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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2021
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.
3030 Orchard Parkway
San Jose, CA 95134
(408) 882-5100
(Address and telephone number of principal executive offices)

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

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

Securities registered pursuant to Section 12(g) of the Act:
None

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

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

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 o

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

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

Large accelerated filer	x	Accelerated filer	☐
Non-accelerated filer	o	Smaller reporting company	☐
		Emerging Growth Company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

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

As of June 30, 2021, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's common stock held by non-affiliates was approximately $1,150 million based upon the $39.85 closing price reported for such date on the New York Stock Exchange. For purposes of this disclosure, shares of common stock held by persons who hold more than 10% of the outstanding shares of common stock and shares held by executive officers and directors of the registrant have been excluded because such persons may be deemed to be affiliates of registrant. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 22, 2022, there were 35,040,842 shares of the registrant's common stock outstanding.

VOCERA COMMUNICATIONS, INC.

ANNUAL REPORT ON FORM 10-K
FOR THE ANNUAL PERIOD ENDED DECEMBER 31, 2021

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PART I

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

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

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

Item 1. Business

Overview

We are a provider of secure, integrated, intelligent communication and clinical workflow solutions, focused on empowering mobile workers in healthcare, hospitality, retail, energy, education and other mission-critical mobile work environments in the United States and internationally. The significant majority of our business is generated from sales of our solutions in the healthcare market to help our customers enhance quality of care, safety, patient and staff experience, and improve operational efficiency. Care teams at over 2,300 healthcare facilities worldwide have selected our solutions to communicate with others, reduce alarm fatigue, improve staff safety, enhance workflow, and help improve patient experience. Our solutions can also be found in hotels, nuclear power facilities, schools, libraries, retail stores and other environments where mobile workers need to communicate and access resources instantly.

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

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

Beyond healthcare, our solutions are used to quickly and contextually connect staff in other mission-critical mobile-worker environments. In the hospitality industry, it is used to enhance guest experience, as well as staff safety, productivity, and responsiveness. In the nuclear power industry, our solutions are used to instantly connect people and resources. In education, schools use our solutions to increase security, safety and staff communication and libraries use our solutions to enable their staff to be more mobile and attentive to patrons. And, in retail, our solutions are used to enhance the customer experience by enabling store personnel to quickly connect in and across various locations.

Over our 22-year history, we have significantly enhanced and added features and functionality to these solutions through ongoing development based on frequent interactions with our customers. Throughout the COVID-19 pandemic our solution has been used to simplify communication, preserve surgical gloves, face masks and other valuable personal protective equipment (PPE), has allowed for care teams to do remote rounding and even allowed for a patient's family to be included in three-way calls. We believe that these uses of our solution will become industry standard.

Vocera Ease is our cloud-based communication platform and mobile application built to improve the patient experience by enabling friends and family members to receive timely updates about the progress of their loved one in the hospital. The Vocera Ease app enables nurses and other care team members to send HIPAA-compliant texts, photos, and video updates to patients' loved ones, putting them at ease and saving valuable time.

In May 2021, we acquired PatientSafe Solutions, Inc. (now marketed and sold under the Vocera Edge brand). Vocera Edge provides a clinical communication and collaboration (CC&C) solution for smartphones that is engineered to run either on-premises or in the cloud. The solution is designed for hospitals and health systems that have invested in their electronic health record (EHR) mobile workflow software, are smartphone centric, and prefer a cloud-based CC&C solution. The solution enhances care team mobility and efficiency at the point of care through effective, reliable communication and clinical workflows. Nurses can document to the EHR while receiving filtered, prioritized alarm and task notifications. Physicians can communicate with the nurses and team members supporting their patients. Two-way communication with a hospital's EHR system enables clinicians to complete certain documentation and manage patient-centric communication from their smartphones. With this acquisition, Vocera further strengthened its ability to improve the lives of patients, families and care teams.

As of December 31, 2021, our solutions were selected by over 2,300 healthcare facilities, including large hospital systems, small and medium-sized local hospitals, clinics, surgery centers and aged-care facilities. We sell our solutions to healthcare customers primarily through our direct sales force in the United States, with resellers for certain vertical markets as well as our U.S. Government business, and through both direct sales and select distribution channels in international markets.

We were incorporated in Delaware on February 16, 2000. Our corporate headquarters are located at 3030 Orchard Parkway, San Jose, California, 95134, and our main telephone number is (408) 882-5100. We maintain a website at www.vocera.com. The contents of our website are not incorporated into, or otherwise to be regarded as part of, this Annual Report on Form 10-K.

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

Industry overview

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

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

Broadly, we believe the healthcare industry is placing greater emphasis on the need for better communication and workflow to meet increasing requirements for care quality, efficiency, patient satisfaction and staff safety and resiliency. Hospitals are struggling to attract and retain the needed nurses and other frontline caregivers to meet their demands. The pandemic has resulted in many nurses leaving the profession and hospital administrators are looking for tools and technologies that can help connect and protect frontline caregivers. The need for clinical communication and workflow solutions is being identified as a key technology to improve staff and patient safety, throughput, and retention. A number of non-government organizations, such as The Joint Commission, are also requiring improvements in patient safety and quality of care. These forces are driving hospitals to invest in technology and process improvements to manage their operations more efficiently, improve quality of care, and increase patient satisfaction and staff resiliency. Our solutions help hospitals increase productivity and reduce costs by enhancing workflow and improving patient and staff satisfaction through secure, integrated and intelligent communication.

Our strategy

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

Key elements of our strategy include:

- ***Expand our business to new U.S. healthcare customers.*** We believe our solutions can provide significant value to health systems, hospitals and smaller healthcare facilities. We plan to continue to add new customers among hospitals of all sizes, and expand to outpatient clinics, aged-care and skilled nursing facilities. We are increasingly selling enterprise level deployments across entire health systems which is resulting in higher average selling prices.

- ***Further expand our footprint within our existing installed customer base.*** Many of our customers initially deploy our solutions in several departments of a hospital and gradually expand to additional departments as they come to fully appreciate the value of the solutions. We have a significant opportunity to up-sell and cross-sell to our existing customers, including into new hospitals that are part of an existing healthcare system customer. Key sales strategies include expanding our footprint at existing customer facilities and capturing additional revenue by cross selling some of our newer solutions like Engage, Ease, Edge, and the Smartbadge. We plan to continue expanding within our existing customers in order to grow our revenue and maintain and improve the customer experience.

- ***Extend our technology advantage and create new product solutions.*** We intend to continue our investment in research and development to enhance the functionality of our solutions and further differentiate them from other competing solutions. As we did with the COVID-19 related enhancements and features, introduction of the Smartbadge in January 2019, and the introduction of the new Vina Smartphone Application in September 2019, we plan to continue to invest in product upgrades, product line extensions and new solutions to enhance our portfolio, including further development of applications for iOS and Android devices.

- ***Increase our health system selling efforts.*** Our increasingly comprehensive product suite is enabling us to sell to more large health systems. These sales efforts typically involve conversations with senior decision makers and result in larger deals with complex and elongated sales cycles. We have invested and will continue to invest in our sales force and marketing to enhance our ability to pursue more of these opportunities in the future.

- ***Invest in partnerships.*** To create a more efficient communication and workflow system for the entire care team our solution needs to access clinical data and patient context. To enhance that access, we plan to continue to broaden our ecosystem of technology partners, including vendors that provide nurse call systems, patient monitoring systems, analytics and EHRs. We added new partnerships in 2021 and will continue to explore new relationships that broaden our overall market presence and accelerate the sales of our offerings.

- ***Pursue acquisitions of complementary businesses, technologies and assets.*** Over the last several years we have completed a number of acquisitions to help us achieve our strategic vision by enhancing our products and enabling us to enter new markets. Our acquisitions have expanded our solutions, demonstrating that we can successfully source, acquire and integrate complementary businesses, technologies and assets. With the acquisition of PatientSafe Solutions, Inc. in May 2021, we further strengthened our ability to improve the lives of patients, families and care teams. We intend to continue to pursue acquisition opportunities that we believe can accelerate the growth of our business.

- ***Grow our international healthcare presence.*** Today, in addition to our core U.S. market, we sell into other English-speaking markets, including Canada, the United Kingdom, Australia, New Zealand, and Middle Eastern countries including the United Arab Emirates, Saudi Arabia, Oman and Qatar. We believe that the rapid pace of investment in new healthcare facilities in these developing international markets provides a significant opportunity for growth. As of December 31, 2021, our solutions were selected by nearly 400 healthcare facilities outside the United States. We plan to utilize both our direct sales force and leverage channel partners to expand our presence into other markets over time.

- ***Expand our solutions in non-healthcare markets.*** While our primary focus is on the healthcare market, our solutions also provide great value in non-healthcare markets. Our solutions have been selected by facilities in hospitality, retail, energy, education, and other mission critical mobile worker environments. Currently, this is not a material portion of our revenue, but in the long term, we believe these markets could represent potential opportunities for growth.

Our products, technology and services

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

Vocera Communication and Workflow System

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

Some examples of common commands are shown below.

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

Components of the Vocera Communication and Workflow System include:

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

the U.S. Department of Defense for the Vocera software platform and badges. Both of these certifications are requirements to sell our solutions to U.S. government and military hospital and medical facilities.

- ***Vocera Smartphone Applications.*** Vocera's suite of smartphone applications enable a seamless multi-mode communications and collaboration experience; combining the unique calling, texting, alerting and content distribution capabilities of Vocera into a secure, easy-to-use smartphone application that presents incoming communication in order of importance. Available and certified for use on commercially available iOS and Android devices, our smartphone applications support both personal (bring your own device or BYOD) and shared device usage models. Powered by the Vocera Software Platform, our new Vina Smartphone application delivers relevant context about clinical events, patient status and clinician availability, helping care teams improve safety, quality of care and experience for patients and care teams. The customizable communication application presents prioritized patient-centric calls, secure messages and alerts in a unified inbox and provides an intuitive user experience for clinicians inside and outside the hospital.
- ***Choice of Mobile Devices.*** We resell the Spectralink Versity Smartphone and Zebra Technologies TC52 Android mobile computer. These devices are offered as a bundled solution with our smartphone applications to provide a complete, turnkey solution for our customers' clinical communication needs. We also deliver our solution on iOS devices. This gives our customers a choice of different devices to access the power of the Vocera software platform.

Vocera Ease

Vocera Ease is our cloud-based SaaS communication platform and mobile application built to improve the patient experience and reduce the workload on nurses by enabling friends and family members to receive timely updates about the progress of their loved one in the hospital. The Vocera Ease app enables nurses and other care team members to send HIPAA-compliant texts, photos, and video updates to patients' loved ones, putting them at ease and saving valuable time.

Vocera Edge

Our communication solution for smartphones which is either on-premises or cloud-based, Vocera Edge, enhances care team mobility and simplifies work at the point of care through effective, reliable workflows. Vocera Edge is ideal for smartphone-centric hospitals and health systems that are invested in EHR mobile applications and prefer a cloud-based CC&C solution. With Edge, nurses can save time by unifying the most common EHR documentation workflows and urgent, event-based communication from a single smartphone app. They can securely access patient data from the EHR at the point of care and write back directly to the patient record through closed-loop, bi-directional communication.

Vocera Care Experience

Our Care Experience solution is a hosted software suite we developed to improve patient and staff experience, safety and operational quality in near-real time. Vocera Care Experience suite offers caregivers communication solutions that span the entire care continuum - before admission, during treatment and after discharge. Vocera Care Experience includes pre-arrival communications, patient family communications and rounding capabilities.

Services

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

- ***Professional services.*** Our professional services help customers successfully deploy, manage, update and/or expand their Vocera systems in order to gain the full benefits of our solutions. As of December 31, 2021, our professional services team consisted of 134 professionals with expertise in wireless communication, clinical workflow, end-user training, speech science and project management. We offer a full suite of services, including clinical workflow design, wireless assessment, solution configuration, training and project management, enabling customers to integrate our solutions and improve workflow efficiency and staff productivity. We also provide classroom and distance learning curricula for systems administrators, information technology professionals and clinical educators.
- ***Software maintenance and support.*** We provide 24x7 technical support to our customers through our support centers in San Jose, California; Fort Wayne, Indiana; Toronto, Canada and Reading, United Kingdom. As of December 31, 2021, our technical support team consisted of 90 technical support professionals with expertise in wireless, telephony, integration, servers and client devices. Our team utilizes remote diagnostic tools to proactively assess the performance of customer systems. We assign technical account management resources to our largest accounts to help them expand the use of our solutions and facilitate adoption of new functionality. Software maintenance entitles customers to unspecified upgrades, bug fixes and patch releases. Additional services, including an annual Remote System Health Assessment and biweekly technical webinar education, are offered as project-based consulting or through our membership collaborative.

- ***Vocera University.*** We provide hands-on, interactive educational experience through classroom training, distance learning or customized courseware covering best practices, implementation and use of our solutions. Training courses are provided for systems administrators, IT professionals and industry-specific, end-user educators.

Sales and marketing

Sales

Our sales employees call on hospitals and healthcare systems in the United States, Canada, the United Kingdom, Australia, New Zealand and several countries in the Middle East. As of December 31, 2021, we had 179 sales and account support employees. The sales team is organized to allow us to better serve our customers and to support the different elements of our sales strategy. We supplement our sales organization by utilizing U.S. government-authorized resellers to facilitate our sales to Veterans Administration and Department of Defense healthcare facilities. We also use resellers in certain vertical markets in the United States, as well as in international markets to supplement our sales efforts. A specialized group of our sales team focuses on the development of new customer relationships with large integrated health systems and government healthcare facilities. We enhance our sales efforts by including individuals with nursing backgrounds in our sales staff to address clinical uses with, and provide utilization advice to, customers and potential customers. We have also staffed our sales team with system engineers who focus on the technical elements of system optimization, particularly wireless, and overall product configuration. We have a small direct sales team to focus on developing our non-healthcare business, including hospitality, energy, education and other mission-critical mobile work environments.

Marketing

Our marketing efforts focus on building awareness and generating demand. We believe that continuing to increase our brand recognition is important for the growth of our business as well as generating demand for our solutions. As of December 31, 2021, we had 40 employees in marketing, product management and business development.

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

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

Customers

Our solutions have been selected by nearly 2,800 facilities worldwide. Of these, over 2,300 are hospitals and other healthcare facilities, and over 400 are outside of the United States. Our healthcare customers include national and international health and hospital systems, large and medium-sized independent and academic hospitals, small hospitals and healthcare facilities, and U.S. governmental hospitals and care facilities.

Competition

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

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

The most significant alternative with which we compete for new sales in hospitals is smartphone applications. These smartphone applications do not have the system intelligence, integrated workflow and convenience of our communication and workflow solutions and are primarily focused on basic text messaging and simple communications.

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

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

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

- comprehensiveness of the solution, the features provided and the ability to purchase the complete solution from a single vendor
- product performance and reliability
- the initial cost and ongoing cost of ownership
- customer service and support capabilities
- clinical expertise and our deep understanding of clinical workflows and communications challenges

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

Research and development

Our continued investment in research and development is critical to our business. We have teams of engineers with expertise in various fields, including software, firmware, database design, applications, speech recognition, wireless communication and hardware design. We employ research and development personnel in San Jose, California; San Diego, California; Fort Wayne, Indiana; Orlando, Florida; Toronto, Canada; Reading, United Kingdom, and Bangalore, India. There were 211 full-time research and development employees as of December 31, 2021. Finally, we have periodically engaged outsourced development firms and contractors to help us with the development and quality assurance testing of certain elements of our software offerings.

Intellectual property

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

We held 33 U.S. patents as of December 31, 2021, including patents on many capabilities of our software platform and wearable devices. The expiration dates of these patents range from 2022 through 2036. One or more utility patents have also been issued in Australia, Canada, India, Japan and the European Patent Office (with validation in Germany, the United Kingdom and the Netherlands). A European Community design patent has been issued that protects the design in multiple European jurisdictions.

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

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

Manufacturing operations and suppliers

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

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

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

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

Employees and Workforce Management

As of December 31, 2021, we had 745 employees dedicated to our mission of improving the lives of healthcare professionals and patients. These consist of 20 in manufacturing and quality operations, 211 in research and development, 219 in sales and marketing, 224 in services and support and 71 in general and administrative. Our workforce is distributed globally across 6 countries with 586 employees located in the U.S. and 159 located outside the U.S. None of our employees are covered by a collective bargaining agreement or are represented by a labor union. We consider our company culture to be a unique asset, and we believe we have maintained excellent relations with our employees.

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

At Vocera, our people are our greatest asset, a competitive advantage, and are the core component behind our every success. The cultural values we put into action are: build with respect, embrace innovation, think customer first, drive for results and lead with passion. These values are the framework we align with to hire, train, manage and assess the performance of our global employees. We believe these values differentiate us and, in part, allowed us to consistently retain our employees throughout fiscal year 2021, as our attrition rate continues to be lower than benchmark data. Our employee average tenure globally is 4.8 years.

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

Diversity, Equity, Inclusion, and Belonging: We embrace diversity and inclusion and strive to provide a rich environment with diverse skills, backgrounds, and perspectives. As of December 31, 2021, 34% of global employees, 28% of leadership positions, and 33% of our board of directors identified as female. In terms of racial and ethnic diversity, 34% of our employees in the United States self-identified as part of a minority group. At Vocera we are committed to diversity, equity, and inclusion. In 2021, we measured our employees' perceptions on this topic and scored at or above industry benchmark. 2021 was a year of program development and growth around this topic including: a comprehensive internal assessment, internal communications campaign, global listening tour, multiple diversity, equity, inclusion, and belonging virtual events, employee resource group development, required management training, and the publishing of our diversity, equity, inclusion, and belonging statement and commitment.

Employee Well-being and Resilience: We provide comprehensive benefits related to health, wellness, mental health and family resources designed to meet the needs of our diverse global workforce. Employee resilience, physical and psychological safety is of paramount importance to us in any year and was of particular focus in 2021 in light of the ongoing COVID-19 pandemic. We enhanced and promoted programs, events, and resources to support our employees' physical, financial, social, emotional, and family's well-being through our Vocera on Wellness and Employee Assistance Programs. As part of our ongoing response to the pandemic, we provide PPE to our frontline employees, continue to implement new safety protocols, enhance utilization of existing productivity and collaboration tools, and establish structures for timely communication and decision making throughout the changing environment. As a partner to healthcare providers, we connect our purpose and align our safety requirements to stand shoulder to shoulder with our customers. We facilitate frequent town halls to clearly articulate expectations and engage in meaningful dialogue with all employees. As a result of these efforts, we maintain high employee satisfaction results.

People Development: We believe in investing in our employees, and their professional growth and development is a priority for our company. We engage in detailed discussions around succession planning and talent development to achieve business results at all levels. We have robust employee development review discussions where high-performing and high potential employees are identified for future growth opportunities, as well as succession planning for future critical leadership positions. Actions and development plans as a result of this work are ongoing throughout the year. With an emphasis on supporting women in navigating and accelerating their careers, a cohort of employees participated in a career advancement program. With an added focus on developing our leaders, our people managers attended management essentials sessions, and we hosted a customized year-long leadership development program focused on our top talent and future leaders. Due to the prolonged nature of the pandemic, we offered leaders additional training to maintain high employee engagement in a largely remote working environment.

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

Backlog

Our backlog of undelivered orders, which includes non-cancellable and cancellable amounts, was $162.1 million and $109.2 million at December 31, 2021 and 2020, respectively. Of the current backlog, all but $84.2 million is expected to be delivered in 2022.

Government regulations and standards

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

HIPAA privacy and security standards

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

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

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

Medical device regulation

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

Electrical standards and FCC regulations

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

Available information

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

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

Item 1A. Risk Factors

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

Summary of Risk Factors

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

- The Transaction (as defined herein), the pendency of the Transaction or our failure to complete the Transaction could have a material adverse effect on our business, results of operations, financial condition and stock price.
- We have incurred significant losses in the past and will likely experience losses in the future.
- We depend on sales in the healthcare market for the majority of our revenue, and a decrease in sales in the healthcare market would harm our business.
- Our sales cycle and our deployment timelines can be lengthy and unpredictable, which may cause our revenue and operating results to fluctuate significantly.
- If we fail to offer high-quality products and services, our operating results and our ability to sell these in the future will be harmed.
- We 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 depend on some sole source and limited source suppliers, and if we are unable to source our components from them, our business and operating results could be harmed.
- Because we depend on contract manufacturers and original design manufacturers, our operations could be harmed and we could lose sales if we encounter problems with these manufacturers.
- If we fail to forecast our manufacturing requirements accurately or fail to properly manage our inventory with our contract manufacturers, we could incur additional costs or experience manufacturing delays that could impact the timing of our revenue recognition and adversely affect our operating results.
- If we fail to successfully develop and introduce new solutions and features to existing solutions, our revenue, operating results, and reputation could suffer.
- The COVID-19 outbreak has had a material impact on the U.S. and global economies and could have a material adverse impact on our employees, suppliers, manufacturing and customers, which could adversely and materially impact our business, financial condition and results of operations.
- Our business has gone through cycles of expansion, relative stability and contraction, and if we are not able to manage such cycles effectively, our operating results may suffer.
- Our revenue and operating results have fluctuated, and are likely to continue to fluctuate, making our quarterly results difficult to predict, which may cause us to miss analyst expectations and may cause the price of our common stock to decline.
- Developments in the healthcare industry and governing regulations have negatively affected and may continue to negatively affect our business.
- If we fail to increase market awareness of our brand and solutions, and expand our sales and marketing operations, our business could be harmed.
- Failure to protect our information technology infrastructure against cyber-based attacks, network security breaches, service interruptions, or data corruption could significantly disrupt our operations and adversely affect our business and operating results.
- Our international operations subject us, and may increasingly subject us in the future, to operational, financial, economic and political risks abroad.
- Our efforts to sell our solutions in non-healthcare markets may 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.
- We have indebtedness in the form of convertible senior notes. The provisions of indenture for the 2023 notes and 2026 notes (the Notes), accounting method for the Notes and capped call transactions entered into related to the Notes could have a material effect on our operating results, value of the Notes and our common stock or may deter or prevent a business combination.

Risks related to our business and industry

The Transaction, the pendency of the Transaction or our failure to complete the Transaction could have a material adverse effect on our business, results of operations, financial condition and stock price.

On January 6, 2022, we entered into an Agreement and Plan of Merger (the "Merger Agreement"), with Stryker Corporation, a Michigan corporation ("Parent" or "Stryker"), and Voice Merger Sub Corp., a Delaware corporation and a direct or indirect wholly owned subsidiary of Parent ("Merger Sub" or "Purchaser"). The Merger Agreement provides that, subject to the terms and conditions of the Merger Agreement, Merger Sub would commence a cash tender offer (the "Offer") to purchase all of the outstanding shares of our common stock at a price per share equal to $79.25 (the "merger consideration"), net to the seller in cash, without interest, and subject to withholding taxes required by applicable law (the "Offer Price").

Following the expiration of the Offer and the acceptance by Merger Sub of the tendered shares in the Offer, on the terms and subject to the conditions in the Merger Agreement, Merger Sub would merge with and into Vocera, with Vocera continuing as the surviving corporation and becoming a wholly owned subsidiary of Stryker (the "Merger" and collectively with the Offer, the "Transaction"), and each then-outstanding share of our common stock (with certain limited exceptions) would be converted into the right to receive the Offer Price. Consummation of the Transaction is subject to various conditions, including, in respect of Merger Sub's obligation to purchase and accept the tendered shares in the Offer, the condition that the number of shares validly tendered and not properly withdrawn prior to the Expiration Time (as defined in the Merger Agreement) is, when added to the shares, if any, owned by Parent, Merger Sub, or any subsidiary of Parent, represents at least a majority of all shares of our common stock then outstanding. The tender offer expires at one minute after 11:59 p.m., Eastern time, on February 22, 2022. The Transaction is expected to close in the first quarter of 2022, subject to the satisfaction of customary closing conditions. However, there is no assurance that all of the various conditions to the Transactions will be satisfied, or that the Transaction will be completed on the proposed terms pursuant to the Merger Agreement, within the expected timeframe, or at all. Furthermore, there are additional inherent risks to the Transaction, including the risks detailed below.

During the period prior to the closing of the Transaction, our business is exposed to certain inherent risks due to the effect of the announcement or pendency of the Transaction on our business relationships, financial condition, operating results and business, including:

- potential uncertainty in the marketplace, which could lead current and prospective customers to purchase offerings from other providers or delay purchasing from us.
- the possibility of disruption to our business and operations, including diversion of management attention and resources from ongoing business operations.
- the inability to attract, hire and retain key personnel, and the possibility that our current employees could be distracted, and that their productivity may decline as a result, due to uncertainty regarding the Transaction.
- the inability to pursue alternative business opportunities or make changes to our business pending the completion of the Transaction, and other restrictions on our ability to conduct our business contained in the Merger Agreement.
- unexpected costs, fees, expenses and charges related to the Merger Agreement and the Transaction.
- other developments beyond our control, including, but not limited to, changes in domestic or global economic conditions, political conditions, regulatory requirements, licensing requirements and tax matters.

The Transaction may be delayed, and may ultimately not be completed, due to a number of factors, including:

- less than the requisite percentage of our stockholders support the proposed Transaction and tender their shares.
- the possibility that competing offers or acquisition proposals for our business will be made.
- stockholder litigation, which could result in significant costs of defense, indemnification and liability.
- the failure by Parent and Merger Sub to obtain the necessary financing to complete the Transaction.
- the failure to satisfy any or all conditions to the completion of the Transaction, including the possibility that a Company Material Adverse Effect (as defined in the Merger Agreement) would permit Parent not to close the Transaction.
- the occurrence of any other event, change or other circumstance that could give rise to the termination of the Merger Agreement, including in circumstances that would require us to pay a termination fee or other expenses.

If the Transaction does not close, our business and stockholders would be exposed to additional risks, including:

- to the extent that the current market price of our stock reflects an assumption that the Transaction will be completed, the price of our common stock could decrease if the Transaction is not completed.
- investor confidence could decline, additional stockholder litigation could be brought against us, relationships with existing and prospective customers, service providers, investors, lenders and other business partners may be adversely impacted, we may be unable to retain key personnel, and profitability may be adversely impacted due to costs incurred in connection with the pending Transaction.

- the requirement that we pay a termination fee of $108.7 million to Parent if the Merger Agreement is terminated in certain circumstances.

Even if successfully completed, the Transaction has certain consequences and poses certain risks to our stockholders, including:

- the fact that receipt of the all-cash per share consideration under the Merger Agreement will generally be taxable to stockholders that are treated as U.S. holders for U.S. federal income tax purposes.
- the fact that, if the Transaction is completed, we will no longer operate as an independent public company and our stockholders will forgo the opportunity to realize potential growth and profits, including any potential growth in sales and revenues that could have resulted if we had remained independent, in future prices for our common stock in excess of the $79.25 per share offer price.

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 $8.5 million for the year ended December 31, 2021. As of December 31, 2021, we had an accumulated deficit of $153.3 million. If we cannot make consistent progress toward future profitability, our business and our stock price may be adversely affected.

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

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

To date, substantially all of our revenue has been derived from sales to the healthcare market and, in particular, hospitals. Sales to the healthcare market accounted for 98%, 98% and 96% of our revenue for the years ended December 31, 2021, 2020 and 2019, respectively. We anticipate that sales to the healthcare market will represent a significant portion of our revenue for the foreseeable future.

Most of our solutions require a substantial upfront investment by new customers. The cost of the initial deployment depends on the number of users and departments involved, the size and age of the hospital and the condition of the existing wireless and technology infrastructure, if any, within the hospital. Even if hospital personnel determine that our solutions provide compelling benefits over their existing communications methods, their hospitals may not have, or may not be willing to spend, the resources necessary to install and maintain wireless and technology infrastructure to initially deploy and support our solutions or expand our solutions to other departments or users. Hospitals face significant budget constraints from the COVID-19 pandemic, as they have had to postpone elective procedures that provide a significant portion of their revenue. Hospital budgets are also constrained by unpredictable patient population trends and commercial reimbursements, and increasing demands from, and competition for, patients. In addition, both governmental and commercial hospitals are experiencing lower Medicare reimbursement rates and higher compliance demands, which add to these budget pressures. Also as part of the tax reform law that came into effect in December 2017, the tax penalty for violating the individual health insurance mandate under the Patient Protection and Affordable Care Act of 2010 (ACA) was set to zero effective in 2019, essentially repealing it. It is uncertain if there will be changes to the ACA, but there have been attempts in the past to repeal or amend the ACA, as well as continue to undertake other healthcare reforms. As a consequence of these regulatory and other factors, hospitals may delay or reduce their spending, which may cause slowdowns and deferral of orders for our solutions, or customers may choose other less expensive solutions, both of which could negatively impact our sales. We might not be able to sustain or increase our revenue from sales of our solutions, or achieve the growth rates that we envision, if hospitals continue to face significant budgetary constraints and reduce their spending on communications systems.

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

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

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

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

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

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

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

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

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

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

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

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

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

We depend on sole and limited source suppliers for several hardware components of our solutions, including our batteries and integrated circuits. We purchase inventory generally through individual purchase orders. Any of these suppliers could cease production of our components, cease to provide the necessary levels of support for our use of their components, experience capacity constraints, material shortages, work stoppages, epidemics or contagious diseases, such as the coronavirus outbreak, that negatively impact them and their suppliers, financial difficulties, cost increases or other reductions or disruptions in output, cease operations or be acquired by or enter into exclusive arrangements with, a competitor. For example, we have experienced, and may continue to experience periodic delays in deliveries from our suppliers as a result of the COVID-19 pandemic. These suppliers typically rely on purchase orders rather than long-term contracts with their suppliers, and as a result, the supplier may not be able to secure sufficient materials at reasonable prices or of acceptable quality to build our components in a timely manner.

Any of these circumstances could cause interruptions or delays in the delivery of our solutions to our customers, and this may force us to seek components from alternative sources, which may not have the required specifications, or be available in time to meet demand or on commercially reasonable terms, if at all. Any of these circumstances may also force us to redesign our solutions to incorporate a component from an alternative source if a component becomes unavailable.

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

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

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

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

Sercomm, SMTC, other contract manufacturers or ODMs may experience problems that could impact the quantity and quality of hardware components of our solution, including disruptions in their manufacturing operations due to equipment breakdowns, labor strikes or shortages, component or material shortages and cost increases. The majority of the hardware components of our solution are manufactured in Asia or Mexico, and adverse changes in political or economic circumstances, or health related issues such as epidemics or contagious diseases, in those locations could also disrupt our supply and quality of components of our solutions. For example, there is currently a global shortage of semiconductors that are used in a wide variety of products, including ours. Our contract manufacturers currently have an adequate supply of semiconductors to satisfy our expected demand for 2022, but a prolonged shortage could result in manufacturing delays for our products. In addition, U.S. government officials have imposed changes in trade, tariffs, fiscal and tax policies and may do so in the future, and any such changes in the U.S. or in other countries from which we source components of our products could adversely affect our business.

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

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

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

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

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

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

The ongoing outbreak of coronavirus, SARS-CoV-2 (COVID-19) continues to be a global pandemic and both a public health and economic emergency. Many federal, state and local governments and private entities have mandated and lifted various restrictions, including travel restrictions, restrictions on public gatherings, stay at home orders and advisories and quarantining of people who may have been exposed to the virus. As the COVID-19 pandemic is complex and rapidly evolving, our business may be negatively affected for a prolonged period of time. At this point, we cannot reasonably estimate the duration and severity of this pandemic, which could have a material adverse impact on our business, results of operations, financial position and cash flows.

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

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

We have also experienced some disruptions in our supply chain and our manufacturers have similarly experienced disruptions in their supply chains. To the extent our suppliers prioritize the manufacturing of other products or experience facility or business disruptions due to sick employees, stay-at-home orders, supply chain disruptions or otherwise, we may be unable to maintain a sufficient supply of our products to meet demand. Additionally, our employees, in many cases, are working remotely and using various technologies to perform their functions, which may create security risks, inefficiencies and reduced productivity, and reduce the effectiveness of our sales team.

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

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

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

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

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

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

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

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

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

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

- the ongoing impact of the COVID-19 pandemic;
- the financial health of our healthcare customers and budgetary constraints on their ability to upgrade their communications, particularly in light of the pandemic;
- the availability of government funding for healthcare facilities operated by the United States federal, state and local governments;
- changes in customer purchasing patterns or sales cycles;
- market acceptance of our Smartbadge and its impact on orders for our existing Badge and related software;

- changes in the regulatory environment affecting our healthcare customers, including impediments to their ability to obtain reimbursement for their services;
- our ability to expand and improve our sales and marketing operations;
- our ability to successfully integrate acquired businesses, technologies or assets;
- the announcement of new significant contracts or relationships;
- the procurement and deployment cycles of our healthcare customers and the length of our sales cycles;
- changes in how healthcare operating and capital budgets are administered by our customers;
- changes in customer deployment timelines;
- variations in the amount of orders booked in a prior quarter but not delivered until later quarters;
- our mix of solutions and the varying revenue recognition rules that apply;
- pricing, including discounts by us or our competitors;
- our ability to expand into non-healthcare markets;
- our ability to develop significant new reseller relationships and maintain existing reseller relationships;
- the financial health of our resellers;
- our ability to successfully deploy our solutions in a timely manner;
- our ability to sell and integrate third-party products and services, and our customer's satisfaction with those third-party products and services;
- our ability to forecast demand and manage lead times for the manufacture of our solutions;
- our ability to develop and introduce new solutions and features to existing solutions that achieve market acceptance;
- the announcement of a new product, which may cause sales cycles to lengthen;
- federal government shutdowns;
- occurrence of health epidemics or contagious diseases and potential effects on our business and manufacturing operations;
- fluctuations in foreign currencies in the international markets in which we operate; and
- future accounting pronouncements and changes in accounting policies.

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

We have acquired, and in the future may acquire, complementary businesses, technologies or assets that we believe to be strategic. For example, in the prior fiscal year we acquired EASE, a cloud-based communication platform and mobile application, to help enhance care team communication with patients and families, and in the current year, we acquired PatientSafe, a clinical communication and collaboration (CC&C) solution designed for hospitals and health systems that have invested in their EHR mobile workflow software, are smartphone centric, and may prefer a cloud-based CC&C solution. We may not achieve the anticipated strategic or financial benefits, or be successful in integrating EASE or PatientSafe or any acquired businesses, technologies or assets. If we cannot effectively integrate the acquired business and products into our business, we may not achieve market acceptance for, or derive significant revenue from, these new solutions.

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

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

If we were to proceed with one or more additional significant acquisitions in which the consideration included cash, we could be required to use a substantial portion of our available cash. To the extent we issue shares of capital stock or other rights to purchase capital stock, including options and warrants, the ownership of existing stockholders would be diluted. In addition, acquisitions may result in the incurrence of debt, contingent liabilities, large write-offs, or other unanticipated costs, events or circumstances, any of which could harm our operating results.

