

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 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: 001-39463

Ouster, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

86-2528989
(I.R.S. Employer
Identification No.)

350 Treat Avenue
San Francisco, California 94110
(Address of principal executive offices) (Zip Code)
(415) 949-0108
(Registrant's telephone number, including area code)

N/A
(Former name, former address, and former fiscal year, if changed since last report)

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, \$0.0001 par value per share	OUST	New York Stock Exchange
Warrants to purchase common stock	OUST WS	New York Stock Exchange

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

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

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

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

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

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

As of November 11, 2021, the registrant had 171,604,276 shares of common stock, \$0.0001 par value per share, outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements contained in this Quarterly Report on Form 10-Q other than statements of historical fact, including statements regarding our future operating results and financial position, our business strategy and plans, potential acquisitions, market growth and trends, strategic customer agreements and total addressable markets, and our objectives for future operations, are forward-looking statements. The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” “could,” “would,” “project,” “plan,” “potentially,” “preliminary,” “likely,” and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties, and assumptions, including Ouster’s limited operating history and history of losses; the negotiating power and product standards of its customers; fluctuations in its operating results; cancellation or postponement of contracts or unsuccessful implementations; the adoption of its products and the growth of the lidar market generally; its ability to grow its sales and marketing organization; substantial research and development costs needed to develop and commercialize new products; the competitive environment in which it operates; selection of our products for inclusion in target markets; its future capital needs; its ability to use tax attributes; its dependence on key third party suppliers, in particular Benchmark Electronics, Inc., and manufacturers; ability to maintain inventory and the risk of inventory write-downs; inaccurate forecasts of market growth; its ability to manage growth; the creditworthiness of our customers; risks related to acquisitions; risks related to international operations; risks of product delivery problems or defects; costs associated with product warranties; its ability to maintain competitive average selling prices or high sales volumes or reduce product costs; conditions in its customers industries; its ability to recruit and retain key personnel; its use of professional employer organizations; its ability to adequately protect and enforce its intellectual property rights; its ability to effectively respond to evolving regulations and standards; risks related to operating as a public company; risks related to the COVID-19 pandemic, including variants; and risks related to certain of our warrants being accounted for as liabilities. Other risk factors include the important factors described in the section titled “Risk Factors” in the final prospectus, dated and filed with the Securities and Exchange Commission (the “SEC”) on August 19, 2021, and as further updated in our other filings with the SEC, that may cause our actual results, performance or achievements to differ materially and adversely from those expressed or implied by the forward-looking statements.

Any forward-looking statements made herein speak only as of the date of this Quarterly Report on Form 10-Q, and you should not rely on forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, performance, or achievements reflected in the forward-looking statements will be achieved or occur. Except as required by applicable law, we undertake no obligation to update any of these forward-looking statements for any reason after the date of this Quarterly Report on Form 10-Q or to conform these statements to actual results or revised expectations.

GENERAL

Unless the context otherwise indicates, references in this Quarterly Report on Form 10-Q to the terms “Ouster,” “the Company,” “we,” “our” and “us” refer to Ouster, Inc.

We may announce material business and financial information to our investors using our investor relations website at <https://investors.ouster.com/overview>. We therefore encourage investors and others interested in Ouster to review the information that we make available on our website, in addition to following our filings with the SEC, webcasts, press releases and conference calls. Information contained on our website is not part of this Quarterly Report on Form 10-Q.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

OUSTER, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(in thousands, except share and per share data)

	September 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 221,576	\$ 11,362
Restricted cash, current	1,008	276
Accounts receivable, net	6,705	2,327
Inventory, net	6,502	4,817
Prepaid expenses and other current assets	6,288	2,441
Total current assets	242,079	21,223
Property and equipment, net	8,411	9,731
Operating lease, right-of-use assets	9,779	11,071
Restricted cash, non-current	1,004	1,004
Other non-current assets	—	3,385
Total assets	<u>\$ 261,273</u>	<u>\$ 46,414</u>
Liabilities, redeemable convertible preferred stock and stockholders' equity / (deficit)		
Current liabilities:		
Accounts payable	\$ 4,461	\$ 6,894
Accrued and other current liabilities	11,438	4,121
Short-term debt	—	7,130
Operating lease liability, current portion	3,057	2,772
Total current liabilities	18,956	20,917
Operating lease liability, long-term portion	9,853	11,908
Warrant liabilities (At September 30, 2021 and December 31, 2020 related party \$3,843 and Nil, respectively)	10,979	49,293
Other non-current liabilities	905	978
Total liabilities	40,693	83,096
Commitments and contingencies (Note 7)		
Redeemable convertible preferred stock, \$0.0001 par value per share; Nil and 131,411,372 shares authorized at September 30, 2021 and December 31, 2020; Nil and 88,434,754 shares issued and outstanding at September 30, 2021 and December 31, 2020, respectively (aggregate liquidation preference of Nil and \$41,791 at September 30, 2021 and December 31, 2020, respectively)	—	39,225
Stockholders' equity / (deficit):		
Common stock, \$0.0001 par value; 1,000,000,000 and 210,956,516 shares authorized at September 30, 2021 and December 31, 2020, respectively; 161,529,449 and 33,327,294 issued and outstanding at September 30, 2021 and December 31, 2020, respectively	16	—
Preferred stock, \$0.0001 par value; 100,000,000 and Nil shares authorized at September 30, 2021 and December 31, 2020, respectively; Nil and Nil issued and outstanding at September 30, 2021 and December 31, 2020, respectively	—	—
Additional paid-in capital	495,576	133,468
Accumulated deficit	(275,012)	(209,375)
Total stockholders' equity / (deficit)	220,580	(75,907)
Total liabilities, redeemable convertible preferred stock, and stockholders' equity / (deficit)	<u>\$ 261,273</u>	<u>\$ 46,414</u>

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

OUSTER, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(unaudited)
(in thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenue				
Product revenue	\$ 7,755	\$ 5,934	\$ 21,726	\$ 10,524
Service revenue	—	13	—	2,004
Total revenue	7,755	5,947	21,726	12,528
Cost of product revenue				
Cost of product	5,879	4,884	16,212	12,962
Cost of services	—	—	—	26
Total cost of revenue	5,879	4,884	16,212	12,988
Gross profit (loss)	1,876	1,063	5,514	(460)
Operating expenses:				
Research and development	8,390	8,876	19,576	19,028
Sales and marketing	6,737	2,394	14,777	6,305
General and administrative	14,073	4,512	36,177	11,856
Total operating expenses	29,200	15,782	70,530	37,189
Loss from operations	(27,324)	(14,719)	(65,016)	(37,649)
Other (expense) income:				
Interest income	165	1	305	24
Interest expense	—	(521)	(504)	(2,196)
Other income (expense), net	14,490	(4,376)	(422)	(9,799)
Total other expense, net	14,655	(4,896)	(621)	(11,971)
Loss before income taxes	(12,669)	(19,615)	(65,637)	(49,620)
Provision for income tax expense	—	—	—	—
Net loss and comprehensive loss	\$ (12,669)	\$ (19,615)	\$ (65,637)	\$ (49,620)
Net loss per common share, basic and diluted	\$ (0.08)	\$ (0.97)	\$ (0.53)	\$ (3.15)
Weighted-average shares used to compute basic and diluted net loss per share	156,647,259	20,303,631	123,175,390	15,753,057

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

OUSTER, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN REDEEMABLE CONVERTIBLE PREFERRED STOCK AND
STOCKHOLDERS' EQUITY (DEFICIT)
(unaudited)
(in thousands, except share data)

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in-Capital	Notes receivable from stockholders	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares ⁽¹⁾	Amount	Shares ⁽¹⁾	Amount				
Balance — December 31, 2020	88,434,754	\$ 39,225	33,327,294	\$ —	\$ 133,468	\$ —	\$ (209,375)	\$ (75,907)
Issuance of common stock upon exercise of stock options	—	—	727,114	1	189	—	—	190
Repurchase of common stock	—	—	(220,561)	—	(43)	—	—	(43)
Issuance of redeemable convertible preferred stock upon exercise of warrants	4,232,947	58,097	—	—	—	—	—	—
Conversion of redeemable convertible preferred stock to common stock	(92,667,701)	(97,322)	92,667,701	12	97,322	—	—	97,334
Issuance of common stock upon merger and private offering, net of acquired private placement warrants of \$19,377	—	—	34,947,657	3	272,061	—	—	272,064
Offering costs in connection with the merger	—	—	—	—	(26,620)	—	—	(26,620)
Vesting of early exercised stock options	—	—	—	—	438	—	—	438
Stock-based compensation expense	—	—	—	—	5,256	—	—	5,256
Net loss	—	—	—	—	—	—	(20,957)	(20,957)
Balance — March 31, 2021	—	—	161,449,205	16	482,071	—	(230,332)	251,755
Vesting of early exercised stock options	—	—	—	—	104	—	—	104
Stock-based compensation expense	—	—	—	—	6,154	—	—	6,154
Net loss	—	—	—	—	—	—	(32,011)	(32,011)
Balance — June 30, 2021	—	—	161,449,205	16	488,329	\$ —	(262,343)	226,002
Issuance of common stock upon exercise of stock options	—	—	186,165	—	35	—	—	35
Cancellation of previously issued awards	—	—	(105,921)	—	—	—	—	—
Vesting of early exercised stock options	—	—	—	—	65	—	—	65
Stock-based compensation expense	—	—	—	—	7,147	—	—	7,147
Net loss	—	—	—	—	—	—	(12,669)	(12,669)
Balance — September 30, 2021	—	\$ —	161,529,449	\$ 16	\$ 495,576	\$ —	\$ (275,012)	\$ 220,580

(1) The shares of the Company's common and redeemable convertible preferred stock, prior to the Merger (as defined in Note 1), have been retroactively restated as shares reflecting the exchange ratio of approximately 0.703 established in the Merger as described in Note 1.

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

OUSTER, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN REDEEMABLE CONVERTIBLE PREFERRED STOCK AND
STOCKHOLDERS' EQUITY (DEFICIT) (CONTINUED)
(unaudited)
(in thousands, except share data)

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in-Capital	Notes receivable from stockholders	Accumulated Deficit	Total Stockholders' Deficit
	Shares ⁽¹⁾	Amount	Shares ⁽¹⁾	Amount				
Balance — December 31, 2019	4,384,348	\$ 40,016	7,902,407	\$ —	\$ 2,320	\$ (44)	\$ (102,595)	(100,319)
Issuance of common stock upon exercise of stock options	—	—	423	—	2	—	—	2
Reclassification of a note receivable from a stockholder	—	—	—	—	—	44	—	44
Vesting of early exercised stock options	—	—	—	—	12	—	—	12
Stock-based compensation expense	—	—	—	—	175	—	—	175
Net loss	—	—	—	—	—	—	(18,693)	(18,693)
Balance — March 31, 2020	4,384,348	40,016	7,902,830	—	2,509	—	(121,288)	(118,779)
Issuance of redeemable convertible preferred stock, net of discount and issuance cost	43,952,862	18,330	—	—	—	—	—	—
Conversion of redeemable convertible preferred stock to common stock	(4,384,348)	(40,016)	4,384,348	—	40,016	—	—	40,016
Conversion of convertible notes to common stock	—	—	7,201,911	—	78,311	—	—	78,311
Stock-based compensation expense	—	—	—	—	460	—	—	460
Vesting of early exercised stock options	—	—	—	—	12	—	—	12
Net loss	—	—	—	—	—	—	(11,312)	(11,312)
Balance — June 30, 2020	43,952,862	18,330	19,489,089	—	121,308	—	(132,600)	(11,292)
Issuance of common stock upon exercise of restricted stock awards	—	—	1,617,264	—	8	—	—	8
Issuance of common stock upon exercise of stock options	—	—	63,076	—	7	—	—	7
Issuance of redeemable convertible preferred stock, net of discount and issuance cost	44,481,892	\$ 20,895	—	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	7,256	—	—	7,256
Vesting of early exercised stock options	—	—	—	—	12	—	—	12
Net loss	—	—	—	—	—	—	(19,615)	(19,615)
Balance — September 30, 2020	88,434,754	\$ 39,225	21,169,429	\$ —	\$ 128,591	\$ —	\$ (152,215)	\$ (23,624)

(1) The shares of the Company's common and redeemable convertible preferred stock, prior to the Merger (as defined in Note 1), have been retroactively restated as shares reflecting the exchange ratio of approximately 0.703 established in the Merger as described in Note 1.

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

OUSTER, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (65,637)	\$ (49,620)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,428	2,705
Stock-based compensation	18,557	7,891
Change in right-of-use asset	1,292	1,388
Interest expense on notes and convertible debt	36	840
Amortization of debt issuance costs and debt discount	250	335
Change in fair value of warrant liabilities	406	6,097
Change in fair value of derivative liability	—	5,308
Gain on extinguishment of tranche right liability	—	(1,610)
Inventory write down	866	1,156
Changes in operating assets and liabilities:		
Accounts receivable	(4,378)	(2,023)
Inventory	(2,551)	(4,064)
Prepaid expenses and other assets	42	21
Accounts payable	(2,707)	(625)
Accrued and other liabilities	7,060	(2,001)
Operating lease liability	(1,770)	(429)
Net cash used in operating activities	(45,106)	(34,631)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(1,774)	(2,394)
Net cash used in investing activities	(1,774)	(2,394)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the merger and private offering	291,454	—
Payment of offering costs	(27,124)	—
Repayment of debt	(7,000)	(3,000)
Proceeds from issuance of promissory notes to related parties	5,000	—
Repayment of promissory notes to related parties	(5,000)	—
Repurchase of common stock	(43)	—
Proceeds from exercise of stock options	539	9
Issuance of common stock upon exercise of restricted stock awards	—	8
Proceeds from issuance of Series B redeemable convertible preferred stock, net of issuance cost of \$265	—	41,526
Net cash provided by financing activities	257,826	38,543
Net increase in cash, cash equivalents and restricted cash	210,946	1,518
Cash, cash equivalents and restricted cash at beginning of period	12,642	18,405
Cash, cash equivalents and restricted cash at end of period	\$ 223,588	\$ 19,923
SUPPLEMENTAL DISCLOSURES OF OPERATING ACTIVITIES:		
Cash paid for interest	\$ 635	\$ 1,020
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING INFORMATION:		
Property and equipment purchases included in accounts payable and accrued liabilities	\$ 334	\$ 12
Private placement warrants acquired as part of the merger	\$ 19,377	\$ —
Issuance of redeemable convertible preferred stock upon exercise of warrants	\$ 58,097	\$ —
Conversion of redeemable convertible preferred stock to common stock	\$ 97,322	\$ 40,016
Right-of-use assets obtained in exchange for operating lease liability	\$ —	\$ 6,234
Issuance of common stock pursuant to the conversion of convertible notes and accrued interest	\$ —	\$ 78,311

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

OUSTER, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1 – Description of Business and Basis of Presentation

Description of Business

Ouster, Inc. was incorporated in the state of Delaware on June 4, 2020. The Company’s operating subsidiary, Ouster Technologies, Inc. (“OTI” and prior to the Merger (as defined below), named Ouster, Inc.), was incorporated in the state of Delaware on June 30, 2015. The Company is a leading provider of high-resolution digital lidar sensors that offer advanced 3D vision to machinery, vehicles, robots, and fixed infrastructure assets, allowing each to understand and visualize the surrounding world and ultimately enabling safe operation and ubiquitous autonomy. Unless the context otherwise requires, references in this subsection to “the Company” refer to the business and operations of OTI (formerly known as Ouster, Inc.) and its consolidated subsidiaries prior to the Merger (as defined below) and to Ouster, Inc. (formerly known as Colonnade Acquisition Corp.) and its consolidated subsidiaries following the consummation of the Merger.

