VOCERA COMMUNICATIONS, INC.
Form 10-Q
August 06, 2015
Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

OR

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

For the Transition Period from to

Commission File Number: 001-35469

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

Delaware	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)

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 x 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 pursuance 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 x No ¨

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 ¨	Accelerated filer x
Non-accelerated filer ¨	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 x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at August 4, 2015

Common Stock, $0.0003 par value per share	26,122,394

Table of Contents

VOCERA COMMUNICATIONS, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2015
INDEX
PART I: FINANCIAL INFORMATION

		Page No.
Item 1.	Financial Statements (Unaudited)	3
	Condensed Consolidated Balance Sheets	3
	Condensed Consolidated Statements of Operations	4
	Condensed Consolidated Statements of Comprehensive Loss	5
	Condensed Consolidated Statements of Cash Flows	6
	Notes to Unaudited Condensed Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	26
Item 4.	Controls and Procedures	26
	PART II: OTHER INFORMATION	
Item 1.	Legal Proceedings	27
Item 1A.	Risk Factors	27
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	42
Item 3.	Defaults Upon Senior Securities	42
Item 4.	Mine Safety Disclosures	42
Item 5.	Other Information	42
Item 6.	Exhibits	43

Signatures

Table of Contents

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)
Vocera Communications, Inc.
Condensed Consolidated Balance Sheets
(In Thousands, Except Share and Par Amounts)
(Unaudited)

	June 30, 2015	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	$10,002	$22,615
Short-term investments	106,735	93,646
Accounts receivable, net of allowance	14,519	18,008
Other receivables	1,151	694
Inventories	1,747	3,462
Prepaid expenses and other current assets	2,114	2,017
Total current assets	136,268	140,442
Property and equipment, net	4,455	5,122
Intangible assets, net	2,811	3,171
Goodwill	9,988	9,988
Other long-term assets	1,077	905
Total assets	$154,599	$159,628
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$2,743	$1,913
Accrued payroll and other current liabilities	10,046	10,863
Deferred revenue, current	27,398	28,474
Total current liabilities	40,187	41,250
Deferred revenue, long-term	6,501	6,974
Other long-term liabilities	1,946	1,692
Total liabilities	48,634	49,916
Commitments and contingencies (Note 7)		
Stockholders' equity		
Preferred stock, $0.0003 par value - 5,000,000 shares authorized as of June 30, 2015 and December 31, 2014; zero shares issued and outstanding	—	—
Common stock, $0.0003 par value - 100,000,000 shares authorized as of June 30, 2015 and December 31, 2014; 26,026,221 and 25,644,010 shares issued and outstanding as of June 30, 2015 and December 31, 2014, respectively	8	8
Additional paid-in capital	208,390	202,515
Accumulated other comprehensive loss	(45)	(81)
Accumulated deficit	(102,388)	(92,730)
Total stockholders’ equity	105,965	109,712
Total liabilities and stockholders’ equity	$154,599	$159,628

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

Table of Contents

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Revenue				
Product	$13,320	$11,850	$25,782	$26,039
Service	12,129	11,169	23,485	21,656
Total revenue	25,449	23,019	49,267	47,695
Cost of revenue				
Product	4,723	4,421	9,155	9,411
Service	4,914	4,528	9,765	9,342
Total cost of revenue	9,637	8,949	18,920	18,753
Gross profit	15,812	14,070	30,347	28,942
Operating expenses				
Research and development	4,242	4,362	8,725	8,428
Sales and marketing	12,102	12,614	22,516	25,357
General and administrative	4,568	4,156	8,568	8,553
Total operating expenses	20,912	21,132	39,809	42,338
Loss from operations	(5,100)	(7,062)	(9,462)	(13,396)
Interest income	117	98	227	185
Other expense, net	(33)	19	(165)	(46)
Loss before income taxes	(5,016)	(6,945)	(9,400)	(13,257)
Provision for income taxes	(155)	(63)	(258)	(140)
Net loss	$(5,171)	$(7,008)	$(9,658)	$(13,397)
Net loss per share				
Basic and diluted	$(0.20)	$(0.28)	$(0.38)	$(0.53)
Weighted average shares used to compute net loss per share				
Basic and diluted	25,832	25,246	25,749	25,147

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

Table of Contents

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Net loss	$(5,171)	$(7,008)	$(9,658)	$(13,397)
Other comprehensive loss, net:				
Change in unrealized loss on investments, net of tax	(17)	(1)	36	(24)
Comprehensive loss	$(5,188)	$(7,009)	$(9,622)	$(13,421)

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

Table of Contents

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

	Six months ended June 30,	
	2015	2014
Cash flows from operating activities		
Net loss	$(9,658)	$(13,397)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,654	1,494
Inventory provision	99	51
Change in lease-related performance liabilities	(490)	(244)
Stock-based compensation expense	5,338	5,376
Other	461	90
Changes in operating assets and liabilities:		
Accounts receivable	3,030	4,255
Other receivables	(351)	(178)
Inventories	1,617	1,200
Prepaid expenses and other assets	(309)	(508)
Accounts payable	651	(573)
Accrued payroll and other liabilities	(700)	(553)
Deferred revenue	(1,550)	(1,106)
Net cash used in operating activities	(208)	(4,093)
Cash flows from investing activities		
Purchase of property and equipment	(385)	(723)
Business acquisitions, net of cash acquired	—	(3,500)
Purchase of short-term investments	(68,203)	(72,912)
Maturities of short-term investments	55,148	56,797
Sales of short-term investments	—	446
Changes in restricted cash	40	—
Net cash used in investing activities	(13,400)	(19,892)
Cash flows from financing activities		
Cash from lease-related performance obligations	609	307
Payment for repurchase of early exercised options	—	(11)
Proceeds from issuance of common stock from the employee stock purchase plan	653	945
Proceeds from exercise of stock options	614	793
Tax withholdings paid on behalf of employees for net share settlement	(881)	(740)
Net cash provided by financing activities	995	1,294
Net decrease in cash and cash equivalents	(12,613)	(22,691)
Cash and cash equivalents at beginning of period	22,615	39,652
Cash and cash equivalents at end of period	$10,002	$16,961
Supplemental disclosure of non-cash investing and financing activities:		
Property and equipment in accounts payable and accrued liabilities	$362	$51

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

Table of Contents

Notes to Unaudited Condensed Consolidated Financial Statements

1. The Company and Summary of Significant Accounting Policies

Organization and Business

Vocera Communications, Inc. (the “Company” or "Vocera") 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 United States and internationally. The significant majority of the Company's business is currently generated from sales of its solutions in the healthcare market to help its customers improve patient safety and experience, and increase operational efficiency. As of June 30, 2015 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. Other software applications help improve care coordination, patient safety, and patient satisfaction.

