
/s/ Sharon O'Keefe Sharon O'Keefe	Director	March 12, 2015
/s/ Robert J. Zollars Robert J. Zollars	Director	March 12, 2015

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## EXHIBIT INDEX

Exhibit Number	Exhibit title	Incorporated by reference			Number	Filed herewith
		Form	File No.	Date		
3.01	Restated Certificate of Incorporation of the Registrant.	S-1	333-175932	August 24, 2012	3.01	
3.02	Restated Bylaws of Vocera Communications, Inc., as amended July 25, 2013.	8-K	001-35469	July 30, 2013	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	
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+	2000 Stock Option Plan, as amended, and form of stock option agreement.	S-1(A2)		February 24, 2012	10.02	
10.03+	2006 Stock Option Plan, as amended, and form of stock option agreement.	S-1(A2)	333-175932	February 24, 2012	10.03	
10.04+	2012 Equity Incentive Plan and forms of equity award agreements.	S-1(A3)	333-175932	March 13, 2012	10.04	
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	
10.8		S-1	333-175932	August 1, 2011	10.11	

Lease Agreement, dated as of September 26, 2007, by and between 525 Race Street, LLC and the Registrant, as amended on February 17, 2011.

10.9†	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
10.10†	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
10.11+	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
10.12+	Form of non-plan Restricted Stock Purchase Agreement for non-employee directors.	S-1(A2)	333-175932	February 24, 2012	10.17

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10.13+	Consulting Agreement between Vocera Communications, Inc. and Robert Zollars, dated May 19, 2014	8-K	001-35469	May 19, 2014	10.1	
21.01	List of subsidiaries.					X
23.01	Consent of Deloitte & Touche LLP, independent registered public accounting firm.					X
23.02	Consent of PricewaterhouseCoopers LLP, independent registered public accounting firm.					X
24.01	Power of Attorney (included on signature page).					X
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	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Schema Linkbase Document					X
101.CAL	XBRL Taxonomy Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Labels Linkbase Document					X

101.PRE XBRL Taxonomy Presentation  
Linkbase Document

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.