Colonnade Acquisition Corp. (“CLA”), the Company’s predecessor, was originally a blank check company incorporated as a Cayman Islands exempted company on June 4, 2020. The Company was formed for the purpose of effecting a merger, share exchange, asset acquisition, share purchase, reorganization or similar business combination with one or more businesses. On March 11, 2021, CLA consummated a merger with the Company pursuant to an Agreement and Plan of Merger (the “Merger Agreement”) dated as of December 21, 2020, details of which are included below.

Basis of Presentation and Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries (all of which are wholly owned) and have been prepared in conformity with U.S. generally accepted accounting principles (“US GAAP”) applicable to interim periods. The functional currency for the Company is the United States dollar. All intercompany balances and transactions have been eliminated in consolidation.

The unaudited condensed consolidated financial statements include all adjustments (consisting of only normal recurring adjustments) necessary for a fair statement of the results of operations for the periods shown. The unaudited condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements as of and for the year ended December 31, 2020 and the notes related thereto, included as Exhibit 99.1 to the Form 8-K filed with the Securities and Exchange Commission (“SEC”) on March 15, 2021, as amended on July 12, 2021. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by US GAAP. Certain information and note disclosures normally included in the audited financial statements prepared in accordance with US GAAP have been condensed or omitted from this report, as is permitted by such rules and regulations. The results of operations for any interim period are not necessarily indicative of the results to be expected for the year ending December 31, 2021 or for any other future years or interim periods.

Impact of the COVID-19 Pandemic

The Company has been actively monitoring the ongoing COVID-19 pandemic situation and its impact on the Company’s business. In response to the pandemic, numerous state and local jurisdictions have imposed “shelter-in-place” orders, quarantines and other restrictions. In the United States, governmental authorities have, at times, recommended, and in certain cases required, that elective, specialty and other procedures and appointments, be suspended or canceled. In the United States, COVID-19 restrictions continue to vary state by state as the measures depend greatly on the political landscape and the resurgence of new cases. In California, where the Company’s headquarters are located, face coverings indoors are still recommended regardless of vaccination status, and some counties continue to have mask mandates. Such orders or restrictions resulted in reduced operations at the Company’s headquarters (including its manufacturing facility), work stoppages, slowdowns and delays, travel restrictions and cancellation of events and have restricted the efforts of the Company’s sales representatives, thereby significantly and negatively impacting the Company’s operations.

The full extent to which the COVID-19 pandemic will directly or indirectly impact our business, results of operations and financial condition, including sales, expenses, reserves and allowances, manufacturing, research and development costs and employee-related amounts, will depend on future developments that are highly uncertain, including as a result of new information that may emerge concerning COVID-19, including variants, the progression and effectiveness of vaccination roll-outs, vaccination hesitancy, and the actions taken to contain it or treat COVID-19, as well as the economic impact on local,

regional, national and international customers and markets. The situation surrounding COVID-19 remains fluid and the potential for a material impact on the Company increases the longer the virus impacts the level of economic activity in the United States and globally. Given the ongoing evolution of the COVID-19 and the global responses to curb its spread, the Company is not able to estimate the effects of the COVID-19 on its results of operations, financial condition, or liquidity for the year ending December 31, 2021 and beyond.

Liquidity

The accompanying unaudited condensed consolidated financial statements have been prepared on a going concern basis. The Company has experienced recurring losses from operations, and negative cash flows from operations. As of September 30, 2021, the Company had an accumulated deficit of approximately \$275.0 million. The Company has historically financed its operations primarily through the Merger and related transactions, the sale of convertible notes, equity securities, proceeds from debt and, to a lesser extent, cash received from sales. Management expects significant operating losses and negative cash flows from operations to continue for the foreseeable future. The Company expects to continue investing in product development and sales and marketing activities. The long-term continuation of the Company's business plan is dependent upon the generation of sufficient revenues from its products to offset expenses. In the event that the Company does not generate sufficient cash flows from operations and is unable to obtain funding, the Company will be forced to delay, reduce, or eliminate some or all of its discretionary spending, which could adversely affect the Company's business prospects, ability to meet long-term liquidity needs or ability to continue operations. The Company has concluded that its cash and cash equivalents as of September 30, 2021 are sufficient for the Company to continue as a going concern for at least one year from the date these unaudited condensed consolidated financial statements are available for issuance.

Merger Agreement with Colonnade Acquisition Corp. and Beam Merger Sub, Inc.

On December 21, 2020, OTI entered into the Merger Agreement with CLA and Beam Merger Sub, Inc. ("Merger Sub"), a Delaware corporation and subsidiary of CLA. OTI's board of directors unanimously approved OTI's entry into the Merger Agreement, and on March 11, 2021, the transactions contemplated by the Merger Agreement were consummated. Pursuant to the terms of the Merger Agreement, (i) CLA domesticated as a corporation incorporated under the laws of the State of Delaware and changed its name to "Ouster, Inc." and (ii) Merger Sub merged with and into OTI (such transactions contemplated by the Merger Agreement, the "Merger"), with OTI surviving the Merger.

As a result of the Merger, among other things, (1) each of the then issued and outstanding 5,000,000 CLA Class B ordinary shares, par value \$0.0001 per share, of CLA (the "CLA Class B ordinary shares") converted automatically, on a one-for-one basis, into a CLA Class A ordinary share (as defined below), (2) immediately following the conversion described in clause (1), each of the then issued and outstanding 25,000,000 Class A ordinary shares, par value \$0.0001 per share, of CLA (the "CLA Class A ordinary shares"), converted automatically, on a one-for-one basis, into a share of common stock, par value \$0.0001 per share, of Ouster (the "Ouster common stock"), (3) each of the then issued and outstanding 10,000,000 redeemable warrants of CLA (the "CLA warrants") converted automatically into a redeemable warrant to purchase one share of Ouster common stock (the "Public warrants") pursuant to the Warrant Agreement, dated August 20, 2020 (the "Warrant Agreement"), between CLA and Continental Stock Transfer & Trust Company ("Continental"), as warrant agent, and (4) each of the then issued and outstanding units of CLA that had not been previously separated into the underlying CLA Class A ordinary shares and underlying CLA warrants upon the request of the holder thereof (the "CLA units"), were cancelled and entitled the holder thereof to one share of Ouster common stock and one-half of one Public warrant, and (5) each of the then issued and outstanding 6,000,000 private placement warrants of CLA (the "Private Placement warrants") converted automatically into a Public warrant pursuant to the Warrant Agreement. No fractional Public warrants were issued upon separation of the CLA units.

Immediately prior to the effective time of the Merger, (1) each share of OTI's Series B Preferred Stock, par value \$0.00001 per share (the "OTI Preferred Stock"), converted into one share of common stock, par value \$0.00001 per share, of OTI (the "OTI common stock" and, together with OTI Preferred Stock, the "OTI Capital Stock") (such conversion, the "OTI Preferred Conversion") and (2) all of the outstanding warrants to purchase shares of OTI Capital Stock were exercised in full or terminated in accordance with their respective terms (the "OTI Warrant Settlement").

As a result of and upon the closing of the Merger, among other things, all shares of OTI Capital Stock (after giving effect to the OTI Warrant Settlement) outstanding immediately prior to the closing of the Merger together with shares of OTI common stock reserved in respect of options to purchase shares of OTI common stock and restricted shares of OTI common stock (together, the "OTI Awards") outstanding immediately prior to the closing of the Merger that were converted into awards based on Ouster common stock, were cancelled in exchange for the right to receive, or the reservation of, an aggregate of 150,000,000 shares of Ouster common stock (at a deemed value of \$10.00 per share), which, in the case of OTI Awards, were shares underlying awards based on Ouster common stock, representing a fully-diluted pre-transaction. Upon closing of the Merger, the Company

received gross proceeds of \$299.9 million from the Merger and private offering, offset by \$8.5 million of pre-merger costs relating to CLA and offerings costs of \$26.6 million.

The Merger was accounted for as a reverse recapitalization under US GAAP. Under this method of accounting, CLA is treated as the “acquired” company for financial reporting purposes. This determination is primarily based on OTI stockholders comprising a relative majority of the voting power of the Company and having the ability to nominate the members of the board of directors of the Company after the Merger, OTI’s operations prior to the Merger comprising the only ongoing operations of the Company following the Merger, and OTI’s senior management prior to the Merger comprising a majority of the senior management of the Company following the Merger. Accordingly, for accounting purposes, the financial statements of the Company represent a continuation of the financial statements of OTI with the Merger being treated as the equivalent of OTI issuing stock for the net assets of CLA, accompanied by a recapitalization whereby no goodwill or other intangible assets are recorded. Transactions and balances prior to the Merger are those of OTI. The shares and net loss per share available to holders of OTI’s common stock prior to the Merger have been retroactively restated as shares reflecting the exchange ratio established in the Merger Agreement.

PIPE Investment

On December 21, 2020, concurrently with the execution of the Merger Agreement, CLA entered into subscription agreements with certain institutional and accredited investors (collectively, the “PIPE Investors”), pursuant to which the PIPE Investors agreed to purchase, in the aggregate, 10,000,000 shares of Ouster common stock at \$10.00 per share for an aggregate commitment amount of \$100,000,000 (the “PIPE Investment”), a portion of which was funded by certain affiliates of Colonnade Sponsor LLC, CLA’s sponsor (the “Sponsor”). The PIPE Investment was consummated substantially concurrently with the closing of the Merger.

Note 2 – Summary of Significant Accounting Policies

During the nine months ended September 30, 2021, there were no significant changes to the Company’s significant accounting policies.

Recently Issued Accounting Pronouncements

Based on our public float as of June 30, 2021, we expect to become a large accelerated filer, and lose emerging growth company status, as of December 31, 2021. As of December 31, 2021, we will be required to adopt new or revised accounting standards when they are applicable to public companies that are not emerging growth companies.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326), to introduce a new impairment model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses (“ECL”). Under the new model, an entity is required to estimate ECL on available-for-sale (AFS) debt securities only when the fair value is below the amortized cost of the asset and is no longer based on an impairment being “other-than-temporary”. The new model also requires the impairment calculation on an individual security level and requires an entity to use the present value of cash flows when estimating the ECL. The credit-related losses are required to be recognized through earnings and non-credit related losses are reported in other comprehensive income. The Company will adopt ASC 2016-13 for the December 31, 2021 annual period, with a modified retrospective application to all outstanding instruments and a cumulative effect adjustment recorded to opening retained earnings as of January 1, 2021. The Company does not believe the adoption of this new guidance will have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract, which aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The Company will adopt ASC 2018-15 for the December 31, 2021 annual period. The Company does not believe the adoption of this new guidance will have a material impact on its consolidated financial statements.

In August 2020, the FASB issued ASU No. 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 (“ASU 2020-06”). ASU 2020-06 simplifies the accounting for convertible debt and convertible preferred stock by removing the requirements to separately present certain conversion features in equity. In addition, the amendments in the ASU also simplify the guidance in ASC 815-40, Derivatives and Hedging: Contracts in Entity’s Own Equity, by removing certain criteria that must be satisfied in order to classify a contract as equity, which is

expected to decrease the number of freestanding instruments and embedded derivatives accounted for as assets or liabilities. Finally, the amendments revise the guidance on calculating earnings per share, requiring use of the if-converted method for all convertible instruments and rescinding an entity's ability to rebut the presumption of share settlement for instruments that may be settled in cash or other assets. The new standard is effective for the Company for annual periods beginning December 15, 2021. The Company is currently evaluating the impact of the adoption of this ASU on the Company's condensed consolidated financial statements.

In October 2021, the FASB issued ASU 2018-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers, which amends ASC 805 to add contract assets and contract liabilities to the list of exceptions to the recognition and measurement principles that apply to business combinations and to require that an entity (acquirer) recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606. The amendments in this ASU are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years and should be applied prospectively to business combinations occurring on or after the effective date of the amendments. Early adoption of the amendments is permitted, including adoption in an interim period. The Company is currently evaluating the impact of the adoption of this ASU on the Company's condensed consolidated financial statements.

There have been no other newly issued or newly applicable accounting pronouncements that do not require adoption until a future date that have had, or are expected to have, a significant impact on the Company's condensed consolidated financial statements.

Concentrations of credit risk

Financial instruments that potentially subject the Company to credit risk consist primarily of cash, cash equivalents, and restricted cash, and accounts receivable. Cash, cash equivalents and restricted cash are deposited with federally insured commercial banks in the United States and at times cash balances may be in excess of federal insurance limits. The Company generally does not require collateral or other security deposits for accounts receivable.

To reduce credit risk, the Company considers customer creditworthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms when determining the collectability of specific customer accounts. Past due balances over 90 days and other higher risk amounts are reviewed individually for collectability. Based on management's assessment, the Company provides for estimated uncollectible amounts through a charge to earnings and a credit to valuation allowance. Balances that remain outstanding after the Company has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Accounts receivable from the Company's major customers representing 10% or more of total accounts receivable was as follows:

	September 30, 2021	December 31, 2020
Customer A	*	13 %
Customer B	*	23 %
Customer C	14 %	*

* Customer accounted for less than 10% of total accounts receivable as of such date.

Revenue from the Company's major customers representing 10% or more of total revenue was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Customer D	*	*	10 %	*
Customer E	*	*	*	16 %

* Customer accounted for less than 10% of total revenue in the period.

Concentrations of supplier risk

Purchases from the Company's major suppliers representing 10% or more of total purchases were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Supplier A	19 %	19 %	17 %	15 %

Supplier A accounted for 50% and 23% of total accounts payable balance as of September 30, 2021 and December 31, 2020.

Note 3. Fair Value of Financial Instruments

The Company applies the fair value measurement accounting standard whenever other accounting pronouncements require or permit fair value measurements. Fair value is defined in the accounting standard as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources, while unobservable inputs reflect a reporting entity's pricing based upon their own market assumptions. The fair value hierarchy consists of the following three levels:

- Level 1 - Quoted prices for identical instruments in active markets.
- Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
- Level 3 - Instruments whose significant value drivers are unobservable.

On September 30, 2021, the Company's Level 3 liabilities consisted of the Private Placement warrant liability. The determination of the fair value of warrant liability is discussed in **Note 6**.

On December 31, 2020, the Company's Level 3 liabilities consisted of the redeemable convertible preferred stock warrant liability. The determination of the fair value of warrant liability is discussed in **Note 6**.

The following table provides information by level for the Company's assets and liabilities that were measured at fair value on a recurring basis (in thousands):

	September 30, 2021			
	Level 1	Level 2	Level 3	Total
Assets				
Money market funds	\$ 219,276	\$ —	\$ —	\$ 219,276
Total financial assets	\$ 219,276	\$ —	\$ —	\$ 219,276
Liabilities				
Warrant liabilities	\$ —	\$ —	\$ 10,979	\$ 10,979
Total financial liabilities	\$ —	\$ —	\$ 10,979	\$ 10,979

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Assets				
Money market funds	\$ 10,493	\$ —	\$ —	\$ 10,493
Total financial assets	\$ 10,493	\$ —	\$ —	\$ 10,493
Liabilities				
Warrant liabilities	\$ —	\$ —	\$ 49,293	\$ 49,293
Total financial liabilities	\$ —	\$ —	\$ 49,293	\$ 49,293

Money market funds are included within Level 1 of the fair value hierarchy because they are valued using quoted market prices.

The fair value of the redeemable convertible preferred stock warrant, redeemable convertible preferred stock tranche and Private Placement warrant liabilities is based on significant unobservable inputs, which represent Level 3 measurements within the fair value hierarchy. In determining the fair value of the warrant liabilities, the Company used the Black-Scholes option pricing model to estimate the fair value using unobservable inputs including the expected term, expected volatility, risk-free interest rate and dividend yield (see **Note 6**).