Basis of Presentation

The Company’s unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X of the U.S. Securities and Exchange Commission, and include the accounts of Vocera and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated. Certain information and disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. The year-end condensed balance sheet data was derived from the Company's audited financial statements, but does not include all disclosures required by U.S. GAAP.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company’s interim consolidated financial information. The results for the quarter presented are not necessarily indicative of the results to be expected for the year ending December 31, 2015 or for any other interim period or any other future year.

Use of Estimates

The preparation of the accompanying unaudited condensed consolidated financial statements in conformity with U.S. 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, useful lives assigned to long-lived assets, excess and obsolete inventory charges, warranty 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.

Revenue Recognition

The Company derives revenue from the sales of communication badges, perpetual software licenses for software that is essential to the functionality of the communication badges, smartphones, 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 and certain hosted software subscriptions. The Company's revenue recognition policy has not changed from that described in its Annual Report on Form 10-K for the year ended December 31, 2014.

Transfer of sales-type leases to third-parties

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 six months ended June 30, 2015 and 2014, the Company transferred $1.1 million and $0.5 million, respectively, of lease receivables in non-recourse sales to third-party financial companies, with immaterial net gains (losses). For the six months ended

Table of Contents

June 30, 2015 and 2014, the Company recorded $0.6 million and $0.3 million, respectively, of financing liabilities for future performance of executory service obligations. For lease receivables retained as of June 30, 2015 and December 31, 2014, the Company recorded $1.6 million and $0.9 million of net investment in sales-type leases, respectively, equivalent to the minimum lease payments less the unearned interest portion.

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.

In July 2015 the FASB affirmed a one-year deferral of the effective date of the new revenue standard. The Company’s effective date for this standard will be the first quarter of 2018. Early adoption is permitted but not before the original effective date of annual periods after December 15, 2016. 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, 2018. 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 Company’s cash, cash equivalents and short-term investments are carried at their fair values with any differences from their amortized cost recorded in equity as unrealized gains (losses) on marketable securities. As a basis for determining the fair value of its assets and liabilities, the Company 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 six months ended June 30, 2015, 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.

Table of Contents

The Company's assets that are measured at fair value on a recurring basis, by level, within the fair value hierarchy as of June 30, 2015 and December 31, 2014, are summarized as follows (in thousands):

	June 30, 2015			December 31, 2014		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets						
Money market funds	$885	$—	$885	$7,795	$—	$7,795
Commercial paper	—	200	200	—	3,225	3,225
U.S. government agency securities	—	14,217	14,217	—	5,955	5,955
U.S. Treasury securities	—	3,020	3,020	—	4,043	4,043
Municipal debt securities	—		—	—	3,924	3,924
Corporate debt securities	—	89,400	89,400	—	82,517	82,517
Total assets measured at fair value	$885	$106,837	$107,722	$7,795	$99,664	$107,459

The Company had no liabilities as of June 30, 2015 and December 31, 2014 that were measured at fair value on a recurring basis.

3. Cash, Cash Equivalents and Short-Term Investments

The following tables present current and prior-year-end balances for cash, cash equivalents and short-term investments (in thousands):

	As of June 30, 2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair value
Cash and cash equivalents:				
Demand deposits and other cash	$9,015	$—	$—	$9,015
Money market funds	885	—	—	885
Corporate debt securities	102	—	—	102
Total cash and cash equivalents	10,002	—	—	10,002
Short-Term Investments:				
Commercial paper	200	—	—	200
U.S. government agency securities	14,211	7	(1)	14,217
U.S. Treasury securities	3,017	3	—	3,020
Corporate debt securities	89,352	8	(62)	89,298
Total short-term investments	106,780	18	(63)	106,735
Total cash, cash equivalents and short-term investments	$116,782	$18	$(63)	$116,737

Table of Contents

	As of December 31, 2014			
	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

The Company has determined that the unrealized losses on its short-term investments as of June 30, 2015 and December 31, 2014 do not constitute an "other than temporary impairment." The unrealized losses for the short-term investments 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 eight months, weighted average) and the Company’s intent and ability to hold such loss securities until maturity.

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

(in thousands)	One year or shorter	Between 1 and 2 years	Total
Balances as of June 30, 2015			
Cash and cash equivalents (1)	$10,002	$—	$10,002
Short-term investments	90,013	16,722	106,735
Cash, cash equivalents and short-term investments	$100,015	$16,722	$116,737
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

(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 zero and $0.1 million as of June 30, 2015 and December 31, 2014, respectively, which is classified within prepaid expenses and other current assets on the balance sheet.

Table of Contents

4. Net Loss Per Share

The following table sets forth the computation of basic and diluted net loss per share (in thousands, except per share amounts):

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Numerator:				
Net loss	$(5,171)	$(7,008)	$(9,658)	$(13,397)
Denominator:				
Weighted-average shares used to compute net loss per common share - basic and diluted	25,832	25,246	25,749	25,147
Net loss per share				
Basic and diluted	$(0.20)	$(0.28)	$(0.38)	$(0.53)

The following securities were not included in the calculation of diluted shares outstanding as the effect would have been anti-dilutive:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2015	2014	2015	2014
Options to purchase common stock, including ESPP	3,438	3,692	3,439	3,499
Common stock subject to repurchase	—	8	—	7
Warrants to purchase common stock	44	44	44	44
Restricted stock units	1,514	950	1,289	876

5. Goodwill and Intangible Assets

Goodwill

As of June 30, 2015 and December 31, 2014, the Company had $10.0 million and $10.0 million of goodwill, respectively. As of June 30, 2015, there were no changes in circumstances indicating that the carrying values of goodwill or acquired intangibles may not be recoverable.

Intangible Assets

Acquisition-related intangible assets are amortized either straight-line, or over the life of the assets on a basis that resembles the economic benefit of the assets. This yields amortization in the latter case that is higher in earlier periods of the useful life.