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

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

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

The members of our senior management and other key personnel are at-will employees and may terminate their employment at any time without notice. If one or more members of our senior management terminate their employment, we may not be able to find qualified individuals to replace them on a timely basis or at all, and our senior management may need to divert their attention from other aspects of our business. Former employees may also become employees of a competitor. We may also have to pay additional compensation to attract and retain key personnel. We also anticipate hiring additional engineering, marketing and sales, and services personnel to grow our business. Often, significant amounts of time and resources are required to train these personnel. We may incur significant costs to attract, integrate and retain them, and we may lose them to a competitor or another company before we realize the benefit of our investments in them.

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

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

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

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

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

Federal budget activities also impact our customers. Our customers include healthcare facilities run by the Department of Defense and the U.S. Department of Veterans Affairs. During the years ended December 31, 2021, 2020 and 2019, we generated approximately 20%, 18% and 17%, respectively, of our revenue from these customers. Our reseller to the Department of Defense and the U.S. Department of Veterans Affairs represented 17% and 33% of our accounts receivable as of December 31, 2021 and 2020, respectively. These customers have been and may continue to be impacted by budgetary and legislative actions.

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

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

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

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

We intend to continue to add personnel and resources in sales and marketing as we focus on expanding awareness of our brand and solutions and capitalize on sales opportunities with new and existing customers. Our efforts to improve sales of our solutions will result in an increase in our sales and marketing expense and general and administrative expense, and these efforts may not be successful. Some newly hired sales and marketing personnel may subsequently be determined to be unproductive and have to be replaced, resulting in operational and sales delays and incremental costs. If we are unable to significantly increase the awareness of our brand and solutions or effectively manage the costs associated with these efforts, our business, financial condition and operating results could be harmed.

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

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

During fiscal year 2020, one of our vendors, SolarWinds, was the victim of a cyberattack that inserted a vulnerability in their platform. We use SolarWinds services for our internal corporate network so this introduced a potential vulnerability in our internal systems. We have removed the vulnerable software from our network and have not found any indication that the vulnerability was exploited. There are still uncertainties about the full scope of this cyberattack and we may learn of other vulnerabilities and potential network intrusions by third parties.

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

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

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

We believe that a significant opportunity exists to continue to sell our products to healthcare facilities in the Veterans Administration and Department of Defense (DoD). These customers require independent certification of compliance with specific requirements relating to encryption, security, interoperability and scalability, including Federal Information Processing Standard (FIPS) 140-2 and, as to DoD, certification by its Joint Interoperability and Test Command and under its Information Assurance Certification and Accreditation Process. We have received certification under certain of these standards for military-specific configurations of our solution incorporating our Badge and Smartbadge. We continue to carry out further compliance activities and recertifications, as required. A failure on our part to achieve and maintain compliance and to respond to new threats and vulnerabilities, both as to current products and as to new product versions, could adversely impact our revenue.

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

Although we derive a relatively small portion of our revenue from customers outside the United States, we believe that non-U.S. customers could represent an increasing share of our revenue in the future. During the years ended December 31, 2021, 2020 and 2019, we generated 9.4%, 10.7% and 8.7% of our revenue, respectively, from customers outside of the United States, including Canada, the United Kingdom, Australia, New Zealand and Middle Eastern countries including the United Arab Emirates, Saudi Arabia and Qatar. We also operate an innovation center in India and a sales office in Dubai, United Arab Emirates. Accordingly, we are subject to risks and challenges that we would not otherwise face if we conducted our business solely in the United States, including:

- challenges incorporating non-English speech recognition capabilities into our solutions if we expand into non-English speaking markets;
- difficulties integrating our solutions with wireless infrastructures with which we do not have experience;
- difficulties integrating local dialing plans and applicable PBX standards;
- challenges associated with delivering support, training and documentation in several languages;
- difficulties in staffing and managing personnel and resellers;
- the need to comply with a wide variety of foreign laws and regulations, including increasingly stringent data privacy regulations, requirements for export controls for encryption technology, employment laws, changes in tax laws and tax audits by government agencies;
- political and economic instability in, or foreign conflicts that involve or affect, the countries of our customers;
- the impacts associated with epidemics or contagious diseases;
- adverse effects on us directly, or on our customers and suppliers, of changes in trade, fiscal or tax policies, including the imposition of tariffs;
- difficulties in collecting accounts receivable and longer accounts receivable payment cycles;
- exposure to competitors who are more familiar with local markets;

- risks associated with the Foreign Corrupt Practices Act and local anti-bribery law compliance;
- difficulties associated with resolving contract disputes in foreign countries with varied legal systems;
- limited or unfavorable intellectual property protection in some countries; and
- currency exchange rate fluctuations, which could affect the price of our solutions relative to locally produced solutions.

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

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

In recent years, we have actively engaged in sales efforts to customers outside the healthcare markets, including hospitality, retail, energy, education and other mobile work environments. We may not be successful in further penetrating the non-healthcare markets upon which we are initially focusing, or other new markets. To date, our solutions have been selected by over 450 customers in non-healthcare markets. Total revenue from non-healthcare customers accounted for 2%, 2% and 4% of our revenue for the years ended December 31, 2021, 2020 and 2019, respectively. If we cannot maintain these customers by providing solutions that meet their requirements, if we cannot successfully expand our solutions in non-healthcare markets, or if adoption of our solutions remains slow, we may not obtain significant revenue from these markets. We may experience challenges as we expand in non-healthcare markets, including pricing pressure on our solutions, budget constraints, and technical issues as we adapt our solutions for the requirements of new markets. For example, some of our hospitality and retail customers have been significantly impacted by the COVID-19 pandemic and they have been forced to close locations and face significant revenue declines. Our solutions also may not contain the functionality required by these non-healthcare markets, may be too expensive or may not sufficiently differentiate us from competing solutions such that customers can justify deploying our solutions.

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

We generally recognize revenue from our customer subscription and support contracts and extended warranty contracts ratably over the contract term, in some cases subject to an early termination right. Revenue from our subscription and support contracts accounted for 40%, 40% and 38% of our revenue for years ended December 31, 2021, 2020, and 2019, respectively. A portion of the revenue we report in each quarter is derived from the recognition of deferred revenue relating to subscription and support contracts entered into during previous quarters. Consequently, a decline in new or renewed subscription and support, extended warranty contracts or subscription agreements by our customers in any one quarter may not be immediately reflected in our revenue for that quarter. Such a decline, however, will negatively affect our revenue in future quarters. Accordingly, the effect of significant downturns in sales and market acceptance of our services and potential changes in our rate of renewals may not be fully reflected in our operating results until future periods.

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

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

In addition, the use and disclosure of personal health information, non-health personal information is also 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 (including but not limited to regulatory enforcement actions), which may result in adverse publicity and negatively affect our business.

For example, in May 2016, the EU formally adopted the General Data Protection Regulation (GDPR), which became effective in May 2018. The GDPR greatly increased the European Commission’s jurisdictional reach of its laws and adds a broad array of requirements for handling personal information, including, for example, requirements to establish a legal basis for processing, higher standards for obtaining consent from individuals to process their personal information, more robust disclosures to individuals and a strengthened individual data rights regime, requirements to implement safeguards to protect the security and confidentiality of personal information that requires the adoption of administrative, physical and technical safeguards, shortened timelines for data breach notifications to appropriate data protection authorities or data subjects, limitations on retention and secondary use of information, increased requirements pertaining to health data and additional requirements that we impose certain contractual obligations on third-party processors in connection with the processing of the personal information. EU member states are tasked under the GDPR to enact, and have enacted, certain implementing legislation that adds to and/or further interprets the GDPR requirements and potentially extends our obligations and potential liability for failing to meet such obligations. The GDPR, together with national legislation, regulations and guidelines of the EU member states governing the processing of personal information, impose strict obligations and restrictions on the ability to collect, use, retain, protect, disclose, transfer and otherwise process personal information. In particular, the GDPR includes obligations and restrictions concerning the consent and rights of individuals to whom the personal information relates, the transfer of personal information out of the European Economic Area, security breach notifications and the security and confidentiality of personal information. The GDPR authorizes fines for certain violations of up to 4% of global annual revenue or €20 million, whichever is greater, and other administrative penalties. Additionally, the United Kingdom (UK) implemented the Data Protection Act effective in May 2018 and statutorily amended in 2019, that substantially implements the GDPR and contains provisions, including UK-specific derogations, for how GDPR is applied in the UK. Since the beginning of 2021 (when the transitional period following Brexit expired), we also have to continue to comply with the GDPR and the Data Protection Act, with each regime having the ability to fine up to the greater of €20 million (£17 million) or 4% of global revenue. The relationship between the UK and the EU remains uncertain, for example how data transfers between the UK and the EU and other jurisdictions will be treated and the role of the UK’s supervisory authority. For example, on June 28, 2021, the European Commission adopted the adequacy decision (the “UK Adequacy Decision”) in the wake of a non-binding vote by the European Parliament against the then-draft UK Adequacy Decision the month prior. Consequently, personal data can continue to flow from the EEA to the UK without the need for appropriate safeguards. The UK Adequacy Decision includes a “sunset clause”, rendering the decision valid for four years only, after which it will be reviewed by the European Commission and renewed only if the European Commission considers that the UK continues to ensure an adequate level of data protection. The European Commission also stated that it would intervene at any point within the four years if the UK deviates from the level of protection presently in place. If this adequacy decision reversed by the European Commission, it would require that companies implement protection measures such as the standard contractual clauses, or “Standard contractual Clauses,” for data transfers between the EU and the UK. These changes will lead to additional costs as we try to ensure compliance with new privacy legislation and will increase our overall risk exposure.

The costs of compliance with, and other burdens imposed by, such laws and regulations that are applicable to our business operations may limit the use and adoption of our services and reduce overall demand for them. Changes in these legislations may add additional complexity, variation in requirements, restrictions and potential legal risk, require additional investment in resources for compliance programs, could impact strategies and availability of previously useful data, and could result in increased compliance costs and/or changes in business practices and policies.

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

On June 4, 2021, the European Commission finalized new versions of the Standard Contractual Clauses, with the implementing decision, or “Implementing Decision,” now in effect as of June 27, 2021. Under the Implementing Decision, the revised clauses must be used for relevant new data transfers from September 27, 2021 and existing standard contractual clauses arrangements must be migrated to the revised clauses by December 27, 2022. To comply with the Implementing Decision and the new Standard Contractual Clauses, we may need to implement additional safeguards to further enhance the security of data transferred out of the European Economic Area, which could increase our compliance costs, expose us to further regulatory scrutiny and liability, and adversely affect our business.

Additionally, other countries (e.g., Australia and Japan) have adopted certain legal requirements for cross-border transfers of personal information. These obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other requirements or our practices. Further, since the transition period for Brexit ended December 31, 2020, there remains some uncertainty regarding cross-border data transfers from the EU to the United Kingdom following the June 2021 UK Adequacy Decision. The costs of compliance with, and the other burdens imposed by, these and other laws or regulatory actions may prevent us from selling our solutions or increase the costs associated with selling our solutions and may affect our ability to invest in or jointly develop solutions in the United States and in foreign jurisdictions. If we are required to implement additional measures to transfer data from foreign jurisdictions, such as the EU, this could increase our compliance costs, and could adversely affect our business, financial condition and results of operations. Further, we cannot guarantee that our privacy and security policies and practices will be found sufficient to protect us from liability or adverse publicity relating to the privacy and security of personal information.

Additionally, several states have begun enacting new data privacy laws. For example, California recently enacted legislation, the California Consumer Privacy Act (CCPA), that, among other things, requires covered companies to provide new disclosures to California consumers, and afford such consumers new abilities to opt out of certain sales of personal information. The CCPA took effect on January 1, 2020 and became enforceable by the California Attorney General on July 1, 2020. The CCPA has been amended on multiple occasions and additional regulations of the California Attorney General came into effect on August 14, 2020 and were most recently amended on March 15, 2021. However, aspects of the CCPA and its interpretation remain unclear. The effects of the CCPA are significant and may require us to modify our data processing practices and policies and to incur substantial costs and expenses in an effort to comply. Moreover, a new privacy law, the California Privacy Rights Act (CPRA) was recently approved by California voters in connection with the election on November 3, 2020. The CPRA creates obligations relating to consumer data beginning on January 1, 2022, with implementing regulations expected on or before July 1, 2022, and enforcement beginning July 1, 2023. The CCPA requires (and the CPRA will require) covered companies to, among other things, provide new disclosures to California consumers, and affords such consumers new privacy rights such as the ability to opt-out of certain sales of personal information and expanded rights to access and require deletion of their personal information, opt out of certain personal information sharing, and receive detailed information about how their personal information is collected, used and shared. The CCPA provides for civil penalties for violations, as well as a private right of action for security breaches that may increase security breach litigation. Potential uncertainty surrounding the CCPA and CPRA may increase our compliance costs and potential liability, particularly in the event of a data breach, and could have a material adverse effect on our business, including how we use personal information, our financial condition, the results of our operations or prospects. The CCPA has also prompted a number of proposals for new federal and state privacy legislation that, if passed, could increase our potential liability, increase our compliance costs and adversely affect our business. Two states have recently passed personal information laws: the Colorado Privacy Act, which goes into effect on July 1, 2023; and Virginia’s Consumer Data Protection Act, which goes into effect on January 1, 2023.

The interplay of federal and state laws (e.g., in addition to California, Massachusetts and Nevada have adopted laws requiring the implementation of certain security measures to protect personal information, and all 50 states and the District of Columbia, Puerto Rico and Guam, have adopted breach notification laws) may be subject to varying interpretations by courts and government agencies, creating complex compliance issues for us and our customers and potentially exposing us to additional expense, adverse publicity and liability. Further, as regulatory focus on privacy, security and data use issues continues to increase and laws and regulations concerning the protection of personal information expand and become more complex, these potential risks to products and services could intensify.

As mentioned, changing definitions of personal data and information may also limit or inhibit our ability to operate or expand our business, including limiting strategic partnerships that may involve the sharing of data. Also, some jurisdictions require that certain types of data be retained on servers within these jurisdictions. Our failure to comply with applicable laws, directives, and regulations may result in enforcement action against us, including fines, and damage to our reputation, any of which may have an adverse effect on our business 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, including personal information and PHI. We have implemented programs to detect and alert us to data security incidents. However, because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time, we may be unable to anticipate these techniques or implement adequate preventive measures. Companies are increasingly subject to a wide variety of security incidents, cyber-attacks and other attempts to gain unauthorized access. These threats can come from a variety of sources, ranging in sophistication from an individual hacker to malfeasance by employees, consultants or other service providers to state-sponsored attacks. Cyber threats may be generic, or they may be custom crafted against our information systems. In recent times, cyber-attacks have become more prevalent and much harder to detect and defend against. Our network and storage applications may be vulnerable to cyber-attack, malicious intrusion, malfeasance, loss of data privacy or other significant disruption and may be subject to unauthorized access by hackers, employees, consultants or other service providers. In addition, hardware, software or applications we develop or procure from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. Unauthorized parties may also attempt to gain access to our systems or facilities through fraud, trickery or other forms of deceiving our employees, contractors and temporary staff. If we experience significant data security breaches or fail to detect and appropriately respond to significant data security breaches, we could be exposed to government enforcement actions and private litigation, as well as potentially incur significant costs and diversion of resources to comply with our contractual obligations to notify our customers of such security breaches, particularly with respect to any protected health information affected. Moreover, if a computer security breach affects our systems or results in the unauthorized access, use or disclosure of personal information, our reputation could be materially damaged. In addition, such a breach may require notification to governmental agencies, the media and/or affected individuals pursuant to various federal, state and international privacy and security laws, if applicable, including HIPAA or HITECH and its implementing rules and regulations, as well as regulations promulgated by the Federal Trade Commission and state breach notification laws. We would also be exposed to a risk of loss or litigation and potential liability under laws, regulations and contracts that protect the privacy and security of personal information. For example, as stated above, the CCPA imposes a private right of action for security breaches that could lead to some form of remedy including regulatory scrutiny, fines, private right of action settlements, and other consequences. The financial exposure from the events referenced above could either not be insured against or not be fully covered through any insurance that we may maintain, and there can be no assurance that the limitations of liability in any of our contracts would be enforceable or adequate or would otherwise protect us from liabilities or damages as a result of the events referenced above. Any of the foregoing could have a material adverse effect on our business, reputation, results of operations, financial condition and prospects. In addition, our customers could lose confidence in our ability to protect their information, which could cause them to discontinue using our products or purchasing from us altogether.

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

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

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

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

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

Claims of intellectual property infringement could harm our business.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to our Notes

We have indebtedness in the form of convertible senior notes.

As a result of the Notes offerings, we incurred $265.3 million principal amount of indebtedness, the principal amount of which we may be required to pay at maturity in 2023 and 2026. Holders of the Notes will have the right to require us to repurchase their Notes upon the occurrence of a “fundamental change” (as defined in the indenture governing the Notes) at a purchase price equal to 100% of the principal amount of the Notes to be purchased, plus accrued and unpaid interest, if any. In addition, the indenture for the Notes provides that we are required to repay amounts due under the indenture in the event that there is an event of default for the Notes that results in the principal, premium, if any, and interest, if any, becoming due prior to maturity date of the Notes. There can be no assurance that we will be able to repay this indebtedness when due, or that we will be able to refinance this indebtedness on acceptable terms or at all. In addition, this indebtedness could, among other things:

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

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

Although the Notes are referred to as convertible senior notes, they are effectively subordinated to any of our secured debt and any liabilities of our subsidiaries.

The Notes rank senior in right of payment to any of our indebtedness that is expressly subordinated in right of payment to the Notes; equal in right of payment to all of our existing and future liabilities that are not so subordinated; effectively junior in right of payment to any of our secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities (including trade payables) of our current or future subsidiaries. In the event of our bankruptcy, liquidation, reorganization, or other winding up, our assets that secure debt ranking senior or equal in right of payment to the Notes will be available to pay obligations on the Notes only after the secured debt has been repaid in full from these assets, and the assets of our subsidiaries will be available to pay obligations on the Notes only after all claims senior to the Notes have been repaid in full. There may not be sufficient assets remaining to pay amounts due on any or all of the Notes then outstanding. The indentures governing the Notes do not prohibit us from incurring additional senior debt or secured debt, nor do they prohibit any of our current or future subsidiaries from incurring additional liabilities.

Servicing our debt requires, and will require, a significant amount of cash. We may not have sufficient cash flow to make payments on our debt, which could adversely affect our business, financial condition and results of operations.

Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including the Notes, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations, including the Notes or otherwise.

In addition, our significant indebtedness, combined with our other financial obligations and contractual commitments, could have other important consequences. For example, it could:

- make us more vulnerable to adverse changes in general U.S. and worldwide economic, industry and competitive conditions and adverse changes in government regulation;
- limit our flexibility in planning for, or reacting to, changes in our business and our industry;
- place us at a disadvantage compared to our competitors who have less debt; and
- limit our ability to borrow additional amounts for working capital and other general corporate purposes, including to fund possible acquisitions of, or investments in, complementary businesses, products, services and technologies.

Any of these factors could materially and adversely affect our business, financial condition and results of operations. In addition, if we incur additional indebtedness, the risks related to our business and our ability to service or repay our indebtedness would increase.

Recent and future regulatory actions and other events may adversely affect the trading price and liquidity of the Notes.

We expect that many investors in, and purchasers of, the Notes will employ, or seek to employ, a convertible arbitrage strategy with respect to the Notes. Investors would typically implement such a strategy by selling short the common stock underlying the notes and dynamically adjusting their short position while continuing to hold the notes. Investors may also implement this type of strategy by entering into swaps on our common stock in lieu of or in addition to short selling the common stock.

The SEC and other regulatory and self-regulatory authorities have implemented various rules and taken certain actions, and may in the future adopt additional rules and take other actions, that may impact those engaging in short selling activity involving equity securities (including our common stock). Such rules and actions include Rule 201 of SEC Regulation SHO, the adoption by the Financial Industry Regulatory Authority, Inc. and the national securities exchanges of a “Limit Up-Limit Down” program, the imposition of market-wide circuit breakers that halt trading of securities for certain periods following specific market declines, and the implementation of certain regulatory reforms required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. Any governmental or regulatory action that restricts the ability of the holders the Notes to effect short sales of our common stock, borrow our common stock, or enter into swaps on our common stock could adversely affect the trading price and the liquidity of the Notes.

Volatility in the market price and trading volume of our common stock could adversely impact the trading price of the Notes.

We expect that the trading price of the Notes will be significantly affected by the market price of our common stock. The stock market in recent years has experienced significant price and volume fluctuations that have often been unrelated to the operating performance of companies. The market price of our common stock could fluctuate significantly for many reasons. A decrease in the market price of our common stock would likely adversely impact the trading price of the Notes. The market price of our common stock could also be affected by possible sales of our common stock by investors who view the Notes as a more attractive means of equity participation in us and by hedging or arbitrage trading activity that we expect to develop involving our common stock. This trading activity could, in turn, affect the trading price of the Notes.

We may still incur substantially more debt or take other actions which would intensify the risks discussed above.

We and our subsidiaries may incur substantial additional debt in the future, subject to the restrictions contained in our debt instruments, some of which may be secured debt. We will not be restricted under the terms of the indentures governing the Notes from incurring additional debt, securing existing or future debt, recapitalizing our debt, or taking a number of other actions that are not limited by the terms of the indentures governing the Notes that could have the effect of diminishing our ability to make payments on our debt, including the Notes, when due.

We may not have the ability to raise the funds necessary to settle conversions of the Notes in cash or to repurchase the Notes upon a fundamental change, and our future debt may contain limitations on our ability to pay cash upon conversion or repurchase of the Notes.

Holders of the Notes will have the right, subject to certain conditions and limited exceptions, to require us to repurchase all or a portion of their Notes upon the occurrence of a fundamental change before the maturity date at a fundamental change repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any, In addition, upon conversion of the Notes, unless we elect to deliver solely shares of our common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the Notes being converted. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of the Notes surrendered therefor or pay cash with respect to Notes being converted.

In addition, our ability to repurchase Notes or to pay cash upon conversions of the Notes may be limited by law, regulatory authority, or any agreements governing our future indebtedness. Our failure to repurchase Notes at a time when the repurchase is required by the indenture or to pay any cash upon conversions of the Notes as required by the indenture would constitute a default under the indenture. A default under the indenture or the fundamental change itself could also lead to a default under agreements governing our future indebtedness. If the payment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Notes or to pay cash upon conversions of the notes.

Redemption may adversely affect a holder’s return on the 2026 Notes.

We may not redeem the 2026 Notes prior to March 20, 2024. We may redeem for cash all or any portion of the 2026 Notes (subject to the partial redemption limitation (as defined in the indenture governing the notes)), at our option, on or after March 20, 2024 if the last reported sale price of our common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which we provide notice of redemption at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. As a result, we may choose to redeem some or all of the 2026 Notes, including at times when prevailing interest rates are relatively low. As a result, you may not be able to reinvest the proceeds you receive from the redemption in a comparable security at an effective interest rate as high as the interest rate on your 2026 Notes being redeemed. In addition, a redemption of less than all of the outstanding 2026 Notes will likely harm the liquidity of the market for the unredeemed 2026 Notes following the redemption. Accordingly, if your 2026 Notes are not redeemed in a partial redemption, then you may be unable to sell your 2026 Notes at the times you desire or at favorable prices, if at all, and the trading price of your 2026 Notes may decline.

The conditional conversion feature of the Notes, if triggered, may adversely affect our financial condition and operating results

In the event the conditional conversion feature of the Notes is triggered, holders of the Notes will be entitled to convert their Notes at any time during specified periods at their option. If one or more holders elect to convert their Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders of the Notes do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

During the year ended December 31, 2021, the conditions allowing holders of the 2023 Notes to convert have been met because our stock price traded above the minimum price specified in the Indenture during the year ended December 31, 2021. The 2023

Notes are convertible at the option of the holder until at least March 31, 2022 and are classified as current debt as of December 31, 2021.

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

The accounting method for reflecting the Notes on our balance sheet, accruing amortized interest expense for the Notes and reflecting the underlying shares of our common stock in our reported diluted earnings per share may adversely affect our reported earnings and financial condition. For the fiscal year beginning January 1, 2021, we have elected to early adopt new accounting guidance that was recently released that simplifies the accounting for convertible debt that may be settled in cash (ASU 2020-06), amending Accounting Standards Codification 470-20, Debt with Conversion and Other Options (ASC 470-20). As a result, we recorded the convertible debt securities (including the Notes) entirely as a liability on our balance sheet, net of issuance costs incurred, with interest expense reflecting the cash coupon plus the amortization of the capitalized issuance costs. Additionally, the new guidance modifies the treatment of convertible debt securities that may be settled in cash or shares by requiring the use of the "if-converted" method. Under that method, diluted earnings per share would generally be calculated assuming that all the Notes were converted solely into shares of common stock at the beginning of the reporting period, unless the result would be antidilutive. In addition, in the future, we may, in our sole discretion, irrevocably elect to settle the conversion value of the Notes in cash up to the principal amount being converted. Following such an irrevocable election, we will calculate our diluted earnings per share by assuming that all of the Notes were converted at the beginning of the reporting period and that we issued shares of our common stock to settle the excess, unless the result would be anti-dilutive. The application of the if-converted method may reduce our reported diluted earnings per share. Furthermore, if any of the conditions to the convertibility of the Notes are satisfied, then, under certain conditions, we may be required under applicable accounting standards to reclassify the liability carrying value of the Notes as a current, rather than a long-term, liability. This reclassification could be required even if no noteholders convert their Notes and could materially reduce our reported working capital.

Future sales of our common stock or equity-linked securities in the public market could lower the market price for our common stock and adversely impact the trading price of the Notes.

In the future, we may sell additional shares of our common stock or equity-linked securities to raise capital. In addition, a substantial number of shares of our common stock is reserved for issuance upon the exercise of stock options and upon conversion of the Notes. We cannot predict the size of future issuances or the effect, if any, that they may have on the market price for our common stock. The issuance and sale of substantial amounts of our common stock or equity-linked securities, or the perception that such issuances and sales may occur, could adversely affect the trading price of the Notes and the market price of our common stock and impair our ability to raise capital through the sale of additional equity or equity-linked securities.

Holders of the Notes will not be entitled to any rights with respect to our common stock, but they will be subject to all changes affecting our common stock to the extent satisfaction of our conversion obligation includes shares of our common stock.

Holders of the Notes will not be entitled to any rights with respect to our common stock (including, without limitation, voting rights and rights to receive any dividends or other distributions on our common stock) prior to the conversion date relating to such Notes (if we have elected to settle the relevant conversion by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share)) or the last trading day of the relevant observation period (if we elect to pay and deliver, as the case may be, a combination of cash and shares of our common stock in respect of the relevant conversion), but holders of the Notes will be subject to all changes affecting our common stock. For example, if an amendment is proposed to our restated certificate of incorporation or restated bylaws requiring stockholder approval and the record date for determining the stockholders of record entitled to vote on the amendment occurs prior to the conversion date related to a holder's conversion of its Notes (if we have elected to settle the relevant conversion by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share)) or the last trading day of the relevant observation period (if we elect to pay and deliver, as the case may be, a combination of cash and shares of our common stock in respect of the relevant conversion), such holder will not be entitled to vote on the amendment, although such holder will nevertheless be subject to any changes affecting our common stock.

The conditional conversion feature of the Notes could result in holders of our Notes receiving less than the value of our common stock into which the Notes would otherwise be convertible.

Prior to the close of business on the business day immediately preceding June 15, 2026, a holder may convert 2026 Notes only if specified conditions are met. If the specific conditions for conversion are not met, a holder will not be able to convert 2026 Notes, and a holder may not be able to receive the value of the cash, common stock or a combination of cash and common stock, as applicable, into which the 2026 Notes would otherwise be convertible.

Upon conversion of the Notes, our Note holders may receive less valuable consideration than expected because the value of our common stock may decline after the exercise of conversion rights but before we settle our conversion obligation.

Under the Notes, a converting holder will be exposed to fluctuations in the value of our common stock during the period from the date such holder surrenders Notes for conversion until the date we settle our conversion obligation. For example, upon conversion of the 2026 Notes, we have the option to pay or deliver, as the case may be, cash, shares of our common stock, or a combination of cash and shares of our common stock. If we elect to satisfy our conversion obligation in cash or a combination of cash and shares of our common stock, the amount of consideration that our Note holders will receive upon conversion of their 2026 Notes will be determined by reference to the volume weighted average prices of our common stock for each trading day in a 40 trading day observation period. This period would be: (i), subject to clause (ii), if the relevant conversion date occurs prior to June 15, 2026, the 40 consecutive trading days beginning on, and including, the second trading day immediately succeeding such conversion date; (ii) with respect to any 2026 Notes called for redemption (or deemed called for redemption) and prior to the relevant redemption date, the 40 consecutive trading days beginning on, and including the 41st scheduled trading day immediately preceding such redemption date; and (iii) subject to clause (ii) if the relevant conversion date occurs on or after June 15, 2026, the 40 consecutive trading days beginning on, and including, the 41st scheduled trading day immediately preceding the maturity date. Accordingly, if the price of our common stock decreases during this period, the amount and/or value of consideration a Note holder receives will be adversely affected. In addition, if the market price of our common stock at the end of such period is below the average of the daily volume weighted average prices of our common stock during such period, the value of any shares of our common stock that a Note holder will receive in satisfaction of our conversion obligation will be less than the value used to determine the number of shares that the Note holder will receive. If we elect to satisfy our conversion obligation solely in shares of our common stock upon conversion of the 2026 Notes, we will be required to deliver the shares of our common stock, together with cash for any fractional share, on the second business day following the relevant conversion date. Accordingly, if the price of our common stock decreases during this period, the value of the shares that a Note holder receives will be adversely affected and would be less than the conversion value of the 2026 Notes on the conversion date.

The Notes are not protected by restrictive covenants.

The indentures governing the Notes do not contain any financial or operating covenants or restrictions on the payments of dividends, the incurrence of indebtedness, or the issuance or repurchase of securities by us or any of our subsidiaries. The indentures do not contain any covenants or other provisions to afford protection to holders of the Notes in the event of a fundamental change or other corporate transaction involving us except to the extent described in the indentures governing the Notes.

The increase in the conversion rate for Notes converted in connection with a make-whole fundamental change or a notice of redemption may not adequately compensate Note holders for any lost value of their Notes as a result of such transaction or redemption.

If a make-whole fundamental change occurs prior to the maturity date or if we deliver a notice of redemption, we will, under certain circumstances, increase the conversion rate by a number of additional shares of our common stock for Notes converted in connection with such make-whole fundamental change or Notes called (or deemed called) for redemption that are converted during the related redemption period. The increase in the conversion rate will be determined based on the date on which the make-whole fundamental change occurs or the date we deliver the notice of redemption, as the case may be, and the price paid (or deemed to be paid) per share of our common stock in the make-whole fundamental change or determined with respect to the notice of redemption, as the case may be. The increase in the conversion rate for Notes converted in connection with a make-whole fundamental change or called (or deemed called) for redemption that are converted during the related redemption period may not adequately compensate a Note holder for any lost value of the Notes as a result of such transaction or redemption. Furthermore, if we call only a portion of the outstanding Notes for redemption, only those Notes called (or deemed called) for redemption will become convertible as a result of such call for redemption and only the conversion rate of the Notes converted in connection with such notice of redemption will be increased. Accordingly, Notes not called for redemption will not become convertible if not otherwise convertible at such time and will remain outstanding, and may have reduced liquidity and a resulting reduced trading price.

In addition, for the 2026 Notes, if the price per share of our common stock is greater than $325.00 per share or less than $44.55 per share (in each case, subject to adjustment), no additional shares will be added to the conversion rate. Moreover, in no event will the conversion rate per $1,000 principal amount of 2026 Notes as a result of this adjustment exceed 22.4466 shares of common stock, subject to adjustment. The 2023 Notes contain substantially similar conversion features.

Our obligation to increase the conversion rate for Notes converted in connection with a make-whole fundamental change or Notes called (or deemed called) for redemption that are converted during the related redemption period could be considered a penalty, in which case the enforceability thereof would be subject to general principles of reasonableness and equitable remedies.

The conversion rate of the Notes may not be adjusted for all dilutive events.

The conversion rate of the Notes is subject to adjustment for certain events, including, but not limited to, the issuance of certain stock dividends on our common stock, the issuance of certain rights or warrants, subdivisions, combinations, distributions of capital stock, indebtedness, or assets, cash dividends, and certain issuer tender or exchange offers. However, the conversion rate will not be adjusted for other events, such as a third-party tender or exchange offer or an issuance of our common stock for cash, that may adversely affect the trading price of the Notes or our common stock. An event that adversely affects the value of the Notes may occur, and that event may not result in an adjustment to the conversion rate.

Provisions in the indentures for the Notes may deter or prevent a business combination that may be favorable to our security holders.

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

Some significant restructuring transactions may not constitute a fundamental change, in which case we would not be obligated to offer to repurchase the Notes.

Upon the occurrence of a fundamental change, our Note holders have the right to require us to repurchase all or a portion of their Notes. However, the fundamental change provisions will not afford protection to holders of the Notes in the event of other transactions that could adversely affect the Notes. For example, a significant change in the composition of our board of directors or transactions such as leveraged recapitalizations, refinancings, restructurings, or acquisitions initiated by us may not constitute a fundamental change requiring us to offer to repurchase the Notes. In the event of any such transaction, the holders would not have the right to require us to repurchase the Notes, even though each of these transactions could increase the amount of our indebtedness, or otherwise adversely affect our capital structure or any credit ratings, thereby adversely affecting the holders of the Notes.

We have not registered, and are not required to register, the Notes or the common stock issuable upon conversion of the Notes, if any, which will limit our Note holders' ability to resell them.

The Notes and the shares of common stock issuable upon conversion of the Notes, if any, have not been, and are not required to be, registered under the Securities Act or any state securities laws. Unless the Notes and any shares of common stock issuable upon conversion of the Notes, if any, have been registered, the Notes and such shares may not be transferred or resold except in a transaction exempt from or not subject to the registration requirements of the Securities Act and applicable state securities laws. We do not intend to file a registration statement for the resale of the Notes and the common stock, if any, into which the Notes are convertible.

We cannot assure you that an active trading market will develop for the Notes.

We do not intend to apply to list the Notes on any securities exchange or to arrange for quotation on any automated dealer quotation system. The liquidity of the trading market in the Notes, and the market price quoted for the Notes, may be adversely affected by changes in the overall market for this type of security and by changes in our financial performance or prospects or in the prospects for companies in our industry generally. As a result, an active trading market may not develop for the Notes. If an active trading market does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected. In that case Note holders may not be able to sell their Notes at a particular time or may not be able to sell their Notes at a favorable price.

Any adverse rating of the Notes may cause their trading price to fall.

We do not intend to seek a rating on the Notes. However, if a rating service were to rate the Notes and if such rating service were to lower its rating on the Notes below the rating initially assigned to the Notes or otherwise announces its intention to put the Notes on credit watch, the trading price of the Notes could decline.

Note holders may be subject to tax if we make or fail to make certain adjustments to the conversion rate of the Notes even though they do not receive a corresponding cash distribution.