The following table presents a summary of the changes in the fair value of the Company's Level 3 financial instruments (in thousands):

	Redeemable Convertible Preferred Stock Warrant Liability	Redeemable Convertible Preferred Stock Tranche Liability	Private Placement Warrant Liability	Derivative Liability
Fair value as of January 1, 2020	\$ (162)	\$ —	\$ —	\$ —
Change in the fair value included in other income (expense), net	(6,097)	—	—	(5,308)
Recognition of preferred stock warrant and tranche liability upon issuance	(691)	(1,610)	—	—
Extinguishment of derivative liability upon conversion of convertible notes	—	—	—	5,308
Fair value as of Settlement of redeemable convertible preferred stock tranche liability due to the issuance of Series B redeemable convertible preferred stock	—	1,610	—	—
Fair value as of September 30, 2020	<u>\$ (6,950)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Fair value as of January 1, 2021	\$ (49,293)	\$ —	\$ —	\$ —
Private placement warrant liability acquired as part of the Merger	—	—	(19,377)	—
Change in the fair value included in other income (expense), net	(8,804)	—	8,398	—
Issuance of preferred stock upon exercise of warrants	58,097	—	—	—
Fair value as of September 30, 2021	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (10,979)</u>	<u>\$ —</u>

Disclosure of Fair Values

Our financial instruments that are not re-measured at fair value include accounts receivable, accounts payable, accrued and other current liabilities, convertible notes and debt. The carrying values of these financial instruments approximate their fair values.

Note 4. Balance Sheet Components

Cash and Cash Equivalents

The Company's cash and cash equivalents consist of the following (in thousands):

	September 30, 2021	December 31, 2020
Cash	\$ 2,300	\$ 869
Cash equivalents:		
Money market funds ⁽¹⁾	219,276	10,493
Total cash and cash equivalents	<u>\$ 221,576</u>	<u>\$ 11,362</u>

⁽¹⁾The Company maintains a cash sweep account which is included in money market funds as of September 30, 2021. Cash is invested in the short-term money market funds, which is a cash sweep for uninvested cash that earns interest.

Restricted Cash

Restricted cash consists of certificates of deposit held by a bank as security for outstanding letters of credit. The Company had a restricted cash balance of \$2.0 million and \$1.3 million as of September 30, 2021 and December 31, 2020, respectively, which has been excluded from the Company's cash and cash equivalents balances. The Company presented \$1.0 million and \$0.3 million of the total amount of restricted cash within current assets on the condensed consolidated balance sheets as of September 30, 2021 and December 31, 2020, respectively. The remaining restricted cash balance of \$1.0 million and \$1.0 million is included in non-current assets on the condensed consolidated balance sheets as of September 30, 2021 and December 31, 2020, respectively.

Reconciliation of cash, cash equivalents and restricted cash as shown in the condensed consolidated statement of cash flows to the respective accounts within the condensed consolidated balance sheet is as follows (in thousands):

	September 30, 2021	September 30, 2020
Cash and cash equivalents	\$ 221,576	\$ 18,367
Restricted cash, current	1,008	276
Restricted cash, non-current	1,004	1,280
Total cash, cash equivalents and restricted cash	<u>\$ 223,588</u>	<u>\$ 19,923</u>

Inventory

Inventory, consisting of material, direct and indirect labor, and manufacturing overhead, consists of the following (in thousands):

	September 30, 2021	December 31, 2020
Raw materials	\$ 2,269	\$ 1,376
Work in process	2,165	1,249
Finished goods	2,068	2,192
Total inventory	<u>\$ 6,502</u>	<u>\$ 4,817</u>

Total inventory balance as of September 30, 2021 and December 31, 2020 includes a write down of \$2.6 million and \$2.7 million, respectively, for obsolete, scrap, or returned inventory. During the three months ended September 30, 2021 and 2020, \$0.7 million and \$0 million of inventory write offs were charged to cost of revenue. During the nine months ended September 30, 2021 and 2020, respectively, \$0.9 million and \$1.2 million of inventory write offs were charged to cost of revenue.

Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following (in thousands):

	September 30, 2021	December 31, 2020
Prepaid insurance	\$ 3,473	\$ 206
Prepaid expenses	1,583	694
Receivable from contract manufacturer	53	1,521
Security deposit	1,179	20
Total prepaid and other current assets	<u>\$ 6,288</u>	<u>\$ 2,441</u>

Accrued and Other Current Liabilities

Accrued and other current liabilities consist of the following (in thousands):

	September 30, 2021	December 31, 2020
Customer deposits	\$ 48	\$ 71
Accrued compensation	2,640	1,618
Uninvoiced receipts	7,726	1,947
Other	1,024	485
Total accrued and other current liabilities	<u>\$ 11,438</u>	<u>\$ 4,121</u>

Note 5. Debt

Runway Growth Loan Agreement

On November 27, 2018, the Company entered into a Loan and Security Agreement with Runway Growth Credit Fund Inc. (“Runway Loan and Security Agreement”). The Runway Loan and Security Agreement provided for loans in an aggregate principal amount up to \$10.0 million with a loan maturity date of November 15, 2021. The loan carried an interest rate equal to LIBOR plus 8.5%, unless LIBOR becomes no longer attainable or ceases to fairly reflect the costs of the lender, in which case the applicable interest rate shall be Prime Rate plus 6.0%. In an event of default, annual interest is increased by 5.0% above the otherwise applicable rate. The loan’s annual effective interest rate was approximately 16.4% for each of the nine months ended September 30, 2021 and 2020.

In conjunction with the Runway Loan and Security Agreement, the Company issued a warrant to purchase 35,348 shares of Series A redeemable convertible preferred stock (the “Series A Preferred Stock”) of OTI (4.0% of original principal amount of \$10.0 million, divided by the exercise price), with an exercise price of \$11.3518 per share. The fair value of this warrant was estimated to be \$0.1 million and accounted for as a debt discount. On August 5, 2019, in connection with the second amendment to the Runway Loan and Security Agreement, OTI amended the warrant issued to Runway Growth to increase the number of shares available to purchase to 53,023 shares of Series A Preferred Stock of OTI. The aggregate value of the warrants increased by \$0.1 million after the warrant modification.

The warrants were exercised on March 11, 2021 and the warrant liability was remeasured to fair value with the increase recognized as a loss of \$0.6 million for the three and nine months ended September 30, 2021 within other income (expense), net in the consolidated statements of operations and comprehensive loss. The warrant liability was remeasured to fair value as of September 30, 2020 and the reduction was recognized as a gain of \$0.2 million.

On March 26, 2021 the Company terminated the Runway Loan and Security Agreement and repaid the \$7.0 million principal amount outstanding as well as interest and fees amounting to \$0.4 million. The Company incurred no prepayment fees in connection with the termination and all liens and security interests securing the loan made pursuant to the Runway Loan and Security Agreement were released upon termination. As of September 30, 2021 and December 31, 2020, the outstanding principal balance of the loan was nil and \$7.0 million, respectively.

Promissory notes

The Company issued a \$5 million promissory note in January 2021 to certain current investors of the Company (or their respective affiliates) to help continue to fund the Company’s ongoing operations through the consummation of the Merger. The note accrued interest at a rate equal to LIBOR plus 8.5% per annum and was repaid on March 11, 2021 in accordance with its terms in connection with the consummation of the Merger.

Note 6. Warrants

Series A and B Redeemable Convertible Preferred Stock Warrants and Tranche Liability

On November 27, 2018, in connection with the execution of the Runway Loan and Security Agreement, OTI issued a warrant to purchase 35,348 shares of Series A Preferred Stock of OTI at an exercise price of \$11.3518 per share (the “Runway warrant”). On August 5, 2019, in connection with the second amendment to the Runway Loan and Security Agreement, OTI amended the Runway warrant to increase the number of shares available to purchase to 53,023 shares of Series A Preferred Stock of OTI at an exercise price of \$11.3518 per share.

The Runway warrants included a cashless exercise provision under which their holders could, in lieu of payment of the exercise price in cash, surrender the Runway warrant and receive a net amount of shares based on the fair market value of OTI’s stock at the time of exercise of the warrants after deduction of the aggregate exercise price. The Runway warrants contained provisions for adjustment of the exercise price and number of shares issuable upon the exercise of the Runway warrants in the event of certain stock dividends, stock splits, reorganizations, reclassifications, and consolidations.

The fair value of the warrants issued was recorded as of the date of initial issuance in the amount of \$0.1 million. The subsequent issuance of warrants pursuant to the August 5, 2019 amendment to the Runway Loan and Security Agreement was recorded in the amount of \$0.1 million. Immediately prior to the Merger, the warrants were exercised in full in accordance with their terms.

On April 3, 2020, in connection with the closing of the Series B redeemable convertible preferred stock, OTI issued a warrant to purchase 4,513,993 shares of Series B redeemable convertible preferred stock of the Company at an exercise price of

\$0.3323 per share (the “Series B warrants”). The Series B warrants could be exercised prior to the earliest to occur of (i) the 10 year anniversary of the date of issuance, (ii) the consummation of a liquidation transaction, or (iii) the consummation of an initial public offering. The Series B warrants included a cashless exercise provision under which their holders may, in lieu of payment of the exercise price in cash, surrender the warrant and receive a net amount of shares based on the fair market value of the Company’s stock at the time of exercise of the warrants after deduction of the aggregate exercise price. The Series B warrants contained provisions for adjustment of the exercise price and number of shares issuable upon the exercise of the Series B warrants in the event of certain stock dividends, stock splits, reorganizations, reclassifications, and consolidations.

The Series B warrants were initially recognized as a liability at a fair value of \$0.7 million. The Series B warrants were exercised on February 11, 2021 and the warrant liability was remeasured to fair value as of that date, resulting in a loss of \$8.3 million for the nine months ended September 30, 2021, classified within other income (expense), net in the consolidated statements of operations and comprehensive loss. Upon exercise redeemable convertible preferred stock converted into common stock pursuant to the conversion rate effective immediately prior to the Merger.

Historically, value was assigned to each class of equity securities using an option pricing model method (“OPM”). In September 2020, OTI began allocating the equity value using a hybrid method that utilizes a combination of the OPM and the probability weighted expected return method (“PWERM”). The PWERM is a scenario-based methodology that estimates the fair value of equity securities based upon an analysis of future values for OTI, assuming various outcomes. As the probability of a transaction with a special purpose acquisition company (“SPAC”) increased, the fair value of the redeemable convertible preferred stock warrant liability increased as of the date of the exercise.

The redeemable convertible preferred stock warrants were valued using the following assumptions under the Black-Scholes option-pricing model:

	Initial Issuance Date	Subsequent Issuance Date	December 31, 2020	February 11, 2021	March 11, 2021
Stock price	\$ 5.80	\$ 5.80	\$ 7.11	\$ 10.27	\$ 8.44
Expected term (years)	10.00	9.31	2.00	2.00	2.00
Expected volatility	57.81 %	57.35 %	76.00 %	76.00 %	76.00 %
Risk-free interest rate	3.06 %	1.75 %	0.13 %	0.13 %	0.13 %
Dividend yield	0 %	0 %	0 %	0 %	0 %

Series B Redeemable Convertible Preferred Stock Tranche

In April 2020 and May 2020, OTI issued 62,505,102 shares of Series B redeemable convertible preferred stock at \$0.3323 per share. For each share purchased, the purchaser had an option to purchase an additional share of Series B redeemable convertible preferred stock at \$0.3323 per share, exercisable at any time prior to August 13, 2020 (the “Tranche Right”). The Company determined that the Tranche Right represented a freestanding obligation of the Company to issue additional shares of contingently redeemable shares if exercised by the holder. The freestanding redeemable convertible preferred stock tranche liability was initially recorded at fair value, with fair value changes recorded within other income (expense), net in the consolidated statements of operations and comprehensive loss.

Private Placement Warrants

Simultaneously with the closing of the Company’s initial public offering (the “IPO”) in August 2020, the sponsor of CLA, Colonnade Sponsor LLC, purchased an aggregate of 6,000,000 Private Placement warrants at a price of \$1.00 per warrant, for an aggregate purchase price of \$6,000,000. The Private Placement warrants became exercisable 12 months following the closing of the Company’s IPO, and will expire five years from the completion of the Merger, or earlier upon redemption or liquidation. Each Private Placement warrant is exercisable for one Class A ordinary share at a price of \$11.50 per share. On March 11, 2021, each outstanding Private Placement warrant automatically converted into a warrant to purchase one share of Ouster common stock pursuant to the Warrant Agreement.

The Private Placement warrants were initially recognized as a liability at a fair value of \$19.4 million and the Private Placement warrant liability was remeasured to fair value as of March 31, 2021, June 30, 2021 and September 30, 2021, resulting in a gain

of \$14.5 million and \$8.4 million for the three and nine months ended September 30, 2021, classified within other income (expense), net in the condensed consolidated statements of operations and comprehensive loss.

The Private Placement warrants were valued using the following assumptions under the Black-Scholes option-pricing model:

	March 11, 2021	March 31, 2021	June 30, 2021	September 30, 2021
Stock price	\$ 12.00	\$ 8.50	\$ 12.49	\$ 7.32
Exercise price of warrant	11.5	11.5	11.5	11.5
Expected term (years)	5.00	4.95	4.7	4.44
Expected volatility	27.00 %	43.00 %	43.00 %	46.00 %
Risk-free interest rate	0.78 %	0.92 %	0.92 %	0.90 %

Public Warrants

CLA, in its IPO in August 2020, issued 20,000,000 units that each consisted of one Class A ordinary share and one half warrant to purchase a Class A ordinary share, which we refer to as CLA warrants before the Merger and Public warrants after the Merger. These warrants may only be exercised for a whole number of shares, and no fractional warrants were issued or issuable upon separation of the units and only whole warrants will trade. The warrants became exercisable 12 months following the closing of the Company's IPO, and will expire five years from the completion of the Merger, or earlier upon redemption or liquidation. Each Public warrant is exercisable at a price of \$11.50 per share. On March 11, 2021, upon the closing of the Merger pursuant to the Merger Agreement (Note 1), each of the 9,999,996 outstanding warrants, as adjusted for any fractional warrants that were not issued upon separation, was converted automatically into a redeemable Public warrant to purchase one share of the Company's common stock. The Public warrants were recognized as equity upon the Merger in the amount of \$17.9 million.

Prior to their expiration, the Company may redeem the Public warrants at a price of \$0.01 per warrant, provided that the closing price of the Company's common stock equals or exceeds \$18.00 per share for any 20 trading days within a 30 trading-day period ending on the third trading day prior to the date on which the Company gives proper notice of such redemption to the warrants holders.

Note 7. Commitments and Contingencies

Letters of credit

In connection with two leases, the Company obtained two letters of credit from a bank as required by the lease agreements. If the Company defaults under the terms of the applicable lease, the lessor will be entitled to draw upon the letters of credit in the amount necessary to cure the default. The amounts covered by the letters of credit are collateralized by certificates of deposit, which are included in restricted cash on the condensed consolidated balance sheets as of September 30, 2021 and December 31, 2020. The outstanding amount of the letters of credit was \$1.3 million as of September 30, 2021 and December 31, 2020.

Non-cancelable purchase commitments

As of September 30, 2021, the Company had non-cancelable purchase commitments to a third-party contract manufacturer for approximately \$6.4 million and other vendors for approximately \$10.5 million.