The estimated useful lives and carrying value of acquired intangible assets are as follows:

		June 30, 2015			December 31, 2014		
(in thousands)	Range of Useful Life (years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technology	4 to 7	$2,710	$1,854	$856	$2,710	$1,693	$1,017
Customer relationships	7 to 9	2,520	1,829	691	2,520	1,722	798
Non-compete agreements	2 to 4	460	175	285	460	91	369
Trademarks and trade names	4 to 7	110	71	39	110	63	47
Intangible assets - finite life		5,800	3,929	1,871	5,800	3,569	2,231
In-process research and development	n/a	940	—	940	940	—	940
Intangible assets, net book value		$6,740	$3,929	$2,811	$6,740	$3,569	$3,171

11

Table of Contents

Amortization expense was $0.2 million and $0.2 million for the three months ended June 30, 2015 and 2014, respectively. Amortization expense was $0.4 million and $0.4 million for the six months ended June 30, 2015 and 2014

Amortization of acquired intangible assets is reflected in the cost of revenue or operating expenses, depending on the nature of the intangible. The estimated future amortization of existing acquired intangible assets as of June 30, 2015, excluding in-process R&D, was as follows:

(in thousands)	Future amortization
2015 (six months remaining)	367
2016	562
2017	394
2018	275
2019	229
Thereafter	44
Future amortization expense	$1,871

6. Balance Sheet Components

Inventories

(in thousands)	June 30, 2015	December 31, 2014
Raw materials	$408	$759
Finished goods	1,339	2,703
Total inventories	$1,747	$3,462

Property and equipment, net

(in thousands)	June 30, 2015	December 31, 2014
Computer equipment and software	$9,257	$8,772
Furniture, fixtures and equipment	977	962
Leasehold improvements	2,433	2,298
Manufacturing tools and equipment	3,813	3,795
Construction in process	66	122
Property and equipment, at cost	16,546	15,949
Less: Accumulated depreciation	(12,091)	(10,827)
Property and equipment, net	$4,455	$5,122

Depreciation and amortization expense was $0.6 million and $0.6 million for the three months ended June 30, 2015 and 2014, respectively. Depreciation and amortization expense was $1.3 million and $1.1 million for the six months ended June 30, 2015 and 2014, respectively.

Table of Contents

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:

(in thousands)	June 30, 2015	December 31, 2014
Minimum payments to be received on sales-type leases	$3,031	$1,882
Less: Unearned interest income and executory costs	(1,436)	(962)
Net investment in sales-type leases	1,595	920
Less: Current portion	(959)	(564)
Non-current net investment in sales-type leases	$636	$356

There were no allowances for doubtful accounts on these leases as of June 30, 2015 and December 31, 2014. There is no guaranteed or unguaranteed residual value on the leased equipment. The current and non-current net investments in sales-type leases are reported as components of the consolidated balance sheet captions "other receivables" and "other long-term assets," respectively.

The minimum payments expected to be received for future years under sales-type leases as of June 30, 2015 were as follows:

(in thousands)	Future lease payments
2015 (six months remaining)	684
2016	1,141
2017	694
2018	411
Thereafter	101
Total	$3,031

Accrued payroll and other current liabilities

(in thousands)	June 30, 2015	December 31, 2014
Payroll and related expenses	$6,553	$7,009
Accrued payables	1,022	1,715
Deferred rent, current portion	252	299
Lease financing, current portion	720	645
Product warranty	799	497
Customer prepayments	246	283
Sales and use tax payable	214	293
Other	240	122
Total accrued payroll and other current liabilities	$10,046	$10,863

Table of Contents

The changes in the Company's product warranty reserve are as follows:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2015	2014	2015	2014
Warranty balance at the beginning of the period	$834	$722	$497	$840
Warranty expense accrued for shipments during the period	93	189	157	487
Changes in estimate related to pre-existing warranties	30	(26)	388	25
Warranty settlements made	(90)	(303)	(175)	(770)
Total product warranty	$867	$582	$867	$582
Less: Long-term portion	(68)	$—	(68)	$—
Current portion of warranty balance at the end of the period	$799	$582	$799	$582

7. Commitments and Contingencies

Non-cancelable Material Commitments

The Company is required to purchase unused, non-cancelable, non-returnable raw material inventory that was purchased by its contract manufacturers based on committed finished goods orders from the Company, certain long lead-time raw materials based on the Company’s forecast and current work-in-progress materials. As of June 30, 2015 and December 31, 2014, approximately $4.9 million and $1.9 million, respectively, of such inventory was purchased and held by the third-party manufacturers which was subject to these purchase guarantees.

Leases

The Company leases office space for its headquarters and subsidiaries under non-cancelable operating leases, which will expire between December 2015 and March 2022. In April 2015, the Company extended the lease on the San Jose, California headquarters through March 2022. The Company recognizes rent expense on a straight-line basis over the lease period, and has accrued for rent expense incurred but not paid. Facilities rent expense was $0.6 million and $0.5 million for the three months ended June 30, 2015 and 2014, respectively. Facilities rent expense was $1.1 million and $1.0 million for the six months ended June 30, 2015 and 2014, respectively.

Future minimum lease payments at June 30, 2015 under non-cancelable operating leases are as follows:

(in thousands)	Operating leases
2015 (remaining six months)	$887
2016	1,646
2017	1,523
2018	1,460
2019	1,503
2020	1,549
Thereafter	1,997
Total minimum lease payments	$10,565

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 rights, tortious damage to persons or property or breaches of certain Company obligations relating to confidentiality (e.g., safeguarding protected health information) 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

Table of Contents

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 February 11, 2015, the Court granted Defendants' motion to dismiss the Securities Act claims, but denied the motion as to the Exchange Act claims, allowing the matter to proceed on that basis. On April 27, 2015, Defendants filed answers to the consolidated complaint.

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. Stock-based Compensation and Awards

Stock Option Activity

A summary of the stock option activity for the six months ended June 30, 2015 is presented below:

	Options outstanding			
	Number of Options	Weighted Average Exercise Price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value (in thousands)
Outstanding at December 31, 2014	3,418,624	$9.80	6.24	$12,167
Options granted	224,290	9.89		
Options exercised	(105,860)	6.80		
Options canceled	(119,045)	17.90		
Outstanding at June 30, 2015	3,418,009	$9.62	6.17	$13,945

At June 30, 2015, there was $5.8 million of unrecognized net compensation cost related to options which is expected to be recognized over a weighted-average period of 2.62 years. As of June 30, 2015, there were 1,150,716 shares that remained available for future issuance of options, restricted stock units (“RSUs”) or other equity awards under the 2012 Equity Incentive Plan.