The conversion rate of the Notes is subject to adjustment in certain circumstances, including the payment of cash dividends. If the conversion rate is adjusted as a result of a distribution that is taxable to our common stockholders, such as a cash dividend, Note holders may be deemed to have received a dividend subject to U.S. federal income tax without the receipt of any cash. In addition, a failure to adjust (or to adjust adequately) the conversion rate after an event that increases a Note holder’s proportionate interest in us could be treated as a deemed taxable dividend to the holder. If a make-whole fundamental change occurs prior to the maturity date or if we deliver a notice of redemption, we will, under some circumstances, increase the conversion rate for Notes converted in connection with the make-whole fundamental change or called (or deemed called) for redemption that are converted during the related redemption period. Such increase may also be treated as a distribution subject to U.S. federal income tax as a dividend. If a Note holder is a non-U.S. holder, any deemed dividend would generally be subject to U.S. federal withholding tax, which may be set off against subsequent payments on the Notes or other amounts received by the holder.

Because the Notes are held in book-entry form, holders must rely on The Depository Trust Company (DTC) procedures to receive communications relating to the Notes and exercise their rights and remedies.

We have issued the Notes in the form of one or more global notes registered in the name of Cede & Co., as nominee of DTC. Beneficial interests in global notes will be shown on, and transfers of global notes will be effected only through, the records maintained by DTC. Except in limited circumstances, we will not issue certificated notes.

Accordingly, if a Note holder owns a beneficial interest in a global note, then it will not be considered an owner or holder of the Notes. Instead, DTC or its nominee will be the sole holder of the Notes. Unlike persons who have certificated notes registered in their names, owners of beneficial interests in global notes will not have the direct right to act on our solicitations for consents or requests for waivers or other actions from holders. Instead, those beneficial owners will be permitted to act only to the extent that they have received appropriate proxies to do so from DTC or, if applicable, a DTC participant. The applicable procedures for the granting of these proxies may not be sufficient to enable owners of beneficial interests in global notes to vote on any requested actions on a timely basis. In addition, notices and other communications relating to the Notes will be sent to DTC. We expect DTC to forward any such communications to DTC participants, which in turn would forward such communications to indirect DTC participants. However, we can make no assurances that Note holders will timely receive any such communications.

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

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

Risks related to our common stock

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

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

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

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

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

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

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

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

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

General risk factors

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

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

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

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

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

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

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

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

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

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

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

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

We have in the past been, and may in the future become, subject to claims and litigation alleging violations of the securities laws or other related claims, which could harm our business and require us to incur significant costs. Regardless of the outcome, these matters or future litigation may require significant attention from management and could result in significant legal expenses, settlement costs or damage awards that could have a material impact on our financial position, results of operations and cash flows.

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

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

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

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

Location	Approximate square feet	Primary use	Lease expiration date
San Jose, California	70,000	Corporate headquarters and product warehousing	March 31, 2022
San Jose, California	77,822	Future corporate headquarters and product warehousing	June 30, 2029
Fort Wayne, Indiana	27,860	Development, sales and support	February 28, 2023
Bengaluru, India	20,734	Development	June 18, 2022
Bengaluru, India	20,734	Development	October 31, 2024
San Diego, California	9,944	Development, sales and support	July 31, 2023
Orlando, Florida	5,083	Sales and support	May 31, 2026
Toronto, Canada	2,289	Development, sales and support	April 30, 2024
Reading, United Kingdom	1,366	Sales and support	June 6, 2022
Dubai, United Arab Emirates	1,905	Sales and support	December 20, 2022
Queensland, Australia	1,100	Sales and support	June 23, 2022
Pleasanton, California	842	Development, sales and support	January 31, 2024

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

None.

PART II

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

Market Information

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

Holders of Common Stock

As of February 22, 2022, we had 25 holders of record of our common stock. The actual number of stockholders is greater than this number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

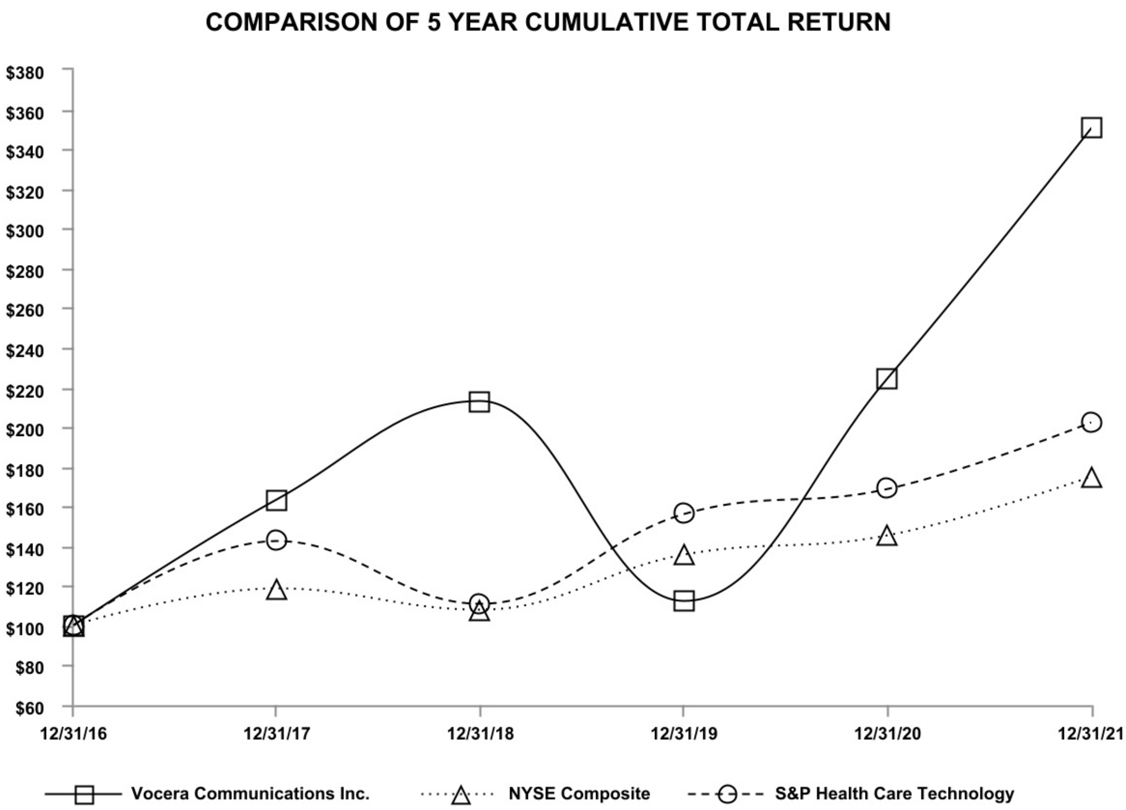
Dividend policy

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

Stock Performance

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

The following stock performance graph compares the cumulative total return provided to holders of the common stock of Vocera Communications, Inc. relative to the cumulative total returns of the New York Stock Exchange Composite Index and the Standard & Poor's 1500 Health Care Technology Index over a five-year period. An investment of $100 is assumed to have been made in our common stock and in each of the indexes on December 31, 2016, including reinvestment of dividends, and its relative performance is tracked through December 31, 2021.



	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21
Vocera Communications Inc.	$ 100.00	$ 163.44	$ 212.82	$ 112.28	$ 224.61	$ 350.68
NYSE Composite	$ 100.00	$ 118.73	$ 108.10	$ 135.68	$ 145.16	$ 175.18
S&P Health Care Technology	$ 100.00	$ 142.26	$ 110.70	$ 156.11	$ 168.77	$ 202.07

Purchases of Equity Securities by the Issuer and Affiliated Purchases

During the three months ended December 31, 2021, we did not repurchase any of our securities.

Securities Authorized for Issuance under Equity Compensation Plans

The information required for this Item is included in Part III of this document.

Recent Sales of Unregistered Securities

In March 2021, we issued $200.0 million in aggregate principal amount of 0.50% convertible senior notes (the "2026 Notes"), in a private placement to qualified institutional buyers pursuant to Rule 144A of the Securities Act, as amended. The 2026 Notes are convertible into shares of our common stock on the terms set forth in the indenture governing the notes.

We used part of the net proceeds from the issuance of the 2026 Notes to retire approximately $102.9 million aggregate principal amount of our 1.50% convertible senior notes due May 15, 2023. In addition, in April 2021, the purchasers partially exercised the overallotment option and we issued an additional $24.5 million aggregate principal amount of the 2026 Notes. Information relating to the issuance of the notes was provided in a Current Report on Form 8-K filed with the Securities and Exchange Commission on March 15, 2021. See Note 8, "Convertible Senior Notes due 2026," of our consolidated financial statements and related notes included in Part II, Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K for more information.

Item 6. [Reserved]

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Business overview

We are a provider of secure, integrated, intelligent communication and clinical workflow solutions, focused on empowering mobile workers in healthcare, hospitality, retail, energy, education and other mission-critical mobile work environments, in the United States and internationally. The significant majority of our business is generated from sales of our solutions in the healthcare market to help our customers enhance quality of care, safety, patient and staff experience and improve operational efficiency. As of December 31, 2021, care teams at over 2,300 healthcare facilities worldwide have selected our solutions.

We primarily sell products, software subscriptions and support and professional services directly to our customers. Total revenue increased 18.0% to $234.2 million in 2021 from $198.4 million in 2020, and our 2020 revenue increased 9.9% from $180.5 million in 2019. For the year ended December 31, 2021, we recorded a net loss of $8.5 million compared to a net loss of $9.7 million for the year ended December 31, 2020.

Our diverse customer base ranges from large hospital systems to small local hospitals, as well as other healthcare facilities and customers in non-healthcare markets. We do not rely on any one customer for a substantial portion of our revenue. While we have international customers in other English-speaking countries such as Canada, the United Kingdom, Australia, New Zealand and parts of the Middle East, most of our customers are located in the United States. International customers represented 9.4% and 10.7% of our revenue in 2021 and in 2020, respectively. We believe certain international markets represent attractive growth opportunities. We are considering plans to expand our international presence.

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

In the second quarter of 2021, we acquired PatientSafe for $36.0 million, net of $0.2 million of cash acquired. PatientSafe provides a clinical communication and collaboration ("CC&C") solution for smartphones that is engineered to run either on-premises or in the cloud. For further discussion on the acquisition, please refer to Note 12 in the notes to the consolidated financial statements.

A discussion and analysis of our financial condition and results of operations for the year ended December 31, 2019 is included in Item 7 of Part II, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2020 filed with the SEC on February 25, 2021.

Transaction with Stryker

Under the terms of the Agreement and Plan of Merger, dated as of January 6, 2022 (together with any amendments and supplements thereto, the "merger agreement") among Stryker Corporation ("Stryker"), Voice Merger Sub Corp. and Vocera, Stryker, through a wholly owned subsidiary, commenced a cash tender offer to purchase all outstanding shares of common stock of Vocera for $79.25 per share. The tender offer is scheduled to expire at one minute after 11:59 p.m. Eastern time, on February 22, 2022, unless extended in accordance with the terms of the merger agreement. The tender offer is subject to various conditions, including a minimum tender of at least a majority of outstanding shares of Vocera common stock, and other customary conditions. The transaction is expected to close in the first quarter of 2022. Upon closing of the transaction, Vocera's common stock will no longer be listed on any public market.

COVID-19 Pandemic

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

- We have taken measures to protect the health and safety of our employees, primarily by shifting the majority of our employees to remote work.
- Our access to our healthcare customers' locations for sales and implementation activities was limited in many cases. The sales cycle and implementation timeline for broader strategic deals in some cases has been elongated as they shifted their primary focus to preparing for and responding to the pandemic.
- We have experienced some delays in receiving parts due to supplier and shipping issues.

Overall, the outbreak did not have a material impact on our operating results or business in the year ended December 31, 2021. While future impacts cannot be predicted at this time, the shift in hospital resources, attention to treatment of COVID-19 patients and declines in hospital revenues may result in reduced demand for our products and solutions, longer sales cycles, and/or delays of customer implementations, which could negatively impact our financial condition.

We have generated operating cash flows in the past and our $332.4 million in cash and short-term investments provides us with ample liquidity to meet our current needs. However, given the dynamic nature of this situation, we cannot accurately estimate the impacts of COVID-19 on our financial condition, results of operations or cash flows.

Components of operating results

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

Revenue is comprised of the following:

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

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

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

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

Operating expenses. Operating expenses are comprised of the following:

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

Interest income and other income (expense), net.

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

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

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

At December 31, 2021, we held a $61.5 million valuation allowance against our deferred tax assets. We review on a quarterly basis our conclusions about the appropriate amount of our deferred income tax asset valuation allowance.

Results of operations

The following table is a summary of our consolidated statements of operations for the years ended December 31, 2021 and 2020. The period-to-period comparisons of results are not necessarily indicative of results for future periods.

	Years ended December 31,			
	2021		2020	
(in thousands, except percentages)	Amount	% Revenue	Amount	% Revenue
Consolidated statements of operations data:				
Revenue				
Product	$ 118,170	50.5 %	$ 100,567	50.7 %
Service	116,015	49.5	97,853	49.3
Total revenue	234,185	100.0	198,420	100.0
Cost of revenue				
Product	31,675	13.5	28,805	14.5
Service	47,657	20.4	40,998	20.7
Total cost of revenue	79,332	33.9	69,803	35.2
Gross profit	154,853	66.1	128,617	64.8
Operating expenses				
Research and development	45,850	19.5	38,820	19.6
Sales and marketing	74,551	31.8	65,494	33.0
General and administrative	38,537	16.5	28,382	14.3
Total operating expenses	158,938	67.8	132,696	66.9
Loss from operations	(4,085)	(1.7)	(4,079)	(2.1)
Interest income	1,032	0.4	3,169	1.6
Interest expense	(3,198)	(1.3)	(9,354)	(4.7)
Other expense, net	(1,550)	(0.7)	(640)	(0.3)
Loss before income taxes	(7,801)	(3.3)	(10,904)	(5.5)
(Provision for) benefit from income taxes	(694)	(0.3)	1,248	0.6
Net loss	$ (8,495)	(3.6)%	$ (9,656)	(4.9)%

Year ended December 31, 2021 compared to year ended December 31, 2020

Revenue:

	Years ended December 31,			
	2021	2020	Change	
(in thousands, except percentages)	Amount	Amount	Amount	%
Product Revenue				
Device	$ 72,473	$ 69,321	$ 3,152	4.5 %
Software	45,697	31,246	14,451	46.2
Total product revenue	118,170	100,567	17,603	17.5
Service Revenue				
Subscription and support	94,246	78,532	15,714	20.0
Professional services and training	21,769	19,321	2,448	12.7
Total service revenue	116,015	97,853	18,162	18.6
Total revenue	$ 234,185	$ 198,420	$ 35,765	18.0 %

Total revenue increased $35.8 million, or 18.0%, for the year ended December 31, 2021 compared to the year ended December 31, 2020. The increase in total revenue was a result of an increase in revenue across all product lines, with significant growth in software and subscription and support.

Product revenue increased $17.6 million, or 17.5%, for the year ended December 31, 2021 compared to the year ended December 31, 2020. Device revenue increased $3.2 million, or 4.5%, and software revenue increased $14.5 million, or 46.2%, for the year ended December 31, 2021, compared to the year ended December 31, 2020. The increase in device revenue was driven primarily by an increase in unit sales of badges and related hardware and accessories to new customers. The increase in software revenue was due to an increase in the number of software licenses delivered to our customers and the additional revenue from Edge products.

Service revenue increased $18.2 million, or 18.6%, for the year ended December 31, 2021 compared to the year ended December 31, 2020. Subscription and support revenue increased $15.7 million, or 20.0%, and professional services and training revenue increased $2.4 million, or 12.7%, for the year ended December 31, 2021 compared to the year ended December 31, 2020. The increase in subscription and support revenue was primarily the result of an increased number of customers who purchased software maintenance contracts, and the additional subscription revenue from the Ease products of $4.0 million. The increase in professional services and training revenue was due to an increase in implementation services for our solutions.

Cost of revenue:

	Years ended December 31,			
	2021	2020	Change	
(in thousands, except percentages)	**Amount**	**Amount**	**Amount**	**%**
Cost of revenue				
Product	$ 31,675	$ 28,805	$ 2,870	10.0 %
Service	47,657	40,998	6,659	16.2
Total cost of revenue	$ 79,332	$ 69,803	$ 9,529	13.7 %
Gross margin				
Product	73.2 %	71.4 %	1.8 %	
Service	58.9	58.1	0.8	
Total gross margin	66.1 %	64.8 %	1.3 %	

Cost of product revenue increased $2.9 million, or 10.0%, for the year ended December 31, 2021 compared to the year ended December 31, 2020. The cost of product revenue increased primarily due to an increase in the amortization of developed technology related to the acquisitions of Ease and the PatientSafe. Product gross margin as a percentage of product revenue increased in the year ended December 31, 2021 compared to the year ended December 31, 2020 primarily due to a higher proportion of software revenue.

Cost of service revenue increased $6.7 million, or 16.2%, for the year ended December 31, 2021 compared to the year ended December 31, 2020. Cost of service revenue increased primarily due to higher compensation and benefits costs as a result of increased headcount related to core business and the acquisitions of Ease and PatientSafe. Service gross margin as a percentage of service revenue increased for the year ended December 31, 2021 compared to the year ended December 31, 2020 primarily due to an increase in service revenue while costs saw the benefit of scale.

Operating expenses:

	Years ended December 31,			
	2021	2020	Change	
(in thousands, except percentages)	**Amount**	**Amount**	**Amount**	**%**
Operating expenses:				
Research and development	$ 45,850	$ 38,820	$ 7,030	18.1 %
Sales and marketing	74,551	65,494	9,057	13.8
General and administrative	38,537	28,382	10,155	35.8
Total operating expenses	$ 158,938	$ 132,696	$ 26,242	19.8 %

Research and development expense. Research and development expense increased $7.0 million, or 18.1%, for the year ended December 31, 2021 compared to the year ended December 31, 2020. This increase was primarily due to an increase of $5.2 million in compensation, benefits, and hiring costs including bonuses and headcount related to acquisitions, an increase of $1.5 million in outside services and development, and an increase of $0.3 million in equipment and supplies cost.

Sales and marketing expense. Sales and marketing expense increased $9.1 million, or 13.8%, for the year ended December 31, 2021 compared to the year ended December 31, 2020. This was primarily due to an increase of $7.1 million in compensation, benefits, and hiring costs including bonuses and headcount related to acquisitions, an increase of $0.8 million in amortization related to the acquisitions of Ease and PatientSafe, an increase of $0.5 million in outside services, an increase of $0.5 million in marketing development, and an increase of $0.2 million in other expenses, primarily comprised of travel costs.

General and administrative expense. General and administrative expense increased $10.2 million, or 35.8%, for the year ended December 31, 2021 compared to the year ended December 31, 2020. This was primarily due to an increase of $7.1 million in outside services, $5.8 million of which relate to transaction costs associated with the transactions contemplated by the merger agreement. Additionally, there was an increase in compensation, benefits, and hiring costs of $3.5 million due to changes in headcount throughout the year, achievement of performance related compensation targets.

	Years ended December 31,		
(in thousands, except percentages)	**2021**	**2020**	**Change**
Non-operating income (expense) elements:			
Interest income	$ 1,032	$ 3,169	$ (2,137)
Interest expense	$ (3,198)	$ (9,354)	$ 6,156
Other expense, net	$ (1,550)	$ (640)	$ (910)
Income taxes:			
Benefit from (provision for) income taxes	$ (694)	$ 1,248	$ (1,942)
Loss before income taxes	$ (7,801)	$ (10,904)	$ 3,103
Effective tax rate %	(8.9)%	11.4 %	(20.3)%

Interest income. Interest income decreased $2.1 million for the year ended December 31, 2021, compared to the year ended December 31, 2020. This decrease was due to earning a lower rate of return on our investments.

Interest expense. Interest expense decreased $6.2 million for the year ended December 31, 2021, compared to the year ended December 31, 2020. The decrease was primarily due to the impact of the adoption of ASU 2020-06 *Accounting for Convertible Instruments and Contracts in an Entity's Own Equity* which eliminated the debt discount amortization for 2021. The amortization of the debt discount was previously accounted for as part of interest expense and represented $6.5 million of the total interest expense for the year ended December 31, 2020.

Other expense, net. The change in other expense, net for the year ended December 31, 2021, compared to the year ended December 31, 2020, was primarily due to the $2.1 million inducement loss resulting from the repurchase of the 2023 Notes and a one-time payment of $1.7 million to the acquired company's shareholders partially offset by the change in the fair value adjustment of the Ease contingent consideration included in earnings of $2.9 million for the year ended December 31, 2021, as well as the impact of foreign exchange fluctuations.

Benefit from (provision for) income taxes. The $0.7 million tax provision on $7.8 million of loss before income taxes in 2021 represented an effective tax rate of (8.9)%. The effective tax rate for 2021 was due primarily to income taxes on foreign operations and amortization of goodwill. The $1.2 million tax benefit on $10.9 million of loss before income taxes in 2020 represented an effective tax rate of 11.4%. The effective tax rate for 2020 was primarily due to the release of the valuation allowance of $2.1 million as a result of the EASE acquisition, partially offset by income taxes on foreign operations and the amortization of goodwill.

Liquidity and capital resources

(in thousands)	Years ended December 31, 2021	2020
Consolidated statements of cash flow data:		
Net cash provided by operating activities	$ 53,975	$ 26,858
Net cash used in investing activities	(83,710)	(20,441)
Net cash provided by financing activities	91,063	2,855
Net increase in cash and cash equivalents	$ 61,328	$ 9,272

As of December 31, 2021, we had cash and cash equivalents and short-term investments of $332.4 million.

In March 2021, we issued $200.0 million in aggregate principal amount of 0.50% Convertible Senior Notes and we used part of the net proceeds from the issuance of the 2026 Notes to retire approximately $102.9 million aggregate principal amount of the 2023 Notes. In addition, in April 2021, the purchasers partially exercised the overallotment option and we issued an additional $24.5 million aggregate principal amount of the 2026 Notes. For additional information, see Note 8 of the Notes to the consolidated financial statements.

During 2021 and 2020, our purchases of property and equipment were $3.8 million and $4.2 million, respectively. The expenditures in 2021 primarily related to purchases associated with the new company headquarters and other leasehold improvements, manufacturing tools and equipment, and computer equipment. The expenditures in 2020 primarily related to leasehold improvements, manufacturing tools and equipment, and computer equipment.

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

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

Operating activities

Cash provided by operating activities was $54.0 million in 2021. Cash provided by operating activities was the result of non-cash items such as stock-based compensation of $31.3 million, non-cash lease expense of $3.8 million, amortization of debt issuance costs of $1.4 million, depreciation of $4.9 million for property and equipment and amortization of $5.4 million for acquired intangible assets, an inducement loss of $2.1 million resulting from the repurchase of our 2023 Notes, accretion of investments of $2.6 million and $0.7 million of other items, partially offset by the change in fair value of contingent consideration of $2.9 million and a net loss of $8.5 million. With respect to changes in assets and liabilities, we experienced an increase in accounts receivable of $1.6 million, an increase of $0.8 million in other receivables, a decrease of $2.9 million in inventories, a decrease of $1.3 million in prepaid expenses and other assets, an increase in deferred commissions of $4.3 million, an increase of $1.7 million in accounts payable, a decrease of $2.1 million in accrued payroll and other liabilities, a decrease of $1.1 million in lease-related performance liabilities and a $17.4 million increase in deferred revenue.

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

Investing activities

Cash used in investing activities was $83.7 million in 2021, due to $251.8 million in purchases of short-term investments and the acquisition of PatientSafe Inc. for $35.4 million, offset by $204.3 million in short-term investment maturities and of $3.0 million sales of short-term investments. An additional $3.8 million of cash was used for the purchase of property and equipment and leasehold improvements.

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

Financing activities

Cash provided by financing activities was $91.1 million in 2021, primarily attributable to $217.7 million of net proceeds from convertible senior notes, $4.2 million of proceeds from issuance of common stock from our Amended and Restated 2012 Employee Stock Purchase Plan ("ESPP"), $3.2 million of proceeds from stock option exercises, and $0.5 million of cash from lease-related performance obligations. These items were partially offset by $102.9 million related to the repayment of a portion of our 2023 Notes, a $17.4 million payment for the purchase of capped calls related to our 2026 Notes, and $14.2 million cash paid for employee taxes collected via net share settlement.

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

Critical accounting policies and estimates

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

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

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

Revenue Recognition

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

Standard product warranties

We provide for the estimated costs of product warranties at the time the related revenue is recognized. Costs are estimated based on historical and projected product failure rates, historical and projected replacement costs, and knowledge of specific product failures, if any. The specific product warranty includes parts and labor over a period generally ranging from one to three years. We generally do not provide performance warranties for software. We regularly assess our estimates to evaluate the adequacy of the recorded warranty liabilities and adjust the amounts as necessary. The total warranty expense under our standard warranty in 2021 was $0.2 million, compared to $0.3 million in 2020 and $0.2 million in 2019. The key drivers to the warranty reserve calculation are the installed base of products under standard warranty, the estimated return rate of the installed base of products under standard warranty, and the availability of refurbished units to fulfill expected warranty claims.

Stock-based compensation

Performance Stock Units

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

Goodwill and intangible assets

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

Goodwill

Goodwill is tested for impairment at the reporting unit level at least annually, or more often if events or changes in circumstances indicate the carrying value may not be recoverable. Our annual assessment date is October 1st and the results of our assessment performed indicated that an impairment was not required. No impairment was recorded in 2021, 2020 or 2019. As of December 31, 2021, no changes in circumstances indicate that goodwill carrying values may not be recoverable. Application of the goodwill impairment test requires judgment. Circumstances that could affect the valuation of goodwill include, among other things, a significant change in our business climate and the buying habits of our customers along with changes in the costs to provide our products and services.

Intangible assets

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

Finite-lived intangible assets consist of customer relationships, developed technology, trademarks, backlog and non-compete agreements. We evaluate our intangible assets for impairment at the asset group level, which means the intangibles grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Management has concluded that our asset groups align with our reporting unit. The intangible assets are allocated to the Product and Services asset groups, given that the Product and Services asset groups are the lowest level for which discrete cash flow information are identifiable, independent from other assets. We assess the recoverability of these assets whenever adverse events or changes in circumstances or business climate indicate that expected undiscounted future cash flows related to such intangible assets may not be sufficient to support the net book value of such assets. An impairment is recognized in the period of identification to the extent the carrying amount of an asset exceeds the fair value of such asset. No impairment of intangible assets was recorded in 2021, 2020 or 2019.

Significant judgments required in assessing the impairment of goodwill and intangible assets include the identification of the reporting unit, identifying whether events or changes in circumstances require an impairment assessment, estimating future cash flows, determining appropriate discount and growth rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value as to whether an impairment exists and, if so, the amount of that impairment.

Income taxes

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

We have deferred tax assets, resulting from deductible temporary differences that may reduce taxable income in future periods. A valuation allowance is required when it is more likely than not that all or a portion of a deferred tax asset will not be realized. In assessing the need for a valuation allowance, we estimate future taxable income, considering the feasibility of ongoing tax-planning strategies and the realizability of tax loss carryforwards. Valuation allowances related to deferred tax assets can be impacted by changes in tax laws, changes in statutory tax rates and future taxable income levels. If we were to determine that we would be able to realize our deferred tax assets in the future in excess of the net carrying amounts, we would decrease the recorded valuation allowance through an increase to income in the period in which that determination is made. Due to recurring operating losses, we established a full valuation allowance through December 31, 2021, we had a full valuation allowance against our deferred tax assets. We continue to evaluate the realizability of our U.S. and Canadian deferred tax assets. If our financial results improve, we will reassess the need for a full valuation allowance each quarter and, if we determine that it is more likely than not the deferred tax assets will be realized, we will adjust the valuation allowance.

At December 31, 2021, we had a valuation allowance against net deferred tax assets of $61.5 million. We review on a quarterly basis our conclusions about the appropriate amount of our deferred tax asset valuation allowance. There is inherent uncertainty in evaluating the sustainability of the income tax positions we take on our tax returns. We assess our income tax positions and record tax benefits for all years subject to examination based upon our management’s evaluation of the facts, circumstances and information available at the reporting date. For those tax positions where it is more likely than not that a tax benefit will be sustained, we have recorded the highest amount of tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not more likely than not that a tax benefit will be realizable, no tax benefit has been recognized in our financial statements.

We include interest and penalties with income taxes on the accompanying statement of operations. Our tax years after 2014 are subject to tax authority examinations. Additionally, our net operating losses and research credits are subject to tax authority adjustment.

Recently issued accounting guidance

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The primary objective of our investment activities is to preserve principal while maximizing yields without significantly increasing risk. To achieve this objective, historically we have invested in money market funds. With the proceeds from our two public offerings in 2012 and our Notes offerings in 2018 and 2021, 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, a majority of our operations, including research and development, and sales, have been 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 considering plans to expand our international presence. Accordingly, we expect that our exposure to changes in foreign currency exchange rates and economic conditions may increase in future periods.

Item 8. Financial Statements and Supplementary Data

Index to financial statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Vocera Communications, Inc. and subsidiaries (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2022, expressed an unqualified opinion on the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 8 to the financial statements, the Company has changed its method of accounting for convertible debt effective January 1, 2021 using a modified retrospective transition approach due to adoption of Accounting Standards Codification No. 2020-06, *Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*.

Basis for Opinion

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

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

Critical Audit Matters

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

Revenue Recognition - Refer to Note 2 to the Financial Statements

Critical Audit Matter Description

The Company recognizes revenue upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. The Company offers products and services including its proprietary communication badges, perpetual software licenses, professional services, maintenance and support services, and extended hardware warranties. Product revenue was $118 million and service revenue was $116 million for the year ended December 31, 2021.

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

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

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

How the Critical Audit Matter Was Addressed in the Audit

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

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

Business Acquisitions — Refer to Note 12 to the Financial Statements

Critical Audit Matter Description

As described in Note 12, the Company completed the acquisition of Patient Safe Solution, LLC ("PSS") for capital consideration of $36 million on May 4, 2021. The Company accounted for the acquisition of PSS under the acquisition method of accounting for business combinations. Accordingly, the purchase price was allocated on a preliminary basis, to the assets acquired and liabilities assumed based on their respective fair values, including developed technology intangible assets with an aggregate fair value of approximately $5.3 million. The Company estimated the fair value of the developed technology intangible assets using an income-based valuation methodology, which is a specific relief-from-royalty method.

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

- Future expected revenue for acquired developed technology,

- Useful life of acquired developed technology,
- Valuation methodology, and
- Discount and royalty rates.

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

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the fair value of developed technology intangible assets acquired for PSS included the following, among others:

- We tested the effectiveness of controls over the purchase price allocation, including management's controls over the forecast utilized, and the valuation methodology and inputs for estimating the fair value of developed technology intangible assets acquired.
- Our internal valuation specialists assisted us in evaluating the reasonableness of the (1) valuation techniques used for developed technology intangible assets acquired, (2) valuation assumptions used in the relief-from-royalty method including royalty rate, obsolescence factor, and discount rates, and (3) testing the mathematical accuracy of the calculation of estimated fair value of the developed technology intangible acquired assets, and developing a range of independent estimates and comparing our estimates to those used by management.
- We assessed the reasonableness of management's projections of economic useful life of developed technology intangible assets acquired, and percentage of revenue attributable to the intangible asset by comparing the assumptions used in the projections to external market sources, existing contracts, historical data, and results from other areas of the audit.

/s/ Deloitte & Touche LLP

San Jose, California
February 22, 2022

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Vocera Communications, Inc. and subsidiaries (the "Company") as of December 31, 2021, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2021, of the Company and our report dated February 22, 2022 expressed an unqualified opinion on those financial statements.

Basis for Opinion

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

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ Deloitte & Touche LLP

San Jose, California
February 22, 2022

Vocera Communications, Inc.

Consolidated Balance Sheets
(In Thousands, Except Share and Par Amounts)

	December 31,	
	2021	**2020**
Assets		
Current assets		
Cash and cash equivalents	$ 96,304	$ 34,976
Short-term investments	236,089	195,227
Accounts receivable, net of allowance	48,213	45,653
Other receivables	7,188	6,170
Inventories	7,165	10,159
Prepaid expenses and other current assets	4,783	6,317
Total current assets	399,742	298,502
Property and equipment, net	7,789	8,103
Intangible assets, net	19,671	12,788
Goodwill	94,883	69,168
Deferred commissions	16,596	12,293
Other long-term assets	17,379	5,967
Total assets	$ 556,060	$ 406,821
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$ 5,330	$ 3,127
Accrued payroll and other current liabilities	29,946	23,195
Deferred revenue, current	73,223	54,785
Convertible senior notes, net	40,411	—
Total current liabilities	148,910	81,107
Deferred revenue, long-term	10,732	9,948
Convertible senior notes, net	218,635	124,376
Other long-term liabilities	15,686	10,374
Total liabilities	393,963	225,805
Stockholders' equity		
Preferred stock, $0.0003 par value - 5,000,000 shares authorized as of December 31, 2021 and December 31, 2020; zero shares issued and outstanding	—	—
Common stock, $0.0003 par value - 100,000,000 shares authorized as of December 31, 2021 and December 31, 2020; 34,923,302 and 32,692,561 shares issued and outstanding as of December 31, 2021 and December 31, 2020, respectively	10	10
Additional paid-in capital	315,816	340,515
Accumulated other comprehensive (loss) income	(470)	473
Accumulated deficit	(153,259)	(159,982)
Total stockholders’ equity	162,097	181,016
Total liabilities and stockholders’ equity	$ 556,060	$ 406,821

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

Vocera Communications, Inc.

Consolidated Statements of Operations
(In Thousands, Except Per Share Amounts)

	Years ended December 31,		
	2021	**2020**	**2019**
Revenue			
Product	$ 118,170	$ 100,567	$ 92,561
Service	116,015	97,853	87,940
Total revenue	234,185	198,420	180,501
Cost of revenue			
Product	31,675	28,805	29,039
Service	47,657	40,998	42,363
Total cost of revenue	79,332	69,803	71,402
Gross profit	154,853	128,617	109,099
Operating expenses			
Research and development	45,850	38,820	34,280
Sales and marketing	74,551	65,494	63,168
General and administrative	38,537	28,382	25,774
Total operating expenses	158,938	132,696	123,222
Loss from operations	(4,085)	(4,079)	(14,123)
Interest income	1,032	3,169	5,110
Interest expense	(3,198)	(9,354)	(8,789)
Other expense, net	(1,550)	(640)	(158)
Loss before income taxes	(7,801)	(10,904)	(17,960)
(Provision for) benefit from income taxes	(694)	1,248	(20)
Net loss	(8,495)	(9,656)	(17,980)
Net loss per share:			
Basic and diluted	$ (0.25)	$ (0.30)	$ (0.57)
Weighted average shares used to compute net loss per share:			
Basic and diluted	34,295	32,215	31,273

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

Vocera Communications, Inc.