Litigation

The Company is involved in various legal proceedings arising in the ordinary course of business. The Company accrues a liability when a loss is considered probable and the amount can be reasonably estimated. When a material loss contingency is reasonably possible but not probable, the Company does not record a liability, but instead discloses the nature and the amount of the claim, and an estimate of the loss or range of loss, if such an estimate can be made. Legal fees are expensed as incurred. Based on the opinion of legal counsel and other factors, management believes that the final disposition of these existing matters will not have a material adverse effect on the business, results of operations, financial condition, or cash flows of the Company. The Company has identified certain claims as a result of which a loss may be incurred, but in the aggregate any loss is expected to be immaterial. This assessment is based on our current understanding of relevant facts and circumstances. As such, our view of these matters is subject to inherent uncertainties and may change in the future. Significant judgment is required in both the

determination of probability and the determination as to whether an exposure is reasonably estimable. Actual outcomes of these legal and regulatory proceedings may materially differ from our current estimates. For other claims regarding proceedings that are in an initial phase, the Company is unable to estimate the range of possible loss, if any, but at this time believes that any loss related to such claims will not be material.

As of September 30, 2021 and December 31, 2020 there are no material litigation matters.

Indemnification

From time to time, the Company enters into agreements in the ordinary course of business that include indemnification provisions. Generally, in these provisions the Company agrees to defend, indemnify, and hold harmless the indemnified parties for claims and losses suffered or incurred by such indemnified parties for which the Company is responsible under the applicable indemnification provisions. The terms of the indemnification provisions vary depending upon negotiations between the Company and its counterpart; however, typically, these indemnification obligations survive the term of the contract and the maximum potential amount of future payments the Company could be required to make pursuant to these provisions are uncapped. To date, the Company has never incurred costs to defend lawsuits or settle claims related to these indemnification provisions.

The Company has also entered into indemnity agreements pursuant to which it has indemnified its directors and officers, to the extent legally permissible, against all liabilities reasonably incurred in connection with any action in which such individual may be involved by reason of such individual being or having been a director or executive officer, other than liabilities arising from willful misconduct of the individual. To date, the Company has never incurred costs to defend lawsuits or settle claims related to these indemnity agreements. The unaudited condensed consolidated financial statements do not include a liability for any potential obligations under the indemnification agreements at September 30, 2021 and December 31, 2020.

Note 8. Redeemable Convertible Preferred and Common Stock

The Company's common stock and warrants trade on the New York Stock Exchange under the symbol "OUST" and "OUSTWS", respectively. Pursuant to the terms of the Second Amended and Restated Certificate of Incorporation, the Company is authorized and has available for issuance the following shares and classes of capital stock, each with a par value of \$0.0001 per share: (i) 1,000,000,000 shares of common stock; (ii) 100,000,000 shares of preferred stock. Immediately following the Merger, there were 161,449,205 shares of common stock with a par value of \$0.0001, and 15,999,996 warrants outstanding. The holder of each share of common stock is entitled to one vote.

The Company has retroactively adjusted the shares issued and outstanding prior to March 11, 2021 to give effect to the exchange ratio established in the Merger Agreement to determine the number of shares of common stock into which they were converted.

Immediately prior to the Merger, OTI's certificate of incorporation, as amended, authorized it to issue 342,367,887 shares of \$0.00001 par value, with 210,956,516 shares designated as common stock and 131,411,372 shares of redeemable convertible preferred stock.

Series Seed Financing and conversion

In April 2016, OTI issued 1,887,253 shares of Series Seed redeemable convertible preferred stock at \$1.02 per share for net proceeds of \$1.8 million, net of \$0.1 million stock issuance costs. In April 2016, OTI issued 44,256 shares to an investor upon conversion of a note having a balance of principal and interest of \$45,000. In May 2016, OTI issued 563,725 shares of Series Seed redeemable convertible preferred stock at \$1.02 per share for net proceeds of \$0.6 million. In July 2016, OTI issued 445,942 shares of Series Seed redeemable convertible preferred stock at \$1.02 per share for net proceeds of \$0.5 million.

In April 2020, in order to induce the closing of the Series B Financing, the holders exercised the embedded conversion feature and all the outstanding Series Seed redeemable convertible preferred stock shares were converted to 2,941,176 shares of OTI's common stock.

Series A Financing and conversion

In October 2017, OTI issued 1,324,511 shares of Series A Preferred Stock at \$11.3158 per share for net proceeds of \$14.8 million, net of \$0.2 million of stock issuance costs. In October 2017, OTI issued 1,253,556 shares of Series A Preferred

Stock upon conversion of multiple notes having a principal and interest balance of \$4.6 million. In December 2017, OTI issued 715,712 shares of Series A Preferred Stock at \$11.3158 per share for net proceeds of \$8.1 million.

In April 2020, in order to induce the closing of the Series B Financing, the holders exercised the embedded conversion feature and all of the outstanding Series A redeemable convertible preferred stock shares were converted to 3,293,779 shares of OTI's common stock.

Series B Financing

In April 2020, OTI issued 45,185,071 shares of Series B redeemable convertible preferred stock at \$0.3323 per share for net proceeds of \$15.1 million, less \$0.1 million of stock issuance costs. In May 2020, OTI issued 17,320,031 shares of Series B redeemable convertible preferred stock at \$0.3323 per share for net proceeds of \$5.8 million, less \$0.1 million of stock issuance costs. In July 2020, OTI issued 37,970,846 shares of Series B redeemable convertible preferred stock at \$0.3323 per share for net proceeds of \$12.5 million, less \$0.1 million of stock issuance costs. In August 2020, OTI issued 25,286,587 shares of Series B redeemable convertible preferred stock at \$0.3323 per share for net proceeds of \$8.4 million, less \$0.1 million of stock issuance costs.

On March 11, 2021, upon the closing of the Transaction pursuant to the Merger Agreement (Note 1), all of the outstanding redeemable convertible preferred stock was converted to the Company's common stock pursuant to the conversion rate effective immediately prior to the Transaction and the remaining amount was reclassified to additional paid-in capital. As of September 30, 2021, the Company does not have any redeemable convertible preferred stock outstanding.

Prior to the Merger, redeemable convertible preferred stock as of December 31, 2020, consisted of the following (in thousands, except share and per share data):

Series	December 31, 2020				
	Issue Price per share	Shares Authorized	Shares Issued and Outstanding	Liquidation Amount	Carrying Amount
Series B	\$ 0.33	131,411,372	88,434,754	\$ 41,791	\$ 39,225

Prior to the Merger, the significant features of OTI's redeemable convertible preferred stock were as follows:

Dividend provisions

The Series Seed, Series A and Series B preferred stockholders are entitled to receive dividends prior and in preference to any dividends on the common stock, at a rate of \$0.0612, \$0.6789 and \$0.019938 per share, respectively, per annum on a non-cumulative basis, when and if declared by the board of directors, subject to the prior rights of the preferred stockholders. After payment of such dividend, any additional dividends would be distributed among the holders of the preferred stock and common stock pro rata based on the number of shares of common stock then held by each holder (assuming conversion of all shares of preferred stock into common stock).

Liquidation preference

In the event of liquidation, dissolution or winding up of OTI, merger or a reduction of capital through the sale or lease of all or substantial part of the business of OTI, before any distribution or payment were to be made to the holders of common stock, the holders of Series Seed, Series A and Series B redeemable convertible preferred stock were entitled to receive \$1.02, \$11.3518 and \$0.3323 per share (subject to adjustment in the event of any share dividend, share split, combination, or other recapitalization), respectively, plus any declared but unpaid dividends on such shares. If the assets and funds were insufficient for such distribution, they were entitled to receive a pro rata distribution, based on the relative preferred stock ownership and in proportion to the preferential amount each such holder is otherwise entitled. If the assets and funds are in excess of amounts distributed to the preferred stockholders, the remaining assets and funds shall be distributed pro rata to the holders of the common stock. If the holders of the redeemable convertible preferred stock would receive a greater distribution if they converted to common stock, then such conversion would have been assumed prior to distribution.

Conversion rights

The holders of Series Seed, Series A and Series B redeemable convertible preferred stock had a right to convert their stock into nonassessable shares of common stock at a conversion rate equal to their respective liquidation preferences divided by a conversion price of \$1.02, \$11.3518 and \$0.3323, respectively, which was adjusted for any stock splits, stock dividends, combination, subdivisions, recapitalizations or similar transactions. On March 11, 2021, upon the closing of the Transaction

pursuant to the Merger Agreement (Note 1), all of the outstanding redeemable convertible preferred stock was converted to the Company's common stock pursuant to the conversion rate effective immediately prior to the Transaction and the remaining amount was reclassified to additional paid-in capital.

Redemption rights

The redeemable convertible preferred stock were recorded in mezzanine equity because while it was not currently redeemable, it could become redeemable at the option of the preferred stockholders upon the occurrence of certain deemed liquidation events that were considered not solely within OTI's control for an amount equal to the shares respective liquidation preference plus declared and unpaid dividends.

Voting rights

Each holder of redeemable convertible preferred stock was entitled to the number of votes equal to the number of shares of common stock into which such redeemable convertible preferred stock could then be converted and, with respect to such vote, holders of redeemable convertible preferred stock were entitled to vote together with the holders of common stock as a single class on all matters.

Note 9. Stock-based compensation

As of September 30, 2021, we have two equity incentive plans, our 2015 Stock Plan (the "2015 Plan") and our 2021 Incentive Award Plan (the "2021 Plan"). As of March 11, 2021, we no longer grant equity awards pursuant to our 2015 Plan, but it continues to govern the terms of outstanding stock options that were granted prior to that date.

On October 12, 2020, OTI issued \$1.1 million partial recourse promissory notes to certain executives and employees. The promissory notes carried 0.38% annual cash interest and were due on earliest of 9th anniversary of the date of issuance of the notes, or termination of employment of the executive/employee, or filing by OTI of a registration statement under the Securities Act of 1933, or promissory notes being prohibited under Section 13(k) of the Securities Exchange Act of 1934 or closing of change a in control of OTI. At issuance, the promissory notes were used to settle certain executives' and employees' obligations for 2,883,672 vested and 4,603,833 unvested ISOs that were exercised and no cash was exchanged. In March 2021, in connection with the close of the Merger, the Company forgave half of the respective obligations under the promissory notes for certain executives and required such noteholders to repay the remaining balance of \$0.3 million under each of their respective notes. Additional compensation expense of \$0.3 million was recognized in general and administrative expenses in the three months ended March 31, 2021 and the nine months ended September 30, 2021 for the value of the loans forgiven. Obligations under the promissory notes for non-executive noteholders of \$0.5 million is outstanding as of September 30, 2021.

2021 Incentive Award Plan

On March 11, 2021, the Board of Directors approved the 2021 Plan. The 2021 Plan provides for the grant of stock options, stock appreciation rights, restricted stock units, performance stock unit awards and other forms of equity compensation (collectively, "equity awards"). In addition, the 2021 Plan provides for the grant of performance bonus awards. All awards within the 2021 Plan may be granted to employees, including officers, as well as directors and consultants, within the limit defined in the 2021 Plan. 18,558,576 shares of the Company's common stock were initially reserved for issuance under the 2021 Plan. The 2021 Plan includes an evergreen provision that provides for an annual increase in the number of shares of common stock available for issuance thereunder beginning on January 1, 2022 and ending on January 1, 2031, equal to 5% of the shares of Company common stock outstanding on the last day of the immediately preceding fiscal year and such smaller number of shares as determined by the Board of Directors or a committee thereof. As of September 30, 2021, the Company had 13,680,487 shares of common stock available pursuant to new awards under the 2021 Plan.

Options and stock appreciation rights under the 2021 Plan will be exercisable at such times and as specified in the Award Agreement (as defined in the 2021 Plan) provided that the term of an option or stock appreciation will not exceed ten years. Options granted under the 2021 Plan may be Incentive Stock Options (ISOs) or Non-statutory Stock Options, as determined by the Administrator at the time of grant of an option and subject to the applicable provisions of Section 422 of the Internal Revenue Code and the regulations promulgated thereunder. The exercise price of an option will be no less than 100% of the fair market value of the shares of common stock on the date of grant. The exercise price of an ISO granted to a 10% shareholder will be no less than 110% of the fair market value of the shares on the date of grant and the term of the ISO will not exceed five years. The Company granted an option to purchase 1,614,492 shares of Company common stock to a senior advisor serving on the Company's board of directors as chair with 20% of the total number of such option shares vesting on each of the first five anniversaries from the senior advisor's employment start date, subject to his continued employment with the Company and provided that option grant will only be exercisable in the event that the closing trading price per share of the Company stock

equals or exceeds 130% of the exercise price per share of the option for 30 consecutive trading days. The senior advisor has resigned in June 2021 and the option to purchase 1,614,492 shares of Company common stock was forfeited.

Restricted stock and restricted stock units granted to employees generally vest as to 25% of the shares on the first anniversary service date of the grant, and quarterly thereafter so as to be 100% vested on the fourth anniversary of the vesting commencement date. All participants holding shares of restricted stock will be entitled to all the rights of a stockholder with respect to such shares and have voting power and other rights with respect to such shares, provided, however, that such shares are held in escrow and subject to forfeiture until the shares vested. The Company granted 807,246 restricted stock units to a senior advisor who serves as chair of the board of directors with vesting of 20% of the total number of restricted stock units on each of the first five anniversaries from the employment start date, subject to continued employment with the Company. The senior advisor has resigned in June 2021 and all restricted stock unit awards granted were forfeited.

In March 2021, the Company also granted 152,628 restricted stock units to several members of the board of directors subject to standard terms of these awards.

Vesting schedules for performance stock unit awards and other equity awards vary and are linked to one or more of performance or other specific criteria, including service to the Company, determined to be appropriate by the Board, in each case on a specified date or dates or over any period or periods determined by the Board. The performance condition awards are automatically forfeited in their entirety, without any cost to or action by the Company, if there has been no achievement of the performance condition. The Company granted 807,246 performance stock units to a senior advisor who serves as chair of the board of directors with vesting earned over four years based on achieving increases in the Company's stock price from the date of grant ranging from 150%, to earn 25% of the performance stock units, to 300% to earn the entire award of performance stock units. Each performance stock unit constitutes the right to receive one share of Company common stock upon vesting. As noted above, the senior advisor has resigned in June 2021 and all performance stock unit awards granted were forfeited.

Performance bonus awards are denominated in cash, stock or a combination thereof, and shall be payable upon the attainment of performance goals that are established by the Board and relate to one or more of performance or other specific criteria, including service to the Company, in each case on a specified date or dates or over any period or periods determined by the Board.

Stock option activity for the nine months ended September 30, 2021 is as follows:

	Number of Shares Underlying Outstanding Options	Weighted- Average Exercise Price per Share	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding—December 31, 2020	25,732,503	\$ 0.39	9.60	\$ 245,746
Options granted	645,796	10.26		
Options exercised	(913,279)	0.14		
Options cancelled	(505,213)	0.14		
Outstanding—September 30, 2021	24,959,807	\$ 0.67	8.7	\$ 167,460
Vested and expected to vest—September 30, 2021	24,959,807	\$ 0.67	8.7	\$ 167,460
Exercisable—September 30, 2021	8,844,727	\$ 0.31	8.1	\$ 61,987

The following table summarizes the weighted-average assumptions used in estimating the fair value of options granted in the nine months ended September 30, 2021, using the Black-Scholes option-pricing model:

	Nine Months Ended September 30, 2021
Expected term (years)	6.00
Expected volatility	63.19 %
Risk-free interest rate	1.03 %
Expected dividend rate	— %

The following table summarizes information about stock options outstanding and exercisable at September 30, 2021.