15

Table of Contents

The Company uses the Black-Scholes option-pricing model to calculate the fair value of stock options on their grant date. The following assumptions were used for each respective period for employee stock options:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Expected Term (in years)	5.39	5.41	5.39	5.41
Volatility	41.3%	44%	41.3% - 41.8%	44.0% - 48.2%
Risk-free interest rate	1.62%	1.71%	1.62% - 1.63%	1.59% - 1.71%
Dividend yield	0%	0%	0%	0%

Employee Stock Purchase Plan

In March 2012, the Company's 2012 Employee Stock Purchase Plan (the "ESPP") was approved. During the six months ended June 30, 2015, employees purchased 78,853 shares of common stock at an average purchase price of $8.279. During the six months ended June 30, 2014, employees purchased 86,646 shares of common stock at an average purchase price of $10.91. As of June 30, 2015, there were 460,242 shares available for future issuance under the ESPP.

The following Black-Scholes option-pricing assumptions were used for each respective period for the ESPP:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Expected Term (in years)	0.50	0.50	0.50	0.50
Volatility	33.6%	35.9%	33.6% - 57.8%	35.9% - 36.0%
Risk-free interest rate	0.09%	0.05%	0.07% - 0.09%	0.05% - 0.10%
Dividend yield	0%	0%	0%	0%

Restricted Stock Units

A summary of RSU activity for the six months ended June 30, 2015 is presented below:

	Restricted Stock Units	
	Number of shares	Weighted Average Grant Date Fair Value per Share
Outstanding at December 31, 2014	1,062,590	$13.79
Granted	792,802	10.54
Vested	(277,554)	16.57
Forfeited	(64,332)	12.85
Outstanding at June 30, 2015	1,513,506	$11.62

At June 30, 2015, there was $13.2 million of unrecognized net compensation cost related to RSUs, which is expected to be recognized over a weighted-average period of 2.17 years.

Table of Contents

Allocation of Stock-Based Compensation Expense

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

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2015	2014	2015	2014
Cost of revenue	$341	$252	$650	$538
Research and development	283	239	543	459
Sales and marketing	1,061	1068	2,095	2,035
General and administrative	1,059	1,219	2,050	2,344
Total stock-based compensation	$2,744	$2,778	$5,338	$5,376

9. Segments

The Company has two operating segments, which are both reportable business segments: (i) Product and (ii) Service, both of which are comprised of Vocera's and its wholly-owned subsidiaries' results of operations.

The following table presents a summary of the operating segments:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2015	2014	2015	2014
Revenue				
Product	$13,320	$11,850	$25,782	$26,039
Service	12,129	11,169	23,485	21,656
Total revenue	25,449	23,019	49,267	47,695
Cost of Revenue				
Product	4,723	4,421	9,155	9,411
Service	4,914	4,528	9,765	9,342
Total cost of revenue	9,637	8,949	18,920	18,753
Gross profit				
Product	8,597	7,429	16,627	16,628
Service	7,215	6,641	13,720	12,314
Total gross profit	15,812	14,070	30,347	28,942
Operating expenses	20,912	21,132	39,809	42,338
Interest (expense) income, net and other	84	117	62	139
Loss before income taxes	$(5,016)	$(6,945)	$(9,400)	$(13,257)

10. Income Taxes

The Company recorded a $0.3 million provision and $0.1 million provision for income taxes for the six months ended June 30, 2015 and 2014, respectively. The provision in both periods was primarily due to taxes on international operations and state income taxes.

As of June 30, 2015, the Company has provided a valuation allowance against certain federal and state deferred tax assets. Management continues to evaluate the realizability of deferred tax assets and the related valuation allowance. If management's assessment of the deferred tax assets or the corresponding valuation allowance were to change, the Company would record the related adjustment to income during the period in which management makes the determination.

As of June 30, 2015, there were no material changes to either the nature or the amounts of the uncertain tax positions previously determined for the year ended December 31, 2014.

Table of Contents

11. Business Acquisitions

Acquisition of mVisum net assets

On January 13, 2014, the Company acquired certain assets and certain liabilities of mVisum, Inc. (“mVisum”), an innovative provider of alarm management technology solutions for health systems, for $3.5 million in cash. 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:

(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 during the year ended December 31, 2014. 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 former mVisum employees who are now employees of the Company 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 earned as compensation expense. 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.

Table of Contents

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

Forward-Looking Statements

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and in our other Securities and Exchange Commission, or SEC, filings, including our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC on March 12, 2015. These discussions contain forward-looking statements reflecting our current expectations that involve risks and uncertainties which are subject to safe harbors under the Securities Act of 1933, as amended, or the Securities Act, and the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements include, but are not limited to, statements concerning our plans, objectives, expectations and intentions, future financial position, future revenues, projected costs, expectations regarding demand and acceptance for our technologies, growth opportunities and trends in the market in which we operate, prospects and plans and objectives of management. The words "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," "projects," "will," "would" and similar expr intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those in the forward-looking statements, including, without limitation, the risks set forth in Part II, Item 1A, "Risk Factors" in this Quarterly Report on Form 10-Q and in our other filings with the Securities and Exchange Commission. We do not assume any obligation to update any forward-looking statements.

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 United States 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 June 30, 2015, 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. Total revenue increased 3.3% from $47.7 million for the six months ended June 30, 2014 to $49.3 million for the six months ended June 30, 2015. For the six months ended June 30, 2015, we recorded a net loss of $9.7 million compared to a net loss of $13.4 million for the six months ended June 30, 2014.

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, Australia, Singapore and parts of the Middle East, most of our customers are located in the United States. International customers represented 8.4%, 9.9% and 10.5% of our revenue in the six months ended June 30, 2015, and the years ended December 31, 2014 and 2013, respectively. We are exploring plans to expand our presence in other English-speaking markets and enter non-English speaking markets.

U.S. hospital spending has been challenging in the last two years, 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 fluctuate for many healthcare providers, hospitals exercised strong expense limits and reductions, also impacting

capital purchases and departmental operating budgets through which our solutions are purchased. Despite this volatility, healthcare providers are placing increased emphasis on and investment in solutions for care coordination, a trend that we believe is favorable for Vocera.

Internationally, our business, with mature markets in Canada and the United Kingdom, has 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.