Consolidated Statements of Comprehensive Loss
(In Thousands)

	Years ended December 31,		
	2021	**2020**	**2019**
Net loss	$ (8,495)	$ (9,656)	$ (17,980)
Other comprehensive loss, net:			
Change in unrealized (loss) gain on investments, net of tax	(943)	294	622
Comprehensive loss	$ (9,438)	$ (9,362)	$ (17,358)

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

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

	Common stock		Additional paid-in capital	Accum. other comprehensive income (loss)	Accumulated deficit	Total stockholders' equity
	Shares	Amount				
Balance at January 1, 2019	30,708,138	$ 9	$ 295,647	$ (443)	$ (132,346)	$ 162,867
Exercise of stock options	187,174	—	2,439	—	—	2,439
RSUs released net of shares withheld for tax settlement	610,024	—	(11,460)	—	—	(11,460)
Common stock issued under employee stock purchase plan	155,373	—	3,472	—	—	3,472
Employee stock-based compensation expense	—	—	23,865	—	—	23,865
Net loss	—	—	—	—	(17,980)	(17,980)
Other comprehensive gain	—	—	—	622	—	622
Balance at December 31, 2019	31,660,709	9	313,963	179	(150,326)	163,825
Exercise of stock options	305,596	—	3,460	—	—	3,460
RSUs released net of shares withheld for tax settlement	485,663	1	(6,372)	—	—	(6,371)
Common stock issued under employee stock purchase plan	240,593	—	3,739	—	—	3,739
Employee stock-based compensation expense	—	—	25,725	—	—	25,725
Net loss	—	—	—	—	(9,656)	(9,656)
Other comprehensive gain	—	—	—	294	—	294
Balance at December 31, 2020	32,692,561	10	340,515	473	(159,982)	181,016
Cumulative effect of the adoption of ASU 2020-06	—	—	(32,214)	—	15,218	(16,996)
Exercise of stock options	194,852	—	3,202	—	—	3,202
RSUs released net of shares withheld for tax settlement	608,541	—	(14,216)	—	—	(14,216)
Induced conversion of convertible senior notes	1,277,731	—	477	—	—	477
Issuance of capped calls	—	—	(17,354)	—	—	(17,354)
Common stock issued under employee stock purchase plan	149,617	—	4,150	—	—	4,150
Employee stock-based compensation expense	—	—	31,256	—	—	31,256
Net loss	—	—	—	—	(8,495)	(8,495)
Other comprehensive loss	—	—	—	(943)	—	(943)
Balance at December 31, 2021	34,923,302	$ 10	$ 315,816	$ (470)	$ (153,259)	$ 162,097

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

Vocera Communications, Inc.

Consolidated Statements of Cash Flows
(In Thousands)

	Years ended December 31,		
	2021	**2020**	**2019**
Cash flows from operating activities			
Net loss	$ (8,495)	$ (9,656)	$ (17,980)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	10,246	6,387	7,289
Accretion of investments	2,644	1,089	(587)
Stock-based compensation expense	31,256	25,725	23,865
Amortization of debt discount and issuance costs	1,378	7,198	6,638
Release of deferred tax valuation allowance	—	(2,056)	—
Non-cash lease expense	3,822	2,566	1,741
Non-cash impact of induced premium	2,059	—	—
Change in fair value of contingent consideration	(2,893)	797	—
Other	692	(76)	(71)
Changes in assets and liabilities, net of effect of acquisitions:			
Accounts receivable	(1,641)	(2,662)	(2,420)
Other receivables	(794)	40	(2,064)
Inventories	2,881	(5,259)	(293)
Prepaid expenses and other assets	1,264	(1,196)	(880)
Deferred commissions	(4,304)	(1,816)	(174)
Accounts payable	1,660	(2,615)	1,475
Accrued payroll and other liabilities	(2,102)	7,528	(2,431)
Change in lease-related performance obligations	(1,146)	(1,234)	(1,173)
Deferred revenue	17,448	2,098	2,843
Net cash provided by operating activities	53,975	26,858	15,778
Cash flows from investing activities			
Payment for property and equipment	(3,846)	(4,236)	(4,576)
Business acquisitions, net of cash and restricted cash acquired	(35,397)	(24,218)	—
Purchases of short-term investments	(251,832)	(139,677)	(137,508)
Maturities of short-term investments	204,346	118,309	121,548
Sales of short-term investments	3,019	29,381	—
Net cash used in investing activities	(83,710)	(20,441)	(20,536)
Cash flows from financing activities			
Cash from lease-related performance obligations	516	2,027	1,735
Repayment of borrowings	(102,946)	—	—
Proceeds from issuance of the convertible senior notes, net of issuance costs	217,707	—	—
Payment for purchase of capped calls	(17,354)	—	—
Proceeds from issuance of common stock from the employee stock purchase plan	4,150	3,739	3,472
Proceeds from exercise of stock options	3,202	3,460	2,440
Tax withholdings paid on behalf of employees for net share settlement	(14,212)	(6,371)	(11,461)
Net cash provided by (used in) financing activities	91,063	2,855	(3,814)
Net increase (decrease) in cash and cash equivalents	61,328	9,272	(8,572)
Cash, cash equivalents, and restricted cash at beginning of period	34,976	25,704	34,276
Cash, cash equivalents, and restricted cash at end of period	$ 96,304	$ 34,976	$ 25,704

(in thousands)	Years ended December 31, 2021	2020	2019
Supplemental cash flow information			
Cash paid for interest	$ 1,821	$ 2,156	$ 2,156
Cash paid for income taxes	$ 704	$ 407	$ 345
Supplemental disclosure of non-cash investing and financing activities:			
Operating lease right-of-use assets exchanged for lease obligations, net of acquired leases	$ 13,028	$ 327	$ 2,830
Convertible senior notes converted to equity	$ 477	$ —	$ —
Property and equipment in accounts payable and accrued liabilities	$ 693	$ 157	$ 458

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

Notes to Consolidated Financial Statements

1. The Company and Summary of Significant Accounting Policies

Background

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

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

The Company was incorporated in Delaware on February 16, 2000. The Company formed wholly-owned subsidiaries Vocera Communications UK Ltd. and Vocera Communications Australia Pty Ltd. in 2005, Vocera Canada, Ltd. in 2010, Vocera Communications India Private Ltd. in 2013, Vocera Communications Middle East FZ LLC in 2014, acquired Extension, LLC in 2016, EASE Applications, LLC ("EASE") in 2020 and PatientSafe Solutions, Inc. (“PatientSafe”) in 2021.

Since its inception, the Company has incurred significant losses and, as of December 31, 2021, had an accumulated deficit of $153.3 million. The Company has funded its operations primarily with customer payments for its products and services, proceeds from the issuance of common stock in connection with its initial public offering (IPO) and follow-on offering and proceeds from the issuance of convertible senior notes. As of December 31, 2021, the Company had cash, cash equivalents and short-term investments of $332.4 million.

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

Merger Agreement

On January 6, 2022, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”), with Stryker Corporation, a Michigan corporation (“Parent”) and Voice Merger Sub Corp., a Delaware corporation and a direct or indirect wholly owned subsidiary of Parent (“Merger Sub”).

The Merger Agreement provides that, subject to the terms and conditions of the Merger Agreement, Merger Sub would commence a cash tender offer (the “Offer”) to purchase all of the outstanding shares of our common stock at a price per share equal to $79.25, net to the seller in cash, without interest, and subject to withholding taxes required by applicable law (the “Offer Price”). Following the expiration of the Offer and the acceptance by Merger Sub of the tendered shares in the Offer, on the terms and subject to the conditions in the Merger Agreement, Merger Sub would merge with and into Vocera, with Vocera continuing as the surviving corporation and becoming a wholly owned subsidiary of Stryker (the “Merger” and collectively with the Offer, the “Transaction”), and each then-outstanding share of our common stock (with certain limited exceptions) would be converted into the right to receive the Offer Price. Consummation of the Transaction is subject to various conditions, including, in respect of Merger Sub’s obligation to purchase and accept the tendered shares in the Offer, the condition that the number of shares validly tendered and not properly withdrawn prior to the Expiration Time (as defined in the Merger Agreement) is, when added to the shares, if any, owned by Parent, Merger Sub, or any subsidiary of Parent, represents at least a majority of all shares of our common stock then outstanding. However, there is no assurance that all of the various conditions to the Transactions will be satisfied, or that the Transaction will be completed on the proposed terms pursuant to the Merger Agreement within the expected timeframe, or at all. Furthermore, there are additional inherent risks to the Transaction, including the risks detailed elsewhere in this Annual Report on Form 10-K. The Transaction is expected to close in the first quarter of 2022, subject to the satisfaction of customary closing conditions.

Basis of presentation

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

Use of estimates and reclassifications

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

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

Cash, cash equivalents and short-term investments

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

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

Accounts receivable and allowance for credit losses

Accounts receivable primarily include amounts related to receivables from customers. The Company monitors collectability of accounts receivable primarily through review of the accounts receivable aging. The Company performs a regular review of its customers’ payment histories and associated credit risks as it does not require collateral from its customers. When collection is at risk, the Company assesses the impact on amounts recorded for credit losses and, if necessary, records a charge in the period such a determination is made, reflecting the Company’s best estimate of probable losses inherent in the Company’s receivables portfolio. The Company has not experienced significant credit losses from its accounts receivable. No allowance for credit losses was recorded in the years ended December 31, 2021, 2020 and 2019.

Inventories

Inventories are recorded at the lower of cost or net realizable value. The Company assesses the valuation of inventory and periodically writes down the value for estimated excess and obsolete inventory based upon assumptions about future demand and market conditions.

Concentration of credit risk

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

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

Concentration of credit risk with respect to trade accounts receivable is considered to be limited due to the diversity of the Company’s customer base and geographic sales areas. At December 31, 2021 and 2020, one reseller represented 17.4% and 32.7%, respectively of accounts receivable. For the years ended December 31, 2021, 2020 and 2019, no customer represented 10% or more of revenue.

Other risks and uncertainties

The ongoing outbreak of coronavirus, SARS-CoV-2, or COVID-19, continues to be a global pandemic and public health emergency. Many federal, state and local governments and private entities have mandated various restrictions, including travel restrictions, restrictions on public gatherings, stay at home orders and advisories and quarantining of people who may have been exposed to the virus. Since the Company's last filing, COVID-19 infections have continued in many geographies of the world. In response to the ongoing and evolving COVID-19 pandemic, the Company considered the impact of the estimated economic implications on critical and significant accounting estimates, including assessment of collectability of customer contracts and the valuation of accounts receivable. Overall, the COVID-19 pandemic has not had a material impact on the Company's operating results or business in the year ended December 31, 2021. While future impacts cannot be predicted at this time, the shift in hospital resources, attention to treatment of COVID-19 patients and declines in hospital revenues may result in reduced demand for the Company's products and solutions, longer sales cycles and/or delays of customer implementations, which could negatively impact financial condition.

Property and equipment

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

The Company periodically reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset is impaired or the estimated useful lives are no longer appropriate. Fair value is estimated based on undiscounted future cash flows. If indicators of impairment exist and the undiscounted projected cash flows associated with such assets are less than the carrying amount of the asset, an impairment loss is recorded to write the asset down to its estimated fair values. To date, the Company has not recorded any material impairment charges.

Internal-use software development costs

The Company capitalizes certain internal and external costs incurred in the acquisition and creation of internal-use software. Capitalized internal-use software is included in property and equipment amortized on a straight-line basis over the estimated useful life of the related asset, generally three years. Based on the authoritative guidance, costs incurred either before or after the period satisfying the capitalization criteria, together with costs incurred for training and maintenance, are expensed as incurred. For the years ended December 31, 2021, 2020 and 2019, the Company capitalized costs of $0.2 million, $0.5 million and $0.6 million, respectively.

Segment

The Company’s chief operating decision maker ("CODM") receives and regularly reviews financial information on an entity-wide basis. The CODM considers entity-wide financial information in deciding how to allocate resources in assessing performance of the Company’s communication and clinical workflow solutions and services business. There are no segment managers who are held accountable for operations, operating results or plans for levels or components. The Company’s CODM is its Chief Executive Officer. As a result, the Company reports its financial performance consistent with its single reporting segment and operating unit structure.

Goodwill and intangible assets

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

Goodwill

Goodwill is tested for impairment at the reporting unit level at least annually, or more often if events or changes in circumstances indicate the carrying value may not be recoverable. The Company has identified one operating segment which management also considers to be a reporting unit. In testing for goodwill impairment, the Company may elect to utilize a qualitative assessment to evaluate whether it is more likely than not that the fair value of the reporting unit is less than its carrying value. If such qualitative assessment indicates that goodwill impairment is more likely than not, the Company performs a quantitative impairment test. The Company performed its goodwill impairment assessment on October 1, 2021 using a qualitative assessment and determined that no impairment existed as of the date of the impairment test because the fair value of the Company's reporting unit more likely than not exceeded its carrying value. As of December 31, 2021, no changes in circumstances indicate that goodwill carrying values may not be recoverable.

Intangible assets

Intangible assets are amortized over their estimated useful lives. Upon completion of development, acquired in-process research and development assets are generally considered amortizable, finite-lived assets and are amortized over their estimated useful lives. Finite-lived intangible assets consist of customer relationships, developed technology, trademarks, backlog and non-compete agreements. The Company evaluates intangible assets for impairment by assessing the recoverability of these assets whenever adverse events or changes in circumstances or business climate indicate that expected undiscounted future cash flows related to such intangible assets may not be sufficient to support the net book value of such assets. An impairment is recognized in the period of identification to the extent the carrying amount of an asset exceeds the fair value of such asset. No impairment of intangible assets was recorded in the years ended December 31, 2021, 2020 or 2019.

Leases

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

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

Operating lease right-of-use assets and operating lease liabilities are recognized based on the present value of the lease payments over the lease term at commencement date. As most of the Company’s leases do not provide an implicit rate, the incremental borrowing rate is used based on the information available at commencement date in determining the present value of future payments. The Company’s incremental borrowing rate is determined by estimating the cost to the Company to borrow a collateralized amount equal to the total lease payments over a similar lease term and is based on credit-adjusted and term-specific discount rates, using a third-party yield curve. The operating lease right-of-use asset also includes any lease payments made and excludes lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. The Company accounts for lease components and non-lease components as a single lease component.

Business combination

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

Revenue recognition

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

- *Identification of the contract, or contracts, with a customer* - A contract with a customer exists when (i) the Company enters into an enforceable contract with a customer that defines each party’s rights regarding the goods or services to be transferred and identifies the payment terms related to these goods or services, (ii) the contract has commercial substance and, (iii) the Company determines that collection of substantially all consideration for goods or services that are transferred is probable based on the customer’s intent and ability to pay the promised consideration. The Company applies judgment in determining the customer’s ability and intention to pay, which is based on a variety of factors including the customer’s historical payment experience or, in the case of a new customer, published credit and financial information pertaining to the customer. Customer payments received by the Company are non-refundable.
- *Identification of the performance obligations in the contract* - Performance obligations promised in a contract are identified based on the goods or services that will be transferred to the customer that are capable of being both: a)

functionally distinct, whereby the customer can benefit from the goods or service either on their own or together with other resources that are readily available from third parties or from the Company, and b) contractually distinct, whereby the transfer of the goods or services is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised goods or services, the Company applies judgment to determine whether promised goods or services are capable of being distinct and unique in the context of the contract. If these criteria are not met the promised goods or services are accounted for as a combined performance obligation.

- *Determination of the transaction price* - The transaction price is determined based on the consideration to which the Company is entitled in exchange for transferring goods or services to the customer.
- *Allocation of the transaction price to the performance obligations in the contract* - If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price (SSP) basis. The Company determines standalone selling price based on the price at which the performance obligation is sold separately. If the standalone selling price is not observable through past transactions, the Company estimates the standalone selling price taking into account available information such as market conditions and internally approved pricing guidelines related to the performance obligations.
- *Recognition of revenue when, or as, the Company satisfies a performance obligation* - The Company satisfies performance obligations either over time or at a point in time as discussed in further detail below. Revenue is recognized at the time the related performance obligation is satisfied by transferring a promised good or service to a customer.

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

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

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

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

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

Contract assets - The timing of revenue recognition may differ from the timing of invoicing to customers. Accounts receivable are recorded at the invoiced amount and in the period the Company delivers goods or provides services or when the Company’s right to consideration is unconditional. Payment terms on invoiced amounts are typically 30-45 days. The balance of accounts receivable, net of allowance for doubtful accounts, as of December 31, 2021 and 2020 is presented in the accompanying consolidated balance sheets. In situations where revenue recognition occurs before invoicing, an unbilled receivable is created, which represents a contract asset. As of December 31, 2021 and 2020 contract assets totaling $5.4 million and $4.2 million, respectively, were included in other receivables in the consolidated balance sheet. Contract assets are evaluated for impairment whenever changes in events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. There were no impairment losses incurred for the years ended December 31, 2021 and 2020.

Revenue from sales-type leases

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

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

For the year ended December 31, 2021, the Company transferred $0.5 million of lease receivables, recording a net loss of $0.1 million and $0.5 million of new financing liabilities for future performance of executory service obligations. For the year ended December 31, 2020, the Company transferred $2.5 million of lease receivables, recording a net loss of $0.2 million and $2.0 million of new financing liabilities for future performance of executory service obligations.

For lease receivables retained as of December 31, 2021 and 2020, the Company recorded $0.4 million and $0.7 million, respectively, of net investment in sales-type leases, equivalent to the minimum lease payments for the delivered product.

Shipping and handling costs

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

Research and development expenditures

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

Advertising costs

Advertising costs are included in sales and marketing expense and are expensed as incurred. Advertising costs for the years ended December 31, 2021, 2020 and 2019 were $0.7 million, $0.6 million, and $0.3 million, respectively.

Product warranties

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

Income taxes

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

The Company has deferred tax assets, resulting from net operating losses, research and development credits and temporary differences that may reduce taxable income in future periods. A valuation allowance is required when it is more likely than not that all or a portion of a deferred tax asset will not be realized. In assessing the need for a valuation allowance, the Company estimates future taxable income, considering the feasibility of ongoing tax-planning strategies and the realizability of tax loss carryforwards. Valuation allowances related to deferred tax assets can be impacted by changes in tax laws, changes in statutory tax rates and future taxable income levels. If the Company were to determine that it would be able to realize its deferred tax assets in the future in excess of the net carrying amounts, it would decrease the recorded valuation allowance through an increase to income in the period in which that determination is made. Due to the history of losses the Company has generated in the past, the Company believes that it is not more likely than not that all of the deferred tax assets in the U.S. and Canada can be realized as of December 31, 2021 and 2020, respectively. Accordingly, the Company has recorded a full valuation allowance against its deferred tax assets for these years.

At December 31, 2021, the Company had a valuation allowance against net deferred tax assets of $61.5 million.

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

The Company includes interest and penalties with income taxes in the accompanying statement of operations. All of the Company's net operating losses and research credit carryforwards are subject to adjustment by tax authorities and all years after 2014 are still subject to tax authority examinations. The Company is currently not subject to any income tax audit examinations by tax authorities in any jurisdictions including U.S. federal, state and local or foreign countries.

Foreign currency translation

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

Comprehensive loss

For the years ended December 31, 2021, 2020 and 2019, the only component of other comprehensive loss was unrealized (losses) gains on available-for-sale securities.

Related party transactions

During the years ended December 31, 2020 and 2019, the Company had revenue transactions with a related party, the University of Chicago Medical Center ("UCMC"), for $1.0 million and $1.3 million, respectively, relating to consulting services and technology solutions. One of the Company's board members was the President of UCMC until her retirement in July of 2020 and as such, in 2021, UCMC is no longer deemed a related party. No material related party transactions occurred during the year ended December 31, 2021.

Recently adopted accounting pronouncements

In August 2020, the FASB issued ASU 2020-06 *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, related to the accounting for debt with conversion features. The amendments in this update simplify the accounting for convertible instruments by reducing the number of accounting models available for convertible debt instruments and convertible preferred stock. This update also amends the guidance for the derivatives scope exception for contracts in an entity's own equity to reduce form-over-substance-based accounting conclusions and requires the application of the if-converted method for calculating diluted earnings per share. The update also requires entities to provide expanded disclosures about the terms and features of convertible instruments, how the instruments have been reported in the entity's financial statements and information about events, conditions and circumstances that can affect how to assess the amount or timing of an entity's future cash flows related to those instruments. The guidance is effective for interim and annual periods beginning after December 15, 2021 with early adoption permitted for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Company adopted the guidance beginning January 1, 2021. The adoption of this guidance resulted in an increase of $17.0 million and $15.2 million to convertible senior notes, net and accumulated deficit, respectively, a reduction to additional paid-in capital of $32.2 million, a deferred tax liability of $4.4 million. The related valuation allowance was reversed upon adoption, resulting in no tax expense impact.

In March 2020 and January 2021, the FASB issued new guidance related to Reference Rate Reform. These pronouncements provide optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The amendments in this update are elective and subject to meeting certain criteria, that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. This could affect balances of right of use assets, lease liabilities, and notes payables. The amendments in the March update are effective as of March 12, 2020 through December 21, 2022 and the amendments in the January update are effective immediately for all entities. The adoption of these pronouncements did not have a material impact on the Company's consolidated financial statements.

Recently issued and not yet adopted accounting pronouncements

In October 2021, the FASB issued ASU No. 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers* which requires the recognition and measurement of contract assets and contract liabilities acquired in a business combination in accordance with ASC 606, *Revenue from Contracts with Customers*. Considerations used to determine the amount of contract assets and contract liabilities to record at the acquisition date include the terms of the acquired contract, such as timing of payment, identification of each performance obligation in the contract, and allocation of the contract transaction price to each identified performance obligation on a relative standalone selling price basis as of contract inception. ASU 2021-08 is effective for the Company beginning in the first quarter of fiscal year 2023. The guidance should be applied prospectively for acquisitions occurring on or after the effective date of the amendments. Early adoption of the proposed amendments is permitted, including adoption in an interim period. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

2. Revenue, deferred revenue and deferred commissions

Disaggregation of Revenue

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

	Years ended December 31,		
(in thousands)	**2021**	**2020**	**2019**
Revenue			
Product			
Device	$ 72,473	$ 69,321	$ 61,224
Software	45,697	31,246	31,337
Total product	118,170	100,567	92,561
Service			
Subscription and support	94,246	78,532	68,846
Professional services and training	21,769	19,321	19,094
Total service	116,015	97,853	87,940
Total revenue	$ 234,185	$ 198,420	$ 180,501

Costs to obtain and fulfill a contract

The Company capitalizes certain incremental contract acquisition costs consisting primarily of commissions paid and the related payroll taxes when customer contracts are signed. The Company determines whether costs should be deferred based on its sales compensation plans, if the commissions are incremental and would not have been incurred absent the execution of the customer contract. Sales commissions for renewals of customer contracts are not commensurate with the commissions paid for the acquisition of the initial contract given the substantive difference in commission rates in proportion to their respective contract values. Commissions paid upon the initial acquisition of a contract are amortized over the estimated period of benefit, which may exceed the term of the initial contract. Accordingly, amortization of deferred costs is recognized on a systematic basis that is consistent with the pattern of revenue recognition allocated to each performance obligation and is included in sales and marketing expense in the consolidated statements of operations. The Company determines its estimated period of benefit, up to five years, by evaluating the expected renewals of its customer contracts, the duration of its relationships with its customers, average life of the Company's technology, and other factors. Deferred costs are periodically reviewed for impairment. In accordance with Topic 340, an entity may elect a practical expedient that allows the entity to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less. The Company has elected this practical expedient and recognizes costs paid to obtain contracts as expense when incurred. Changes in the balance of total deferred commissions (contract asset) during the year ended December 31, 2021 and 2020 were as follows:

(in thousands)	December 31, 2020	Additions	Commissions Recognized	December 31, 2021
Deferred commissions	$ 12,293	$ 13,640	$ (9,337)	$ 16,596

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

Deferred revenue

The Company records deferred revenue when cash payments are received in advance of the performance under the contract. The current portion of deferred revenue represents the amounts that are expected to be recognized as revenue within one year of the consolidated balance sheet date.

Revenue recognized during the year ended December 31, 2021 from deferred revenue balances as of December 31, 2020 was $60.4 million. Revenue recognized during the year ended December 31, 2020 from deferred revenue balances as of December 31, 2019 was $53.4 million.

The “contracted but not recognized” performance obligations represent the Company’s deferred revenue and non-cancelable backlog amounts. This balance as of December 31, 2021 was $200.1 million, of which the Company expects to recognize approximately 65% of the revenue over the next 12 months and the remainder thereafter.

3. Fair value of financial instruments

The Company’s cash, cash equivalents and short-term investments are carried at their fair values with any differences from their amortized cost recorded in equity as unrealized gains (losses) on marketable securities. As a basis for determining the fair value of its assets and liabilities, the Company follows a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs other than the quoted prices in active markets that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data which requires the Company to develop its own assumptions. This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. For the years ended December 31, 2021, 2020 and 2019, there have been no transfers between Level 1 and Level 2 fair value instruments and no transfers out of Level 3.

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

In addition to its cash, cash equivalents and short-term investments, the Company measures the fair value of its Convertible Senior Notes on a quarterly basis for disclosure purposes. The Company considers the fair value of the Convertible Senior Notes at December 31, 2021 to be a Level 2 measurement due to limited trading activity of the Convertible Senior Notes. Refer to Note 8 to the consolidated financial statements for further information.

The agreement for the acquisition of EASE includes contingent payments to the owners of EASE, payable based on achievement of post-acquisition financial metrics. This contingent consideration is a Level 3 fair value measurement, and the valuation of the Company’s contingent consideration obligation was estimated as the present value of total expected contingent consideration payments which are determined using a Monte Carlo simulation. This analysis reflects the contractual terms of the purchase agreements and utilizes assumptions with regard to future sales, probabilities of achieving such future sales, the likelihood and timing of expected payments and a discount rate. Significant increases with respect to assumptions as to future sales and probabilities of achieving such future sales would result in a higher fair value measurement, while an increase in the discount rate would result in a lower fair value measurement. The unobservable inputs in the valuation include revenue volatility of 10%, a risk-free rate of 2.50%. The fair value adjustment for the contingent consideration of $2.9 million for the year ended December 31, 2021 was recorded as other income and expense.

The table below summarizes the Company’s assets that are measured at fair value on a recurring basis, by level, within the fair value hierarchy as of December 31, 2021 and 2020, respectively.

	December 31, 2021				December 31, 2020			
(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets								
Money market funds	$ 3,664	$ —	$ —	$ 3,664	$ 363	$ —	$ —	$ 363
Commercial paper	—	70,315	—	70,315	—	21,950	—	21,950
U.S. Treasury securities	—	—	—	—	—	6,000	—	6,000
Corporate debt securities	—	192,767	—	192,767	—	173,277	—	173,277
Total assets measured at fair value	$ 3,664	$ 263,082	$ —	$ 266,746	$ 363	$ 201,227	$ —	$ 201,590
Liabilities								
Contingent consideration	$ —	$ —	$ 66	$ 66	$ —	$ —	$ 2,959	$ 2,959
Total liabilities measured at fair value	$ —	$ —	$ 66	$ 66	$ —	$ —	$ 2,959	$ 2,959

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

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

	Year ended December 31,	
	2021	**2020**
Beginning balance	$ 2,959	$ —
Issuance of contingent consideration in connection with acquisition	—	2,162
Settlements of contingent consideration liabilities	—	—
Fair value adjustment for contingent consideration included in earnings	(2,893)	797
Ending balance	$ 66	$ 2,959

4. Cash, Cash Equivalents and Short-Term Investments

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

	December 31, 2021			
(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair value
Cash and Cash Equivalents:				
Demand deposits and other cash	$ 65,647	$ —	$ —	$ 65,647
Money market funds	3,664	—	—	3,664
Commercial paper	26,994	—	(1)	26,993
Total cash and cash equivalents	96,305	—	(1)	96,304
Short-Term Investments:				
Commercial paper	43,362	—	(40)	43,322
Corporate debt securities	193,196	12	(441)	192,767
Total short-term investments	236,558	12	(481)	236,089
Total cash, cash equivalents and short-term investments	$ 332,863	$ 12	$ (482)	$ 332,393

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

The Company has determined that no credit losses related to marketable securities were required as of as of December 31, 2021 and 2020. The Company has not recorded an allowance for credit losses on investments that were in an unrealized loss position as of December 31, 2021 and 2020 because they were not material. The Company's conclusion is based on the high credit quality of the securities, their short remaining maturity and the Company's intent and ability to hold such loss securities until maturity.

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

(in thousands)	One year or shorter	Between 1 and 2 years	Total
Balances as of December 31, 2021			
Cash and cash equivalents (1)	$ 96,304	$ —	$ 96,304
Short-term investments	160,158	75,931	236,089
Cash, cash equivalents and short-term investments	$ 256,462	$ 75,931	$ 332,393
Balances as of December 31, 2020			
Cash and cash equivalents (1)	$ 34,976	$ —	$ 34,976
Short-term investments	141,582	53,645	195,227
Cash, cash equivalents and short-term investments	$ 176,558	$ 53,645	$ 230,203

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

5. Net loss per share

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

	Years ended December 31,		
(in thousands, except for share and per share amounts)	2021	2020	2019
Numerator:			
Net loss	$ (8,495)	$ (9,656)	$ (17,980)
Denominator:			
Weighted-average shares used to compute net loss per common share - basic and diluted	34,295	32,215	31,273
Net loss per share			
Basic and diluted	$ (0.25)	$ (0.30)	$ (0.57)

For the years ended December 31, 2021, 2020 or 2019, the following outstanding securities at period end were not included in the calculation of diluted shares outstanding as the effect would have been anti-dilutive:

	December 31,		
(in thousands)	2021	2020	2019
Options to purchase common stock	150	496	523
Convertible senior notes	4,998	—	—
Restricted stock units and performance stock units	2,153	2,014	1,461

6. Goodwill and intangible assets

Goodwill

The Company had $94.9 million and $69.2 million of goodwill as of December 31, 2021 and 2020, respectively. The addition to goodwill during the year ended December 31, 2021 of $25.7 million was based on the purchase price allocations of the acquisition completed in May of 2021 (See Note 12). Goodwill is tested for impairment at the reporting unit level at least annually or more often if events or changes in circumstances indicate the carrying value may not be recoverable. The Company has a single reporting unit. The Company performed an impairment assessment which determined that no impairment existed as of December 31, 2021 and 2020. To assess goodwill for impairment for the years ended December 31, 2021 and 2020, the Company used the qualitative assessment permitted under authoritative accounting guidance. Among the qualitative factors considered were changes since the prior impairment test in the following: industry and competitive environment, business strategy, product mix, buyer and supplier bargaining power, potential market size, consistency in operating margins and cash flows, change in reporting unit or product life cycle stage and earnings quality and sustainability.

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

Balance at December 31, 2020	$69,168
Acquired in acquisition	25,665
Adjustments to goodwill	50
Balance at December 31, 2021	$94,883

Intangible assets

The fair values for acquired intangible assets were determined by management with consideration of, in part, valuations performed by independent valuation specialists. Acquisition-related intangible assets are amortized over the life of the assets. The estimated useful lives and carrying value of acquired intangible assets are as follows:

		December 31, 2021			December 31, 2020		
(in thousands)	**Weighted average useful life (years)**	**Gross carrying amount**	**Accumulated amortization**	**Net carrying amount**	**Gross carrying amount**	**Accumulated amortization**	**Net carrying amount**
Intangible assets:							
Customer relationships	8.0	$ 19,640	$ (9,143)	$ 10,497	$ 16,350	$ (7,143)	$ 9,207
Developed technology	3.0	17,620	(12,254)	5,366	12,360	(10,255)	2,105
Trademarks	3.0	1,770	(1,411)	359	1,770	(1,191)	579
Backlog	4.0	5,950	(2,501)	3,449	2,240	(1,343)	897
Intangible assets, net book value		$ 44,980	$ (25,309)	$ 19,671	$ 32,720	$ (19,932)	$ 12,788

Amortization of intangible assets was $5.4 million, $1.9 million, and $3.6 million for the years ended December 31, 2021, 2020 and 2019, respectively.

Amortization of acquired intangible assets is reflected in the cost of revenues for developed technology and backlog and in operating expenses for the other intangibles. The estimated future amortization of acquired intangible assets as of December 31, 2021 was as follows:

(in thousands)	**Future amortization**
2022	$ 6,057
2023	5,537
2024	3,506
2025	1,409
2026	1,090
Thereafter	2,072
Future amortization expense	$ 19,671

7. Consolidated balance sheet components

Inventories

	December 31,	
(in thousands)	**2021**	**2020**
Raw materials	$ 1,200	$ 462
Finished goods	5,965	9,697
Total inventories	$ 7,165	$ 10,159

Property and equipment, net

	December 31,	
(in thousands)	**2021**	**2020**
Computer equipment and software	$ 16,634	$ 15,912
Furniture, fixtures and equipment	2,856	2,570
Leasehold improvements	5,817	5,306
Manufacturing tools and equipment	2,696	2,506
Construction in process	1,895	629
Property and equipment, at cost	29,898	26,923
Less: Accumulated depreciation	(22,109)	(18,820)
Property and equipment, net	$ 7,789	$ 8,103

Depreciation and amortization expense for property and equipment for the years ended December 31, 2021, 2020 and 2019 was $4.9 million, $4.5 million, and $3.7 million, respectively.

Net investment in sales-type leases

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

	December 31,	
(in thousands)	**2021**	**2020**
Minimum payments to be received on sales-type leases	$ 747	$ 1,440
Less: Unearned interest income and executory revenue portion	(372)	(731)
Net investment in sales-type leases	375	709
Less: Current portion	(254)	(360)
Non-current net investment in sales-type leases	$ 121	$ 349

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

	Years ended December 31,		
(in thousands)	**2021**	**2020**	**2019**
Lease revenue	$ 1,947	$ 4,513	$ 6,394
Less: Cost of lease shipments	(79)	(702)	(1,670)
Gross profit	$ 1,868	$ 3,811	$ 4,724
Interest expense, net on lease receivable	$ (4)	$ (16)	$ (18)
Initial direct cost incurred	$ 70	$ 224	$ 277

There were no allowances for doubtful accounts on these leases as of December 31, 2021 and 2020. There is no guaranteed or unguaranteed residual value on the leased equipment. The current and non-current net investments in sales-types leases are reported as components of the consolidated balance sheet captions "other receivables" and "other long-term assets", respectively.

The minimum lease payments expected for future years under sales-type leases as of December 31, 2021 were as follows:

(in thousands)	Future lease payments	
2022	$	529
2023	$	185
2024		33
Total	$	747

Accrued payroll and other current liabilities

	December 31,			
(in thousands)	2021		2020	
Payroll and related expenses	$	12,863	$	9,043
Accrued payables		9,007		3,160
Operating lease liabilities, current portion		2,458		2,529
Lease financing, current portion		1,286		1,034
Product warranty		352		453
Customer prepayments		1,893		4,292
Sales and use tax payable		564		476
Other taxes payable		852		852
Other		671		1,356
Total accrued payroll and other current liabilities	$	29,946	$	23,195

A reconciliation of the changes in the Company's warranty reserve for the years ended December 31, 2021, 2020 and 2019 is as follows:

	Years ended December 31,					
(in thousands)	2021		2020		2019	
Warranty balance at the beginning of the period	$	453	$	420	$	376
Warranty expense accrued for shipments during the period		318		424		435
Changes in estimate related to pre-existing warranties		(302)		(123)		(192)
Warranty settlements made		(117)		(268)		(199)
Total product warranty	$	352	$	453	$	420

Leases

The Company has operating leases for office space at its headquarters and subsidiaries under non-cancelable operating leases. Leases with an initial term of 12 months or less are not recorded on the balance sheet; lease expense for these leases is recognized on a straight-line basis over the lease term. The Company determines if an arrangement is a lease at inception. Some lease agreements contain lease and non-lease components, which are accounting for as a single lease component. The Company's leases have remaining lease terms of approximately one to seven years. Operating lease cost, including short-term operating leases, was $3.2 million, $3.4 million, and $2.7 million for the years ended December 31, 2021, 2020 and 2019, respectively.