Exercise Price	Options Outstanding			Options Exercisable		
	Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
\$ 0.18	6,350,481	8.3	\$ 0.18	3,889,338	7.8	\$ 0.18
\$ 0.21	10,394,961	8.8	\$ 0.21	3,186,660	8.2	\$ 0.21
\$ 0.37	35,159	0.4	\$ 0.37	35,159	0.4	\$ 0.37
\$ 1.42	7,524,116	9	\$ 1.42	1,724,276	9	\$ 1.42
\$ 5.57	7,976	0.2	\$ 5.57	7,976	0.2	\$ 5.57
\$ 8.25	1,318	0.2	\$ 8.25	1,318	0.2	\$ 8.25
\$ 10.26	645,796	9.5	\$ 10.26	—	—	\$ —
	<u>24,959,807</u>			<u>8,844,727</u>		

The weighted average grant date fair value of options granted during the nine months ended September 30, 2021 was \$5.9.

As of September 30, 2021, there was approximately \$27.5 million of unamortized stock-based compensation expense related to unvested stock options that is expected to be recognized over a weighted average period of 1.7 years.

Restricted Stock Awards (“RSA”)

A summary of RSA activity under the 2015 Plan is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value (per share)
Unvested – December 31, 2020	40,754	\$ 0.67
Granted during the period	—	—
Canceled during the period	—	—
Vested during the period	(17,466)	0.67
Unvested — September 30, 2021	<u>23,288</u>	<u>\$ 0.67</u>

The weighted-average estimated fair value of RSAs granted in the nine months ended September 30, 2021 was Nil per share. The total fair value of RSAs vested during the nine months ended September 30, 2021 was less than \$0.1 million.

Restricted Stock Units (“RSU”)

A summary of RSU activity is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value (per share)
Unvested – December 31, 2020	—	\$ —
Granted during the period	4,332,224	9.50
Canceled during the period	(27,636)	8.86
Vested during the period	(463,043)	10.46
Unvested — September 30, 2021	<u>3,841,545</u>	<u>\$ 9.21</u>

Stock compensation expense is recognized on a straight-line basis over the vesting period of each RSU. As of September 30, 2020, total compensation expense related to unvested RSUs granted to employees, but not yet recognized, was \$34.2 million, with a weighted-average remaining vesting period of 3.2 years.

The Company recognized stock-based compensation for all stock options in the condensed consolidated statements of operations and comprehensive loss as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Cost of revenue	\$ 206	\$ 505	\$ 457	\$ 606
Research and development	2,063	4,889	4,305	5,177
Sales and marketing	1,717	319	2,702	408
General and administrative	3,161	1,543	11,093	1,700
Total stock-based compensation	<u>\$ 7,147</u>	<u>\$ 7,256</u>	<u>\$ 18,557</u>	<u>\$ 7,891</u>

Note 10. Net Loss Per Common Share

The following table sets forth the computation of basic and diluted net loss per common share attributable to common stockholders (in thousands, except share and per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Numerator:				
Net loss	<u>\$ (12,669)</u>	<u>\$ (19,615)</u>	<u>\$ (65,637)</u>	<u>\$ (49,620)</u>
Denominator:				
Weighted average shares used to compute basic and diluted net loss per share	156,647,259	20,303,631	123,175,390	15,753,057
Net loss per common share—basic and diluted	<u>\$ (0.08)</u>	<u>\$ (0.97)</u>	<u>\$ (0.53)</u>	<u>\$ (3.15)</u>

The shares and net loss per common share, prior to the Merger, have been retroactively restated as shares reflecting the exchange ratio of approximately 0.703 shares of the Company per one share of OTI as established in the Merger Agreement.

The weighted average number of shares used to compute basic and diluted net loss per share excludes unvested early exercised common stock options subject to repurchase.

The following outstanding shares of potentially dilutive securities were excluded from the computation of diluted net loss per share attributable to common stockholders for the periods presented because including them would have been antidilutive:

	As of September 30,	
	2021	2020
Redeemable convertible preferred stock	—	88,434,754
Options to purchase common stock	24,959,807	22,699,012
Unvested RSA	23,288	237,798
Restricted stock units	4,304,588	—
Unvested early exercised common stock options	2,234,455	30,421
Vested and early exercised options subject to nonrecourse notes	2,172,238	—
Preferred stock warrants	—	4,443,862
Public and private common stock warrants	15,999,996	—
Total	49,694,372	115,845,847

Note 11. Income taxes

The Company's income tax provision for interim periods is determined using an estimate of the Company's annual effective tax rate, adjusted for discrete items arising in the quarter. The Company's effective tax rate differs from the U.S. statutory tax rate primarily due to valuation allowances on the deferred tax assets as it is more likely than not that some, or all, of the Company's deferred tax assets will not be realized. The Company continues to maintain a full valuation allowance against its net deferred tax assets. Due to tax losses and the offsetting valuation allowance, the income tax provision for the three and nine months ended September 30, 2021 and 2020 was not material to the Company's condensed consolidated financial statements.

Note 12. Revenue

Revenue from sale of lidar sensor kits, which are recognized at a point in time, was \$7.8 million and \$5.9 million in three months ended September 30, 2021 and 2020, respectively, and \$21.7 million and \$10.5 million in nine months ended September 30, 2021 and 2020, respectively.

The following table presents total revenues by geographic area based on the location products were shipped to and services provided (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
United States	\$ 4,037	\$ 2,288	\$ 8,463	\$ 6,349
Americas, excluding United States	147	85	675	194
Europe, Middle East and Africa	1,614	1,366	7,684	2,634
Asia and Pacific	1,957	2,208	4,904	3,351
Total	\$ 7,755	\$ 5,947	\$ 21,726	\$ 12,528

Note 13. Related Party Transactions

See Note 5, Debt for details of promissory notes issued by the Company to certain investors of the Company (or an affiliate thereof).

See Note 9, Stock-based compensation for details of partial recourse promissory notes issued by the Company to certain executives and employees.

Note 14. Subsequent Event

On October 5, 2021, the Company announced its intent to acquire privately held Sense Photonics, Inc. ("Sense"), a lidar technology company for autonomous vehicles. On October 22, 2021, the Company completed its acquisition of Sense and formally established Ouster Automotive, a new functional division of the Company focusing on driving mass-market adoption of digital lidar in consumer and commercial vehicles. Under the terms of the merger agreement, Ouster acquired 100% of Sense

and all of its property for approximately 10 million shares of Ouster common stock or approximately \$63 million in equity value based on the closing price of \$6.55 per share as of the day the transaction closed on October 22, 2021, inclusive of 0.8 million shares underlying assumed options, after closing adjustments. The initial purchase price accounting for the business combination is in progress at this time due to the pending completion of the valuation analysis over the acquired assets.

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

The following discussion of the results of operations and financial condition of Ouster, Inc. (“we,” “us,” “our,” the “Company,” “Ouster”) should be read in conjunction with the information set forth in Ouster’s condensed consolidated financial statements and the notes thereto included elsewhere in this Form 10-Q, as well as Ouster’s audited consolidated financial statements and the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Ouster’s final prospectus dated and filed with the Securities and Exchange Commission (“SEC”) on August 19, 2021. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Ouster’s actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in the section titled “Risk Factors” in Ouster’s final prospectus dated and filed with the SEC on August 19, 2021.

On December 21, 2020, Ouster Technologies, Inc. (“OTI”, prior to the Merger, named Ouster, Inc.) entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Colonnade Acquisition Corp., a Cayman Islands exempted company (“CLA”), and Beam Merger Sub, Inc. (“Merger Sub”), a Delaware corporation and subsidiary of CLA. OTI’s and CLA’s board of directors unanimously approved OTI’s entry into the Merger Agreement, and on March 11, 2021, the transactions contemplated by the Merger Agreement were consummated (all such transactions, the “Merger”), as further described below.

Unless the context otherwise requires, references in this subsection to “we”, “our” and “the Company” refer to the business and operations of OTI (formerly known as Ouster, Inc.) and its consolidated subsidiaries prior to the Merger and to Ouster, Inc. (formerly known as Colonnade Acquisition Corp.) and its consolidated subsidiaries following the consummation of the Merger.

Overview

We are a leading provider of high-resolution digital lidar sensors that offer advanced 3D vision to machinery, vehicles, robots, and fixed infrastructure assets, allowing each to understand and visualize the surrounding world and ultimately enabling safe operation and autonomy. We design and manufacture digital lidar sensors that we believe are the highest-performing, lowest-cost lidar solutions available today across each of our four target markets: industrial automation; smart infrastructure; robotics; and automotive. We shipped sensors to approximately 600 customers in the twelve months ended September 30, 2021.

Our digital lidar sensors leverage a simplified architecture based on two semiconductor chips and are backed by a suite of patent-protected technology. We have invested heavily in patents since our inception, pursuing comprehensive coverage of invention families and use cases, with broad international coverage. We believe that our extensive patent coverage creates material barriers to entry for anyone aiming to compete in the digital lidar space.

Our product offering today includes three models of sensors in our OS product line: the ultra-wide field of view OS0, the mid-range OS1, and the long-range OS2. In January 2020 we released new models in our OS product line, increasing the resolution of our OS1 model and introducing the OS0 and OS2 models. Within our OS sensor models, we offer numerous customization options, all enabled by embedded software. For each of our three models in the OS product line, we offer resolution options of 128 lines vertically (“channels”), 64 channels, or 32 channels, as well as many beam spacing options. We are currently developing our solid-state ES product line, which, when released, will consist of the long-range ES2 sensor.

We believe the simplicity of our digital lidar design gives us a meaningful advantage in costs related to manufacturing, supply chain and production yields. The same digital lidar architecture underpins our entire product portfolio which we believe drives economies of scale in our supply chains and speeds time to market. With virtually unlimited software-defined products driving low-cost customization, we are able to increase stock keeping units (“SKUs”) for industry-specific applications, expanding our product offering with minimal manufacturing or inventory changes. We currently have over 75 different software-defined product SKUs, all based on this common architecture and shared core componentry. Additionally, we are successfully expanding our manufacturing capacity by outsourcing to our manufacturing partner, Benchmark Electronics, Inc. (“Benchmark”). Benchmark manufactures our products at its facility in Thailand, which we expect will reduce our product costs and allow us to rapidly scale production to meet our anticipated product demand. Based on cost quotes for our products in mass production, we believe our manufacturing costs to be lower than certain of our competitors, and we expect our manufacturing costs per unit to decrease further with higher volumes.

We have won and are actively negotiating a number of additional, multi-year sales contracts which includes our Strategic Customer Agreements (“SCAs”) which establish a multi-year purchase and supply framework for Ouster and the customer, and include details about customer programs and applications where the customer intends to use Ouster products. SCAs also include multi-year non-binding customer forecasts (typically of three to five years in length) giving Ouster visibility to the customer’s

long-term purchasing requirements, mutually agreed upon pricing over the duration of the agreement, and, in certain cases, include multi-year binding purchase commitments.

We founded Ouster in 2015 with the invention of our high-performance digital lidar. Since then, we have grown to approximately 200 employees serving approximately 600 customers globally in the twelve months ended September 30, 2021. To continue to grow our business in the coming years, we have expanded and plan to continue to expand our sales and marketing efforts and our software development capabilities, and to accelerate sensor development efforts. We are headquartered in San Francisco, CA.

Merger Agreement with Colonnade Acquisition Corp. and Beam Merger Sub, Inc.

On December 21, 2020, OTI entered into the Merger Agreement with CLA, and Merger Sub, a subsidiary of CLA. OTI's and CLA's board of directors unanimously approved OTI's entry into the Merger Agreement, and on March 11, 2021, the transactions contemplated by the Merger Agreement were consummated. Pursuant to the terms of the Merger Agreement, (i) CLA domesticated as a corporation incorporated under the laws of the State of Delaware (the "Domestication") and changed its name to "Ouster, Inc." (with CLA after such domestication and the other transactions pursuant to the Merger Agreement being referred to as the "Company") and (ii) Merger Sub merged with and into OTI (the "Merger"), with OTI surviving the Merger.

As a result of and upon the effective time of the Domestication, among other things, (1) each of the then issued and outstanding 5,000,000 CLA Class B ordinary shares, par value \$0.0001 per share, of CLA (the "CLA Class B ordinary shares") converted automatically, on a one-for-one basis, into a CLA Class A ordinary share (as defined below), (2) immediately following the conversion described in clause (1), each of the then issued and outstanding 25,000,000 Class A ordinary shares, par value \$0.0001 per share, of CLA (the "CLA Class A ordinary shares"), converted automatically, on a one-for-one basis, into a share of common stock, par value \$0.0001 per share, of Ouster (the "Ouster common stock"), (3) each of the then issued and outstanding 10,000,000 redeemable warrants of CLA (the "CLA warrants") converted automatically into a redeemable warrant to purchase one share of Ouster common stock (the "Public warrants") pursuant to the Warrant Agreement, dated August 20, 2020 (the "Warrant Agreement"), between CLA and Continental Stock Transfer & Trust Company ("Continental"), as warrant agent, and (4) each of the then issued and outstanding units of CLA that had not been previously separated into the underlying CLA Class A ordinary shares and underlying CLA warrants upon the request of the holder thereof (the "CLA units"), were cancelled and entitled the holder thereof to one share of Ouster common stock and one-half of one Public warrant, and (5) each of the then issued and outstanding 6,000,000 private placement warrants of CLA (the "Private Placement warrants") converted automatically into a Public warrant pursuant to the Warrant Agreement. No fractional Public warrants were issued upon separation of the CLA units.

Immediately prior to the effective time of the Merger, (1) each share of OTI's Series B Preferred Stock, par value \$0.00001 per share (the "OTI Preferred Stock"), converted into one share of common stock, par value \$0.00001 per share, of OTI (the "OTI common stock" and, together with OTI Preferred Stock, the "OTI Capital Stock") (such conversion, the "OTI Preferred Conversion") and (2) all of the outstanding warrants to purchase shares of OTI Capital Stock were exercised in full or terminated in accordance with their respective terms (the "OTI Warrant Settlement").

As a result of and upon the closing of the Merger, among other things, all shares of OTI Capital Stock (after giving effect to the OTI Warrant Settlement) outstanding immediately prior to the closing of the Merger together with shares of OTI common stock reserved in respect of options to purchase shares of OTI common stock and restricted shares of OTI common stock (together, the "OTI Awards") outstanding immediately prior to the closing of the Merger that were converted into awards based on Ouster common stock, were cancelled in exchange for the right to receive, or the reservation of, an aggregate of 150,000,000 shares of Ouster common stock (at a deemed value of \$10.00 per share), which, in the case of OTI Awards, were shares underlying awards based on Ouster common stock, representing a fully-diluted pre-transaction. Upon the closing of the Merger, the Company received gross proceeds of \$299.9 million from the Merger and private offering, offset by \$8.5 million of pre-merger costs relating to CLA and offering costs of \$26.6 million.

Sense Acquisition

On October 5, 2021, we announced our intent to acquire privately held Sense Photonics, Inc. ("Sense"), a lidar technology company for autonomous vehicles. On October 22, 2021, we completed the acquisition of Sense and formally established Ouster Automotive, a new functional division of the Company focusing on driving mass-market adoption of digital lidar in consumer and commercial vehicles. Under the terms of the merger agreement, we acquired 100% of Sense and all of its property for approximately 10 million shares of Ouster common stock or approximately \$63 million in equity value based on the closing price of \$6.55 per share as of the day the transaction closed on October 22, 2021, inclusive of 0.8 million shares

underlying assumed options, after closing adjustments. This acquisition is expected to help Ouster expand its presence in the automotive vertical by executing on our hiring goals and product roadmap on a faster timeline.

COVID-19 Impact

Throughout 2020 and the nine months ended September 30, 2021, the worldwide spread of the pandemic caused by the novel coronavirus (“COVID-19”) and the measures intended to contain the spread of COVID-19, including variants, have resulted in a global slowdown of economic activity and caused disruptions to our business. In particular, our headquarters are based in the San Francisco Bay Area, which has been subject to ongoing government measures and orders such as quarantines and social distancing. During the second and third quarters of 2020 we slowed our operating and capital spending with the expectation that our revenue and ability to raise capital would be impacted by the global pandemic. We believe that our overall growth rate during 2020 and through the third quarter ended September 30, 2021 was negatively impacted by the pandemic due in part to pandemic related supply chain issues, though, despite this impact, we were able to continue to grow our sales during 2021 and estimate that in the long-term the pandemic will act as a catalyst for wider adoption of automation and lidar technology.