Table of Contents

Critical Accounting Policies and Estimates

There have been no changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the year ended December 31, 2014.

Revenue. We generate revenue from the sale of products and services. 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 Communication software. 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 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.

Provision for Income Taxes. We are subject to income taxes in certain 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 take place and our effective tax rate could fluctuate accordingly.

As of June 30, 2015, we have provided a valuation allowance against certain federal and state deferred tax assets. Based on all available evidence, on a jurisdictional basis, including our historical operating results, and the uncertainty of predicting our future income, the valuation allowance reduces our deferred tax assets to an amount that is more likely than not to be realized. We continue to evaluate the realizability of deferred tax assets and the related valuation allowance. If our assessment of the deferred tax assets or the corresponding valuation allowance were to change, we would record the related adjustment to income during the period in which management makes the determination.

Table of Contents

Results of Operations

The following table presents our results of operations for the periods indicated. The period-to-period comparisons of results are not necessarily indicative of results for future periods.

Consolidated statement of operations data: (in thousands)	Three months ended June 30, 2015 (unaudited) Amount	% Revenue	2014 Amount	% Revenue	Six months ended June 30, 2015 Amount	% Revenue	2014 Amount	% Revenue
Revenue								
Product	$13,320	52.3 %	$11,850	51.5 %	$25,782	52.3 %	$26,039	54.6 %
Service	12,129	47.7	11,169	48.5	23,485	47.7	21,656	45.4
Total revenue	25,449	100.0	23,019	100.0	49,267	100.0	47,695	100.0
Cost of revenues								
Product	4,723	18.6	4,421	19.2	9,155	18.6	9,411	19.7
Service	4,914	19.3	4,528	19.7	9,765	19.8	9,342	19.6
Total cost of revenues	9,637	37.9	8,949	38.9	18,920	38.4	18,753	39.3
Gross profit	15,812	62.1	14,070	61.1	30,347	61.6	28,942	60.7
Operating expenses:								
Research and development	4,242	16.7	4,362	18.9	8,725	17.7	8,428	17.7
Sales and marketing	12,102	47.6	12,614	54.8	22,516	45.7	25,357	53.2
General and administrative	4,568	17.9	4,156	18.1	8,568	17.4	8,553	17.9
Total operating expenses	20,912	82.2	21,132	91.8	39,809	80.8	42,338	88.8
Loss from operations	(5,100)	(20.1)	(7,062)	(30.7)	(9,462)	(19.2)	(13,396)	(28.1)
Interest income	117	0.5	98	0.4	227	0.4	185	0.4
Other (expense) income, net	(33)	(0.1)	19	0.1	(165)	(0.3)	(46)	(0.1)
Loss before income taxes	(5,016)	(19.7)	(6,945)	(30.2)	(9,400)	(19.1)	(13,257)	(27.8)
Provision for income taxes	(155)	(0.6)	(63)	(0.3)	(258)	(0.5)	(140)	(0.3)
Net loss	$(5,171)	(20.3)%	$(7,008)	(30.4)%	$(9,658)	(19.6)%	$(13,397)	(28.1)%

Table of Contents

Three months ended June 30, 2015 compared to the three months ended June 30, 2014

Revenue:

	Three months ended June 30,				Six months ended June 30,			
(in thousands)	2015 Amount	2014 Amount	Change Amount	%	2015 Amount	2014 Amount	Change Amount	%
Product revenue								
Devices	$9,633	$8,942	$691	7.7 %	$18,652	$19,174	$(522)	(2.7)%
Software	3,687	2,908	779	26.8	7,130	6,865	265	3.9
Total product	13,320	11,850	1,470	12.4	25,782	26,039	(257)	(1.0)
Service revenue								
Maintenance and support	9,447	8,742	705	8.1	18,611	17,121	1,490	8.7
Professional services and training	2,682	2,427	255	10.5	4,874	4,535	339	7.5
Total service	12,129	11,169	960	8.6	23,485	21,656	1,829	8.4
Total revenue	$25,449	$23,019	$2,430	10.6	$49,267	$47,695	$1,572	3.3

Three months ended June 30, 2015 compared to the three months ended June 30, 2014.

Total revenue increased $2.4 million, or 10.6%, for the three months ended June 30, 2015 compared to the three months ended June 30, 2014. The increase in total revenue was a result of increased product and services revenue.

Product revenue increased $1.5 million, or 12.4%, for the three months ended June 30, 2015 compared to the three months ended June 30, 2014. Device revenue increased $0.7 million, or 7.7%, and software revenue increased $0.8 million, or 26.8%, for the three months ended June 30, 2015 compared to the three months ended June 30, 2014. The increase in device revenue, which related entirely to our Communication solution, was driven primarily by an increase in unit sales of badges and related accessories from new customers making initial purchases and existing customers expanding deployments within their facilities to new departments and users. The increase in software revenue was mainly a result of an increase in sales of licenses to our Communication software.

Service revenue increased $1.0 million, or 8.6%, for the three months ended June 30, 2015 compared to the three months ended June 30, 2014. Software maintenance and support revenue increased $0.7 million, or 8.1%, and professional services and training revenue increased $0.3 million, or 10.5%, for the three months ended June 30, 2015 compared to the three months ended June 30, 2014. The increase in software maintenance and support revenue was primarily the result of having a larger customer base which increased software maintenance revenue by $0.6 million and an increase in extended warranty revenue of $0.1 million. The increase in professional services and training revenue was due to increases in implementation services for our Communication solution.

Six months ended June 30, 2015 compared to the six months ended June 30, 2014.

Total revenue increased $1.6 million, or 3.3%, for the six months ended June 30, 2015 compared to the six months ended June 30, 2014. The increase in total revenue was the result of increased services revenue, partially offset by decreased product revenue.

Product revenue decreased $0.3 million, or 1.0%, for the six months ended June 30, 2015 compared to the six months ended June 30, 2014. Device revenue decreased $0.5 million, or 2.7%, and software revenue increased $0.3 million, or 3.9%, for the six months ended June 30, 2015 compared to the six months ended June 30, 2014. The decrease in device revenue, which related entirely to our Communication solution, was driven primarily by a decrease in unit sales of badges and related accessories from new customers making initial purchases and existing customers expanding deployments within their facilities to new departments and users. The increase in software revenue was mainly a result of an increase in sales of licenses to our Communication software.