Supplemental balance sheet information related to leases was as follows:

(in thousands)	December 31, 2021	December 31, 2020
Other long-term assets	$ 15,075	$ 4,014
Accrued payroll and other current liabilities	2,458	2,529
Other long-term liabilities	13,046	2,288
Total operating lease liabilities	$ 15,504	$ 4,817

Other information related to leases was as follows:

	Year ended December 31,	
(in thousands)	2021	2020
Supplemental Cash Flow Information		
Cash paid for amounts included in the measurement of lease liabilities	$ 4,230	$ 3,022
Right-of-use assets obtained in exchange for lease obligations	$ 14,393	$ 327
Weighted average remaining lease term	6.35 years	2.11 years
Weighted average discount rate	5.7% - 8.0%	8.0 %

Maturities of lease liabilities as of December 31, 2021 are as follows:

(in thousands)	Operating leases
2022	$ 3,324
2023	2,812
2024	2,464
2025	2,181
2026	2,140
Thereafter	5,942
Total maturities of lease liabilities	18,863
Less imputed interest	$ (3,359)
Total	$ 15,504

During the second quarter of 2021, the Company has entered into a lease for its headquarters with lease payments totaling $15.5 million. The lease commenced during the fourth quarter of 2021 and the lease term ends in the second quarter of 2029.

8. Convertible Senior Notes

Convertible Senior Notes due 2026

In March 2021, the Company issued $200.0 million in aggregate principal amount of its 0.50% Convertible Senior Notes, due 2026 (the “2026 Notes”). The 2026 Notes are unsecured, unsubordinated obligations of the Company and bear interest at a fixed rate of 0.50% per annum, payable semi-annually in arrears on March 15 and September 15 of each year, commencing on September 15, 2021. The 2026 Notes mature on September 15, 2026, unless converted, redeemed or repurchased in accordance with their terms prior to such date. The Company granted the initial purchasers an overallotment option under the purchase agreement to purchase up to an additional $30.0 million aggregate principal amount of the 2026 Notes to cover overallotments within a 30-day period. The purchasers partially exercised the overallotment option in April 2021 and the Company issued an additional $24.5 million of the 2026 Notes. The Company may not redeem the 2026 Notes prior to March 20, 2024. The Company may redeem for cash all or any portion of the 2026 Notes (subject to the partial redemption limitation (as defined in the indenture governing the 2026 Notes)), at its option, on or after March 20, 2024 if the last reported sale price of common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which the Company provides a redemption notice at a redemption price equal to 100% of the principal amount of the 2026 Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

The 2026 Notes are convertible into cash, shares of Company's common stock or a combination of cash and shares of common stock, at the Company's election, at an initial conversion rate of 16.6272 shares of common stock per $1,000 principal amount of the 2026 Notes, which is equal to an initial conversion price of approximately $60.14 per share of common stock. The 2026 Notes will be convertible at the option of the holders at any time prior to the close of business on the business day immediately preceding June 15, 2026, only under the following circumstances:

(1) during any calendar quarter commencing after the calendar quarter ending on June 30, 2021 (and only during such calendar quarter), if the last reported sale price of common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price of the 2026 Notes on each applicable trading day

(2) during the five business day period after any ten consecutive trading day period in which the trading price per $1,000 principal amount of the 2026 Notes for each trading day of that ten day consecutive trading day period was less than 98% of the product of the last reported sale price of common stock and the conversion rate of the 2026 Notes on such trading day;

(3) if the Company calls any or all of the 2026 Notes for redemption, at any time prior to the close of business on the second scheduled trading day prior to the applicable redemption date; or

(4) upon the occurrence of specified corporate events.

On or after June 15, 2026, holders of the 2026 Notes may convert all or any portion of their 2026 Notes at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date, regardless of the foregoing circumstances. If a fundamental change occurs (as set forth in the indenture governing the 2026 Notes), each holder of the 2026 Note shall have the right, at such holder's option, to require the Company to repurchase for cash all of such their Notes, or any portion of the principal amount, at a repurchase price equal to 100% of the principal amount thereof, plus accrued and unpaid interest. During the year ended December 31, 2021, the conditions allowing holders of the 2026 Notes to convert have not been met and there were no changes to the initial conversion price of the 2026 Notes. The 2026 Notes are not convertible during the year ended December 31, 2021 and are classified as long-term debt.

In accounting for the 2026 Notes after adoption of ASU 2020-06, the 2026 Notes are accounted for as a single liability. The carrying amount of the liability component for 2026 Notes is $218.6 million as of December 31, 2021, with principal of $224.5 million, net of unamortized issuance costs of $5.9 million. The costs related to the 2026 Notes are being amortized to interest expense over the contractual term of the 2026 Notes at an effective interest rate of 1.05%.

The 2026 Notes and related interest expense consist of the following:

(in thousands)	**December 31, 2021**
Liability:	
Principal	$ 224,500
Unamortized issuance costs	(5,865)
Net carrying amount	$ 218,635

(in thousands)	**Year ended December 31, 2021**
Contractual interest expense	$ 899
Amortization of issuance costs	974
Total interest expense	$ 1,873

2026 Capped Calls

In connection with the pricing of the 2026 Notes, the Company entered into privately negotiated capped call transactions with certain counterparties (the “2026 Capped Calls”). The 2026 Capped Calls have an initial strike price of $60.14 per share, subject to certain adjustments, which correspond to the initial conversion price of the 2026 Notes. The 2026 Capped Calls have initial cap prices of $77.96 per share, subject to certain adjustments. Conditions that cause adjustments to the initial strike price of the 2026 Capped Calls mirror conditions that result in corresponding adjustments for the 2026 Notes. The 2026 Capped Calls are generally intended to reduce or offset the potential dilution to the Company’s common stock upon any conversion of the 2026 Notes with such reduction or offset, as the case may be, subject to a cap based on the cap price. For accounting purposes, the 2026 Capped Calls are separate transactions, and not part of the terms of the 2026 Notes. As these transactions meet certain accounting criteria, the 2026 Capped Calls are recorded in stockholders' equity at an amount of $17.4 million and are not accounted for as derivatives. In connection with the partial exercise of the overallotment option and the issuance by the Company of $24.5 million of 2026 Notes on April 5, 2021, the Company entered into $1.9 million of additional privately negotiated capped calls with the same terms as the initial capped calls.

Convertible Senior Notes due 2023

In May 2018, the Company issued $143.8 million aggregate principal amount of 1.50% Convertible Senior Notes due May 15, 2023 (the “2023 Notes”), including $18.8 million aggregate principal amount of such notes pursuant to the exercise in full of options granted to the initial purchasers. The 2023 Notes are unsecured, unsubordinated obligations and bear interest at a fixed rate of 1.50% per annum, payable semi-annually in arrears on May 15 and November 15 of each year, commencing on November 15, 2018. The total net proceeds from the offering, after deducting initial purchase discounts and estimated debt issuance costs, were approximately $138.9 million.

In the first quarter of 2021, the Company used part of the net proceeds from the issuance of the 2026 Notes to retire $102.9 million aggregate principal amount of the 2023 Notes in privately negotiated transactions for consideration of $102.9 million in cash and 1,277,731 shares of the Company’s common stock (the "2023 Note Repurchase Transactions"). The Company separately settled the accrued interest of approximately $0.5 million associated with the retired 2023 Notes in cash.

Out of the common stock issued, the Company provided additional issuance of 46,216 shares of the Company’s common stock not provided for under the original conversion terms of the 2023 Notes to induce the holders of the 2023 Notes to agree to the retirement. The Company used cash to settle the principal of the retired 2023 Notes and issued common stock to settle the conversion spread.

The 2023 Note Repurchase Transactions met the requirements to be accounted for as an induced conversion. Under the induced conversion guidance, the total fair value of the additional cash and common stock issued to induce conversion is recognized as an inducement expense. The remaining cash and common stock consideration issued under the original terms of the 2023 Notes are accounted for under the general conversion accounting guidance. The 2023 Note Repurchase Transactions resulted in a $2.1 million inducement loss equal to the fair value of the additional common stock issued for inducement and the difference of approximately $1.6 million between the carrying amount of the 2023 Notes retired, including debt issuance costs of $1.6 million, and the cash consideration paid, and the par amount of the common stock issued was recorded in additional paid-in capital.

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

(1) during any calendar quarter commencing after the calendar quarter ending on June 30, 2018 (and only during such calendar quarter), if the last reported sale price of the Company common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price of the 2023 Notes on each applicable trading day;

(2) during the five business day period after any ten consecutive trading day period in which the trading price per $1,000 principal amount of the 2023 Notes for each day of that ten day consecutive trading day period was less than 98% of the product of the last reported sale price of the Company’s common stock and the conversion rate of the 2023 Notes on such trading day; or

(3) upon the occurrence of specified corporate events (as set forth in the indenture governing the 2023 Notes).

For at least 20 trading days during the period of 30 consecutive days ended December 31, 2021, the last reported sale price of the Company's common stock was equal to or exceeded 130% of the conversion price of the 2023 Notes on each applicable trading day. As a result, the 2023 Notes are convertible at the option of the holders during the fiscal quarter ending December 31, 2021; and were classified as current liabilities on the balance sheet as of December 31, 2021.

On or after February 15, 2023 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their 2023 Notes at any time, regardless of the foregoing circumstances. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election. If certain specified fundamental changes occur (as set forth in the indenture governing the 2023 Notes) prior to the maturity date, holders of the 2023 Notes may require the Company to repurchase for cash all or any portion of their Notes at a repurchase price equal to 100% of the principal amount of the 2023 Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date. In addition, if specific corporate events occur prior to the applicable maturity date, the Company will increase the conversion rate for a holder who elects to convert their notes in connection with such a corporate event in certain circumstances.

Prior to the adoption of the ASU 2020-06 on January 1, 2021 and in accounting for the issuance of the 2023 Notes, the 2023 Notes were separated into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar debt instrument that does not have an associated conversion feature. The carrying amount of the equity component representing the 2023 Conversion Option was $33.4 million and was determined by deducting the fair value of the liability components from the par value of the 2023 Notes. The equity component was recorded in additional paid-in-capital and was not re-measured as long as they continued to meet the conditions for equity classification. The excess of the principal amount of the liability component over its carrying amount (the "Debt Discount") was amortized to interest expense over the contractual term of the 2023 Notes at an effective interest rate of 7.6%.

Prior to the adoption of the ASU 2020-06 on January 1, 2021 and in accounting for the debt issuance costs of $4.9 million related to the 2023 Notes, the Company allocated the total amount incurred to the liability and equity components of the 2023 Notes based on their relative values. Issuance costs attributable to the liability component were $3.8 million and were amortized to interest expense using the effective interest method over the contractual term of the 2023 Notes. Issuance costs attributable to the equity components were netted with the equity component in additional paid-in-capital.

The Company elected to early adopt ASU 2020-06 as of January 1, 2021 based on a modified retrospective transition method. Under such transition, prior-period information has not been retrospectively adjusted.

In accounting for the 2023 Notes after adoption of ASU 2020-06, the 2023 Notes are accounted for as a single liability. The carrying amount of the liability component for 2023 Notes is $40.4 million as of December 31, 2021, with principal of $40.8 million, net of debt issuance cost of $0.4 million. The issuance costs related to the 2023 Notes are being amortized to interest expense over the contractual term of the 2023 Notes at an effective interest rate 2.19%.

The 2023 Notes and related interest expense consist of the following:

(in thousands)	**December 31, 2021**	**December 31, 2020**
Liability:		
Principal	$ 40,804	$ 143,750
Unamortized debt discount	—	(17,411)
Unamortized issuance costs	(393)	(1,963)
Net carrying amount	$ 40,411	$ 124,376
Stockholders' equity:		
Debt discount for conversion option	$ —	$ 33,350
Issuance costs	—	(1,136)
Net carrying amount	$ —	$ 32,214

(in thousands)	Year ended December 31, 2021	2020
Contractual interest expense	$ 923	$ 2,156
Amortization of debt discount	—	6,469
Amortization of issuance costs	402	729
Total interest expense	$ 1,325	$ 9,354

The total estimated fair value of the 2023 and 2026 Notes ("the Notes") as of December 31, 2021 was approximately $365.1 million. The fair value was determined based on the closing trading price per $1,000 of the Notes as of the last day of trading for the period. The fair value of the Notes is primarily affected by the trading price of the Company's common stock and market interest rates.

2023 Capped Calls

In connection with the pricing of the 2023 Notes, the Company entered into privately negotiated capped call transactions with certain counterparties, the "2023 Capped Calls." The 2023 Capped Calls entered into with the 2023 Notes are still outstanding and each have an initial strike price of approximately $32.25 per share, subject to certain adjustments, which correspond to the initial conversion price of the 2023 Notes. The 2023 Capped Calls have initial cap prices of $38.94 per share, subject to certain adjustments. The 2023 Capped Calls cover, subject to anti-dilution adjustments, approximately 4.5 million shares of the Company's common stock. Conditions that cause adjustments to the initial strike price of the Capped Calls mirror conditions that result in corresponding adjustments for the 2023 Notes. The 2023 Capped Calls are generally intended to reduce or offset the potential dilution to the Company's common stock upon any conversion of the 2023 Notes with such reduction or offset, as the case may be, subject to a cap based on the cap price. For accounting purposes, the 2023 Capped Calls are separate transactions, and not part of the terms of the 2023 Notes. As these transactions meet certain accounting criteria, the 2023 Capped Calls are recorded in stockholders' equity and are not accounted for as derivatives. The cost of $8.9 million incurred in connection with the 2023 Capped Calls was recorded as a reduction to additional paid-in capital. The 2023 Capped Calls were not impacted by the 2023 Note Repurchase Transactions and continue to remain outstanding.

The net impact to the Company's stockholders' equity, included in additional paid-in capital, of the above components of the 2023 Notes is as follows:

(in thousands)	December 31, 2021
Conversion option	$ 33,350
Purchase of capped calls	(8,907)
Issuance costs	(1,136)
Total	$ 23,307

Impact on Earnings Per Share

Prior to the adoption of ASU 2020-06, the Company used the treasury stock method for calculating any potential dilutive effect of the conversion spread of its 2023 Notes. Under the treasury stock method, in periods when the Company reports net income, the Company is required to include the effect of additional shares that may be issued under the 2023 Notes when the price of its' common stock exceeds the conversion price. The conversion spread on the 2023 convertible senior notes had an anti-dilutive impact during the year ended December 31, 2021, since the average market price of the Company's common stock during the period did not exceed the initial conversion price per share for the 2023 Notes and the Company was in a net loss position.

After the adoption of ASU 2020-06, the Company uses the if-converted method for calculating any potential dilutive effect of its 2023 Notes and 2026 Notes for the year ended December 31, 2021. Under this method, diluted earnings per share would generally be calculated assuming that all the 2023 and 2026 Notes were converted solely into 5.0 million shares of common stock at the beginning of the reporting period, unless the result would be antidilutive. The potential shares of common stock issuable upon the conversion of the 2023 and 2026 Notes were excluded from the calculation of diluted net loss per share for the year ended December 31, 2021 because their effect was anti-dilutive as of December 31, 2021.

9. Commitments and contingencies

Non-cancelable purchase 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 December 31, 2021, the Company had approximately $10.1 million of open purchase orders with our independent contract manufacturers that are non-cancelable and have a remaining term over the next year.

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 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.

Litigation

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

10. Common Stock and Share-based Compensation

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

At December 31, 2021, the Company has 1,205,378 shares of common stock reserved for issuance under stock option plans.

Incentive stock option plans

The Company has six equity incentive plans: the 2000 Stock Option Plan ("the 2000 Plan"), the 2006 Stock Option Plan ("the 2006 Plan"), the 2012 Stock Option Plan ("the 2012 Plan"), the 2016 Equity Inducement Plan ("the 2016 Plan") and the 2020 Equity Inducement Plan ("the 2020 Plan") and the 2021 Equity Incentive plan (the "2021 Plan"). All shares that were previously reserved under the 2006 Plan and 2012 Plan but not subject to outstanding awards became available for grant under the 2021 Plan. No additional shares will be issued under the 2006 Plan or 2012 Plan. The 2000 Plan terminated in March 2010 and no additional shares will be issued under this plan. The 2016 Plan and 2020 Plan were adopted by the Company's Board of Directors without shareholder approval pursuant to the inducement exemption provided under the NYSE listing rules for the issuance of restricted stock units ("RSUs") to employee's who joined the Company after the acquisitions of Extension Healthcare and Ease. No additional shares will be issued under the 2016 Plan or 2020 Plan. Under the 2021 Plan, the Company has the ability to issue incentive stock options ("ISOs"), stock appreciation rights, restricted stock awards, RSUs, performance awards and stock bonuses. The ISOs will be granted at a price per share not less than the fair value at date of grant.

Valuation Assumptions

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

We estimate the fair value of our stock-based awards as follows:

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

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

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

Stock Option Activity

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

	Options outstanding			
	Number of options	**Weighted average exercise price**	**Weighted average remaining contractual term (in years)**	**Aggregate intrinsic value (in thousands)**
Outstanding at December 31, 2020	299,031	$ 15.58	2.68	$ 7,761
Options exercised	(194,852)	16.43		
Options canceled	(9,431)	16.77		
Outstanding at December 31, 2021	94,748	$ 13.69	2.26	$ 4,846
Options vested and expected to vest as of December 31, 2021	94,748	$ 13.69	2.26	$ 4,846
Options vested and exercisable as of December 31, 2021	94,748	$ 13.69	2.26	$ 4,846

At December 31, 2021, there was no unrecognized compensation cost related to options. No options were granted during the years ended December 31, 2021, 2020 and 2019. Further information regarding the value of employee options vested and exercised during the years ended December 31, 2021, 2020 and 2019 is set forth below.

	Years ended December 31,		
(in thousands)	**2021**	**2020**	**2019**
Intrinsic value of options exercised during period	$ 5,818	$ 5,026	$ 3,700

Employee Stock Purchase Plan

The ESPP program allows eligible employees to purchase shares of common stock at a discount through payroll deductions of up to 15% of their eligible compensation, subject to any plan limitations. The ESPP provides for six-month offering periods.

At the end of each offering period, eligible employees are able to purchase shares at 85% of the lower of the fair market value of the Company's common stock on the first trading day of the offering period or on the last day of the offering period. During the years ended December 31, 2021 and 2020, employees purchased 149,617 and 240,593 shares, respectively, of common stock at an average purchase price of $27.74 and $15.54, respectively. As of December 31, 2021, 1,126,334 shares remained available for future issuance under the ESPP.

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

	Years ended December 31,		
	2021	2020	2019
Expected term (in years)	0.5	0.5	0.5
Volatility	28.0% - 55.0%	50.0% - 55.0%	33.0% - 50%
Risk-free interest rate	0.03% - 0.12%	0.12% - 1.59%	1.59% - 2.51%
Dividend yield	0.0%	0.0%	0.0%

Restricted Stock Units and Performance Stock Units

The Company issues RSUs and PSUs as part of its compensation plans. A summary of the RSU and PSU activity for the year ended December 31, 2021 is presented below:

	Restricted Stock Units and Performance Stock Units	
	Number of shares	Weighted Average Grant Date Fair Value per Share
Outstanding at December 31, 2020	2,140,763	$ 25.16
Granted	1,240,709	43.04
Vested	(973,957)	24.88
Forfeited	(254,762)	29.46
Outstanding at December 31, 2021	2,152,753	$ 35.08

At December 31, 2021, there was $52.8 million of unrecognized compensation cost related to RSUs and PSUs, which is expected to be recognized over a weighted-average period of 1.68 years.

During the third quarter of this fiscal year 2021 and the second quarter of fiscal year 2020 the Company granted 144,523 and 145,877 PSUs, respectively to certain executives under the 2021 Equity Incentive plan (the “2021 Plan”) and the 2012 Equity Incentive Plan (the “2012 Plan”), respectively. PSUs are contingent on the achievement of our comparative market-based returns. On the date of grant, the fair value of the total shareholder return (TSR) component of the PSUs is estimated using a Monte Carlo valuation model. The PSUs will vest over an approximate three-year performance period. The number of shares the PSU holder receives is based on the extent to which the corresponding market conditions have been achieved. For awards subject to service and market conditions, the number of shares of our stock issued pursuant to the award can range from 0% to 200% of the target amount. Compensation expense for awards with performance-based and service-based conditions is recognized over the requisite service period. These grants were reduced from shares of common stock reserved for issuance under stock plans as if 200% of the target amount were achieved. The assumptions used to determine the fair value are level 3 fair value measurements which include unobservable inputs that are significant to the measurement of the fair value of the assets or liabilities that are supported by little or no market data.

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

	Grant Date July 1, 2021
Grant date fair value per share	$ 61.18
Expected term (in years)	2.92
Volatility	49.75 %
Risk-free interest rate	0.45 %
Dividend yield	— %

	Grant Date June 1, 2020
Grant date fair value per share	$ 30.70
Expected term (in years)	3.00
Volatility	42.68 %
Risk-free interest rate	0.20 %
Dividend yield	— %

Allocation of Stock-Based Compensation Expense

Stock-based compensation expense is recognized based on a straight-line amortization method over the respective vesting period of the award and forfeitures are recognized as incurred. For the years ended December 31, 2021, 2020 and 2019 the straight-line amortization is reduced by actual forfeitures.

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

	Years ended December 31,		
(in thousands)	**2021**	**2020**	**2019**
Cost of revenue	$ 5,222	$ 4,161	$ 4,441
Research and development	4,695	4,180	3,955
Sales and marketing	10,510	7,934	7,014
General and administrative	10,829	9,450	8,455
Total stock-based compensation	$ 31,256	$ 25,725	$ 23,865

11. Income taxes

The components of loss before income taxes are as follows:

	Years ended December 31,		
(in thousands)	**2021**	**2020**	**2019**
United States	$ (9,203)	$ (12,230)	$ (19,022)
International	1,402	1,326	1,062
Total loss before income taxes	$ (7,801)	$ (10,904)	$ (17,960)

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

	Years ended December 31,		
(in thousands)	**2021**	**2020**	**2019**
Current			
State	$ 29	$ 110	$ (25)
Foreign	450	181	240
	479	291	215
Deferred			
Federal	158	(1,401)	(43)
State	77	(197)	7
Foreign	(20)	59	(159)
	215	(1,539)	(195)
Total income tax provision (benefit)	$ 694	$ (1,248)	$ 20

The Company had an effective tax rate of (8.9)%, 11.4% and (0.1)% for the years ended December 31, 2021, 2020 and 2019, respectively.

As of December 31, 2021 and 2020, the Company has provided a valuation allowance against certain federal and state deferred tax assets. Management continues to evaluate the realizability of deferred tax assets and the related valuation allowance. If management's assessment of the deferred tax assets or the corresponding valuation allowance were to change, the Company would record the related adjustment to income during the period in which management makes the determination.

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

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

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

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

	Years ended December 31,		
(in thousands)	**2021**	**2020**	**2019**
U.S. federal tax benefit at statutory rate	$ (1,638)	$ (2,290)	$ (3,772)
State tax benefit, net of federal benefit	(260)	(367)	(646)
Foreign income taxes at rates other than the US rate	(21)	(115)	(145)
Stock-based compensation	(3,627)	1,060	(2,119)
Change in valuation allowance	3,057	(258)	5,136
Non-deductible executive compensation	2,239	1,107	2,383
Research and development credits	(1,036)	(1,102)	(1,209)
Indefinite net operating losses carryforward	—	—	(33)
Transaction costs	1,425	—	—
Debt conversion costs	507	—	—
Other	48	717	425
Total income tax provision (benefit)	$ 694	$ (1,248)	$ 20

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

(in thousands)	December 31, 2021	2020
Deferred tax assets		
Net operating loss carryforward	$ 45,569	$ 32,219
Research and development credits	13,054	9,359
Deferred Revenue	2,644	2,716
Depreciation and amortization	1,401	(158)
Stock Compensation	4,792	3,903
Reserves and accruals	5,052	3,232
Total deferred tax assets	72,512	51,271
Valuation allowance	(61,524)	(39,896)
Net deferred tax assets	10,988	11,375
Deferred tax liabilities - convertible senior notes	—	(4,382)
Indefinite lived intangible assets	(4,458)	(3,757)
Right of Use Asset	(3,376)	(462)
Deferred Commissions	(4,088)	(3,094)
Deferred tax liabilities - other	—	(422)
Net deferred tax liabilities	$ (934)	$ (742)

The Company's deferred tax liabilities are primarily related to tax deductible goodwill. The Company determines its valuation allowance on deferred tax assets by considering both positive and negative evidence in order to ascertain whether it is more likely than not that deferred tax assets will be realized. Realization of deferred tax assets is dependent upon the generation of future taxable income, if any, the timing and amount of which are uncertain. Due to the history of losses the Company has generated in the past, the Company believes that it is not more likely than not that all of the deferred tax assets in the U.S. and Canada can be realized as of December 31, 2021; accordingly, the Company has recorded a full valuation allowance against its deferred tax assets.

The Company’s valuation allowance increased by $21.6 million and increased by $0.5 million for the years ended December 31, 2021 and 2020, respectively. The change in the 2021 valuation allowance was primarily due to the addition of current year loss carryforwards and loss carryforwards from the PatientSafe acquisition. The change in the 2020 valuation allowance was primarily due to the addition of current year loss carryforwards and EASE acquisition related tax benefits.

At December 31, 2021, the Company had $176.7 million and $151.8 million, respectively, of federal and state net operating loss carryforwards. The federal net operating loss carryforward generated in the years ended December 31, 2002 through 2017 begin expiring in 2022.

Net operating losses originating before January 1, 2018 are eligible to offset taxable income, if not otherwise limited under IRS Section 382. Net operating losses generated after December 31, 2017 have an indefinite carryforward period and subject to 80% deduction limitation based upon pre-net operating deduction taxable income. The CARES Act temporarily removes the 80% taxable income limitation for tax years beginning before 2021. Furthermore, it allows for a five-year carryback of Federal net operating losses that arose in 2020, 2019, and 2018.

In addition, the Company has federal research and development tax credits carryforwards of approximately $7.6 million and state research and development tax credit carryforwards of approximately $10.1 million. The federal credit carryforwards begin expiring in 2026 and the state credits carry forward indefinitely. The Internal Revenue Code contains provisions which limit the amount of net operating loss ("NOL") and research credit carryforwards that can be used in any given year if a significant change in ownership has occurred. As of December 31, 2021, $1.1 million of the Company's net operating loss carryovers are subject to an annual limitation of $0.6 million.

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

	Years Ended December 31,		
(in thousands)	**2021**	**2020**	**2019**
Balance at the beginning of the period	$ 39,896	$ 40,436	$ 40,070
Net operating loss carryforwards generated	13,350	(504)	2,925
Research and development tax credit increase	3,695	910	1,609
Depreciation and amortization increase	1,559	(2,560)	(605)
Reserves and accruals decrease	2,637	502	(312)
Deferred tax assets decrease	387	1,112	(3,251)
Balance at the end of the period	$ 61,524	$ 39,896	$ 40,436

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

	Years ended December 31,		
(in thousands)	**2021**	**2020**	**2019**
Gross amount of unrecognized tax benefits as of the beginning of the period	$ 2,431	$ 2,251	$ 1,931
Increases (decreases) related to prior year tax provisions	738	(91)	(78)
Increases related to current year tax provisions	282	271	398
Gross amount of unrecognized tax benefits as of the end of the period	$ 3,451	$ 2,431	$ 2,251

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

The Company files income tax returns in the United States on a federal basis and in various states. The Company is not currently under any international or any United States federal, state and local income tax examinations for any taxable years. All of the Company’s net operating losses and research credit carryforwards prior to 2021 are subject to tax authority adjustment and all years after 2014 are still subject to the tax authority examinations.

As of December 31, 2021, no income taxes have been provided on the undistributed earnings of the Company’s foreign subsidiaries since these earnings have been, and under current plans will continue to be, indefinitely reinvested outside the United States.

12. Business Acquisitions

Acquisition of PatientSafe Solutions, Inc.

On May 4, 2021, the Company acquired all of the outstanding equity interest of PatientSafe for approximately $36.0 million in cash, net of cash acquired of $0.2 million. PatientSafe provides a clinical communication and collaboration (CC&C) solution for smartphones that is engineered to run in the cloud. The solution is designed for hospitals and health systems that have invested in their electronic health record (EHR) mobile workflow software, are smartphone centric, and prefer a cloud-based CC&C solution. The solution enhances care team mobility and efficiency at the point of care through effective, reliable communication and clinical workflows. Nurses can document to the EHR while receiving filtered, prioritized alarm and task notifications. Physicians can communicate with the nurses and team members supporting their patients. Two-way communication with a hospital's EHR system enables clinicians to complete certain documentation and manage patient-centric communication from their smartphones. Currently the PatientSafe solutions are marketed and sold under the Vocera Edge brand.

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

(in thousands, except useful lives)	Estimated Fair Value	Estimated Useful life (in years)
Assets		
Current assets	$ 1,540	
Restricted cash	598	
Fixed assets, net	208	
Operating lease right-of-use asset	2,089	
Other assets	74	
Intangible assets		
Customer relationships	3,290	8
Developed technology	5,260	3
Backlog	3,710	4
Goodwill	25,665	
Total assets	$ 42,434	
Liabilities		
Current liabilities	$ 3,642	
Deferred revenue	1,774	
Operating lease liabilities, long term	906	
Other long-term liabilities	112	
Total liabilities	6,434	
Net assets acquired	$ 36,000	

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

The excess of the acquisition consideration over the fair values of the underlying net assets acquired was recorded as goodwill. Goodwill is largely attributed to the synergy of PatientSafe'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 is instead tested for impairment at least annually or more frequently if indicators of impairment are present. The goodwill acquired as part of the acquisition is not deductible for tax purposes.

The Company incurred $3.9 million of acquisition-related costs in the year ended December 31, 2021 that were expensed as incurred. These costs are recorded as general and administrative expenses in the consolidated statement of operations.
The acquisition did not result in material contributions to revenue in the consolidated financial statements for the year ended December 31, 2021 and due to the continued integration of the combined businesses, it was impractical to determine the impact of the acquisition on earnings. Additionally, pro forma financial information is not provided for consolidated revenue and net income as such amounts attributable to PatientSafe were insignificant to the Company's consolidated financial statements taken as a whole.

Acquisition of EASE Applications, LLC

On August 18, 2020, the Company acquired all of the outstanding equity interest of EASE Applications for $24.2 million in cash, net of $0.3 million of cash acquired. EASE Applications, now called Vocera Ease, offers a cloud-based communication platform and mobile application built to improve the patient experience by enabling friends and family members to receive timely updates about the progress of their loved one in the hospital. Vocera Ease enables nurses and other care team members to send Health Insurance and Portability and Accountability Act ("HIPAA")-compliant texts, photos, and video updates to patients' loved ones, putting them at ease and saving valuable time. With this acquisition, Vocera further strengthened its ability to fulfill its mission to improve the lives of patients, families and care teams.

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

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

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

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

The agreement also included contingent payments to the owners of EASE Applications, payable based on achievement of post-acquisition financial metrics as of December 31, 2021 and December 31, 2022. If these financial metrics were to be achieved the Company would have owed additional consideration of $2.5 million as of December 31, 2021 and 2022. This contingent consideration was fair valued in connection with the acquisition and resulted in a liability of $2.2 million as of the acquisition date. The fair value of contingent consideration was $0.1 million and $3.0 million as of December 31, 2021 and 2020, respectively (See Note 3). The estimated fair value was determined using a Monte Carlo valuation model.

The Company incurred $0.6 million of acquisition-related costs that were expensed as incurred. These costs were recorded as general and administrative expenses in the consolidated statement of operations in 2020. Additionally, in connection with the acquisition the Company established a retention bonus plan for continuing EASE Applications employees with potential additional compensation over a two-year period of approximately $5.0 million, based on achievement of financial metrics and continued employment. Such amounts are not considered part of the purchase consideration and are being recorded as compensation expense as earned.

13. Subsequent events

Pending Transaction

On January 6, 2022, the Company entered into the Merger Agreement with Stryker and Purchaser, pursuant to which, subject to the conditions set forth in the Merger Agreement, Stryker would acquire the Company. If the Transaction is completed, the Company's stockholders will receive $79.25 in cash (net, without interest, and subject to applicable withholding taxes) for each share of the Company's common stock they hold as of the Effective Date. The Transaction is expected to close in the first quarter of 2022, subject to the satisfaction of customary closing conditions. See Note 1 for further information regarding the Transaction.

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

As of December 31, 2021, we carried out an evaluation under the supervision of, and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based on our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2021.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our management conducted an assessment of the effectiveness of our internal control over financial reporting based on the criteria set forth in the 2013 version of the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on the assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2021 based on these criteria.

The effectiveness of our internal control over financial reporting as of December 31, 2021, has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the three months ended December 31, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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

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

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Directors

Background and Qualifications

The following table sets forth the names, ages as of January 14, 2022, and certain other information regarding our directors:

Name of Director/Nominee	Age	Class	Principal Occupation	Director Since
Class I Directors				
Michael Burkland(2)	59	I	Executive Chairman of the Board, Five9, Inc.	June 2016
Brent D. Lang	54	I	Chairman, President and Chief Executive Officer	June 2013
Bharat Sundaram(3)	44	I	President and Chief Operating Officer, Vizient	May 2019
Class II Directors				
Julie Iskow(3)	60	II	Chief Operating Officer, Workiva, Inc.	May 2019
Howard E. Janzen*(4)	67	II	President and Chief Executive Officer, Janzen Ventures, Inc.	May 2007
Alexa King(5)(6)	54	II	Former Executive Vice President and General Counsel, FireEye	July 2016
Class III Directors				
John N. McMullen(1)	63	III	Former Executive Vice President and Chief Financial Officer, 3D Systems	June 2011
Sharon L. O'Keefe(5)	69	III	Former President, University of Chicago Medical Center	March 2012
Ronald A. Paulus(4)	61	III	Strategic Advisor, HCA Healthcare and former President and Chief Executive Officer, Mission Health	July 2018

(1) Chair of the Audit Committee
(2) Chair of the Compensation Committee
(3) Member of the Governance and Nominating Committee
(4) Member of the Audit Committee
(5) Member of the Compensation Committee
(6) Chair of the Governance and Nominating Committee
* Lead Independent Director

Michael Burkland has served on our Board of Directors since June 2016. He is currently the chairman of the board of directors of Five9 and has held that position since December 2017 and held the position of executive chairman of the board of directors from February 2014 to December 2017. He has been a member of the Five9 board since January 2008. Mr. Burkland served as Five9's chief executive officer from January 2008 until December of 2017 and its president from January 2012 to December 2017. From 2002 to 2007, Mr. Burkland worked with the Interim CEO Network, serving as an interim CEO for venture-backed technology companies, as well as heading up the firm's strategic advisory practice. From 2000 to 2001, Mr. Burkland served as chief executive officer of Omniva Policy Systems Inc., a pioneer in enterprise policy management and e-mail security, where he built and implemented the company's initial go to market strategy for the enterprise market. From 1994 to 1998, Mr. Burkland served as chief executive officer of Eventus Software, Inc., a leading developer of web content management software which was acquired by Segue Software, Inc. in 1998. Earlier in his career, he held various positions at Oracle, Patrol Software and BMC. Mr. Burkland holds B.A. and M.B.A. degrees from the University of California at Berkeley. We believe Mr. Burkland should serve as a member of our Board of Directors based on his experience leading and providing strategic oversight for public and private technology companies.