As a San Francisco Bay Area based company, we were affected by the “shelter in place” order in the first and second quarter of 2020. While the majority of our employees were able to work remotely, some employees, especially manufacturing employees, were not able to work from home. The “shelter in place” order delayed order fulfillment and revenue recognition during the first and second quarters of 2020. We continued to pay employees during the “shelter in place” order whether or not they were able to work. Manufacturing and order fulfillment employees were able to return to work in the second quarter of 2020; however, the number of employees allowed on premises at one time was greatly reduced as a result of the California reduced capacity mandates, which also affected our ability to fulfill orders and recognize revenue. Some essential employees were paid hazard pay, and the hazard pay combined with underutilized employee pay increased our employee overhead and decreased gross margins in the first and second quarter of 2020. Manufacturing employees continued to work in a reduced capacity at our San Francisco facility until the second quarter of 2021. We have moved a large portion of our manufacturing to our contract manufacturer in Thailand, which allowed us to satisfy demand for our digital lidar sensors in the first two quarters of 2021 and consequently allowing us to increase our year over year revenue.

Our suppliers are located worldwide, and some of our key suppliers have been affected by the pandemic resulting in supply chain disruptions. We have experienced and continue to experience some unfavorable purchase price variance and situational expedite fees in order to meet production and delivery timelines. While we may see additional or new pressures on our supply chain both related and unrelated to the pandemic, we are actively taking steps to mitigate the impact of the materials shortages on our business.

While we experienced quarter-over-quarter increases in revenue in 2020 and the first nine months of 2021, some customers have delayed orders and production schedules due to COVID-19. The pandemic continues to evolve, and the full extent to which the COVID-19 pandemic will directly or indirectly impact our business, results of operations and financial condition, including sales, expenses, reserves and allowances, manufacturing, research and development costs and personnel-related costs, will depend on future developments that are highly uncertain, including new information that may emerge concerning COVID-19 and the actions taken to contain, prevent or treat COVID-19, rate and success of vaccination efforts, vaccine hesitancy, any resurgence of the pandemic in areas where we, Benchmark or our suppliers operate, and the economic impact on local, regional, national and international customers and markets.

Going forward, the situation remains uncertain, rapidly changing and hard to predict, and the COVID-19 pandemic may have a material negative impact on our future results.

Factors Affecting Our Performance

Supply Chain Continuity. A recent surge in demand for electronics containing semiconductor chips and stockpiling of chips by certain companies has created disruptions in the supply chain, resulting in a global chip shortage impacting our industry. Some chip manufacturers are estimating this supply shortage may continue into 2022. These chip manufacturers are working to increase capacity in the future, and we are managing our inventory and working closely with our regular suppliers and customers to minimize the potential impacts of any supply shortages including by securing additional inventory. While we do not expect the shortage to have a material near-term impact on our ability to meet existing demand for our current products, the shortage has adversely impacted our gross margins for the nine months ended September 30, 2021 and may continue to do so. We anticipate fluctuation in our cost of goods sold over the next 12-18 months as a result of ongoing supply chain constraints. These constraints have caused and may in the future cause us to implement certain temporary price surcharges. Over time, we expect our overall average selling prices to decline as our volume increases. If our mitigating efforts are not

successful or the shortage continues or worsens in ways we did not anticipate, our ability to supply or improve our current products as well as our development and rollout of future products could also be adversely affected.

Commercialization of Lidar Applications. We believe that lidar is approaching its inflection point of adoption across our target end market applications, and that we are well-positioned to capitalize on this market adoption. However, as our customers continue research and development projects to commercialize semi-autonomous solutions that rely on lidar technology, it is difficult to estimate the timing of ultimate end market and customer adoption. As a result, we expect that our results of operations, including revenue and gross margins, will fluctuate on a quarterly and annual basis for the foreseeable future. As the market for lidar solutions matures and more customers reach a commercialization phase with solutions that rely on our technology, the fluctuations in our operating results may become less pronounced. Nonetheless, our revenue may not grow as we expect unless and until more customers commercialize their products and lidar technology becomes more prevalent across our target end markets.

Number of Customers in Production. For certain strategic customers and markets, our products must be integrated into a broader platform, which then must be tested, validated, and achieve system-level performance and reliability thresholds that enable commercial production and sales. The time necessary to reach commercial production varies from six months to seven years, based on the market and application. For example, the production cycle in the automotive market tends to be substantially longer than in our other target markets, including industrial automation, smart infrastructure and robotics. It is critical to our future success in each of our target end markets that our customers reach commercial production and sales and that they select our products in their commercial production applications. Because the timelines to reach production vary significantly and the revenue generated by each customer in connection with commercial production and sales is unpredictable, it is difficult for us to reliably predict our financial performance.

Customers' Sales Volumes. Our customer base is diversified and we will continue to penetrate into diverse end markets to increase our sales volumes. Ultimately widespread adoption of our customers' products that incorporate our lidar solutions will depend on many factors, including the size of our customers' end markets, end market penetration of our customer's products that incorporate our digital lidar solutions, our end customers' ability to sell their products, and the financial stability and reputation of the customers. We believe our sales volume by customer depends on the end market demand for our customers' products that incorporate our digital lidar solutions as well as our ability to grow our sales force.

Average Selling Prices ("ASPs"), Product Costs and Margins. Our product costs and gross margins depend largely on the volumes of sensors sold and the number and variety of solutions we provide to our customers. We expect that our selling prices will vary by target end market and application due to market-specific supply and demand dynamics. We expect to continue to experience some downward pressure on margins from signing anticipated large multi-year agreements (including our SCAs) in the near term with multi-year negotiated pricing, as well as supply chain constraints discussed above. We expect these customer-specific selling price fluctuations combined with our volume-driven product costs may drive fluctuations in revenue and gross margins on a quarterly basis. However, notwithstanding any short-term price surcharge on our products, we expect that over time our volume-driven product costs will lead to gross margin improvement as our sales volume increases.

Competition. Lidar is an emerging market, and there are competitors for the growing market. This has created downward pressure on our ASPs, particularly in the Asia and Pacific region. We expect this pressure to continue to push our ASPs lower in the coming years. However, we believe that because of our complementary metal-oxide-semiconductor, "CMOS", digital lidar technology, we are in the position to scale more rapidly than our analog competitors and leverage our scale to deliver positive gross margins.

Continued Investment and Innovation. We believe that we are a leading digital lidar provider. Our financial performance is significantly dependent on our ability to maintain this leading position which is further dependent on the investments we make in research and development. We believe it is essential that we continue to identify and respond to rapidly evolving customer requirements, including successfully realizing our product roadmap. If we fail to continue our innovation, our market position and revenue may be adversely affected, and our investments in that area will not be recovered.

Market Trends and Uncertainties. We anticipate robust demand for our digital lidar solution. We estimate a multibillion dollar total addressable market ("TAM") for our solutions in the near future. We define our TAM as automation applications in the industrial, smart infrastructure, robotics and automotive end markets where we actively engage and maintain customer relationships. Each of our target markets is potentially a significant global opportunity, and these markets have historically been underserved by limited or inferior technology or not served at all. We believe we are well positioned in our market as a leading provider of high-resolution digital lidar sensors.

Although increasing adoption of semi-autonomous solutions that rely on lidar technology may generate higher demand, we may not be able to take advantage of demand if we are unable to anticipate regulatory changes and adapt quickly enough to

meet such new regulatory standards or requirements applicable to us or to our customers' products in which our digital lidar sensors are used. Market acceptance of semi-autonomous solutions and active safety technology depend upon many factors, including cost, performance, safety performance, regulatory requirements and international taxes or tariffs related to such technologies. These factors may impact the ultimate market acceptance of our lidar technology.

International Expansion. We view international expansion as an important element of our strategy to increase revenue and achieve profitability. We continue to position ourselves in geographic markets that we expect to serve as important sources of future growth. We have an existing presence in three regions: North and South America; Asia and Pacific; and Europe, Middle East and Africa. We intend to expand our presence in these regions over time including through distribution partnerships. Expanded global reach will require continued investment and may expose us to additional foreign currency risk, international taxes and tariffs, legal obligations and additional operational costs, risks and challenges that may impact our ability to meet our projected sales volumes, revenue and gross margins.

Components of Results of Operations

Revenue

The majority of our revenue comes from the sale of our digital lidar sensors and accessories both directly to end users and through distributors both domestically and internationally. We recognize revenue from product sales when the performance obligation of transferring control of the product to the customer has been met, generally when the product is shipped. The company also recognizes revenue by performing services related to product development and validation, and shipping; however, we do not expect product development and validation and license and services to be material components of revenue, cost of revenue or gross margin in the foreseeable future. Performance obligations related to services are generally recognized over time, based on cost-to-cost input basis or straight-line over time. Amounts billed to customers related to shipping and handling are classified as revenue, and we have elected to recognize the cost of shipping activities that occur after control has transferred to the customer as a fulfillment cost rather than a separate performance obligation. All related costs are accrued and recognized within cost of revenue when the related revenue is recognized.

Most of our customers are currently in the evaluation or early R&D stage with our products. Currently, our product revenue consists of both customers ordering small volumes of our products that are in an evaluation phase and customers that order larger volumes of our products and have more predictable long-term production schedules. However, we are still at the very beginning of the lidar adoption curve, and some customers are still learning their ramp rates which can impact the timing of purchase orders quarter to quarter. As we grow our business we expect to improve predictability into our customers' needs and timelines, and expect the timing of orders will have a less notable impact on our quarterly results. Over the coming years, as more of our customers move into their respective production phases, we expect the majority of our product revenue to shift to larger volume orders based on predictable production schedules. We also expect more of our revenue to come from international customers, and anticipate that our sales from regions outside of North and South America will grow over the long-term to approximately two-thirds of our total revenue.

Cost of Revenue

Cost of revenue consists of the manufacturing cost of our digital lidar sensors, which primarily consists of sensor components, personnel-related costs directly associated with our manufacturing organization, and amounts paid to our third-party contract manufacturer and vendors. Our cost of revenue also includes depreciation of manufacturing equipment, an allocated portion of overhead, facility and IT costs, stock-based compensation for manufacturing personnel, reserves for estimated warranty expenses, excess and obsolete inventory and shipping costs.

Gross Profit and Gross Margin

Our gross profit equals total revenues less our total cost of revenues, and our gross margin is our gross profit expressed as a percentage of total revenue. We experienced negative gross margins from the fourth quarter of 2018 until we turned gross margin positive during 2020 primarily due to increased unit volumes which improved our ability to absorb fixed costs and lowered material costs by increasing our buying power and a shift to outsourced mass production of our sensors to Benchmark, who has leverage for greater volume discounts and lower overhead costs. Subject to quarterly fluctuations and volatility, we expect actual costs to improve as we manufacture higher unit volumes of sensors and a greater portion of our sensors are produced by our contract manufacturer in Thailand.

Operating Expenses

Research and Development Expenses

Research and development (“R&D”) activities are primarily conducted at our San Francisco based headquarters and consist of the following activities:

- Design, prototyping, and testing of proprietary electrical, optical, and mechanical subsystems for our digital lidar products;
- Robust testing for industrial and autonomous vehicle safety certifications;
- Development of new products and enhancements to existing products in response to customer requirements including firmware development and software development of lidar integration products;
- Custom system-on-a-chip (“SoC”) design for Ouster’s digital lidar products; and
- Development of custom manufacturing equipment.

R&D expenses consist of personnel-related expenses, including salaries, benefits, and stock-based compensation, for all personnel directly involved in R&D activities, third-party engineering and contractor costs, and prototype expenses.

R&D costs are expensed as they are incurred. Our investment in R&D will continue to grow as we invest in new lidar technology and related software. Our absolute amount of R&D expense will grow over time; however, we expect R&D as a percentage of revenue to decrease annually as our business grows.

Sales and Marketing Expenses

Our business development, customer support and marketing teams are located in offices worldwide. Selling and marketing expenses consist of personnel-related expenses, including salaries, benefits, and stock-based compensation, for all personnel directly involved in business development, customer support, and marketing activities, and marketing expenses including trade shows, advertising, and demonstration equipment. Our investment in sales and marketing will continue to grow as we continue to expand our sales team globally, and our absolute amount of sales and marketing expenses will grow over time. We expect sales and marketing spend as a percentage of revenue to decrease over time as our business grows.

General and Administrative Expenses

General and administrative expenses consist of personnel-related expenses, including salaries, benefits, and stock-based compensation, of our executives and members of the board of directors, finance, human resource, IT, and legal departments as well as fees related to legal fees, patent prosecution, accounting, finance and professional services as well as insurance, and bank fees. Our absolute amount of general and administrative expense will grow over time; however, we expect the general and administrative spend as a percentage of revenue to decrease annually as our business grows. Near term increases in general and administrative expenses are expected to be related to hiring more personnel and consultants to support our growing international expansion and compliance with the applicable provisions of the Sarbanes-Oxley Act (“SOX”) and other U.S. Securities and Exchange Commission (“SEC”) rules and regulations as a result of becoming a public company following the Merger.

Stock-Based Compensation

We measure and recognize stock-based compensation expense for stock-based awards over the requisite service periods based on the estimated grant date fair value using the Black-Scholes-Merton option pricing model.

Interest Income, Interest Expense, and Other Income (Expense), Net

Interest income consists primarily of income earned on our cash and cash equivalents. These amounts will vary based on our cash and cash equivalents balances and market rates. Interest expense consists primarily of interest on our debt and convertible notes and amortization of debt issuance costs and discount. Other income (expense), net consists primarily of realized and unrealized gains and losses on foreign currency transactions and balances, the change in fair value of financial instruments, including warrants issued in connection with a debt agreement, and Private Placement warrants acquired as part of the Merger.

Income Taxes

Our income tax provision consists of federal, state and foreign current and deferred income taxes. Our income tax provision for interim periods is determined using an estimate of our annual effective tax rate, adjusted for discrete items arising in the quarter. Our effective tax rate differs from the U.S. statutory tax rate primarily due to valuation allowances on its deferred tax assets as it is more likely than not that some, or all, of our deferred tax assets will not be realized. We continue to maintain a full valuation allowance against its net deferred tax assets. Income tax provision for the three and nine months ended September 30, 2021 and 2020, respectively, was not material to the Company's condensed consolidated financial statements.