Service revenue increased $1.8 million, or 8.4%, for the six months ended June 30, 2015 compared to the six months ended June 30, 2014. Software maintenance and support revenue increased $1.5 million, or 8.7%, and professional services and training revenue increased $0.3 million, or 7.5%, for the six months ended June 30, 2015 compared to the six months ended June 30, 2014. The increase in software maintenance and support revenue was primarily the result of having a larger customer base which increased software maintenance revenue by $1.3 million and an increase in

extended warranty revenue of $0.2 million. The increase in professional services and training revenue was due to increases in implementation services for our Communication solution.

Table of Contents

Cost of revenue:

	Three months ended June 30,				Six months ended June 30,			
	2015	2014	Change		2015	2014	Change	
(in thousands)	Amount	Amount	Amount	%	Amount	Amount	Amount	%
Cost of revenue								
Product	$4,723	$4,421	$302	6.8 %	$9,155	$9,411	$(256)	(2.7)%
Service	4,914	4,528	386	8.5	9,765	9,342	423	4.5
Total cost of revenue	$9,637	$8,949	$688	7.7	$18,920	$18,753	$167	0.9
Gross margin								
Product	64.5 %	62.7 %	1.8 %		64.5 %	63.9 %	0.6 %	
Service	59.5	59.5	—		58.4	56.9	1.5	
Total gross margin	62.1	61.1	1.0		61.6	60.7	0.9	

Three months ended June 30, 2015 compared to the three months ended June 30, 2014.

Cost of product revenue increased $0.3 million, or 6.8%, for the three months ended June 30, 2015 compared to the three months ended June 30, 2014. The cost of product revenue increased primarily due to an increase in the number of units of communication badges and related accessories sold. Product gross margin as a percentage of product revenue increased in the three months ended June 30, 2015 compared to the three months ended June 30, 2014 due primarily to the increase in software product revenue as a percentage of total product revenue and higher absorption of fixed manufacturing overhead costs.

Cost of service revenue increased $0.4 million, or 8.5%, for the three months ended June 30, 2015 compared to the three months ended June 30, 2014. The cost of service revenue increased primarily due to an increase in the number of deployments of our Communication solution. Service gross margin as a percentage of service revenue stayed flat for the three months ended June 30, 2015 compared to the three months ended June 30, 2014.

Six months ended June 30, 2015 compared to the six months ended June 30, 2014.

Cost of product revenue decreased $0.3 million, or 2.7%, for the six months ended June 30, 2015 compared to the six months ended June 30, 2014. The cost of product revenue decreased primarily due to a decrease in the number of units of communication badges and related accessories sold. Product gross margin as a percentage of product revenue increased in the six months ended June 30, 2015 compared to the six months ended June 30, 2014 due primarily to the increase in software product revenue as a percentage of total product revenue and higher absorption of fixed manufacturing overhead costs.

Cost of service revenue increased $0.4 million, or 4.5%, for the six months ended June 30, 2015 compared to the six months ended June 30, 2014. The cost of service revenue increased primarily due to an increase in the number of deployments of our Communication solution. Service gross margin as a percentage of service revenue increased for the six months ended June 30, 2015 compared to the six months ended June 30, 2014 due to higher utilization of our services personnel.

Table of Contents

Operating expenses:

	Three months ended June 30,				Six months ended June 30,			
(in thousands)	2015 Amount	2014 Amount	Change Amount	%	2015 Amount	2014 Amount	Change Amount	%
Operating expenses:								
Research and development	$4,242	$4,362	$(120)	(2.8)%	$8,725	$8,428	$297	3.5 %
Sales and marketing	12,102	12,614	(512)	(4.1)	22,516	25,357	(2,841)	(11.2)
General and administrative	4,568	4,156	412	9.9	8,568	8,553	15	0.2
Total operating expenses	$20,912	$21,132	$(220)	(1.0)	$39,809	$42,338	$(2,529)	(6.0)

Three months ended June 30, 2015 compared to the three months ended June 30, 2014.

Research and development expense. Research and development expense remained relatively flat for the three months ended June 30, 2015 compared to the three months ended June 30, 2014.

Sales and marketing expense. Sales and marketing expense decreased $0.5 million, or 4.1%, for the three months ended June 30, 2015 compared to the three months ended June 30, 2014. This decrease was primarily due to a $0.2 million decrease in personnel costs and travel related costs associated with a decrease in headcount and a $0.3 million decrease in outside services and marketing programs.

General and administrative expense. General and administrative expense increased $0.4 million, or 9.9%, for the three months ended June 30, 2015 compared to the three months ended June 30, 2014. This increase was primarily due to an increase of $0.3 million in bad debt related to a disputed receivable and a $0.3 million increase in incentive compensation. The increase was partially offset by a $0.2 million reduction in stock-based compensation.

Six months ended June 30, 2015 compared to the six months ended June 30, 2014.

Research and development expense. Research and development expense increased $0.3 million, or 3.5%, for the six months ended June 30, 2015 compared to the six months ended June 30, 2014. This increase was primarily due to a $0.4 million increase in personnel costs associated with an increase in headcount. This increase was partially offset by a reduction in reliance of outside development.

Sales and marketing expense. Sales and marketing expense decreased $2.8 million, or 11.2%, for the six months ended June 30, 2015 compared to the six months ended June 30, 2014. This decrease was primarily due to a $1.9 million decrease in personnel costs and travel related costs associated with a decrease in headcount and a $1.1 million decrease in outside services and marketing programs. This decrease was partially offset by a $0.2 million increase in equipment and supplies.

General and administrative expense. General and administrative expense remained relatively flat for the six months ended June 30, 2015 compared to the six months ended June 30, 2014. This resulted primarily from an increase of $0.4 million in bad debt related to disputed customer receivables and a $0.5 million increase in incentive compensation. The increase was partially offset by a $0.3 million reduction in stock-based compensation and a $0.3 million reduction in equipment and supplies.

Interest Income and Other (Expense) Income, Net:

	Three months ended June 30,			Six months ended June 30,		
(in thousands)	2015	2014	Change	2015	2014	Change
Interest income	$117	$98	$19	$227	$185	$42
Other (expense) income, net	(33)	19	(52)	(165)	(46)	(119)

Three months ended June 30, 2015 compared to the three months ended June 30, 2014.

Interest income. Interest income did not significantly change for the three months ended June 30, 2015 compared to the three months ended June 30, 2014.