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

Bharat Sundaram has served on our Board of Directors since May 2019. Mr. Sundaram has been the president and chief operating officer at Vizient, a healthcare performance improvement company, since July 2019. In this role, he has oversight for the development and delivery of the company's products and services. Prior to this, Mr. Sundaram served as Vizient's president of performance improvement services, which encompassed the company's analytics, networks and advisory areas, since February 2016. From February 2009 to January 2016, Mr. Sundaram was at MedAssets, a healthcare services company, as a member of the corporate development team and served in a number of roles with increasing responsibility, including senior vice president of enterprise operations, general manager of supply chain solutions and, most recently, president, spend and clinical resource management segment. Prior to MedAssets, he was with the Boston Consulting Group. Mr. Sundaram earned his bachelor's degree in industrial engineering from the University of California at Berkeley and an M.B.A. degree from the Wharton School at the University of Pennsylvania. We believe Mr. Sundaram should serve as a member of our Board of Directors based on his broad background and business experience in strategy, operations, acquisitions and integration, and large-scale business transformation in both technology and service industries.

Julie Iskow has served on our Board of Directors since May 2019. Ms. Iskow has been the chief operating officer of Workiva, Inc. since October 2019. Previously, Ms. Iskow served as the chief technology officer of Medidata Solutions, Inc. from April 2015 to October 2019 and its executive vice president of product development from July 2016 to October 2019. Ms. Iskow also served as senior vice president of global product development at Medidata from April 2015 to July 2016. From December 2013 to April 2015, Ms. Iskow served as chief information officer and senior vice president at WageWorks, Inc., and prior to that as its senior vice president of product development. Ms. Iskow has also served as vice president of engineering and operations at Asyst Technologies and GW Associates, Inc., managing software research and development, quality assurance, technical support and management information systems. Prior to joining GW Associates, she was a member of the faculty of the University of Vermont where she specialized in business management and development. Ms. Iskow earned a B.S. degree from U.C. Berkeley and an M.S. degree from U.C. Davis. We believe Ms. Iskow should serve as a member of our Board of Directors based on her extensive training and experience in business, product development and engineering with other technology companies.

Howard E. Janzen has served on our Board of Directors since May 2007. Since October 2002, Mr. Janzen has served as the president and chief executive officer of Janzen Ventures, Inc., a private investment business. Mr. Janzen served as president and chief executive officer of CoolPlanet Energy Systems, a clean energy technology company, from May 2012 to December 2016, as executive chairman from December 2016 to January 2018 and as chairman from January 2018 to January 2019. From March 2007 through April 2011, Mr. Janzen served as the chief executive officer of One Communications Corporation, a supplier of integrated advanced telecommunications solutions to business. From January 2004 to September 2005, Mr. Janzen served as president of Sprint Business Solutions, the business unit serving Sprint Corporation's business customer base. From May 2003 to January 2004, he was president of Sprint Corporation's global markets group responsible for Sprint's long distance business. From 1994 until October 2002, Mr. Janzen served as president and chief executive officer, and chairman of the board of directors from 2001, of Williams Communications Group, Inc., a network solutions provider. Mr. Janzen served on the board of directors of Sonus Networks Inc. from January 2006 to October 2017 and has served as a director of Global Telecom & Technology, Inc., since October 2006, CoolPlanet Energy Systems from May 2012 to January 2020, and Bye Aerospace since November 2015. Mr. Janzen also served on the board of directors of MacroSolve, Inc. from April 2006 to May 2012. Mr. Janzen earned his B.S. and M.S. degrees in Metallurgical Engineering from the Colorado School of Mines and completed the Harvard Business School PMD program. We believe Mr. Janzen should serve as a member of our Board of Directors based on his extensive business experience and his experience on the boards of directors of other technology and communication companies.

Alexa King has served on our Board of Directors since July 2016. Ms. King currently serves as a strategic advisor to Mandiant, Inc., formerly known as FireEye, Inc. From 2012 to 2021, Ms. King served as the executive vice president and general counsel at FireEye, where she has led the legal, stock, government affairs and privacy team. Before FireEye, Ms. King was vice president, general counsel, and secretary of Aruba Networks, Inc. Ms. King also serves on the Board of Directors of Egnyte. Her early career included working at Siebel Systems, Pillsbury Madison & Sutro (now Pillsbury Winthrop) and Fenwick & West. Additionally, Alexa served as founding director of Pathbrite, Inc. (formerly known as RippleSend, Inc.) from 2008 to 2009 and as advisor from 2009 to 2011. Alexa graduated magna cum laude from Harvard College with a degree in Eastern European Studies and received her J.D. from the University of California, Berkeley School of Law, where she was named to the Order of the Coif. We believe Ms. King should serve as a member of our Board of Directors based on her experience advising technology companies on legal, cybersecurity and strategic matters.

John N. McMullen has served on our Board of Directors since June 2011. In September 2019, Mr. McMullen retired from his position as executive vice president and chief financial officer for 3D Systems, which he had held since July 2016. Prior to his position with 3D Systems, Mr. McMullen was the executive vice president and chief financial officer of Kodak from June 2014 to June 2016. From March 2007 to July 2013, Mr. McMullen served as the senior vice president and treasurer of Hewlett-Packard Company, an electronics and information technology company. From May 2002 to March 2007, he served as vice president of finance for Hewlett-Packard's imaging and printing group. From June 1998 to May 2002, Mr. McMullen held a variety of executive positions with Compaq Computer Corporation, (now a division of Hewlett-Packard), including vice president of finance and strategy (Worldwide Sales and Services), vice president of finance (North America Sales and Services) and director of finance. Over a seventeen-year period, Mr. McMullen held a variety of finance positions with Digital Equipment Corporation, a computer manufacturer. Mr. McMullen earned a B.A. degree in Finance from the University of Massachusetts. We believe Mr. McMullen should serve as a member of our Board of Directors based on his extensive corporate management experience.

Sharon L. O'Keefe has served on our Board of Directors since March 2012. From February 2011 until her retirement in August 2020, Ms. O'Keefe served as president of the University of Chicago Medical Center. From April 2009 through February 2011, Ms. O'Keefe served as president of Loyola University Medical Center. Prior to her role at Loyola, she served from July 2002 to April 2009 as chief operating officer for Barnes Jewish Hospital, a member hospital of BJC Healthcare, St. Louis. In addition, Ms. O'Keefe has served in a variety of senior management roles at the Johns Hopkins Hospital, Montefiore Medical Center, University of Maryland Medical System and Beth Israel Deaconess Medical Center in Boston, a teaching affiliate of Harvard Medical School. She has also served as a healthcare consultant with Ernst & Young. In addition, Ms. O'Keefe has served on the National Institutes of Health Advisory Board for Clinical Research, the Finance Committee of the National Institutes of Health Advisory Board, the Board of Trustees of the Illinois Hospital Association, and an examiner for the Malcolm Baldrige National Quality Award. Ms. O'Keefe holds an M.S. degree in nursing from Loyola University of Chicago and a B.S. degree in nursing from Northern Illinois University. We believe Ms. O'Keefe should serve as a member of our Board of Directors based on her extensive management experience in medical institutions and experience in the healthcare sector.

Ronald A. Paulus, MD, has served on our Board of Directors since July 2018. Dr. Paulus is the president and chief executive officer of RAPMD Strategic Advisors and is an Executive in Residence with General Catalyst and a Senior Scholar in the Stanford Clinical Excellence Research Institute. Dr. Paulus was previously the former president and chief executive officer of Mission Health, a large regional integrated delivery system serving western North Carolina, before it was acquired by HCA Healthcare in February 2019. Dr. Paulus served as president and CEO of Mission Health from September 2010 to February 2019. Prior to joining Mission Health, Dr. Paulus served as executive vice president of clinical operations and chief innovation officer at Geisinger Health System. Before his tenure at Geisinger, Dr. Paulus was co-founder, president and chief executive officer of CareScience, a clinical solutions and data analytics provider that is now part of Premier, Inc. In 2018, Dr. Paulus co-founded and launched the National Taskforce for Humanity in Healthcare (NTH). This taskforce has convened physicians, nurses, and other leaders from healthcare and social change to explore solutions to the crisis of clinician burnout and create a movement to help care team members achieve their highest healing potential. Dr. Paulus received his bachelor's degree, medical degree and an M.B.A. degree in healthcare management from the University of Pennsylvania. We believe Dr. Paulus should serve as a member of our Board of Directors based on his extensive experience managing companies in the healthcare industry and his expertise in clinical operations and innovations.

There are no familial relationships among our directors and officers.

Corporate Governance

Committees of Our Board of Directors

Our Board of Directors has established an Audit Committee, a Compensation Committee and a Governance and Nominating Committee. The composition and responsibilities of each committee are described below. Copies of the charters for each committee are available without charge on the investor relations section of our website at www.vocera.com. Members serve on these committees until their resignations or until otherwise determined by the Board of Directors.

Audit Committee. Our Audit Committee is comprised of John N. McMullen, who is the chair of the Committee, Howard E. Janzen and Ronald A. Paulus, each of whom, our Board of Directors has determined, meets the requirements for independence under the current New York Stock Exchange and SEC rules and regulations. Each member of our Audit Committee is financially literate. In addition, our Board of Directors has determined that Mr. McMullen is an Audit Committee financial expert within the meaning of Item 407(d) of Regulation S-K of the Securities Act.

Our Audit Committee, among other things:

- oversees the accounting and financial reporting processes of our company, the audits of our company’s financial statements by our company’s independent registered public accounting firm and our company’s internal audit function;
- monitors the periodic reviews of the adequacy of the accounting and financial reporting processes and systems of internal control that are conducted by our company’s independent registered public accounting firm and our company’s financial and senior management, and internal audit function;
- appoints our company’s independent registered public accounting firm, determines and approves the fees paid to our independent accounting firm and reviews and evaluates the qualifications, independence and performance of our independent accounting firm;
- reviews and evaluates the organization and performance of our company’s internal audit function;
- facilitates communications among our company’s independent registered public accounting firm, financial and senior management and internal audit function, and our Board of Directors; and
- assists our Board of Directors in oversight of our company’s compliance with legal and regulatory requirements.

Compensation Committee. Our Compensation Committee comprises Michael Burkland, who is the chair of the Committee, Alexa King and Sharon L. O’Keefe. Our Board of Directors has determined that each member of our Compensation Committee meets the requirements for independence under the current New York Stock Exchange rules, is a non-employee director within the meaning of Section 16 of the Exchange Act and is an outside director within the meaning of Section 162(m) of the Internal Revenue Code (the “Code”). Our Compensation Committee, among other things:

- reviews and determines the compensation of our executive officers;
- oversees our cash-based and equity-based compensation plans, policies and programs;
- reviews and makes recommendations to our Board with respect to non-employee director compensation; and
- reviews general plans, policies and programs relating to compensation and benefits of our employees.

Governance and Nominating Committee. Our Governance and Nominating Committee is comprised of Alexa King, who is the chair of the Committee, Julie Iskow and Bharat Sundaram. Our Board of Directors has determined that each member of our Governance and Nominating Committee meets the requirements for independence under the current New York Stock Exchange rules and regulations. Our Governance and Nominating Committee, among other things:

- identifies, evaluates and recommends nominees to our Board of Directors and its committees;
- oversees the evaluation of the performance of our Board of Directors and its committees;
- reviews our corporate governance policies and proposed waivers of the policies;
- reviews developments in corporate governance practices;
- evaluates the adequacy of our corporate governance practices;
- oversees continuing education for our directors; and
- makes recommendations to our Board of Directors concerning corporate governance matters.

Codes of Business Conduct and Ethics and other Corporate Policies

Our Board of Directors has adopted codes of business conduct and ethics that apply to all of our employees, officers and directors. We intend to disclose any future amendments to certain provisions of our codes of business conduct and ethics, or waivers of these provisions, on our website and/or in public filings. Our employees, officers and directors are also subject to our Policy Prohibiting Insider Trading and our Related Person Transactions Policy. We provide training to our employees regarding our codes and various company policies, which all employees are required to complete. In addition, we have adopted a Whistleblower and Complaint Policy that is designed to provide a forum to which our employees, officers and directors may report violations or suspected violations of our company policies without fear of harassment, retaliation or adverse employment consequences. We also have adopted a Transparency in Supply Chains Act Transparency Statement that outlines our opposition to all forms of human trafficking and details the steps we take to ensure that slavery and human trafficking is not taking place in any of our supply chains or in any part of our business. The full text of our policies is posted on the investor relations section of our website at www.vocera.com.

Corporate Governance Guidelines

Our Board of Directors has adopted Corporate Governance Guidelines that set forth expectations for directors, director independence standards, board committee structure and functions, stock ownership guidelines, and other policies for the governance of the company. In connection with the amendment to the Restated Bylaws to adopt majority voting for directors, our Board also approved a revision to the Corporate Governance Guidelines to require that a director nominee (or new appointee) tender his or her resignation in the event of an adverse vote and, following the recommendation of the Governance and Nominating Committee, the Board shall act upon such resignation within 30 days following the stockholder vote. Our Corporate Governance Guidelines are available without charge on the investor relations section of our website at www.vocera.com.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16 of the Exchange Act requires our directors, executive officers and any persons who own more than 10% of our common stock to file initial reports of ownership and reports of changes in ownership with the SEC. Such persons are required by SEC regulation to furnish us with copies of all Section 16(a) forms that they file. Based solely on our review of the copies of such forms furnished to us and written representations from the directors and executive officers, we believe that all Section 16(a) filing requirements were timely met in 2021.

Executive Officers

The names of the company's executive officers, their ages, their positions with the company and other biographical information as of January 14, 2022, are set forth below. There are no other family relationships among any of our directors or executive officers.

Name	Age	Position
Brent D. Lang	54	Chairman and Chief Executive Officer
Steven J. Anheier	38	Chief Financial Officer
Douglas A. Carlen	52	Vice President Legal and General Counsel
M. Bridget Duffy, M.D.	62	Chief Medical Officer
Paul T. Johnson	58	Chief Commercial Officer

Brent D. Lang. *For a brief biography of Mr. Lang, see "Directors—Background and Qualifications" under this Item 10 above.*

Steven J. Anheier has served as our Chief Financial Officer since June 2021. Mr. Anheier has served as Vocera's Vice President, Finance & Accounting, since September 2019. Prior to joining Vocera, from May 2010 to August 2019, Mr. Anheier served in various roles of increasing responsibility at Accuray Incorporated, including as Vice President, Finance & Investor Relations and Vice President, Senior Director and Director of Financial Planning & Analysis. Mr. Anheier began his career at KPMG LLP from 2006 to 2010. Mr. Anheier holds a Bachelor's in Accounting from California Polytechnic State University-San Luis Obispo.

Douglas A. Carlen has served as our General Counsel since July 2016. From August 2012 to June 2016, Mr. Carlen was the Vice President of Legal Affairs at Liquid Robotics, an ocean data services provider and developer of the Wave Glider. Prior to Liquid Robotics, Mr. Carlen served from August 2010 to August 2012 as Senior Vice President and General Counsel at MegaPath Inc., a provider of data, voice and cloud-based communications services. From September 1999 to August 2010, he worked at Covad Communications Group, Inc. in three corporate counsel roles, with the last three years as Senior Vice

President and General Counsel. Mr. Carlen also specialized in corporate law and litigation at various firms from 1994 to 1999. Since 2011, Mr. Carlen has been on the board of directors for the Lupus Foundation of Northern California. He earned his bachelor's degree from the University of Southern California and a law degree from Hastings College of the Law.

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

Paul T. Johnson has served as our Chief Commercial Officer since May 2021. From October 2013 to May 2021, he served as our Executive Vice President of Sales and Services. From August 2013 to October 2013, Mr. Johnson served as Vice President of Sales at Digital Insight, a provider of online and mobile banking solutions. Mr. Johnson served as Vice President of Sales and Relationship Management at Intuit's Financial Services Division (which was renamed Digital Insight following Intuit's sale of this business in August 2013) from January 2011 to August 2013. From November 2007 to December 2010, he served as the Executive Vice President, North America, Sage Business Solutions for Sage Software, Inc., a provider of business management software and services. In addition, Mr. Johnson previously served in various sales and services functions at International Business Machines Corporation. Mr. Johnson earned his M.B.A and B.S degrees in Business Administration from the University of Southern California.

Item 11. Executive Compensation

Compensation Discussion and Analysis

This compensation discussion and analysis provides an overview of the material components of our executive compensation program during 2021 for our Chief Executive Officer, Chief Financial Officer and our three other most highly compensated executive officers (collectively referred to as our "named executive officers"). For 2021, our named executive officers were as follows:

- Brent D. Lang, our President, Chief Executive Officer and Chairman;
- Steven J. Anheier, our Chief Financial Officer;
- Paul T. Johnson, our Chief Commercial Officer;
- M. Bridget Duffy, our Chief Medical Officer;
- Douglas A. Carlen, our General Counsel; and
- Justin R. Spencer, our Former Chief Financial Officer.(1)

(1) Mr. Spencer left the company in June 2021.

The compensation provided to our named executive officers for 2021 is set forth in detail in the Summary Compensation Table and other tables that follow this section, as well as the accompanying footnotes and narrative discussions relating to those tables. This section also discusses our executive compensation philosophy, objectives and design; how and why the Compensation Committee arrived at the specific compensation policies and decisions for our named executive officers during 2021; the role of Compensia, our outside compensation consultant for executive compensation decisions for 2021; and the peer companies used in evaluating executive officer compensation.

Executive Compensation Philosophy, Objectives and Design

Philosophy

We operate in a highly competitive and rapidly evolving market, and we expect competition among companies in our market to continue to increase. Our ability to compete and succeed in this environment is directly correlated to our ability to recruit, incentivize and retain talented individuals in the areas of product development, sales, marketing, services and general and administrative functions. The market for skilled personnel in these areas is very competitive. Additionally, as we are headquartered in San Jose, CA, we face intense competition among large and small firms in the Silicon Valley market. Our compensation philosophy is designed to establish and maintain a compensation program that attracts and rewards talented individuals who possess the skills necessary to support our near-term objectives, create long-term value for our stockholders, expand our business and assist in the achievement of our strategic goals.

Objectives

We have designed our executive compensation program to reward our executive officers, including our named executive officers, at a level consistent with our overall strategic and financial performance and to provide remuneration sufficient to attract, retain and motivate them to exert their best efforts in the highly competitive environment in which we operate. We believe in providing competitive compensation packages consisting of a combination of base salaries, annual cash bonuses and long-term incentive opportunities in the form of equity awards that are earned over a multi-year period. We believe the approach that has been adopted by our Compensation Committee, with an emphasis on variable cash compensation and equity awards, enables us to attract top talent, motivate successful short-term and long-term performance, satisfy our retention objectives and align the compensation of our executive officers with our performance and long-term value creation for our stockholders.

In 2021, the Compensation Committee reviewed our executive compensation program to ensure that it effectively supports our business strategies and is aligned with executive compensation best practices, and market trends and drives the success of our business.

Key Features of our Executive Compensation Program

The Compensation Committee reviews on an ongoing basis our executive compensation and benefits programs to evaluate whether these programs support our compensation philosophy and objectives, as described herein, and serve the interests of our stockholders. Our practices include the following, each of which the Compensation Committee believes reinforces our executive compensation philosophy and objectives:

WHAT WE DO		WHAT WE DO NOT DO	
☑	Pay for Performance: We link pay to performance and stockholder interests by heavily weighting total compensation to long-term equity awards, a significant portion of which is performance-based, that align executive interests with our stockholders and encourage retention.	☒	No Single Trigger Acceleration: We do not provide for single trigger acceleration of equity awards following a change of control.
☑	Linkage Between Bonus and Performance Measures: Our cash bonus program allows our executives to earn a target cash bonus only if specified performance metrics are met.	☒	No Guaranteed Bonuses; Bonus Payout Caps: We do not provide guaranteed minimum bonus amounts, and maximum payout levels apply to all amounts payable under the executive bonus plans.
☑	Independent Compensation Advisor: The Compensation Committee selects and engages its own independent advisors.	☒	No Special Perquisites: We do not provide special perquisites for executives.
☑	Thoughtful Peer Group Analysis: The Compensation Committee reviews external market data when making compensation decisions and annually reviews our peer groups with its independent compensation consultant.	☒	No Hedging in Company Securities: Executives, directors and all employees are prohibited from engaging in any hedging transaction with respect to company equity securities.
☑	Thorough Compensation Risk Assessment: The Compensation Committee conducts an annual assessment of our executive and broad-based compensation programs to ensure prudent risk management.	☒	No Discounted Options / SARs or Option Repricing: We do not provide discounted stock options or stock appreciation rights, and we do not reprice underwater stock options without stockholder approval.
☑	Compensation Committee Independence and Experience: The Compensation Committee is comprised solely of independent directors who have extensive experience.	☒	No Tax Gross-Ups: We do not provide tax gross-ups for “excess parachute payments.”

- ☑ Stock Ownership Guidelines: Our non-executive directors are subject to stock ownership guidelines equal to a value of not less than five times the then annual cash retainer for general board service, and our Chief Executive Officer is subject to stock ownership guidelines equal to a value of not less than six times his then annual base salary.
- ☑ Recoupment Policy: We maintain a clawback provision that provides our Board with the authority to recoup past incentive compensation (both cash and equity) paid to an executive officer in the event of a material restatement of our company's financial results due to fraud or intentional misconduct of that executive officer.
- ☒ No Service-Based Defined Benefit Pension Plan or Other Similar Benefits: We do not maintain a pension plan or provide other similar benefits.

Design

Our executive compensation program has been, and continues to be, heavily weighted towards equity. The Compensation Committee believes that compensation in the form of equity helps to align the interests of our executive officers with the long-term interests of our stockholders by driving achievement of our strategic and financial goals. We use restricted stock units, (or RSUs), and performance-based restricted stock units, or PSUs as our primary equity vehicles for our executive officers, including our named executive officers. We believe that RSUs align the interests of executive officers with stockholders and provide a longer-term focus through a multi-year vesting schedule, while managing dilution to existing investors and providing a level of predictability to our executive officers in the value of their compensation. Additionally, we believe that PSUs motivate and reward our executive officers for effectively executing long-term strategic, financial and operational objectives. The mix of PSUs (which directly link our executive officers' target total direct compensation to the performance of our stock price) and RSUs (which offer more predictable value over time) further aligns the long-term interests of our executive officers with stockholders while addressing our retention objectives. On an annual basis, our Compensation Committee has reviewed, and will continue to review and evaluate, the types of equity vehicles best aligned with our business needs and priorities. To maintain a competitive compensation program, we also offer cash compensation in the form of base salaries and semi-annual cash bonuses tied to specific performance measures. We do not specifically target or benchmark our cash or equity compensation to align with those of our peer companies, but instead use the peer group information for general guidance. Further, when making compensation decisions for our executive officers, including our named executive officers, the Compensation Committee seeks to set both individual pay elements and target total direct compensation at competitive levels, using a balanced and flexible approach that is not restricted by adherence to specific percentile-based target levels. In other words, while competitive market data is an important reference in understanding general market practice, our actual compensation decisions reflect the Compensation Committee's exercise of its business judgment after considering the following key factors:

- to the extent there are gaps to market in target pay positioning for cash compensation, alignment may occur over multiple years;
- the number of equity awards we grant will be subject to adjustment year-over-year to reflect dilution considerations, our retention objectives, company and individual performance, and other relevant factors; and
- actual pay opportunities and outcomes will vary among executive officers and relative to market based on company performance and our position relative to our peers based on financial and other relevant criteria.

During 2021, our Compensation Committee, with the assistance of its compensation consultant, Compensia, Inc., or Compensia, reviewed our executive compensation program, including base salaries, bonuses, equity awards, and benefit programs, to ensure that our compensation program promotes stockholder interests and provides appropriate rewards and incentives for our executive officers.

Our Compensation-Setting Process

Oversight of Executive Compensation

Pursuant to its charter and in accordance with New York Stock Exchange rules, the Compensation Committee is responsible for reviewing, evaluating and approving the compensation arrangements of our executive officers and for establishing, benchmarking and maintaining our executive compensation policies and practices. Our Compensation Committee seeks input and receives recommendations from other members of our executive team when discussing the performance and compensation of other executive officers, and in determining the financial and accounting implications of our compensation programs and hiring decisions. The Compensation Committee is authorized to engage its own independent advisors to provide advice on matters related to executive compensation and general compensation programs. Currently, our Compensation Committee is comprised solely of independent directors. For additional information on the Compensation Committee, see “Committees of Our Board of Directors — Compensation Committee” elsewhere in this Form 10-K.

The initial compensation arrangements with our named executive officers were the result of arm’s-length negotiations between us and each individual executive officer at the time of his or her hire or appointment. In 2021, the Compensation Committee considered numerous factors in determining whether to make adjustments to the cash and equity compensation of our executive officers, including our named executive officers. The Compensation Committee reviewed the performance of the company and our executive officers, taking into consideration financial, operational, customer, strategic, product and competitive factors, as well as the succession planning objectives for our various executive officer positions. The Compensation Committee also reviewed a study by Compensia regarding the compensation of executives at companies in our compensation peer group to provide context and general guidance. However, as noted above, we do not target or benchmark the compensation levels of our executive officers to align with any specific percentile relative to our peer companies. Except with respect to his own compensation, our Chief Executive Officer made recommendations to the Compensation Committee regarding the compensation for our executive officers, which was also taken into account by the Compensation Committee in making its decisions regarding executive compensation. Our Chief Executive Officer was not present for the discussions of our Compensation Committee regarding his performance and compensation. The Compensation Committee also took into consideration the input from our stockholders, both from our recent say on pay vote as well as stockholder outreach conducted in 2020 and 2021. Following deliberation, the Compensation Committee approved the cash compensation to be paid to our named executive officers and as well as RSU and PSU awards for our named executive officers, each as described below and in the Summary Compensation Table.

Role of Human Resources Team

The role of our Human Resources team and management is to design our executive compensation programs, policies and governance and make recommendations to the Compensation Committee regarding these matters. Management is responsible for, among other things:

- Reviewing the effectiveness of our compensation programs, including competitiveness and alignment with our objectives;
- Recommending changes to compensation programs, as may be required, to ensure achievement of all program objectives;
- Recommending base salaries, bonuses and other awards for our executive officers, including our named executive officers other than the Chief Executive Officer; and
- Reviewing and making recommendations with respect to the adoption and approval of, or amendments to, company-wide incentive compensation plans.

Role of the Compensation Consultant

The Compensation Committee retained Compensia, Inc., an outside compensation expert, to advise on our 2021 executive compensation programs and practices and our executive compensation decisions given Compensia’s expertise in the technology industry and its knowledge of our peer companies. During 2021, Compensia provided the following services as requested by the Compensation Committee:

- Assisted in the development of the compensation peer groups we used to understand market competitive compensation practices;
- Reviewed and assessed our compensation practices and the cash and equity compensation levels of our executive officers (including an equity retention analysis), including our named executive officers;
- Reviewed and assessed our current compensation programs to determine any changes that may need to be implemented in order to remain competitive with the market;
- Provided market data and analysis regarding equity incentive plan dilution metrics and practices; and
- Advised on regulatory developments relating to executive compensation.

All other analyses related to executive compensation for 2021 were conducted internally. Internal analyses included gathering and analyzing data, conducting a risk assessment relating to employee compensation and reviewing and advising on principal aspects of executive compensation. Base salaries, bonuses and equity awards for our executive officers were among the items reviewed based on market data provided by Compensia.

During 2021, the Compensation Committee reviewed the fees provided to Compensia relative to Compensia’s revenues, the services provided by Compensia to the Compensation Committee, the relationships between Compensia and its consultants and our executive officers, and other factors relating to Compensia’s independence, and concluded that Compensia is independent within the meaning of the listing standards of The New York Stock Exchange and that its engagement did not present any conflict of interest.

Compensation Peer Group

The Compensation Committee analyzes competitive market data on executive compensation levels and practices. This data is drawn from a select group of peer companies, as well as compensation survey data.

The Compensation Committee, with the assistance of Compensia, developed a group of peer companies, as detailed below, to be used as a reference for market positioning and for assessing competitive market compensation practices. In developing this peer group, consideration was given to our industry sector, geographies of the locations where our executives are based, company size (based on revenues and market capitalization) relative to our size and growth rate, and the comparability of business model and focus.

Following this review, Compensia recommended and the Compensation Committee approved use of a peer group of 20 publicly-traded companies for reference in making determinations regarding 2021 compensation:

8x8 Inc.	LivePerson Inc.
A10 Networks, Inc.	Model N, Inc.
Accolade*	Omnicell, Inc.
Brightcove Inc.	PagerDuty, Inc.*
Computer Programs and Systems, Inc.	Phreesia Inc.
Domo, Inc.	Rapid7, Inc.
Evolent Health, Inc.	Tabula Rasa HealthCare
Health Catalyst, Inc.	Workiva Inc.
HealthStream, Inc.	Upland Software, Inc.
Inseego Corp.	Zuora, Inc.*

*Added to the compensation peer group for 2021.

At the time of the compensation review, these companies had revenues for the most recently completed four quarters ranging from approximately $149 million to $1,022 million, and market capitalizations ranging from approximately $442 million to $5,874 million.

In addition, we removed the following companies from our 2021 peer group as they did not meet one or more of the criteria discussed above or were otherwise not considered to be a good fit based on geography or business: MobileIron, Inc., Livongo Health, Inc. and TeleNav, Inc.

This peer group was used by the Compensation Committee in connection with its annual review of our executive compensation program during 2021. Specifically, the Compensation Committee reviewed the compensation data drawn from the compensation peer group, in combination with industry-specific compensation survey data, to develop an objective, independent representation of the “competitive market” with respect to current executive compensation levels and related policies and practices. The Compensation Committee then evaluated how our pay practices and the compensation levels of our executive officers compared to the competitive market.

Elements of Our Executive Compensation Program

The key elements of our executive compensation program include base salary, semi-annual cash bonuses, equity-based awards, and health and welfare programs. Except with respect to target semi-annual cash bonuses, which typically are expressed as a pre-determined percentage of each executive officer’s base salary, we do not use specific formulas or weightings in determining the allocation of the various pay elements. Rather, each executive officer’s compensation has been designed to provide a combination of pay elements that are tied to achievement of our short-term and long-term financial and operational objectives. In particular, our use of RSU awards, which vest over three years, and PSU awards, which vest based on our total stockholder return (or TSR) relative to the S&P 600 Health Care Equipment and Services Index (or the Index) over three performance periods spanning a three-year period, promotes a culture of long-term value creation, while cash bonuses are payable semi-annually, promoting more immediate corporate performance.

In 2021, the Compensation Committee conducted its regular annual review of our executive compensation program, including an evaluation of competitive market practices; conducted annual performance reviews for our executive officers; considered adjustments to our executive officers’ base salaries and target annual bonus opportunities as needed; and made annual equity awards after taking account of any then currently unvested equity held by executive officers. Following deliberation and consideration of the factors discussed below, our Board of Directors and Compensation Committee determined that equity awards should continue to be a significant portion of executive compensation, and that it was in the best interests of the company and our stockholders to continue to use PSUs, which were introduced during 2020, and that cash compensation (including base salary and bonuses) should remain consistent with market norms at or above the 50th percentile.

Base Salary

We offer base salaries that are intended to provide a stable level of fixed compensation to our executive officers, including our named executive officers, for performance of their day-to-day responsibilities. Each named executive officer's initial base salary was established as the result of arm's-length negotiation with the individual at the time of his or her hiring or appointment. Base salaries for our executive officers are reviewed annually to determine whether an adjustment is warranted or required, taking into account the responsibilities required by the executive's position, the executive's length of service in a position and at our company, and the amount of other elements of compensation. The amount of any increase or decrease in base salary is considered based on the above-mentioned factors, as well as the company's financial performance and, in the discretion of the Compensation Committee, the compensation paid by our competitors and/or other comparable-sized companies.

For 2021, the Compensation Committee reviewed the base salaries of our named executive officers, after considering a compensation analysis performed by Compensia. The base salaries paid to our named executive officers for 2021 are set forth in the Summary Compensation Table below.

Annual Cash Bonuses

In addition to the payment of salaries that it believes are competitive and assist in the retention of our executive officers, our Compensation Committee believes that a significant portion of our executive officers' cash compensation should be tied to corporate performance. Our cash bonus program, payments under which are included as "Non-Equity Incentive Plan Compensation" in the Summary Compensation Table below, allows our executives to earn a target cash bonus if specified metrics are satisfied at the target level, to earn a reduced level of bonus if the metrics achieved are below the target level but above a specified threshold level, and to receive a larger bonus if metrics are achieved at a level above the target. The target bonus is set as a percentage of each officer's base salary:

Name	Target Bonus (as % of Base Salary)	Target Bonus Amount ($)
Brent D. Lang	100%	516,000
Steven J. Anheier	50%	162,500
Justin R. Spencer[(1)]	60%	212,400
Paul T. Johnson	43%	159,960
M. Bridget Duffy	28%	100,240
Douglas A. Carlen	40%	121,200

(1) Mr. Spencer left the Company in June 2021.

For 2021, the payment of cash bonuses was based on the achievement of a revenue target, with the bonus calculation being further conditioned on achievement of an adjusted EBITDA threshold. This structure is based on our Compensation Committee's decision that the most important factor in increasing stockholder value in 2021 was revenue growth. The Compensation Committee further determined that the inclusion of an earnings metric, such as the adjusted EBITDA threshold, would help to ensure that revenue growth was sought in a fiscally prudent manner. These revenue and adjusted EBITDA measures are provided below and were established by the Compensation Committee based on the corresponding amounts in the annual financial plan approved by the Board of Directors. Executives were eligible to receive the bonuses in two payments, based on company performance against the targets in the first and second half of the year. Additionally, the cash bonus amounts for each half of the year are zero if the actual revenue or adjusted EBITDA falls below specified thresholds.