Results of Operations:

The following table sets forth our condensed consolidated results of operations data for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(dollars in thousands)		(dollars in thousands)	
Revenue				
Product revenue	\$ 7,755	\$ 5,934	\$ 21,726	\$ 10,524
Service revenue	—	13	—	2,004
Total revenue	7,755	5,947	21,726	12,528
Cost of revenue⁽¹⁾				
Cost of product revenue ⁽¹⁾	5,879	4,884	16,212	12,962
Cost of services	—	—	—	26
Total cost of revenue	5,879	4,884	16,212	12,988
Gross profit (loss)	1,876	1,063	5,514	(460)
Operating expenses ⁽¹⁾:				
Research and development	8,390	8,876	19,576	19,028
Sales and marketing	6,737	2,394	14,777	6,305
General and administrative	14,073	4,512	36,177	11,856
Total operating expenses	29,200	15,782	70,530	37,189
Loss from operations	(27,324)	(14,719)	(65,016)	(37,649)
Other (expense) income:				
Interest income	165	1	305	24
Interest expense	—	(521)	(504)	(2,196)
Other income (expense), net	14,490	(4,376)	(422)	(9,799)
Total other expense, net	14,655	(4,896)	(621)	(11,971)
Loss before income taxes	(12,669)	(19,615)	(65,637)	(49,620)
Provision for income tax expense	—	—	—	—
Net loss and comprehensive loss	\$ (12,669)	\$ (19,615)	\$ (65,637)	\$ (49,620)

The following table sets forth the components of our condensed consolidated statements of operations and comprehensive loss data as a percentage of revenue for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(% of total revenue)		(% of total revenue)	
Revenue				
Product revenue	100 %	100 %	100 %	84 %
Service revenue	—	0	—	16
Total revenue	100	100	100	100
Cost of revenue ⁽¹⁾				
Cost of product	76	82	75	103
Cost of services	—	0	—	—
Total cost of revenue	76	82	75	104
Gross profit (loss)	24	18	25	(4)
Operating expenses ⁽¹⁾:				
Research and development	108	149	90	152
Sales and marketing	87	40	68	50
General and administrative	181	76	167	95
Total operating expenses	377	265	325	297
Loss from operations	(352)	(248)	(299)	(301)
Other (expense) income:				
Interest income	2	—	1	—
Interest expense	—	(9)	(2)	(18)
Other income (expense), net	187	(74)	(2)	(78)
Total other expense, net	189	(82)	(3)	(96)
Loss before income taxes	(163)	(330)	(302)	(396)
Provision for income tax expense	—	—	—	—
Net loss and comprehensive loss	(163)%	(330)%	(302)%	(396)%

(1) Includes stock-based compensation expense as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(dollars in thousands)		(dollars in thousands)	
Cost of revenue	\$ 206	\$ 505	\$ 457	\$ 606
Research and development	2,063	4,889	4,305	5,177
Sales and marketing	1,717	319	2,702	408
General and administrative	3,161	1,543	11,093	1,700
Total stock-based compensation	\$ 7,147	\$ 7,256	\$ 18,557	\$ 7,891

Comparison of the three months ended September 30, 2021 and 2020**Revenue**

	Three Months Ended September 30,		Change	Change
	2021	2020	\$	%
(dollars in thousands)				
Revenue				
Product revenue	\$ 7,755	\$ 5,934	\$ 1,821	31 %
Service revenue	—	13	(13)	(100)
Total revenue	\$ 7,755	\$ 5,947	\$ 1,808	30 %
Revenue by geographic location:				
United States	\$ 4,037	\$ 2,283	\$ 1,754	77 %
Americas, excluding United States	147	87	60	69
Europe, Middle East and Africa	1,614	2,091	(477)	(23)
Asia and Pacific	1,957	1,486	471	32
Total	\$ 7,755	\$ 5,947	\$ 1,808	30 %

Product Revenue

Product revenue increased by \$1.8 million, or 31%, to \$7.8 million for the three months ended September 30, 2021 from \$5.9 million for the comparable period in the prior year. The increase in product revenue was driven by a 127% increase in volume which we attribute primarily to the expansion of our sales team and the increase of high volume, long-term agreements as some of our customers begin to move into a production stage with their autonomous products. Our average selling price declined by 42% as we moved towards long-term, high volume negotiated customer pricing. As our volumes increase we expect further reductions in our average selling price.

Service Revenue

Services revenue decreased by \$13 thousand. This decrease in revenue was due to there being no non-recurring engineering work in the three months ended September 30, 2021.

Geographic Locations

Revenue in Europe, the Middle East and Africa decreased by \$0.5 million in the three months ended September 30, 2021, compared to the prior year period. The revenue decrease was mainly attributable to average selling price decrease as Europe, the Middle East and Africa sold more units in the three months ended September 30, 2021 than in the prior year period. Average selling prices have decreased over the past year as we moved towards long-term, high volume negotiated customer pricing. Revenue in the United States; Americas excluding the United States; and Asia and Pacific increased by \$1.8 million, \$0.1 million, \$0.5 million, respectively, in the three months ended September 30, 2021 compared to the prior year period. The revenue increases in the United States and Americas excluding the United States, and Asia and Pacific were a result of focused sales expansion in those regions. We hired a President of Field Operations in April 2021 as well as sales and sales support staff to expand our coverage of the United States and Americas and all regions.

Cost of Product Revenue and Gross Margin

	Three Months Ended September 30,		Change	Change
	2021	2020	\$	%
(dollars in thousands)				
Cost of revenue				
Cost of product	\$ 5,879	\$ 4,884	\$ 995	20 %
Cost of services	—	—	—	—
Total	\$ 5,879	\$ 4,884	\$ 995	20 %

Cost of Product Revenue and Gross Margin

Cost of product revenue increased by \$1.0 million, or 20%, to \$5.9 million for the three months ended September 30, 2021 from \$4.9 million for the comparable period in the prior year and cost per unit decreased by 47%. The increase in cost of product revenue was primarily due to increases of \$2.9 million in material costs due to volume which was offset by \$2.0 million in per unit savings in material cost and an increase of \$0.8 million in other product costs which was primarily due to \$1.3 million in additional costs associated with securing materials during the global supply chain crisis. The increases were partially offset by a decrease of \$0.8 million in manufacturing overhead costs as we built more units than we sold and freight.

Product gross margin increased from 18% for the three months ended September 30, 2020 to 24% for the three months ended September 30, 2021. The improvement in product gross margin is due to the 47% decrease in cost per unit partially offset by a 4% decrease in average selling price.

Operating Expenses

	Three Months Ended September 30,		Change	Change
	2021	2020	\$	%
(dollars in thousands)				
Operating expenses:				
Research and development	\$ 8,390	\$ 8,876	\$ (486)	(5)%
Sales and marketing	6,737	2,394	4,343	181
General and administrative	14,073	4,512	9,561	212
Total operating expenses:	\$ 29,200	\$ 15,782	\$ 13,418	85 %

Research and Development

Research and development expenses decreased by \$0.5 million, or 5%, to \$8.4 million for the three months ended September 30, 2021 from \$8.9 million for the comparable period in the prior year. The decrease was primarily attributable to a \$3.2 million decrease in stock-based compensation expense, which was offset by a \$1.9 million increase in payroll-related expenses, a \$0.2 million increase in recruiting and a \$0.6 million decrease in product development, equipment and depreciation.

Sales and Marketing

Sales and marketing expenses increased by \$4.3 million, or 181%, to \$6.7 million for the three months ended September 30, 2021 from \$2.4 million for the comparable period in the prior year. The increase was primarily attributable to an increase of \$3.7 million in payroll and personnel-related costs driven by the addition of sales personnel in all our global regions, \$1.4 million of which was stock-based compensation related, \$0.2 million for marketing and sales consulting, and \$0.4 million in facility and business expenses related to opening and expanding sales offices around the world.

General and Administrative

General and administrative expenses increased by \$9.6 million, or 212%, to \$14.1 million for the three months ended September 30, 2021 from \$4.5 million for the comparable period in the prior year. The increase is primarily due to an increase of \$3.7 million in accounting and professional services (primarily audit and legal), increase of \$1.8 million relating to D&O insurance expense, \$1.6 million in stock-based compensation expense, \$1.3 million in payroll related expense, \$0.5 million in

office expenses and depreciation, \$0.2 million in facility expense, \$0.2 million in equipment, \$0.1 million in consultants, and \$0.2 million in public relations and investor relations.

Interest Income, Interest Expense and Other Income (Expense), Net

	Three Months Ended September 30,		Change	Change
	2021	2020	\$	%
(dollars in thousands)				
Interest income	\$ 165	\$ 1	\$ 164	16400 %
Interest expense	—	(521)	521	100
Other income (expense), net	14,490	(4,376)	18,866	431

The increase in interest income was primarily related to an increase in our cash and cash equivalent balances after the Merger closed on March 11, 2021.

The decrease in interest expense was primarily due to the conversion of convertible notes in the second quarter of 2020 and the repayment of bank debt in the third quarter of 2020 and in March 2021.

Other income (expense), net was \$14.5 million for the three months ended September 30, 2021 compared to \$(4.4) million for the comparable period in the prior year. During the three months ended September 30, 2021, we recorded other income of \$14.5 million for the decrease in fair value of private placement warrant liability. In the three months ended September 30, 2020 we recorded other expense of \$6.0 million for the increase in fair value of the warrant liability offset by a \$1.6 million gain from extinguishment of tranche liability.

We were subject to income taxes in the United States, Hong Kong, Thailand and China for the three months ended September 30, 2021 and 2020. Our income tax expense for three months ended September 30, 2021 and 2020 was not material to our condensed consolidated financial statements.

Comparison of the nine months ended September 30, 2021 and 2020

Revenue

	Nine Months Ended September 30,		Change	Change
	2021	2020	\$	%
(dollars in thousands)				
Revenue				
Product revenue	\$ 21,726	\$ 10,524	\$ 11,202	106 %
Service revenue	—	2,004	(2,004)	(100)
Total revenue	\$ 21,726	\$ 12,528	\$ 9,198	73 %
Revenue by geographic location:				
United States	\$ 8,463	\$ 6,349	\$ 2,114	33 %
Americas, excluding United States	675	194	481	248
Europe, Middle East and Africa	7,684	3,351	4,333	129
Asia and Pacific	4,904	2,634	2,270	86
Total	\$ 21,726	\$ 12,528	\$ 9,198	73 %

Product Revenue

Product revenue increased by \$11.2 million, or 106%, to \$21.7 million for the nine months ended September 30, 2021 from \$10.5 million for the comparable period in the prior year. The increase in product revenue was driven by an increase in volume of 205%, which we attribute primarily to the expansion of our sales team and the increase of high volume, long-term deals as some of our customers begin to move into a production stage with their autonomous products. Our average selling price declined by 32% as we moved towards negotiated customer pricing with customers reaching the production stage with their autonomous products and we expect reductions in the cost of goods sold as we grow our volumes.

Service Revenue

Service revenue decreased by \$2.0 million or 100% for the nine months ended September 30, 2021 from \$2.0 million for the comparable period in the prior year. This revenue represented engineering work in relation to our new product release in early 2020.

Geographic Locations

Revenue in the United States; Americas excluding the United States; Europe, the Middle East and Africa; and Asia and Pacific increased by \$2.1 million, \$0.5 million, \$4.3 million, \$2.3 million, respectively, in the nine months ended September 30, 2021 compared to the prior year period. The revenue increase was mainly attributable to investments in additional sales staff. The revenue increases in the geographic regions of Asia and Pacific and Europe, the Middle East and Africa were a result of recent sales expansion in those regions. We opened sales offices in these regions beginning in late 2019 and have since continued to invest in expanding globally. Additionally, we hired a President of Field Operations in April 2021 as well as sales and sales support staff to expand our coverage world-wide.

Cost of Product Revenue and Gross Margin

	Nine Months Ended September 30,		Change	Change
	2021	2020	\$	%
(dollars in thousands)				
Cost of revenue				
Cost of product revenue	\$ 16,212	\$ 12,962	\$ 3,250	25 %
Cost of services	—	26	(26)	(100)%
Total	\$ 16,212	\$ 12,988	\$ 3,224	24.8 %

Cost of Product Revenue and Gross Margin

Cost of product revenue increased by \$3.3 million, or 25%, to \$16.2 million for the nine months ended September 30, 2021 from \$13.0 million for the comparable period in the prior year and cost per unit decreased by 59%. The increase in cost of product revenue was primarily due to increases of \$7.3 million in material costs due to volume which was offset by \$3.8 million in savings due to reduction in material costs per unit and an increase of \$1.3 million in other product costs associated with securing materials during the global supply chain crisis. The increases were partially offset by a decrease of \$1.5 million in other product costs due to lower allowances for excess and obsolete inventory.

Product gross margin increased from (23)% for the nine months ended September 30, 2020 to 25% for the nine months ended September 30, 2021. The improvement in product gross margin is due to the 59% decrease in cost per unit slightly offset by the 32% decrease in average selling price referenced above.

Services Cost of Revenue and Gross Margin

Services cost of revenue decreased by \$26 thousand. This decrease in cost of revenue was due to there being no non-recurring engineering work in the nine months ended September 30, 2021.

Operating Expenses

	Nine Months Ended September 30,		Change	Change
	2021	2020	\$	%
(dollars in thousands)				
Operating expenses:				
Research and development	\$ 19,576	\$ 19,028	\$ 548	3 %
Sales and marketing	14,777	6,305	8,472	134
General and administrative	36,177	11,856	24,321	205
Total operating expenses:	\$ 70,530	\$ 37,189	\$ 33,341	90 %

Research and Development

Research and development expenses increased by \$0.5 million, or 3%, to \$19.6 million for the nine months ended September 30, 2021 from \$19.0 million for the comparable period in the prior year. The increase was primarily attributable to a \$1.0 million increase in stock-based compensation expense, a \$0.5 million increase in recruiting, a \$0.2 million increase in payroll and personnel-related expense, and a \$0.5 million increase in depreciation expense which was partially offset by a \$1.7 million reduction in prototype and equipment costs related to product development.

Sales and Marketing

Sales and marketing expenses increased by \$8.5 million, or 134%, to \$14.8 million for the nine months ended September 30, 2021 from \$6.3 million for the comparable period in the prior year. The increase was primarily attributable to an increase of \$6.9 million in payroll and personnel-related costs driven by the addition of sales personnel in all our global regions, of which \$2.2 million was stock-based compensation related, \$1.0 million for additional branding and public relations expenses related to the Merger, marketing and consultants, \$0.2 million in recruiting expenses, and \$0.6 million in facility, office and related expenses related to opening and expanding sales offices around the world. The increases were partially offset by \$0.2 million decrease in marketing expenses not associated with the Merger.

General and Administrative

General and administrative expenses increased by \$24.3 million, or 205%, to \$36.2 million for the nine months ended September 30, 2021 from \$11.9 million for the comparable period in the prior year. The increase was primarily due to an increase of \$9.4 million of stock-based compensation, a \$1.4 million increase in payroll-related expense, an increase of \$7.0 million in legal, accounting and professional services fees, an increase of \$4.1 million in insurance premiums, an increase of \$0.7 million of recruiting expenses relating to executive search and hiring, an increase of \$1.2 million in facilities and office related expense, an increase of \$0.2 million in public relations expense and \$0.3 million in depreciation.

Interest Income, Interest Expense and Other Income (Expense), Net

	Nine Months Ended September 30,		Change	Change
	2021	2020	\$	%
	(dollars in thousands)			
Interest income	\$ 305	\$ 24	\$ 281	1171 %
Interest expense	(504)	(2,196)	1,692	77
Other expense, net	(422)	(9,799)	9,377	96

Interest income was \$0.3 million for the nine months ended September 30, 2021 compared to \$0.024 million for the comparable period in the prior year. This increase in interest income was primarily related to an increase in our cash and cash equivalent balances after the Merger closed on March 11, 2021.

Interest expense was \$0.5 million for the nine months ended September 30, 2021 compared to \$2.2 million for the comparable period in the prior year. The decrease was primarily due to the conversion of convertible notes in the second quarter of 2020 and the repayment of bank debt in the third quarter of 2020 and March 2021.

Other expense, net was \$0.4 million for the nine months ended September 30, 2021 compared to \$9.8 million for the comparable period in the prior year. During the nine months ended September 30, 2021, we recorded a loss of \$8.8 million for the fair value change of redeemable convertible preferred stock warrant liability and a gain of \$8.4 million for the fair value change of Private Placement warrant liability. During the nine months ended September 30, 2020, we recorded losses of \$5.3 million for the fair value change of derivative liability related to our convertible notes and \$6.1 million for the fair value change of the warrant liability, partially offset by a \$1.6 million gain from extinguishment of tranche liability which was recorded as other income.