Other (expense) income, net. The change in other income (expense) in the three months ended June 30, 2015 compared to the three months ended June 30, 2014 was primarily due to foreign exchange fluctuations.

Six months ended June 30, 2015 compared to the six months ended June 30, 2014.

24

Table of Contents

Interest income. Interest income did not significantly change for the six months ended June 30, 2015 compared to the six months ended June 30, 2014.

Other (expense) income, net. The change in other income (expense) in the six months ended June 30, 2015 compared to the six months ended June 30, 2014 was primarily due to foreign exchange fluctuations.

Liquidity and Capital Resources

As of June 30, 2015, we had cash and cash equivalents and short-term investments of $116.7 million and no outstanding borrowings, which was largely attributable to the net proceeds of two common stock offerings in 2012. We believe that our existing sources of liquidity will satisfy our working capital and capital requirements for at least the next twelve months and the foreseeable future.

	Six months ended June 30,	
(in thousands)	2015	2014
Consolidated Statements of Cash Flow Data:		
Net cash used in operating activities	$(208)	$(4,093)
Net cash used in investing activities	(13,400)	(19,892)
Net cash provided by financing activities	995	1,294
Net decrease in cash and cash equivalents	$(12,613)	$(22,691)

Operating activities

Cash used in operating activities was $0.2 million for the six months ended June 30, 2015, due to a net loss of $9.7 million, partially offset by non-cash items such as depreciation and amortization of $1.7 million for property and equipment and acquired intangible assets and stock-based compensation of $5.3 million. With respect to changes in assets and liabilities, we experienced a decrease in accounts receivable of $3.0 million, which was attributable to collections on prior periods' invoices exceeding the current period billings, a decrease of $1.6 million in inventories and an increase of $0.7 million in accounts payable. These factors were offset by certain cash outflows, including a $1.6 million decrease in deferred revenue, a $0.7 million decrease in accrued and other liabilities, a $0.4 million increase in other receivables and a $0.3 million increase in prepaid expenses.

Cash used in operating activities was $4.1 million for the six months ended June 30, 2014, due to a net loss of $13.4 million, that included non-cash items such as depreciation and amortization of $1.5 million for property and equipment and acquired intangible assets and stock-based compensation of $5.4 million. The decrease in accounts receivable of $4.3 million, which was attributable to collections on prior periods' invoices exceeding the current period billings, a decrease of $1.2 million in inventories and a seasonal increase of $0.4 million in accrued vacation liabilities contributed to cash. These factors were offset by certain cash outflows, including a $1.1 million decrease in deferred revenue, a $0.6 million decrease in accounts payable and a $0.5 million increase in prepaid expenses.

Investing activities

Cash used in investing activities was $13.4 million for the six months ended June 30, 2015, due to $68.2 million for purchases of short-term investments, partly offset by $55.1 million short-term investment maturities. An additional $0.4 million of cash was used for the purchase of property and equipment and leasehold improvements, partly offset by a release of $40 thousand of restricted cash.

Cash used in investing activities was $19.9 million for the six months ended June 30, 2014 due to $3.5 million for the mVisium business acquisition and $72.9 million for purchases of short-term investments, partially offset by $56.8 million and $0.4 million of short-term investment maturities and investment sales, respectively. An additional $0.7 million of cash was used for the purchase of property and equipment and leasehold improvements.

Financing activities

Cash provided by financing activities was $1.0 million for the six months ended June 30, 2015, primarily attributable to $0.6 million of proceeds from stock option exercises, $0.7 million of proceeds from issuance of common stock from the employee stock purchase plan and $0.6 million of cash from lease-related performance obligations. This was partially offset by a $0.9 million decrease for employee taxes paid on net share settlement.

Table of Contents

Cash provided by financing activities was $1.3 million for the six months ended June 30, 2014, primarily attributable to $0.8 million proceeds from stock option exercises and $0.3 million of cash from lease-related performance obligations. This was partially offset by a $0.7 million decrease for employee taxes paid on net share settlement.

Off-Balance Sheet Arrangements

During the six months ended June 30, 2015, 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. Refer to Note 7 to the condensed consolidated financial statements, "Commitments and Contingencies," for a discussion of our non-cancelable purchase commitments.

Item 3. 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.

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

Item 4. 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. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

As of June 30, 2015, 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 June 30, 2015.

Changes in Internal Control over Financial Reporting

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

Table of Contents

PART II: OTHER INFORMATION

Item 1. 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 February 11, 2015, the Court granted Defendants' motion to dismiss the Securities Act claims, but denied the motion as to the Exchange Act claims, allowing the matter to proceed on that basis. On April 27, 2015, Defendants filed answers to the consolidated complaint.

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 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 Quarterly Report on Form 10-Q. 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.

We have incurred significant losses in the past and reported a net loss of $9.7 million for the six months ended June 30, 2015. As of June 30, 2015, we had an accumulated deficit of $102.4 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 a decrease in sales in the healthcare market 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 92%, 90% and 91% of our revenue for the six months ended June 30, 2015, and for the years ended December 31, 2014 and 2013, 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 1.0% for the six months ended June 30, 2015 compared to the six months ended June 30, 2014, 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.

Table of Contents

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 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 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

Table of Contents

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 significant new reseller relationships;
- 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, 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

Table of Contents

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, including cloud-based 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.

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.

Table of Contents

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.

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

We do not have internal manufacturing capabilities and rely upon 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.

Table of Contents

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 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.

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

and operating results.

We rely on information technology and telephone networks and systems, including the Internet, to process and transmit sensitive electronic information and to manage or support a variety of business processes and activities, including sales, billing, customer service, procurement and supply chain. We use enterprise information technology systems to record, process, and summarize financial information and results of operations for internal reporting purposes and to comply with regulatory financial reporting, legal, and tax requirements. Our information technology systems, some of which are managed by third-parties, may be susceptible to damage, disruptions or shutdowns due to computer viruses, attacks by computer hackers, failures during the process of upgrading or replacing software, databases or components thereof, power outages, hardware failures, telecommunication failures, user errors or catastrophic events. Although we have developed systems and processes that are designed to protect customer information and prevent data loss and other security breaches, including systems and processes designed to reduce the impact of a security breach at a third party vendor, such measures cannot provide absolute security. If

Table of Contents

our systems are breached or suffer severe damage, disruption or shutdown and we are unable to effectively resolve the issues in a timely manner, our business and operating results may significantly suffer and we may be subject to litigation, government enforcement actions or potential liability. Security breaches could also cause us to incur significant remediation costs, result in product development delays, disrupt key business operations and divert attention of management and key information technology resources.