	H1 Target	H1 Threshold	H1 Actual	Attainment	H2 Target	H2 Threshold	H2 Actual	Attainment
Revenue	$102.0 million	$86.7 million	$103.9 million	101.9%	$126.4 million	107.4 million	$129.3 million	102.3%
Adjusted EBITDA	—	$(1.4) million	$13.8 million	Met	—	$6.3 million	$31.5 million	Met

(1) H1 Actual excludes revenue from PatientSafe as it was not included in the H1 Target and H1 Threshold calculations. H2 Actual includes revenue from PatientSafe as it was included in the H2 Target and H2 Threshold calculations.

For 2021, the Compensation Committee determined that 100% of the metrics were achieved, and awarded the cash bonuses set forth in the Summary Compensation Table below.

Mr. Johnson is also compensated through a performance-based sales commission plan. Under that plan, his 2021 target commission was $127.0 thousand and his actual commission was $133.2 thousand.

Ms. Duffy is also compensated through a performance-based sales commission plan. Under that plan, her 2021 target commission was $102.0 thousand and her actual commission was $102.2 thousand.

Equity-Based Awards

The majority of the target total direct compensation of our executive officers, including our named executive officers, is provided through equity awards. By having a significant percentage of our executive officers' target total direct compensation payable in the form of equity that vests over a number of years and, thus, subject to higher risk and longer vesting than cash compensation, our executive officers are motivated to focus on long-term performance. This approach also helps retain key employees because the RSUs are subject to a vesting period, and unvested awards are forfeited by the employee when employment ends. We received feedback from some of our stockholders indicating a preference for performance-based equity awards. Our Compensation Committee considered this feedback, and determined that a mix of time-based equity awards and performance-based equity awards best aligned with the interests of our stockholders by creating an appropriate balance between our goals of business execution, long-term share price growth and named executive officer retention. Accordingly, our Compensation Committee introduced PSUs in 2020 and continued to grant PSUs in 2021. Our PSUs are measured based on our three-year relative total shareholder return.

In granting PSUs, the Compensation Committee considered a variety of factors, including, our continued growth, the dynamic, highly competitive and fast-moving healthcare technology industry, and the difficulty of predicting future performance in such an environment. As a result, the Compensation Committee concluded that relative total shareholder return (TSR) over a three-year performance period, which is in line with peer practice in our industry, best-enabled the company to incentivize high-caliber executives over a longer-term horizon and align their success with that of our stockholders. Our Compensation Committee sought to establish performance goals that were sufficiently rigorous to align with stockholder interests, but also sufficiently reasonable to retain incentive value for our executives. Accordingly, our Compensation Committee determined that the PSU could be earned at target TSR performance that matches the Index, with lower or higher potential payments than target based on actual TSR achievement. We believe the selected structure and terms of the PSUs best motivate the named executive officers to perform against reasonably aggressive targets in alignment with our stockholders and rewards our leadership team for taking actions today that will create value for our stakeholders for years to come.

We make annual equity grants to our executive officers in order to align their interests with those of our stockholders and to ensure appropriate incentives are in place to promote a focus on our long-term strategic and financial objectives. The sizes of these awards were not determined based on a specific formula, but rather through the exercise of the collective judgment of the Compensation Committee and after considering the following factors:

- each executive officer's individual performance, including financial, operational, customer, strategic, product and competitive factors;
- the appropriate level of compensation for the position;
- the need to hire or retain an individual in a particular position and the perceived retentive value of the proposed awards;
- the size and vesting schedule of outstanding and unvested equity awards;
- the level of each executive officer's target total cash compensation (base salary plus target annual cash bonus opportunity); and
- the recommendations of the Chief Executive Officer (except with respect to his award).

For the Chief Executive Officer, executive leadership factors were also considered. In addition, the Compensation Committee reviews and considers the equity awards granted to the executives at the companies in the compensation peer groups, although it does not specifically target or benchmark to those companies.

2021 RSUs

The RSU awards granted to our named executive officers in 2021 were as follows:

Name	Number of Shares Subject to RSU Award[(1)] (#)	Value of RSU Award[(2)] ($)
Brent D. Lang	68,613	$2,350,000
Steven J. Anheier	20,437	$700,000
Justin R. Spencer[(3)]	—	$—
Paul T. Johnson	23,357	$800,000
M. Bridget Duffy	16,058	$550,000
Douglas A. Carlen	16,058	$550,000

(1) The RSU awards vest in three equal annual installments with the first installment vesting on July 1, 2022 and subsequent installments vesting on June 1, 2023 and June 1, 2024. The number of shares of our common stock subject to these awards is based on the average closing stock price during May 2021. Our Compensation Committee typically grants awards in June of each year, and calculates the number of shares subject to the awards using the average closing stock price over the month prior to the date of grant. Our Compensation Committee granted these awards in July because it was necessary to wait until after our shareholders approved our new 2021 Equity Incentive Plan. For consistency with the past practice of granting awards in June of each year, the number of shares was calculated using the average closing stock price over the month of May.
(2) These amounts reflect the Compensation Committee's methodology for determining the equity awards during its compensation review process and do not reflect the actual economic value that may ultimately be realized by the named executive officers. The value of the award was determined by the Compensation Committee in June of 2021 and the number of shares of our common stock subject to these awards was based on the average closing stock price in May of 2021. These amounts do not reflect, and are different from, the grant date fair value of the RSUs computed in accordance with FASB ASC Topic 718. The grant date fair value of the RSUs computed in accordance with FASB ASC Topic 718 is set forth in the Summary Compensation Table below.
(3) Mr. Spencer left the company in June 2021.

2021 PSUs

The PSU awards granted to our named executive officers in 2021 were as follows:

Name	Target Number of Shares Subject to PSU Award[(1)] (#)	Value of PSU Award[(2)] ($)
Brent D. Lang	68,613	$2,350,000
Steven J. Anheier	20,437	$700,000
Justin R. Spencer[(3)]	—	$—
Paul T. Johnson	23,357	$800,000
M. Bridget Duffy	16,058	$550,000
Douglas A. Carlen	16,058	$550,000

(1) The PSU awards are eligible to vest based on the performance metrics described below. The number of shares of our common stock subject to these awards is based on the average closing stock price during May 2021. Our Compensation Committee typically grants awards in June of each year, and calculates the number of shares subject to the awards using the average closing stock price over the month prior to the date of grant. Our Compensation Committee granted these awards in July because it was necessary to wait until after our shareholders approved our new 2021 Equity Incentive Plan. For consistency with the past practice of granting awards in June of each year, the number of shares was calculated using the average closing stock price over the month of May.
(2) These amounts reflect the Compensation Committee's methodology for determining the equity awards during its compensation review process and do not reflect the actual economic value that may ultimately be realized by the named executive officers. The value of the award was determined by the Compensation Committee in June of 2021 and the number of shares of our common stock subject to these awards was based on the average closing stock price in May of 2021. These amounts do not reflect, and are different from, the grant date fair value of the PSUs computed in accordance with FASB ASC

Topic 718. The grant date fair value of the PSUs computed in accordance with FASB ASC Topic 718 is set forth in the Summary Compensation Table below.
(3) Mr. Spencer left the company in June 2021.

On July 1, 2021, the Compensation Committee granted PSUs based on our total stockholder return percentile rank (or TSR Percentile Rank) within the range of the percentile distribution of the total stockholder returns of the companies included in the Index over the following three performance periods (or Performance Periods): (i) the single year beginning July 1, 2021 and ending June 30, 2022 (ii) the two approximate years beginning July 1, 2021 and ending May 31, 2023 and (iii) the three approximate years beginning July 1, 2021 and ending May 31, 2024. The Compensation Committee, in consultation with Compensia, believed that the Index was an appropriate comparison because it represents a broad group of companies with whom we compete for talent and investment dollars and is broad enough to account for potential consolidation in our industry sector. Also, the PSUs reward and incentivize continued performance over each period within a three-year period.

At the end of each Performance Period, the Compensation Committee will compare our TSR Percentile Rank based on the percentage change in our share price against the range of the percentile distribution of the changes in the share price of the companies in the Index, in each case using the difference between the average of the daily closing prices per share during the 30 trading days ending immediately prior to the grant date and the applicable performance period (or the TSR). The number of PSUs earned in a particular Performance Period is then determined by multiplying the number of PSUs eligible to be earned during the applicable Performance Period, by the performance multiplier corresponding to our TSR percentile rank as set forth in the table below:

Name	Performance Multiplier
Less than 25th percentile	Zero
25th percentile	50%
50th percentile	100%
75th percentile or greater	200%

If our TSR Percentile Rank is the 50th percentile, then 100% of the PSUs eligible to be earned during the applicable Performance Period will vest. The maximum number of PSUs that may be earned and vest during an applicable Performance Period is 200%, subject to our achievement of a TSR percentile rank of 75th or greater. As noted above, our Compensation Committee wanted to balance the need for rigorous performance goals to align with stockholder interests, but also have goals that were sufficiently reasonable to maintain the incentive value for our executives. Accordingly, our Compensation Committee determined that PSUs would be earned at target for achievement matching the Index, but the PSUs earned could increase or decrease, as noted above, based on the Company's TSR achievement relative to the Index.

The number of PSUs earned during each of the first and second Performance Periods may not exceed one-third of the target number of PSUs subject to the PSU award. The number of PSUs earned during the third Performance period may not exceed the maximum number of PSUs subject to the PSU award and will be reduced by the number of PSUs earned during the first and second Performance Periods. Performance multipliers between the TSR Percentile Ranks set forth in the table above will be determined based on linear interpolation. In addition, if our TSR at the end of the third performance period is negative, the total number of shares earned for the third performance period may not exceed the target number of shares subject to the PSU.

PSUs will vest upon certification by the Compensation Committee of the TSR Percentile Rank attained for an applicable Performance Period. Each named executive officer must remain employed by us on the last day of each applicable Performance Period in order to earn and vest in the PSUs eligible to be earned during such Performance Period, except as discussed below in "Employment, Severance and Change of Control Agreements."

The Compensation Committee reviewed the size and vesting schedule for the remaining unvested portion of all outstanding equity awards held by our executive officers, including our named executive officers, and agreed that the existing equity awards, together with the existing equity grants, appropriately satisfied our motivation and retention goals for each individual.

2020 PSU Achievement

In June 2020, our Compensation Committee granted to certain of our executive officers PSUs (or 2020 PSUs). These 2020 PSUs vest based on our TSR Percentile Rank within the range of the percentile distribution of the total stockholder returns of the component companies in the S&P 600 Health Care Equipment and Services Index over the following three performance periods: (i) the single year beginning June 1, 2020 and ending May 31, 2021, (ii) the two years beginning June 1, 2020 and ending May 31, 2022 and (iii) the three years beginning June 1, 2020 and ending May 31, 2023. Based on our TSR percentile rank of 64th percentile as of May 31, 2021, the final date of the first performance period, one third of the 2020 PSUs were earned and became vested at such time. For additional detail regarding the 2020 PSUs, please see page 47 of our definitive proxy statement filed with the Securities and Exchange Commission on April 15, 2021.

Treatment in Connection with the Merger

Treatment of Vocera Equity Awards

As of immediately prior to the closing of the Merger, each RSU and PSU (after giving effect to the PSU Achievement Calculation (as defined below)) that is outstanding and unvested will not be assumed by Stryker, and as a result under the terms of the applicable Vocera equity incentive plan and the Merger Agreement, will become immediately vested in full. At the closing of the Merger (after giving effect to such accelerated vesting), each such vested RSU and PSU will be canceled and the holder thereof will be entitled to receive an amount in cash, without interest, less any applicable tax withholding, equal to the number of Shares issuable under such RSU or PSU multiplied by the merger consideration (collectively, the “RSU Cash Consideration”).

The achievement of applicable performance metrics of each PSU (or portion thereof) that is outstanding and unvested for which the performance period has not been completed as of the closing of the Merger will, as of immediately prior to the closing of the Merger, be determined in good faith by our Board or a committee thereof in accordance with the terms of the PSU award agreements by multiplying the target number of shares subject to the PSU by the applicable multiplier based on actual performance measured from the grant date of the applicable PSU through the last trading day immediately preceding the day the Merger closing occurs and using the merger consideration as our share price with respect to the performance goals, which are based on total shareholder return. The resulting number of shares subject to each PSU will be reduced by the number of shares, if any, earned and paid with respect to any previously completed performance periods applicable to such PSU. However, for any performance period that has been completed prior to the closing of the Merger, but for which the performance achievement has not yet been determined as of prior to the closing of the Merger, the our Board or a committee thereof will determine in good faith the performance achievement and the resulting number of shares eligible to vest on the applicable vesting date prior the closing of the Merger based on actual performance of the applicable performance goals as set forth under the applicable award agreement. Based on the merger consideration, the applicable performance metrics for all outstanding PSUs are expected to be achieved at the maximum level and the maximum number of Shares subject to each PSU is expected to be eligible to vest as of immediately prior to the closing of the Merger.

As of immediately prior to the closing of the Merger, each stock option that is outstanding (other than rights under the ESPP) will not be assumed by Stryker, and as a result under the terms of the applicable Vocera equity incentive plan and the Merger Agreement, will be cancelled and the holder thereof will be entitled to receive an amount of cash, without interest, less any applicable tax withholding, equal to the product obtained by multiplying i) the excess (if any) of the merger consideration over the exercise price per share of company common stock underlying such company stock option by (ii) the number of shares of company common stock underlying such outstanding stock options (the “Stock Option Cash Consideration”).

Stryker will cause the surviving corporation to pay the RSU Cash Consideration and the Stock Option Cash Consideration at or reasonably promptly (generally no later than 5 business days) after the closing of the Merger, in accordance with the terms of the Merger Agreement.

In accordance with the Merger Agreement, immediately prior to the closing of the Merger, the ESPP will terminate and any in-progress ESPP offering period will be shortened and the applicable purchase date will occur before the closing of the Merger. All shares purchased under the ESPP will be treated identically to other outstanding shares, such that they will be canceled and converted into the right to receive the merger consideration.

Benefits Programs

Our employee benefit programs, including our 401(k) plan, ESPP, and health and welfare programs, including health savings accounts and flexible spending arrangements, are designed to provide a competitive level of benefits to our employees generally, including our executive officers and their families. We adjust our employee benefit programs as needed based upon regular monitoring of applicable laws and practices and the competitive market. Our executive officers are eligible to participate in the same employee benefit plans and programs, and on the same terms and conditions, as all other U.S. full-time employees.

Perquisites and Other Personal Benefits

Currently, we do not view perquisites or other personal benefits as a significant component of our executive compensation program. Accordingly, we do not generally provide perquisites to our executive team.

Post-Employment Compensation

Certain of our executive officers have post-employment compensation arrangements, which provide for severance payments and benefits in the event of a termination of employment under certain conditions, including following a change of control of the company. The Compensation Committee determined that these arrangements were both competitively reasonable and necessary to recruit and retain key executives. The material terms of these post-employment payments to named executive officers are set forth in “Employment, Severance and Change of Control Agreements” below. These agreements do not provide for single trigger equity acceleration following a change of control and do not provide tax gross-ups for “excess parachute payments.”

Other Compensation Policies and Practices

Executive Officer Recoupment Policy

We maintain a clawback provision that provides our Board with the authority to recoup past incentive compensation from an executive officer in the event of a material restatement of our company’s financial results due to fraud or intentional misconduct of that executive officer.

Equity Administration Committee

Our Compensation Committee provides that the Equity Administration Committee, consisting of the Chief Executive Officer, the Chief Financial Officer and the General Counsel, may make equity awards to non-executive employees within prescribed limits. Generally, equity awards will be effective on the 1st market day of the month following approval by the Equity Administration Committee, unless determined otherwise with advice of counsel. While we do not generally grant stock options at this time, the exercise price of all stock options must be equal to or greater than the fair market value of our common stock on the date of grant.

Derivatives Trading and Anti-Hedging Policy

Our Policy Prohibiting Insider Trading prohibits our employees, including our executive officers and members of our Board of Directors, from purchasing financial instruments, or otherwise engaging in transactions, that hedge or offset, or are designed to hedge or offset, any decrease in the market value of company common stock, such as prepaid variable forward contracts, equity swaps, collars, forward sale contracts and exchange funds.

Stock Ownership Guidelines

We maintain stock ownership guidelines that require our Chief Executive Officer, as well as our non-executive directors, to maintain a specified level of stock ownership.

Compensation Policies and Practices as they relate to Risk Management

The Compensation Committee has reviewed our executive and employee compensation programs and does not believe that our compensation policies and practices encourage undue or inappropriate risk taking or create risks that are reasonably likely to have a material adverse effect on us. The reasons for the Compensation Committee’s determination include the following:

- We structure our compensation program to consist of both fixed and variable components. The fixed (or base salary) component of our compensation programs is designed to provide income independent of our stock price performance so that employees will not focus exclusively on stock price performance to the detriment of other important business metrics. The variable (cash bonus and equity) components of our compensation programs are designed to reward both short-term and long-term company performance, which we believe discourages employees from taking actions that focus only on our short-term success and helps align our employees with our stockholders and on our longer-term success. Our RSUs have time-based vesting and our PSUs have a multi-year performance period encouraging long-term, sustained success.
- We maintain internal controls over the measurement and calculation of financial information, which are designed to prevent this information from being manipulated by any employee, including our executive officers.
- While we generally do not cap the cash incentive award for our Sales Compensation Plan to maximize the incentive for our sales force to meet and exceed their revenue objectives, we do maintain internal controls over the determination of sales incentive awards which we believe help prevent problematic behaviors.
- Our employees are required to comply with our Employee Code of Conduct and Ethics, which covers, among other things, accuracy in keeping financial and business records.
- The Compensation Committee approves the employee annual and new hire equity award guidelines as well as the overall annual equity pool. Any recommended equity awards outside these guidelines require approval by the Compensation Committee. We believe that this helps ensure we grant equity compensation appropriately and in a sustainable manner.

- A significant portion of the compensation paid to our executive officers and the members of our Board of Directors is in the form of RSUs and, for our executive officers, PSUs to align their interests with the interests of stockholders.
- We maintain Stock Ownership Guidelines for our Chief Executive Officer and the members of the Board of Directors to ensure that they retain specified levels of equity in the company.
- As part of our Policy Prohibiting Insider Trading, we prohibit the trading of derivatives or hedging transactions involving our securities so that our executive officers and other employees cannot insulate themselves from the effects of poor stock price performance.

Tax and Accounting Considerations

Deductibility of Executive Compensation

Section 162(m) of the Code limits the amount that we may deduct from our federal income taxes for remuneration paid to our named executive officers (other than our Chief Financial Officer) to $1 million dollars per executive officer per year. “Grandfather” provisions of the Code provide exceptions from this deduction limitation and may apply to certain compensation arrangements, including certain grants of stock options and certain RSUs, that were entered into before the company was publicly traded and through November 2, 2017. Except for compensation attributable to the exercise of most options granted prior to November 2, 2017 under the “grandfather provisions,” compensation in excess of $1 million will likely not be deductible.

No Tax Reimbursement of Parachute Payments and Deferred Compensation

We did not provide any executive officer, including any named executive officer, with a “gross-up” or other reimbursement payment for any tax liability that he or she might owe as a result of the application of Sections 280G, 4999, or 409A of the Code during 2021, and we have not agreed and are not otherwise obligated to provide any named executive officer with such a “gross-up” or other reimbursement.

Accounting Treatment

We account for stock compensation in accordance with the authoritative guidance set forth in FASB ASC Topic 718, which requires companies to measure and recognize the compensation expense for all share-based awards made to employees and directors over the period during which the award recipient is required to perform services in exchange for the award. We determine both the grant date fair value and the service period based on applicable accounting standards. This calculation is performed for accounting purposes and reported in the compensation tables included in this Form 10-K.

Report of the Compensation Committee

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis included in this Form 10-K with management and, based on such review and discussions, the Compensation Committee recommended to our Board of Directors that the Compensation Discussion and Analysis be incorporated in this Form 10-K for fiscal year 2021.

Submitted by the Compensation Committee
Michael Burkland, Chair
Alexa King
Sharon L. O’Keefe

Compensation Committee Interlocks and Insider Participation

The directors who were members of our Compensation Committee during 2021 were Michael Burkland, Alexa King and Sharon L. O’Keefe. None of them at any time has been one of our officers or employees. None of our executive officers serves, or in the past has served, as a member of the board of directors or compensation committee of any entity that has one or more of its executive officers serving on our Board of Directors or our Compensation Committee.

Executive Compensation Tables

Summary Compensation Table

The following table provides information regarding all compensation awarded to, earned by or paid to our named executive officers serving as such at December 31, 2021 for all services rendered in all capacities to us during the fiscal years ended December 31, 2021, 2020 and 2019.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards[1] ($)	Non-Equity Incentive Plan Compensation[2] ($)	Total ($)
Brent D. Lang President and Chief Executive Officer	2021	516,000	—	6,931,285	625,256	8,072,541
	2020	500,000	—	4,967,102	614,075	6,081,177
	2019	500,000	—	2,901,365	241,745	3,643,110
Steven J. Anheier Chief Financial Officer	2021	325,000	—	2,064,546	187,328	2,576,874
Justin R. Spencer[6] Former Chief Financial Officer	2021	162,250[6]	—	—	—	162,250
	2020	354,000	—	1,738,479	260,859	2,353,338
	2019	354,000	—	967,111	102,693	1,423,804
Paul T. Johnson Executive Vice President of Sales and Services	2021	372,000	—	2,359,524	327,048[3]	3,058,572
	2020	354,000	—	1,738,479	261,259[3]	2,353,738
	2019	354,000	—	967,111	131,187[3]	1,452,298
M. Bridget Duffy Chief medical Officer	2021	358,000	—	1,622,179	223,646[4]	2,203,825
	2020	341,000	—	1,195,121	187,609[4]	1,723,730
	2019	341,000	—	725,317	142,603[4]	1,208,920
Douglas A. Carlen Vice President, Legal and General Counsel	2021	303,000	—	1,622,179	146,862	2,072,041
	2020	289,000	5,000[5]	1,195,121	141,974	1,631,095
	2019	289,000	—	725,317	55,891	1,070,208

(1) Amounts reported for fiscal years 2021, 2020 and 2019 represent the grant date fair value of the st PSUs and RSUs granted during each applicable year, computed in accordance with FASB ASC Topic 718. These amounts do not reflect the actual economic value realized by the named executive officer. In accordance with SEC rules, this column represents the grant date fair value, computed in accordance with stock-based compensation accounting principles, of PSUs, assuming the probable outcome of related performance conditions, and RSUs. The PSUs, which were granted with a market condition, are valued using a lattice model simulation analysis, specifically a Monte Carlo simulation. PSUs have a maximum payout of 200% of the target number of shares. Pursuant to SEC rules, the amounts shown disregard the impact of estimated forfeitures. For additional information on the valuation assumptions, see Note 10 of our “Notes to Consolidated Financial Statements” included in this annual report. For additional information on the treatment of stock options, PSUs and RSUs in connection with the pending Merger, see the section titled “Treatment in Connection with the Merger” above.

(2) Represents performance-based cash incentive awards earned for services rendered under the executive incentive compensation plan, and in the case of Mr. Johnson and Ms. Duffy, additional amounts under the 2021, 2020 and 2019 sales commission plans. For more information about the 2021 executive bonus plan compensation for our named executive officers, see “Elements of Our Executive Compensation Program — Annual Cash Bonuses” under the Compensation Discussion and Analysis section above.

(3) Represents $193,829, $156,515, and $61,616, respectively, awarded pursuant to our 2021, 2020 and 2019 executive incentive plans and $133,218, $104,744, and $69,571, respectively, awarded pursuant to our 2021, 2020 and 2019 sales commission plans. For more information, see “Elements of Our Executive Compensation Program — Annual Cash Bonuses.”

(4) Represents $121,464, $104,700, and $41,218, respectively, awarded pursuant to our 2021, 2020 and 2019 executive incentive plan and $102,181, $82,909, and $101,385, respectively, awarded pursuant to our 2021, 2020 and 2019 sales commission plans. For more information, see “Elements of Our Executive Compensation Program — Annual Cash Bonuses.”

(5) Represents one-time bonus amount awarded in fiscal year 2020 to Mr. Carlen in connection with his work related to the company’s acquisition of Ease Applications, LLC.
(6) Mr. Spencer left the Company in June 2021.

Grant of Plan-Based Awards

The following table provides information with regard to potential cash bonuses paid or payable in 2021 under our performance-based, non-equity incentive plan, and with regard to each equity award granted to each named executive officer during fiscal year 2021.

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Future Payouts Under Equity incentive Plan Awards(2)				
Name	**Grant Date**	**Threshold ($)**	**Target ($)**	**Maximum ($)**	**Threshold (#)**	**Target (#)**	**Maximum (#)**	**Number of Shares of Stock Units(3) (#)**	**Grant Date Fair Value of Stock and Equity Awards(4) ($)**
Brent D. Lang		103,200	516,000	1,032,000					
	7/1/2021							68,613	2,733,542
	7/1/2021				34,307	68,613	137,226		4,197,743
Steven J. Anheier		32,500	162,500	325,000					
	7/1/2021							20,437	814,210
	7/1/2021				10,219	20,437	40,874		1,250,336
Justin R. Spencer		35,400	177,000	354,000					
	7/1/2021							—	—
	7/1/2021				—	—	—		—
Paul T. Johnson		31,992	159,960	319,920					
	7/1/2021							23,357	930,543
	7/1/2021				11,679	23,357	46,714		1,428,981
M. Bridget Duffy		20,048	100,240	200,480					
	7/1/2021							16,058	639,751
	7/1/2021				8,029	16,058	32,116		982,428
Douglas A. Carlen		24,240	121,200	242,400					
	7/1/2021							16,058	639,751
	7/1/2021				8,029	16,058	32,116		982,428

(1) These amounts consist of the threshold, target and maximum cash award levels set in 2021 under the company's executive incentive cash bonus plan. The amount actually earned by each named executive officer is included in the Non-Equity Incentive Plan Compensation column in the 2021 Summary Compensation Table. For more information about the 2021 executive bonus plan compensation for our named executive officers, see "Elements of Our Executive Compensation Program — Annual Cash Bonuses" under the Compensation Discussion and Analysis section above.

(2) PSUs which vest based on our total stockholder return percentile rank (or TSR Percentile Rank) within the range of the percentile distribution of the total stockholder returns of the companies included in the S&P 600 Health Care Equipment and Services Index over the following three performance periods: (i) the year beginning July 1, 2021 and ending June 30, 2022, (ii) the two approximate years beginning July 1, 2021 and ending May 31, 2023 and (iii) the three approximate years beginning July 1, 2020 and ending May 31, 2024. For additional information on the treatment of stock options, PSUs and RSUs in connection with the pending Merger, see the section titled "Treatment in Connection with the Merger" above.

(3) These RSUs vest in equal annual installments over three years from the vesting commencement date set forth in the award agreement until all shares subject to the RSUs are vested. For additional information on the treatment of stock options, PSUs and RSUs in connection with the pending Merger, see the section titled "Treatment in Connection with the Merger" above.

(4) The amounts reported in this column represent the aggregate grant date fair value of the RSU and PSU awards, calculated in accordance with FASB ASC Topic 718, except that no forfeiture assumptions were included and, for the PSUs, assuming the probable outcome of related performance conditions. The PSUs, which were granted with a market condition, are valued using a lattice model simulation analysis, specifically a Monte Carlo simulation. The PSUs have a maximum payout of 200% of the target number of shares. For a discussion of the assumptions made in the valuations reflected in this column, see Note 10 of our "Notes to Consolidated Financial Statements" included in our Form 10-K for the year ended December 31, 2021. Note that amounts reported in this column reflect the accounting cost for these equity awards and do not correspond to the actual economic value that may be received by the recipients of these equity awards. For additional information on the treatment of stock options, PSUs and RSUs in connection with the pending Merger, see the section titled "Treatment in Connection with the Merger" above.

Outstanding Equity Awards at December 31, 2021

The following table provides information regarding each unexercised stock option, unvested PSU and unvested RSU held by each of our named executive officers as of December 31, 2021:

		Stock Awards				Option Awards			
Name	Award Grant Date	Number of Shares or Units of Stock That Have Not Vested(1) (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)(2)	Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(3)	Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(4)(5)	Shares Underlying Unexercised Options — Exercisable (#)(5)(6)	Shares Underlying Unexercised Options — Unexercisable (#)	Option Exercise Price ($)(6)(7)	Option Expiration Date
Brent D. Lang	6/1/2014					3	—	12.92	6/1/2024
	5/31/2019	29,893	1,938,262						
	6/1/2020	94,990	6,159,152						
	6/1/2020			46,783	3,033,410				
	7/1/2021	68,613	4,448,867						
	7/1/2021			68,613	4,448,867				
Steven J. Anheier	9/30/2019	5,502	356,750						
	4/1/2020	3,334	216,177						
	7/1/2021	20,437	1,325,135						
	7/1/2021			20,437	1,325,135				
Paul T. Johnson	11/1/2013					30,000	—	17.31	11/1/2023
	6/1/2014					18,552	—	12.92	6/1/2024
	5/31/2019	9,964	646,066						
	6/1/2020	33,247	2,155,735						
	6/1/2020			16,374	1,061,690				
	7/1/2021	23,357	1,514,468						
	7/1/2021			23,357	1,514,468				
M. Bridget Duffy	5/31/2019	7,473	484,549						
	6/1/2020	26,583	1,723,642						
	6/1/2020			8,860	574,482				
	7/1/2021	16,058	1,041,201						
	7/1/2021			16,058	1,041,201				
Douglas A. Carlen	5/31/2019	7,473	484,549						
	6/1/2020	26,583	1,723,642						
	6/1/2020			8,860	574,482				
	7/1/2021	16,058	1,041,201						
	7/1/2021			16,058	1,041,201				

(1) Represents RSUs granted under our 2012 and 2021 Equity Incentive Plan which vests in three equal installments commencing on the first anniversary of the first day of the month following the award grant date.
(2) The market value of the shares of RSUs that have not vested is calculated by multiplying the number of unvested shares held by the applicable named executive officer by the closing price of our common stock on December 31, 2021, the last trading day of our fiscal year, which was $64.84.
(3) PSUs with a grant date of June 1, 2020 (or 2020 PSUs) vest based on our total stockholder return percentile rank (or "TSR Percentile Rank") within the range of the percentile distribution of the total stockholder returns of the component companies in the S&P 600 Health Care Equipment and Services Index over the following three performance periods: (i) the single year beginning June 1, 2020 and ending May 31, 2021, (ii) the two years beginning June 1, 2020 and ending May 31, 2022 and (iii) the three years beginning June 1, 2020 and ending May 31, 2023. Based on our 64th TSR percentile as of May 31, 2021, the final date of the first performance period, one third of the 2020 PSUs were earned and became vested at such time. The outstanding 2020 PSUs represent the remaining target number of shares subject to the PSU that may be earned.
(4) PSUs with a grant date of July 1, 2021 (or 2021 PSUs) vest based on our total stockholder return percentile rank (or TSR Percentile Rank) within the range of the percentile distribution of the total stockholder returns of the companies included in the S&P 600 Health Care Equipment and Services Index over the following three performance periods: (i) the single year beginning July 1, 2021 and ending June 30, 2022, (ii) the two approximate years beginning July 1, 2021 and ending May 31, 2023 and (iii) the three approximate years beginning July 1, 2020 and ending May 31, 2024. The unvested 2021 PSUs in the table above include the target number of 2021 PSUs. If the PSUs metrics were achieved at maximum, the executive (if applicable) would be eligible to receive the maximum number of 2021 PSUs included in the "*Grant of Plan-Based Awards*" table above.
(5) The market value of the PSUs that have not vested is calculated by multiplying the number of unvested shares held by the applicable named executive officer by the closing price of our common stock on December 31, 2021, the last trading day of our fiscal year, which was $64.84.

(6) Except as otherwise described in these footnotes, all options vest as to 1/4th of the shares of common stock underlying the options on the first anniversary of the vesting commencement date and as to 1/48th of the shares of common stock underlying the option each month thereafter.
(7) The exercise price of our equity awards granted after March 28, 2012 is the closing price of our common stock on the date of grant.

For additional information on the treatment of stock options, PSUs and RSUs in connection with the pending Merger, see the section titled "Treatment in Connection with the Merger" above.

2021 Option Exercises and Stock Vested

The following table shows stock options exercised by our named executive officers in fiscal year 2021 as well as stock awards that vested during fiscal year 2021.

Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise(1) ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting(2) ($)
Brent D. Lang	109,896	4,892,793	139,395	4,904,725
Steven J. Anheier	—	—	7,165	315,500
Justin R. Spencer	—	—	47,646	1,677,713
Paul T. Johnson	30,000	1,307,669	47,646	1,677,713
M. Bridget Duffy	7,500	334,772	34,848	1,216,896
Douglas A. Carlen	—	—	34,848	1,216,896

(1) The value realized on exercise is calculated as the difference between the market price of our common stock at the time of exercise on the exercise date and the applicable exercise price of those options.

(2) The value realized on vesting is calculated by multiplying the number of shares vesting by the closing price of our common stock as traded on the NYSE on the applicable vesting date or, if the vesting date was not a trading day, the next trading date.

CEO Pay Ratio

The 2021 annual total compensation of our Chief Executive Officer was $8,072,541, the 2021 annual total compensation of our median compensated employee was $187,093 and the ratio of these amounts is 43.1 to 1.

In 2021, there was no change in our employee population or employee compensation arrangements that we believe would significantly impact the pay ratio. Accordingly, for purposes of calculating the pay ratio set forth above, we are permitted to use the same median employee that we identified for purposes of our 2020 pay ratio. For a description of our methodology for identifying the median employee, see "CEO Pay Ratio" on page 48 of our definitive proxy statement filed with the Securities and Exchange Commission on April 16, 2020.

Because SEC rules for identifying the median of the annual total compensation of all employees allow companies to adopt a variety of methodologies, apply certain exclusions, and make reasonable estimates and assumptions that reflect their employee population and compensation practices, the pay ratio reported by other companies may not be comparable to our pay ratio, as other companies have different employee populations and compensation practices and may have used different methodologies, exclusions, estimates and assumptions in calculating their pay ratios. As explained by the SEC when it adopted these rules, the rule was not designed to facilitate comparisons of pay ratios among different companies, even companies within the same industry, but rather to allow stockholders to better understand and assess each particular company's compensation practices and pay ratio disclosures.

Employment, Severance and Change of Control Agreements

Brent D. Lang. We entered into an offer letter agreement with Brent D. Lang, our President and Chief Executive Officer, dated June 8, 2012, which superseded an offer letter agreement, dated November 12, 2007. The offer letter agreement has no specific term and constitutes at-will employment.

In addition, in April 2013 our Compensation Committee authorized that we enter into a revised change of control severance agreement, in the form previously approved by our Board of Directors, with Mr. Lang to reflect his transition to our Chief Executive Officer in June 2013. Our Compensation Committee amended and restated this change of control severance agreement in September 2021 to make certain clarifications, but did not modify the benefits payable in connection with a termination of employment or a change of control of the company. The agreement with Mr. Lang provides that, in the event of

Mr. Lang's termination without cause or resignation for good reason, he will be entitled to receive cash severance payments equal to one year of his annual base salary, plus the greater of his target bonus for the year of termination or the amount of bonus paid to him in the prior year, plus 12 months of acceleration of outstanding equity awards and 12 months of COBRA coverage. For a termination without cause or resignation for good reason occurring within two months prior to, or 12 months following, a change of control of Vocera (the "Change of Control Period"), the agreement provides that Mr. Lang will be entitled to receive a cash severance payment equal to 150% of his annual base salary plus 150% of the greater of his target bonus for the year of termination or the amount of bonus paid to him in the prior year, plus acceleration of 100% of his outstanding equity awards in addition to 18 months of COBRA coverage.