Income Taxes

We were subject to income taxes in the United States, Hong Kong, Thailand and China for the nine months ended September 30, 2021 and 2020. Our income tax expense for nine months ended September 30, 2021 and 2020 was not material to the Company's condensed consolidated financial statements.

Liquidity and Capital Resources

Our primary requirements for liquidity and capital are working capital, inventory management, capital expenditures, public company costs and general corporate needs. We expect these needs to continue as we develop and grow our business. Prior to the Merger, we primarily funded our operations from the net proceeds from sales of our preferred convertible stock and convertible notes, borrowing under our loan and security agreement with Runway Growth Credit Fund, Inc. and product revenue. Subsequent to the Merger, our principal sources of liquidity have been and are expected to be our cash and cash equivalents and product revenues.

As of September 30, 2021 we had an accumulated deficit of \$275.0 million and cash and cash equivalents of \$221.6 million. We have experienced recurring losses from operations, and negative cash flows from operations, and we expect to continue operating at a loss and to have negative cash flows from operations for the foreseeable future. We believe our cash and cash equivalents on hand, together with cash we expect to generate from future operations, will be sufficient to meet our working capital and capital expenditure requirements for a period of at least twelve months from the date of this Quarterly Report on Form 10-Q. However, because we are in the growth stage of our business and operate in an emerging field of technology, we expect to continue to invest in research and development and expand our sales and marketing teams worldwide. We are likely to require additional capital to respond to technological advancements, competitive dynamics or technologies, customer demands, business opportunities, challenges, acquisitions or unforeseen circumstances and in either the short-term or long-term may determine to engage in equity or debt financings or enter into credit facilities for other reasons. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to grow or support our business and to respond to business challenges could be significantly limited. In particular, the widespread COVID-19 pandemic, including variants, has resulted in, and may continue to result in, significant disruption of global financial markets, reducing our ability to access capital. If we are unable to raise additional funds when or on the terms desired, our business, financial condition and results of operations could be adversely affected.

PIPE Investment

On December 21, 2020, concurrently with the execution of the Merger Agreement, CLA entered into subscription agreements with certain institutional and accredited investors (collectively, the “PIPE Investors”), pursuant to which the PIPE Investors agreed to purchase, in the aggregate, 10,000,000 shares of Ouster common stock at \$10.00 per share for an aggregate commitment amount of \$100,000,000 (the “PIPE Investment”), a portion of which was funded by certain affiliates of Colonnade Sponsor LLC, CLA’s sponsor (the “Sponsor”). The PIPE Investment was consummated substantially concurrently with the closing of the Merger.

Financing Arrangements

On November 27, 2018, we entered into a Loan and Security Agreement with Runway Growth Credit Fund, Inc. (“Runway Loan and Security Agreement”) and borrowed \$10.0 million per the terms of that agreement with a loan maturity date of November 15, 2021. The loan carried an interest rate equal to LIBOR plus 8.50%. We repaid \$3.0 million of the loan in August 2020.

On March 26, 2021 we terminated the Runway Loan and Security Agreement and repaid the \$7.0 million principal amount outstanding as well as interest and fees amounting to \$0.4 million. We incurred no prepayment fees in connection with the termination and all liens and security interests securing the loan made pursuant to the Runway Loan and Security Agreement were released upon termination. As of September 30, 2021 and December 31, 2020, the outstanding principal balance of the loan was nil and \$7.0 million, respectively.

Cash Flow Summary

	Nine Months Ended September 30,	
	2021	2020
	(dollars in thousands)	
Net cash provided by (used in):		
Operating activities	\$ (45,106)	\$ (34,631)
Investing activities	(1,774)	(2,394)
Financing activities	257,826	38,543

Operating Activities

During the nine months ended September 30, 2021, operating activities used \$45.1 million in cash. The primary factors affecting our operating cash flows during this period were our net loss of \$65.6 million, impacted by our non-cash charges of \$24.8 million primarily consisting of stock-based compensation of \$18.6 million, a \$0.4 million change in fair value of warrant liabilities, depreciation and amortization of \$3.4 million, change in right-of-use asset of \$1.3 million, and interest expense and amortization of debt issuance costs and debt discount of \$0.3 million. The changes in our operating assets and liabilities of \$4.3 million were primarily due to a decrease in operating lease liability of \$1.8 million, a decrease in accounts payable of \$2.7 million, an increase in accounts receivable of \$4.4 million, an increase in inventory of \$2.6 million and an increase in accrued and other liabilities of \$7.1 million.

During the nine months ended September 30, 2020, operating activities used \$34.6 million in cash. The primary factors affecting our operating cash flows during this period were our net loss of \$49.6 million, impacted by our non-cash charges of \$24.1 million primarily consisting of a \$5.3 million change in fair value of derivative liability, interest expense and amortization of debt issuance costs and debt discount of \$1.2 million, depreciation and amortization of \$2.7 million, change in right-of-use asset of \$1.4 million, and stock-based compensation of \$7.9 million. The changes in our operating assets and liabilities of \$9.1 million were primarily due to an increase in inventories of \$4.1 million, and an increase in accounts receivable of \$2.0 million, a decrease in accounts payable of \$0.6 million, and a decrease in accrued and other current liabilities of \$2.0 million.

Investing Activities

During the nine months ended September 30, 2021, cash used in investing activities was \$1.8 million, which was related to purchases of property, plant and equipment.

During the nine months ended September 30, 2020, cash used in investing activities was \$2.4 million, which was related to purchases of property, plant and equipment.

Financing Activities

During the nine months ended September 30, 2021, cash provided by financing activities was \$257.8 million, consisting primarily of \$291.5 million of proceeds (net of \$8.4 million of pre-Merger costs relating to CLA) from the Merger and PIPE Investment offset by offerings costs of \$27.1 million, and proceeds from exercise of stock options of \$0.5 million, partially offset by repayment of debt of \$7.0 million. There were promissory notes to related parties of \$5.0 million that were issued and repaid during the nine months ended September 30, 2021.

During the nine months ended September 30, 2020, cash provided by financing activities was \$38.5 million, which was mainly related to the proceeds from issuance of Series B redeemable convertible preferred stock.

Off-Balance Sheet Arrangements

As of September 30, 2021, we did not have any off-balance sheet arrangements, that have or are reasonably likely to have a current or future effect on our financial condition, results of operations, or cash flows.

Contractual Obligations

There have been no material updates to our contractual obligations from those disclosed in our Quarterly Report on Form 10-Q for the three months ended March 31, 2021.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with GAAP. These principles require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, cost of revenue and expenses, and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. To the extent that there are material differences between these estimates and our actual results, our future financial statements will be affected.

There were no material changes to our critical accounting policies and estimates as of and for the three and nine months ended September 30, 2021, as compared to the critical accounting policies and estimates described in “Critical Accounting Policies and Estimates” in our final prospectus dated and filed with the SEC on August 19, 2021.

Recent Accounting Pronouncements

Please refer to Note 2 in our unaudited condensed consolidated financial statements contained elsewhere in this Quarterly Report on Form 10-Q for recently adopted accounting pronouncements and recently issued accounting pronouncements not yet adopted as of the date of this Quarterly Report on Form 10-Q. Based on our public float as of June 30, 2021, we expect to become a large accelerated filer, and lose emerging growth company status, as of December 31, 2021. As of December 31, 2021, we will be required to adopt new or revised accounting standards when they are applicable to public companies that are not emerging growth companies.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risks in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily the result of fluctuations in interest rates and foreign currency exchange rates.

We do not believe that inflation has had a material effect on our business, results of operations or financial condition. Nonetheless, if our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs. Our inability or failure to do so could harm our business, results of operations or financial condition.

Interest Rate Risk

As of September 30, 2021, we had cash and cash equivalents of approximately \$221.6 million, out of which \$219.3 million consisted of institutional money market funds, which carries a degree of interest rate risk. A hypothetical 10% change in interest rates would not have a material impact on our financial condition or results of operations due to the short-term nature of our investment portfolio.

Foreign Currency Exchange Risk

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. Substantially all of our revenue is generated in U.S. dollars. Our expenses are generally denominated in the currencies of the jurisdictions in which we conduct our operations, which are primarily in the United States, and to a lesser extent in Asia and Europe. Our results of operations and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates and may be adversely affected in the future due to changes in foreign exchange rates. The effect of a hypothetical 10% change in foreign currency exchange rates applicable to our business would not have a material impact on our historical consolidated financial statements. To date, we have not engaged in any hedging strategies. As our international operations grow, we will continue to reassess our approach to manage our risk relating to fluctuations in currency rates.

Item 4. Controls and Procedures

Limitations on effectiveness of controls and procedures

We maintain disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. In designing and evaluating our disclosure controls and procedures, 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 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.

Evaluation of disclosure controls and procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, our

principal executive officer and principal financial officer concluded that our disclosure controls and procedures were not effective as of September 30, 2021 due to the material weaknesses in our internal control over financial reporting described below.

Material Weaknesses and Remediation Plan

We identified material weaknesses in our internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

We did not design and maintain an effective control environment commensurate with our financial reporting requirements. Specifically, we did not maintain a sufficient complement of personnel with an appropriate degree of internal controls and accounting knowledge, experience, and training commensurate with our accounting and reporting requirements. This material weakness contributed to the following additional material weaknesses:

- We did not design and maintain effective controls over the period-end financial reporting process to achieve complete, accurate and timely financial accounting, reporting and disclosures, including segregation of duties and adequate controls related to journal entries and certain other business processes, and verifying transactions are properly classified in the financial statements. This material weakness resulted in adjustments to several account balances and disclosures in the consolidated financial statements for the years ended December 31, 2019 and 2018, and adjustments to the equity and warrant liabilities accounts and related disclosures in the condensed consolidated financial statements for the three months ended March 31, 2021.
- We did not design and maintain effective controls over certain information technology (“IT”) general controls for information systems that are relevant to the preparation of our consolidated financial statements. Specifically, we did not design and maintain (i) program change management controls to ensure that information technology program and data changes affecting financial IT applications and underlying accounting records are identified, tested, authorized and implemented appropriately and (ii) user access controls to ensure appropriate segregation of duties and that adequately restrict user and privileged access to our financial applications, programs and data to appropriate personnel. This material weakness did not result in a material misstatement to the consolidated financial statements, however, the deficiencies, when aggregated, could impact maintaining effective segregation of duties, as well as the effectiveness of IT-dependent controls (such as automated controls that address the risk of material misstatement to one or more assertions, along with the IT controls and underlying data that support the effectiveness of system-generated data and reports) that could result in misstatements potentially impacting all financial statement accounts and disclosures that would not be prevented or detected.

Additionally, each of these material weaknesses could result in a misstatement of account balances or disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

We have begun the process of, and are focused on, designing and implementing effective internal control measures to improve our internal control over financial reporting and remediate the material weaknesses. Our efforts include a number of actions:

- We are actively recruiting additional personnel, in addition to engaging and utilizing third party consultants and specialists to supplement our internal resources and segregate key functions within our business processes, where appropriate.
- We also continue to take actions to improve our IT general controls, segregation of duties controls, period-end financial reporting controls, and journal entry controls.
- We are implementing comprehensive access control protocols for our enterprise resource planning environment to implement restrictions on user and privileged access to certain applications, establishing additional controls over the preparation and review of journal entries, establishing additional controls to verify transactions are properly classified in the financial statements, implementing controls to review the activities for those users who have privileged access and program change management controls to ensure that IT program and data changes affecting financial IT applications and underlying accounting records are identified, tested, authorized and implemented appropriately.

While these actions and planned actions are subject to ongoing management evaluation and will require validation and testing of the design and operating effectiveness of internal controls over a sustained period, we are committed to continuous improvement and will continue to diligently review our internal control over financial reporting.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On June 10, 2021, we received a letter from the SEC notifying us of an investigation and document subpoena. The subpoena seeks documents regarding projected financial information in CLA's Form S-4 registration statement filed on December 22, 2020. We are cooperating with the SEC's subpoena.

From time to time, we have been and may again become involved in legal proceedings arising in the ordinary course of our business. We are not presently a party to any litigation or legal proceedings that we believe to be material and we are not aware of any pending or threatened litigation against us that we believe could have a material adverse effect on our business, operating results, financial condition or cash flows. See Part I, Item 1 "Financial Statements (Unaudited) — Note 7 — Commitments and Contingencies."

Item 1A. Risk Factors

There have been no material changes to our previously disclosed risk factors in our final prospectus filed with the SEC on August 19, 2021.

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

Unregistered Sales of Equity Securities

Other than the securities issued as consideration for the Sense acquisition as disclosed in our Current Report on Form 8-K filed October 5, 2021, we sold no securities during the three months ended September 30, 2021 that were not registered under the Securities Act.

Use of Proceeds

On August 25, 2020, CLA consummated an initial public offering of 20,000,000 units, each consisting of one Class A ordinary share, \$0.0001 par value, and one-half of one redeemable warrant (the "Units"). The Units sold in the Initial Public Offering were sold at an offering price of \$10.00 per unit, generating gross proceeds of \$200,000,000. BTIG acted as sole book-running manager, of the initial public offering. The securities in the offering were registered under the Securities Act on a registration statement on Form S-1 (No. 333-240378). The Securities and Exchange Commission declared the registration statement effective on August 20, 2020. The proceeds from the initial public offering were used as consideration for the Merger and any remaining proceeds will be used for general corporate purposes.

Issuer Purchases of Equity Securities

We did not purchase any of our equity securities that are registered under Section 12(b) of the Exchange Act during the three months ended September 30, 2021.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits.

Exhibit Number	Description	Incorporated by Reference				Filed/ Furnished herewith
		Form	File No.	Exhibit	Filing Date	
2.1†	Agreement and Plan of Merger, dated as of December 21, 2020, by and among the Company, Beam Merger Sub, Inc. and Ouster, Inc.	S-4/A	333-251611	2.1	2/10/2021	
3.1	Certificate of Incorporation of Ouster, Inc.	S-4 POS	333-251611	3.1	3/10/2021	
3.2	Bylaws of Ouster, Inc.	S-4 POS	333-251611	3.2	3/10/2021	
10.1	Amended and Restated Non-Employer Director Compensation Program					
10.2	Agreement and Plan of Merger and Plan of Reorganization, dated as of October 5, 2021, by and among Ouster, Inc., Sparrow Acquisition Sub, Inc., Sense Photonics, Inc., and Fortis Advisors LLC, solely in its capacity as Holders' Agent	8-K	001-39463	2.1	10/5/2021	
10.3+	Sense Photonics, Inc. 2017 Equity Incentive Plan, as amended.	S-8	333-260576	99.1	10/29/2021	
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended					*
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended					*
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					**
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					**
101.INS	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.					*
101.SCH	Inline XBRL Taxonomy Extension Schema Document					*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					*
101.LAB	Inline XBRL Taxonomy Label Linkbase Document					*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					*
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)					*

- † The annexes, schedules, and certain exhibits to this Exhibit have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Registrant hereby agrees to furnish supplementally a copy of any omitted annex, schedule or exhibit to the SEC upon request.
- * Filed herewith.
- ** Furnished herewith.
- + Indicates a management contract or compensatory plan, contract or arrangement.

SIGNATURE

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

Date: November 12, 2021

Ouster, Inc.

By: /s/ Anna Brunelle

Name: Anna Brunelle

Title: Chief Financial Officer (*principal financial officer and principal accounting officer*)

CERTIFICATION

I, Angus Pacala, certify that:

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

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2021

By: /s/ Angus Pacala

Angus Pacala

Co-Founder and Chief Executive Officer
(principal executive officer)

CERTIFICATION

I, Anna Brunelle, certify that:

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

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2021

By: /s/ Anna Brunelle
Anna Brunelle
Chief Financial Officer
(*principal financial officer*)