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 2%, 3% and 3% of our revenue for the six months ended June 30, 2015 and the years ended December 31, 2014 and 2013. 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, which can require customers to perform software upgrades to their systems, and integrate new solutions with existing customer clinical systems and workflows. In addition, we may face technical difficulties as we expand into non-English speaking countries and incorporate non-English speech recognition capabilities into our 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. 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.

Table of Contents

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 and subscription arrangements over the contract term, and changes in sales may not be immediately reflected in our operating results.

We generally recognize revenue from our customer maintenance and support contracts and subscription arrangements ratably over the contract term, which is typically 12 months, in some cases subject to an early termination right. Revenue from our maintenance and support contracts accounted for 38%, 37% and 31% of our revenue for the six months ended June 30, 2015 and the years ended December 31, 2014 and 2013, 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 or subscription agreements by our customers in any one quarter may not be immediately reflected in our revenue for that quarter. Such a decline, however, will negatively affect our revenue in future quarters. Accordingly, the effect of significant downturns in sales and market acceptance of our services and potential changes in our rate of renewals may not be fully reflected in our operating results until future periods.

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

Our success depends, in part, on the continuing services of our senior management and other key personnel, and our ability to continue to attract, integrate and retain highly skilled personnel, particularly in engineering, sales and marketing. Competition for highly skilled personnel is intense, particularly in the 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.

Table of Contents

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 six months ended June 30, 2015 and the years ended December 31, 2014 and 2013, we generated 8.4%, 9.9% and 10.5% 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;
- difficulties associated with resolving contract disputes in foreign countries with varied legal systems;
- limited or unfavorable intellectual property protection in some countries; and
- currency exchange rate fluctuations, which could affect the price of our solutions relative to locally produced solutions.

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

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

Table of Contents

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

For example, 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.

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

The nature of our business involves the receipt and storage of information about our customers. We have implemented programs to detect and alert us to data security incidents. However, because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time, we may be unable to anticipate these techniques or implement adequate preventive measures. We believe that companies have been increasingly subject to a wide variety of security incidents, cyber-attacks and other attempts to gain unauthorized access. These threats can come from a variety of sources, ranging in sophistication from an individual hacker to malfeasance by employees, consultants or other service providers to state-sponsored attacks. Cyber threats may be generic, or they may be custom-crafted against our information systems. In recent times, cyber-attacks have become more prevalent and much harder to detect and defend against. Our network and storage applications may be vulnerable to cyber-attack, malicious intrusion, malfeasance, loss of data privacy or other significant disruption and may be subject to unauthorized access by hackers, employees, consultants or

Table of Contents

other service providers. In addition, hardware, software or applications we develop or procure from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. Unauthorized parties may also attempt to gain access to our systems or facilities through fraud, trickery or other forms of deceiving our employees, contractors and temporary staff. If we experience significant data security breaches or fail to detect and appropriately respond to significant data security breaches, we could be exposed to government enforcement actions and private litigation. In addition, our customers could further lose confidence in our ability to protect their information, which could cause them to discontinue using our products or purchasing from us altogether.

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

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

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

Claims of intellectual property infringement could harm our business.

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

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

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

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

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

Table of Contents

that are substantially equivalent, or superior, to our technology or design around our proprietary rights. In each case, our ability to compete could be significantly impaired.

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

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

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

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

Our solutions are utilized by healthcare professionals and others in the course of providing patient care. 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

Table of Contents

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, 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, 2015. 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.

Table of Contents

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

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

Multiple negative consequences could ensue if a material weakness in our internal control over financial reporting is identified in the future, or we are not able to comply with the requirements of Section 404 in a timely manner or we do not maintain effective controls. For example, our reported financial results could be materially misstated or could be restated, we could receive an adverse opinion regarding our controls from our independent registered public accounting firm (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, a purported securities class action is pending in the United States District Court For the Northern District of California against us and certain of our officers and directors. The suit purports to allege claims for allegedly misleading statements 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 auditing our compliance with the rules, 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

Table of Contents

response to the factors described in this "Risk Factors" section and elsewhere in this Form 10-K and other factors, many of which are beyond our control, including:

- actual or anticipated variation in anticipated operating results of us or our competitors;
- the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;
- announcements by us or our competitors of new solutions, new or terminated significant contracts, commercial relationships or capital commitments;
- 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;

41

Table of Contents

- prohibit stockholders from cumulating their votes for the election of directors;
- permit newly created directorships resulting from an increase in the authorized number of directors or vacancies on our board of directors to be filled only by majority vote of our remaining directors, even if less than a quorum is then in office;
- provide that our board of directors is expressly authorized to make, alter or repeal our bylaws;
- establish a classified board of directors so that not all members of our board are elected at one time;
- provide that our directors may be removed only for "cause" and only with the approval of the holders of at least 66 2/3rds percent of our outstanding stock; and
- require super-majority voting to amend certain provisions in our certificate of incorporation and bylaws.

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

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

On April 20, 2015, we entered into a Second Amendment to Lease (the "Agreement") with 525 Race Street, LLC. with respect to the our headquarters located in San Jose, California (the "Office").

The Agreement extends the lease term on approximately 70,000 rentable square feet of space in the Office through March 2022. The total obligation for rent under the remaining life of the lease as of June 30, 2015 is $9.9 million, excluding operating costs. In addition, under the Agreement, we are obligated to pay a share of the operating costs for the Buildings.

Provided the Company is not in default under the Agreement and the Agreement is still in effect, the Company generally has the right to extend the lease for an additional five-year extension by giving notice to the landlord prior to the end of the term of the lease.

Table of Contents

Item 6. Exhibits

Exhibit Number	Exhibit title
10.01	The Company's Second Amendment to Lease for Corporate headquarters dated April 20, 2015.
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.
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.
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.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Schema Linkbase Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document
101.LAB	XBRL Taxonomy Labels Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document

+ 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.

Table of Contents

SIGNATURES

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

VOCERA COMMUNICATIONS, INC.

Date: August 6, 2015	By:	/S/ Brent D. Lang Brent D. Lang Chief Executive Officer
Date: August 6, 2015	By:	/S/ Justin R. Spencer Justin R. Spencer Chief Financial Officer (Principal Financial Officer)

Table of Contents

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