In addition, Mr. Lang's PSUs, granted in June 2020 and July 2021, the terms of which are described above in "Compensation Discussion and Analysis — Equity-Based Awards" provide that upon a termination of Mr. Lang's employment with us for any reason other than a termination without cause or resignation for good reason prior to the end of an applicable Performance Period (as described above in "Compensation Discussion and Analysis — Equity-Based Awards"), all PSUs which have not been earned as of the date of such termination will be forfeited. In the event Mr. Lang's employment with us terminates due to a termination without cause or resignation for good reason, in each case outside of the Change in Control Period (as defined in Mr. Lang's change of control severance agreement and described above), Mr. Lang will remain eligible to vest in any PSUs that are earned as a result of the achievement of the performance metrics in respect of the Performance Period that ends within twelve months following the date of such termination as if he had remained employed with us on the date such Performance Period ended, subject to any reduction for prior earned tranches of the PSUs, if applicable (as described above in "Compensation Discussion and Analysis — Equity Based Awards").

In the event of a "corporate transaction", as defined in our 2012 Equity Incentive Plan or 2021 Equity Incentive Plan, as applicable, before the end of any of the Performance Periods, a CIC Performance Period (or the CIC Performance Period) beginning on the grant date of a PSU award and ending on the last trading day immediately preceding the closing date of the corporate transaction will be used for determining the number of earned PSUs, except that our TSR (as described above in "Compensation Discussion and Analysis — Equity-Based Awards") for such period will be determined by using the price per share to be paid to stockholders in such corporate transaction. The PSUs earned during such period will be reduced by the number of PSUs previously earned during prior Performance Periods, as applicable. The number of PSUs earned in respect of the CIC Performance Period will be multiplied by a fraction, the numerator of which equals the number of days in the CIC Performance Period and the denominator of which equals the number of days contained in the third Performance Period, and such number of PSUs shall be settled within 30 days following the corporate transaction (or the Closing-Settled PSUs). The portion of PSUs earned during the CIC Performance Period that exceeds the number of Closing-Settled PSUs will convert to time-based vesting (or the Time-Vesting PSUs) and will vest in equal installments on the remaining original Performance Period end dates, subject to Mr. Lang's employment on such dates. In the event that the PSUs are not assumed or replaced by the successor entity in connection with the corporate transaction, any PSUs that are earned upon the corporate transaction as described in this paragraph will become vested immediately prior to the corporate transaction. In the event of a termination without cause or resignation for good reason during the Change in Control Period, 100% of the Time-Vesting PSUs shall accelerate (the "Time-Vesting Acceleration Percentage").

For additional information on the treatment of stock options, PSUs and RSUs in connection with the pending Merger, see the section titled "Treatment in Connection with the Merger" above.

Steven J. Anheier. We entered into an offer letter agreement with Steven J. Anheier, our Chief Financial Officer, dated July 31, 2019. The offer letter agreement has no specific term and constitutes at-will employment.

In addition, we entered into a change of control severance agreement with Mr. Anheier in June 2021. Our Compensation Committee amended and restated this change of control severance agreement in September 2021 to make certain clarifications, but did not modify the benefits payable in connection with a termination of employment or a change of control of the company. The agreement with Mr. Anheier provides that, in the event of Mr. Anheier's termination without cause, he will be entitled to receive cash severance payments equal to 75% of his annual base salary, plus 12 months of acceleration of outstanding equity awards and 9 months of COBRA coverage. For a termination without cause or resignation for good reason occurring within a Change of Control Period, the agreement provides that Mr. Anheier will be entitled to receive a cash severance payment equal to 100% of his annual base salary plus 100% of the greater of his target bonus for the year of termination or the amount of bonus paid to him in the prior year, plus acceleration of 100% of his outstanding equity awards in addition to 12 months of COBRA coverage. In addition, Mr. Anheier was granted an award of PSUs on July 1, 2021, subject to the same terms and conditions upon termination and a change of control as described for Mr. Lang above.

Justin R. Spencer. We entered into an offer letter agreement with Justin R. Spencer, our former Chief Financial Officer and Executive Vice President, dated July 30, 2014. The offer letter agreement had no specific term and constituted at-will employment.

In addition, we had entered into a change of control severance agreement with Mr. Spencer in August 2014. The agreement with Mr. Spencer provides that, in the event of Mr. Spencer's termination without cause, he will be entitled to receive cash severance payments equal to 75% of his annual base salary, plus 12 months of acceleration of outstanding equity awards and 9 months of COBRA coverage. For a termination without cause or resignation for good reason occurring within a Change of Control Period, the agreement provides that Mr. Spencer will be entitled to receive a cash severance payment equal to 100% of his annual base salary plus 100% of the greater of his target bonus for the year of termination or the amount of bonus paid to him in the prior year, plus acceleration of 100% of his outstanding equity awards in addition to 12 months of COBRA coverage. In addition, Mr. Spencer was granted an award of PSUs, subject to the same terms and conditions upon termination and a change of control as described for Mr. Lang above. None of Mr. Spencer's PSUs remain outstanding.

Mr. Spencer left the company in June 2021. He is no longer eligible for any payments under his change of control severance agreement.

Paul T. Johnson. We entered into an offer letter agreement with Paul T. Johnson, Chief Commercial Officer, dated September 27, 2013. The offer letter agreement has no specific term and constitutes at-will employment.

In addition, we have entered into a change of control severance agreement with Mr. Johnson in October 2013. Our Compensation Committee amended and restated this change of control severance agreement in September 2021 to make certain clarifications, but did not modify the benefits payable in connection with a termination of employment or a change of control of the company. The agreement with Mr. Johnson provides that, in the event of Mr. Johnson's termination without cause, he will be entitled to receive cash severance payments equal to 75% of his annual base salary, plus 12 months of acceleration of outstanding equity awards and 9 months of COBRA coverage. For a termination without cause or resignation for good reason occurring within a Change of Control Period, the agreement provides that Mr. Johnson will be entitled to receive a cash severance payment equal to 100% of his annual base salary plus 100% of the greater of his target bonus for the year of termination or the amount of bonus paid to him in the prior year, plus acceleration of 100% of his outstanding equity awards in addition to 12 months of COBRA coverage. In addition, Mr. Johnson was granted an award of PSUs on June 1, 2020 and July 1, 2021, subject to the same terms and conditions upon termination and a change of control as described for Mr. Lang above.

M. Bridget Duffy. We entered into an offer letter agreement with M. Bridget Duffy, our Chief Medical Officer, dated November 3, 2010. The offer letter agreement has no specific term and constitutes at-will employment.

In addition, we have entered into a change of control severance agreement with Ms. Duffy in August 2011. Our Compensation Committee amended and restated this change of control severance agreement in September 2021 to make certain clarifications, but did not modify the benefits payable in connection with a termination of employment or a change of control of the company. The agreement with Ms. Duffy provides that, in the event of Ms. Duffy's termination without cause, she will be entitled to receive cash severance payments equal to 50% of her annual base salary, plus 12 months of acceleration of outstanding equity awards and 6 months of COBRA coverage. For a termination without cause or resignation for good reason occurring within a Change of Control Period, the agreement provides that Ms. Duffy will be entitled to receive a cash severance payment equal to 75% of her annual base salary plus 75% of the greater of her target bonus for the year of termination or the amount of bonus paid to her in the prior year, plus acceleration of 50% of her outstanding equity awards in addition to 9 months of COBRA coverage. In addition, Ms. Duffy was granted an award of PSUs on June 1, 2020 and July 1, 2021, subject to the same terms and conditions upon termination and a change of control as described for Mr. Lang above, except that Ms. Duffy's Time-Vesting Acceleration Percentage is 50%.

Douglas A. Carlen. We entered into an offer letter agreement with Douglas A. Carlen, our General Counsel, dated May 19, 2016. The offer letter agreement has no specific term and constitutes at-will employment.

In addition, we have entered into a change of control severance agreement with Mr. Carlen in July 2016. Our Compensation Committee amended and restated this change of control severance agreement in September 2021 to make certain clarifications, but did not modify the benefits payable in connection with a termination of employment or a change of control of the company. The agreement with Mr. Carlen provides that, in the event of Mr. Carlen's termination without cause, he will be entitled to receive cash severance payments equal to 50% of his annual base salary, plus 12 months of acceleration of outstanding equity awards and 6 months of COBRA coverage. For a termination without cause or resignation for good reason occurring within a Change of Control Period, the agreement provides that Mr. Carlen will be entitled to receive a cash severance payment equal to 75% of his annual base salary plus 75% of the greater of his target bonus for the year of termination or the amount of bonus paid to him in the prior year, plus acceleration of 50% of his outstanding equity awards in addition to 9 months of COBRA coverage. In addition, Mr. Carlen was granted an award of PSUs on June 1, 2020 and July 1, 2021, subject to the same terms and conditions upon termination and a change of control as described for Mr. Lang above, except that Mr. Carlen's Time-Vesting Acceleration Percentage is 50%.

The following table sets forth quantitative estimates of the benefits that would have accrued to our named executive officers pursuant to the terms of each of their respective severance agreements, assuming that such executive officer's employment terminated on December 31, 2021 and the conditions for such benefits were satisfied:

Name		Cash Severance ($)	Benefit Continuation ($)	Stock Awards[1] ($)	Option Awards[2] ($)	Total($)
Brent D. Lang						
	Termination	1,141,256	34,374	10,982,762	—	12,158,392
	Within Change of Control Period	1,711,884	51,561	29,027,572	—	30,791,017
Steven J. Anheier						
	Termination	243,750	32,369	1,789,822	—	2,065,941
	Within Change of Control Period	512,328	43,158	4,548,330	—	5,103,816
Paul T. Johnson						
	Termination	279,000	32,369	3,768,976	—	4,080,345
	Within Change of Control Period	565,829	43,158	9,999,431	—	10,608,418
M. Bridget Duffy						
	Termination	179,000	15,203	2,674,607	—	2,868,810
	Within Change of Control Period	359,598	22,805	2,698,673	—	3,081,076
Douglas A. Carlen						
	Termination	151,500	21,579	2,674,607	—	2,847,686
	Within Change of Control Period	337,397	32,369	2,698,673	—	3,068,439

(1) The value of accelerated RSUs is calculated by multiplying the number of shares being accelerated by the closing price of our common stock on December 31, 2021, the last trading day of our fiscal year, which was $64.84. The value of accelerated PSUs is calculated as described above, using the closing price of our common stock on December 31, 2021, the last trading day of our fiscal year, which was $64.84.
(2) As of December 31, 2021, all options are fully vested, and the underlying shares are no longer subject to acceleration under change of control severance agreements.

The severance payments under the change of control severance agreements with each of our executive officers are contingent upon such executive officer's execution, delivery and non-revocation of a release and waiver of claims satisfactory to us within 45 days of such executive officer's separation from service.

For information on the treatment of stock options, PSUs and RSUs in connection with the pending Merger, see the section titled "Treatment in Connection with the Merger" above. Please also see page 13 of the Schedule 14D-9 filed with the Securities and Exchange Commission on January 25, 2021 for a table quantifying amounts payable in connection with the Merger.

Mr. Spencer left the company in June 2021. He did not receive any termination benefits or payments and was not eligible for any as of December 31, 2021.

Restricted Covenant & Compensation Recovery Agreement

On February 8, 2022, Stryker and each of Brent D. Lang, our Chief Executive Officer, Paul T. Johnson, our Chief Commercial Officer, Douglas A. Carlen, our General Counsel, and Steven J. Anheier, our Chief Financial Officer (each, a "Restricted Executive") entered into a Restrictive Covenant and Compensation Recovery Agreement (each a "Restrictive Covenant Agreement"). Each Restrictive Covenant Agreement requires that each Restricted Executive, for a period of three (3) years following the date upon which the Merger is consummated (the "Closing Date"): (i) not compete, directly or indirectly, with the Company's business as it exists as of the Closing Date, (ii) not solicit certain employees and independent contractors of the Company and (iii) not solicit the business of certain current, prospective of past customers of the Company. Certain violations by a Restricted Executive of the applicable Restrictive Covenant Agreement may require such executive to repay to Stryker a designated amount of the consideration received by the Restricted Executive in connection with the Merger. The Restrictive Covenant Agreements are contingent upon and effective as of the consummation of the Merger. Other than the Restrictive Covenant Agreements, none of the Restricted Executives have entered into any other agreements with Stryker or any of its affiliates.

Director Compensation

We compensate our non-employee directors with a combination of cash and equity. The form and amount of compensation paid to our non-employee directors for serving on our Board and its committees is designed to be competitive in light of industry practices and the obligations imposed by such service. In order to align the long-term interests of our directors with those of our stockholders, a portion of the director compensation is provided in equity-based compensation. The value of total annualized compensation of our non-employee directors is targeted to be at approximately the median of a peer group of similarly-sized technology companies with similar business and financial characteristics. The director compensation practice of this peer group of companies was the benchmark used when considering the competitiveness of our director compensation. Our Compensation Committee's independent compensation consultant, Compensia, previously collected and developed the competitive data and analyses that the Committee used to benchmark and establish our director compensation and based on advice from Compensia, the Compensation Committee determined that our non-employee director compensation is reasonable and appropriate, and the Board approved the director compensation as set forth below. The Compensation Committee periodically reviews market data in consultation with its independent advisor Compensia.

Annual Cash Retainer. Each director receives an annual base cash retainer of $40,000 for general board service, to be paid quarterly. Additionally, we compensate our Board of Directors for service on our committees and for service as our lead independent director and the chair of our Board as follows:

- The chair of our Audit Committee receives an annual cash retainer of $20,000 for such service, paid quarterly, and each of the other members of the Audit Committee receives an annual cash retainer of $10,000, paid quarterly.
- The chair of our Compensation Committee receives an annual cash retainer of $12,500 for such service, paid quarterly, and each of the other members of the Compensation Committee receives an annual cash retainer of $5,000, paid quarterly.
- The chair of our Governance and Nominating Committee receives an annual cash retainer of $9,000 for such service, paid quarterly, and the other member of the Governance and Nominating Committee receives an annual cash retainer of $5,000, paid quarterly.
- Our lead independent director receives an additional annual cash retainer of $20,000 for such service, paid quarterly.
- The non-executive chair of our Board of Directors receives an additional annual cash retainer of $25,000 for such service, paid quarterly. Since our current chair, Mr. Lang, is an executive officer of the Company, he does not receive this cash retainer.

Equity Awards. In April 2021, the Board approved the annual equity grant to non-employee directors effective July 1, 2021 of a number of restricted stock units calculated as $150,000 divided by the average daily closing price of our common stock as reported by the New York Stock Exchange during May 2021 (rounded down to the nearest share). Each restricted stock unit ("RSU") will vest in full on the earlier of (i) July 1, 2022 or (ii) the date of the 2022 annual meeting, subject to the director's continuous service through such vesting date, and will automatically vest in full upon a change of control of our company. Equity awards for new non-employee directors shall be determined by the Compensation Committee. Notwithstanding the foregoing, no non-employee director shall receive equity awards, that when combined with cash compensation received for service as a non-employee director, with a fair market value on the date of grant that exceeds (i) $600,000 in value in the year of such director's initial appointment to the Board or (ii) $400,000 in value in any other calendar year.

Other. We reimburse all of our directors for travel, director continuing education programs and other business expenses incurred in connection with their services as a member of our Board of Directors and its committees, and we extend coverage to them under our travel accident and directors' and officers' indemnification insurance policies.

The following table provides information for the year ended December 31, 2021 regarding all compensation awarded to, earned by or paid to each person who served as a non-employee director during 2021. Mr. Lang, our current Chairman and Chief Executive Officer, did not receive any compensation for his service as director during the year ended December 31, 2021.

2021 Director Compensation

Name	Fees Earned or Paid in Cash ($)	Stock Awards[(1)] ($)	Total ($)
Michael Burkland	48,750	174,459	223,209
Julie Iskow	42,000	174,459	216,459
Howard E. Janzen	63,750	174,459	238,209
Alexa King	51,000	174,459	225,459
John N. McMullen	57,500	174,459	231,959
Sharon L. O'Keefe	42,500	174,459	216,959
Ronald A. Paulus	43,750	174,459	218,209
Bharat Sundaram	42,000	174,459	216,459

(1) Amounts shown in this column reflect the aggregate grant date fair value calculated in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718 for awards granted during the fiscal year.

Our non-employee directors held the following number of outstanding RSUs as of December 31, 2021:

Name	Stock Awards
Michael Burkland	4,379
Julie Iskow	4,379
Howard E. Janzen	4,379
Alexa King	4,379
John N. McMullen	4,379
Sharon L. O'Keefe	4,379
Ronald A. Paulus	4,379
Bharat Sundaram	4,379

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

Equity Compensation Plan Information

The following table summarizes the number of securities underlying outstanding options, stock awards, warrants and rights granted to employees and directors, as well as the number of securities remaining available for future issuance, under the company's equity compensation awards as of December 31, 2021.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (#)	Weighted-average exercise price of outstanding options(1) ($)	Number of securities remaining available for future issuance under equity compensation plans (#)
Equity compensation plans approved by security holders	2,209,958(2)	13.69	1,205,378
Equity compensation plans not approved by security holders(3)	37,543	N/A	[illegible]
Total	2,247,501	13.69	1,205,378

(1) The weighted average exercise price relates solely to outstanding stock option shares since shares subject to RSUs have no exercise price.
(2) Excludes purchase rights accruing under our ESPP.
(3) For a further description of the 2020 Equity Incentive Plan, see Note 10 of the Consolidated Financial Statements included in our Form 10-K for the year ended December 31, 2021.

Beneficial Ownership of Certain Stockholders, Directors and Executive Officers

The following table sets forth certain information with respect to the beneficial ownership of our common stock as of January 14, 2022, by:

- each stockholder known by us to be the beneficial owner of more than 5% of our common stock;
- each of our directors or director nominees;
- each of our named executive officers; and
- all of our directors and executive officers as a group.

Percentage ownership of our common stock is based on 34,951,078 shares of our common stock outstanding on January 14, 2022. We have determined beneficial ownership in accordance with the rules of the SEC, and thus it represents sole or shared voting or investment power with respect to our securities. Unless otherwise indicated below, to our knowledge, the persons and entities named in the table have sole voting and sole investment power with respect to all shares that they beneficially owned, subject to community property laws where applicable. We have deemed all shares of common stock subject to options, restricted stock units or other convertible securities held by that person or entity that are currently exercisable or releasable or that will become exercisable or releasable within 60 days of January 14, 2022 to be outstanding and to be beneficially owned by the person or entity holding the option for the purpose of computing the percentage ownership of that person or entity but have not treated them as outstanding for the purpose of computing the percentage ownership of any other person or entity.

Unless otherwise indicated, the address of each of the individuals and entities named below is c/o Vocera Communications, Inc., 3030 Orchard Parkway, San Jose, CA 95134.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percentage
5% or greater stockholders		
Brown Capital Management, LLC(1)	4,455,563	12.75 %
Conestoga Capital Advisors, LLC(2)	2,291,644	6.56 %
Blackrock, Inc.(3)	3,409,687	9.76 %
Geneva Capital Management LLC(4)	1,944,655	5.56 %
The Vanguard Group(5)	1,794,572	5.13%
Named Executive Officers, Directors and Director Nominees		
Michael Burkland	40,558	*
Douglas A. Carlen	29,485	*
Steven J. Anheier	3,969	*
Justin Spencer	54,452	*
M. Bridget Duffy	13,343	*
Julie Iskow	12,041	*
Howard E. Janzen	48,687	*
Paul T. Johnson(6)	113,110	*
Alexa King	37,729	*
Brent D. Lang(7)	252,048	*
John N. McMullen	20,950	*
Sharon L. O'Keefe	39,687	*
Ronald A. Paulus	11,815	*
Bharat Sundaram	12,041	*
All officers and directors as a group (14 persons)(8)	689,915	1.82 %

* Represents beneficial ownership of less than 1% of our outstanding shares of common stock.
(1) Based solely on the information set forth in a Schedule 13G/A filed with the SEC on February 14, 2022 by Brown Capital Management, LLC. Represents 4,455,563 shares beneficially owned by Brown Capital Management, LLC, as of December 31, 2021, over which it has sole voting power with respect to 2,797,686 shares and sole dispositive power with respect to 4,455,563 shares. Included in the shares beneficially owned by Brown Capital Management, LLC are 2,292,529 shares beneficially owned by The Brown Capital Management Small Company Fund, a registered investment company, which is managed by Brown Capital Management, LLC. The Brown Capital Management Small Company Fund has sole voting and dispositive power over the shares it beneficially owns. The address of Brown Capital Management, LLC is 1201 N. Calvert Street, Baltimore, MD 21202.
(2) Based solely on the information set forth in a Schedule 13G/A filed with the SEC on January 10, 2022 by Conestoga Capital Advisors, LLC. Represents 2,291,644 shares beneficially owned by Conestoga Capital Advisors, LLC and its affiliated entities, as of December 31, 2021, over which it has sole voting power with respect to 2,190,473 shares and sole dispositive power with respect to 2,291,644 shares. The address of Conestoga Capital Advisors, LLC is 550 E. Swedesford Rd. Ste 120, Wayne, PA 19087.
(3) Based solely on the information set forth in a Schedule 13G/A filed with the SEC on February 3, 2022 by Blackrock, Inc. Represents 3,409,687 shares beneficially owned by Blackrock, Inc. and its affiliated entities, as of

December 31, 2021, over which it has sole voting power with respect to 3,255,167 shares and sole dispositive power with respect to 3,409,687 shares. The address of Blackrock, Inc. is 55 East 52nd Street, New York, NY 10055.
(4) Based solely on the information set forth in a Schedule 13G filed with the SEC on February 11, 2022 by Geneva Capital Management LLC. Represents 1,944,655 shares beneficially owned by Geneva Capital Management LLC, as of December 31, 2021, over which it has shared voting power regarding 1,854,911 shares and shared dispositive power over 1,944,655 shares. The address of Geneva Capital Management, LLC is 100 E. Wisconsin Ave., Suite 2550, Milwaukee, WI 53202.
(5) Based solely on the information set forth in a Schedule 13G/A filed with the SEC on February 10, 2022 by The Vanguard Group. Represents 1,794,572 shares beneficially owned by The Vanguard Group and its affiliated entities, as of December 31, 2021, over which it has shared voting power over 65,754, sole dispositive power with respect to 1,702,195 shares., and shared dispositive power over 92,377 shares. The address of The Vanguard Group is 100 Vanguard Blvd., Malvern, PA 19355.
(6) Represents 64,558 shares held by Mr. Johnson and 48,552 options that are exercisable within 60 days of January 14, 2022.
(7) Represents 252,045 shares held by the Lang Van Schaack Family Revocable Trust and 3 options held by Mr. Lang that are exercisable within 60 days of January 14, 2022.
(8) Includes 48,555 options that are exercisable within 60 days of January 14, 2022.

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

Related Party Transactions

From January 1, 2021 to the present, there have been no material transactions, and there are currently no proposed transactions, to which we or any of our subsidiaries was (or is to be) a party and in which any director, director nominee, executive officer, holder of more than 5% of our capital stock, or any immediate family member of or person sharing the household with any of these individuals, had (or will have) a direct or indirect material interest, except for payments set forth under “Executive Compensation” and “Director Compensation” above.

Review, approval or ratification of transactions with related parties

Our Board of Directors recognizes that transactions between our company and persons or entities that may be deemed related persons can present potential or actual conflicts of interest and create the appearance of impropriety. Accordingly, our Board has delegated authority for the review and approval of all related person transactions to the Governance and Nominating Committee of our Board of Directors. We have adopted a Related Person Transactions Policy to provide procedures for reviewing, approving and ratifying any transaction involving our company or any of its subsidiaries in which a 5% or greater stockholder, director, executive officer or members of their immediate family have or will have a material interest as determined by our Governance and Nominating Committee. This policy is intended to supplement, and not to supersede, our company’s other policies that may be applicable to or involve transactions with related persons. The full text of this policy is posted on the investor relations section of our website at www.vocera.com.

Director Independence

Our common stock is listed on the New York Stock Exchange. The listing rules of the New York Stock Exchange require that a majority of the members of our Board of Directors be independent. Our Board of Directors has confirmed that all of our directors and director nominees are independent, except Brent D. Lang. Based upon information requested from and provided by each director concerning his or her background, employment and affiliations, our Board of Directors determined each of Michael Burkland, Julie Iskow, Howard E. Janzen, Alexa King, John N. McMullen, Sharon L. O’Keefe, Ronald A. Paulus and Bharat Sundaram does not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each of these directors or director nominees is “independent” as that term is defined under the rules of the New York Stock Exchange and the Securities and Exchange Commission. In making this determination, our Board of Directors considered the relationships that each director has with our company and all other facts and circumstances our Board of Directors deemed relevant in determining their independence, including certain contracts for products or services in place between Vocera and entities affiliated with our directors. Each director who serves on our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee are independent under the listing rules of the New York Stock Exchange. See “Corporate Governance” in Item 10 above for more information.

Presiding Director of Independent Director Meetings

The independent directors meet in regularly scheduled executive sessions without management over which our lead independent director presides. Our lead independent director is currently Mr. Janzen.

Board and Committee Meetings and Attendance

The Board of Directors and its committees meet throughout the year on a pre-determined schedule and also hold special meetings and act by written consent from time to time.

Typically, in conjunction with the regularly scheduled meetings of the Board, the independent directors meet in executive sessions outside the presence of management.

Item 14. Principal Accounting Fees and Services

Principal Accountant Fees and Services

We regularly review the services and fees from our independent registered public accounting firm. These services and fees are also reviewed with our Audit Committee annually. In accordance with standard policy, Deloitte & Touche LLP (PCAOB ID No. 34) will periodically rotate the individuals responsible for our audit.

In addition to performing the audit of our consolidated financial statements, Deloitte & Touche LLP had provided various other services during fiscal year 2021. Our Audit Committee determined that Deloitte & Touche LLP's provisioning of these services, which are described below, did not impair its independence from us. The aggregate fees billed for fiscal years 2021 and 2020 for each of the following categories of services are as follows:

Fees Billed to Vocera	Fiscal Year 2021	Fiscal Year 2020
Audit fees(1)	$ 2,052,513	$ 1,548,814
Audit-related fees(2)	15,000	7,500
Tax fees(3)	34,720	21,505
All other fees	—	—
Total fees	$ 2,102,233	$ 1,577,819

(1) *"Audit fees"* include fees for audit services primarily related to the audit of our annual consolidated financial statements; the review of our quarterly consolidated financial statements; registration statements, consents, and assistance with and review of documents filed with the SEC; and other accounting and financial reporting consultation and research work billed as audit fees or necessary to comply with the standards of the Public Company Accounting Oversight Board (United States).
(2) *"Audit-related fees"* include fees billed for professional services associated with SEC registration statements and other documents filed with the SEC
(2) *"Tax fees"* include fees for tax compliance and advice. Tax advice fees encompass a variety of permissible services, including technical tax advice related to federal and state income tax matters; assistance with sales tax; assistance with tax matters related to acquisitions and assistance with tax audits.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm

Our Audit Committee's policy is to pre-approve all audit and permissible non-audit services provided by the independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. Pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent registered public accounting firm and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval, and the fees for the services performed to date. Our Audit Committee may also pre-approve particular services on a case-by-case basis. All of the services relating to the fees described in the table above were approved by our Audit Committee.

PART IV

Item 15. Exhibits, Financial Statement Schedules

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

1. Financial Statements:

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

2. Financial Statement Schedule:

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

3. Exhibits:

EXHIBIT INDEX

Exhibit Number	Exhibit title	Incorporated by reference				Filed herewith
		Form	File No.	Date	Number	
1.01	Agreement and Plan of Merger, dated as of January 6, 2022, by and among Stryker Corporation, Voice Merger Sub Corp., and Vocera Communications, Inc.	8-K	001-35469	January 6, 2022	1.01	
3.01	Restated Certificate of Incorporation of the Registrant.	S-1	333-183546	August 24, 2012	3.01	
3.02	Amended and Restated stated Bylaws of Vocera Communications, Inc.	8-K	001-35469	April 23, 2020	3.01	
4.01	Amended and Restated Investor Rights Agreement, dated as of October 10, 2006, by and among the Registrant and certain investors of the Registrant.	S-1	333-175932	August 1, 2011	4.02	
4.02	Indenture dated May 17, 2018 by and among the Registrant and U.S. Bank National Association.	8-K	011-35469	May 17, 2018	4.01	
4.03	Description of the Registrant's Securities	10-K	011-35469	February 26, 2020	4.03	
4.04	Indenture dated March 12, 2021 by and among the Registrant and U.S. Bank National Association	8-K	001-35469	March 15, 2021	4.1	
10.01	Forms of Indemnity Agreement by and between the Registrant and each of its directors and executive officers.	S-1	333-175932	August 1, 2011	10.01	
10.02+	2006 Stock Option Plan, as amended, and form of stock option agreement.	S-1(A2)	333-175932	February 24, 2012	10.03	
10.03+	2012 Equity Incentive Plan and forms of equity award agreements.	8-K	001-35460	June 6, 2018	10.01	
10.04+	Form of 2012 Equity Incentive Plan Notice of Performance Stock Unit Award and Performance Stock Unit Award Agreement	8-K	011-35469	May 6, 2020	10.1	
10.05+	Amended and Restated 2012 Employee Stock Purchase Plan.	14A	001-35469	April 15, 2021	Appendix B	

10.06+	Form of Option Agreement dated July 31, 2007, by and between the Registrant and each of Brent Lang and Robert Zollars.	S-1	333-175932	August 1, 2011	10.06
10.07+	2010 Stock Option Agreement to purchase common stock, dated as of November 3, 2010, issued by the Registrant to DS Consulting Associates, LLC and 2011 Stock Option Agreement to purchase common stock, dated as of November 3, 2010 issued by the Registrant to DS Consulting Associates, LLC.	S-1	333-175932	August 1, 2011	10.07
10.08+	2016 Equity Inducement Plan.	10-Q	001-35469	November 7, 2016	10.02
10.09+	Form of Global Agreements under the 2016 Equity Inducement Plan.	10-Q	001-35469	November 7, 2016	10.04
10.10	Lease Agreement, dated as of September 26, 2007, by and between 525 Race Street, LLC and the Registrant, as amended on February 17, 2011.	S-1	333-175932	August 1, 2011	10.11
10.11†	Original Equipment Manufacturer Agreement, dated as of April 25, 2002, by and between Nuance Communications, Inc. and the Registrant, as amended through April 4, 2006.	S-1	333-175932	August 1, 2011	10.13
10.12†	Contract Manufacturing Agreement, dated as of June 7, 2010, by and between SMTC Corporation and the Registrant.	S-1	333-175932	August 1, 2011	10.14
10.14+	Form of non-plan Restricted Stock Purchase Agreement for non-employee directors.	S-1(A2)	333-175932	February 24, 2012	10.17
10.15	Second Amendment to Lease, dated April 20, 2015, by and between the Registrant and 525 Race Street, LLC	10-Q	001-35469	August 6, 2015	10.01
10.16	Membership Interest Purchase Agreement, dated October 27, 2016 by and among the Registrant, each of the members of Extension, LLC and the Sellers Representative named therein.	10-Q	001-35469	November 7, 2016	10.01

10.17	Form of Base Capped Call Confirmation (2018)	8-K	001-35469	May 17, 2018	99.1	
10.18	Form of Additional Capped Call Confirmation (2018)	8-K	001-35469	May 17, 2018	99.2	
10.19+	2020 Equity Inducement Plan	S-8	333-248410	August 25, 2020	99.1	
10.20+	Form of Global Agreements under the 2020 Equity Inducement Plan	S-8	333-248410	August 25, 2020	99.2	
10.21	Form of Base Capped Call Confirmation (2021)	8-K	001-35469	March 15, 2021	99.1	
10.22	Sublease Agreement, dated May 25, 2021, by and between Arlo Technologies, Inc. and the Registrant	10-Q	001-35469	August 8, 2021	10.01	
10.23	2021 Equity Incentive Plan	S-8	333-256867	June 7, 2021	99.1	
10.24	Form of Performance Restricted Stock Unit Agreement under the 2021 Equity Incentive Plan	10-Q	001-35469	August 8, 2021	10.03	
10.25	Form of Restricted Stock Unit Agreement under the 2021 Equity Incentive Plan	10-Q	001-35469	August 8, 2021	10.04	
10.26	Form of Stock Option Agreement under the 2021 Equity Incentive Plan	10-Q	001-35469	August 8, 2021	10.05	
10.27	Form of Performance Stock Option Agreement under the 2021 Equity Incentive Plan	10-Q	001-35469	August 8, 2021	10.06	
10.28	Form of Change and Control and Severance Agreement	10-Q	001-35469	August 8, 2021	10.07	
10.29	Form of Restrictive Covenant and Compensation Recovery Agreement entered into by and among Stryker and each of Brent D. Lang, Paul T. Johnson, Douglas A. Carlen, and Steven J. Anheier on February 8, 2022.	14D-9/A	005-86795	February 8, 2022	99.(E)(13)	
21.01	List of subsidiaries.					X
24.01	Power of Attorney (included on signature page).					X
31.01*	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.02*	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X

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

+ Indicates management contract or compensatory plan or arrangement.

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

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

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

		VOCERA COMMUNICATIONS, INC.
Date: February 22, 2022	By:	/s/ Brent D. Lang
		Brent D. Lang ***Chief Executive Officer*** ***(Principal Executive Officer)***
Date: February 22, 2022	By:	/s/ Steven J. Anheier
		Steven J. Anheier ***Chief Financial Officer*** ***(Principal Accounting and Financial Officer)***

POWER OF ATTORNEY

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

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

Signature	Title	Date
/s/ Brent D. Lang **Brent D. Lang**	**Chief Executive Officer and Director (Principal Executive Officer)**	**February 22, 2022**
/s/ Steven J. Anheier **Steven J. Anheier**	**Chief Financial Officer (Principal Financial Officer)**	**February 22, 2022**
/s/ Michael Burkland **Michael Burkland**	**Director**	**February 22, 2022**
/s/ Julie Iskow **Julie Iskow**	**Director**	**February 22, 2022**
/s/ Howard E. Janzen **Howard E. Janzen**	**Director**	**February 22, 2022**
/s/ Alexa King **Alexa King**	**Director**	**February 22, 2022**
/s/ John N. McMullen **John N. McMullen**	**Director**	**February 22, 2022**
/s/ Sharon O'Keefe **Sharon O'Keefe**	**Director**	**February 22, 2022**
/s/ Ronald A. Paulus **Ronald A. Paulus**	**Director**	**February 22, 2022**
/s/ Bharat Sundaram **Bharat Sundaram**	**Director**	**February 22, 2022**