

**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, 2023
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
Warrants to purchase common stock expiring 2025	OUST WSA	NYSE American

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	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
Emerging growth company	☐		

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

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 9, 2023, the registrant had 40,692,290 shares of common stock, \$0.0001 par value per share, outstanding.

TABLE OF CONTENTS

	Page
Part I - Financial Information	
<u>Item 1.</u>	
<u>Financial Statements</u>	5
<u>Condensed Consolidated Balance Sheets (Unaudited)</u>	5
<u>Condensed Consolidated Statements of Operations and Comprehensive Loss (Unaudited)</u>	6
<u>Condensed Consolidated Statements of Stockholders' Equity (Unaudited)</u>	7
<u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u>	9
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	11
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	36
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	48
<u>Item 4.</u>	
<u>Controls and Procedures</u>	50
Part II - Other Information	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	52
<u>Item 1A.</u>	
<u>Risk Factors</u>	52
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities</u>	53
<u>Item 3.</u>	
<u>Defaults Upon Senior Securities</u>	53
<u>Item 4.</u>	
<u>Mine Safety Disclosures</u>	53
<u>Item 5.</u>	
<u>Other Information</u>	53
<u>Item 6.</u>	
<u>Exhibits</u>	54
<u>Signature</u>	56

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (“Quarterly Report”) contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Ouster, Inc. (the “Company”, “Ouster,” or “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 other than statements of historical fact, including statements regarding the anticipated interest expense savings from the prepayment of the term loan facility with Hercules Capital, Inc.; the projected operational flexibility afforded to Ouster under its credit agreement with UBS Bank USA and UBS Financial Services Inc.; Ouster’s future restricted cash balances; the anticipated benefits of and costs associated with the Velodyne Merger (as defined herein) and related restructuring initiatives; Ouster’s expectations surrounding the Velodyne Merger and its ability to grow the Company’s sales and bolster the Company’s financial position; expected contractual obligations and capital expenditures; the capabilities of and demand for Ouster’s products; Ouster’s anticipated new product launches and developments, including software-related solution systems; Ouster’s ability to grow its sales and marketing organization; Ouster’s future results of operations and financial position; industry and business trends; the remediation of material weaknesses; potential risks of inventory obsolescence; Ouster’s expectations regarding the Hesai intellectual property patent infringement cases; the impact of market conditions and other macroeconomic factors on Ouster’s business, financial condition and results of operation; Ouster’s future business strategy, plans, distribution partnerships, market growth and its objectives for future operations; and Ouster’s competitive market position within its industry, are forward-looking statements. The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” “could,” “would,” “project,” “plan,” “potentially,” “preliminary,” “likely,” “aim,” “forecast,” “should,” “can have,” “likely,” and similar expressions are intended to identify forward-looking statements. The Company has based these forward-looking statements largely on its current expectations and projections about future events and trends that it believes may affect its 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 that may cause actual results to differ materially from those that Ouster expected, including, but not limited to, Ouster’s limited operating history and history of losses; its ability to successfully integrate its business with Velodyne and achieve the anticipated benefits and synergies of the Velodyne Merger; substantial research and development costs needed to develop and commercialize new products; fluctuations in its operating results; Ouster’s ability to maintain competitive average selling prices or high sales volumes or reduce product costs; conditions in its customers’ industries; the competitive environment in which Ouster operates; the negotiating power and product standards of its customers; the creditworthiness of Ouster’s customers; the ability of its lidar technology roadmap and new software solutions to catalyze growth; the selection of Ouster’s products for inclusion in target markets; risks of product delivery problems or defects; costs associated with product warranties; Ouster’s future capital needs and ability to secure additional capital on favorable terms or at all; inaccurate forecasts of market growth; Ouster’s ability to manage growth; Ouster’s ability to grow its sales and marketing organization; risks related to acquisitions; risks related to international operations and compliance; cancellation or postponement of contracts or unsuccessful implementations; Ouster’s ability to maintain inventory and the risk of inventory write-downs; its ability to use tax attributes; Ouster’s dependence on key third-party suppliers, in particular Benchmark Electronics, Inc. and Fabrinet; supply chain constraints and challenges; risks related to Ouster’s indebtedness; Ouster’s ability to recruit and retain key personnel; Ouster’s ability to effectively respond to evolving regulations and standards; Ouster’s ability to adequately protect and enforce its intellectual property rights, including as relates to Hesai; risks related to operating as a public company; and other important factors discussed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022, that are further updated from time to time in the Company’s other filings with the Securities and Exchange Commission (the “SEC”) that may cause its 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, 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 or to conform these statements to actual results or revised expectations.

GENERAL

Unless the context otherwise indicates, references in this Quarterly Report 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 SEC filings, webcasts, press releases and conference calls. Information contained on our website is not part of this Quarterly Report.

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, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 75,585	\$ 122,932
Restricted cash, current	540	257
Short-term investments	124,913	—
Accounts receivable, net	13,404	11,233
Inventory	26,474	19,533
Prepaid expenses and other current assets	11,971	8,543
Total current assets	252,887	162,498
Property and equipment, net	11,529	9,695
Unbilled receivable, long-term portion	7,583	—
Operating lease, right-of-use assets	19,812	12,997
Goodwill	—	51,152
Intangible assets, net	26,053	18,165
Restricted cash, non-current	1,090	1,089
Other non-current assets	2,877	541
Total assets	<u>\$ 321,831</u>	<u>\$ 256,137</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 7,932	\$ 8,798
Accrued and other current liabilities	35,793	17,071
Contract liabilities	10,776	402
Operating lease liability, current portion	7,078	3,221
Total current liabilities	61,579	29,492
Operating lease liability, long-term portion	20,376	13,400
Debt	40,422	39,574
Contract liabilities, long-term portion	3,914	342
Other non-current liabilities	1,493	1,710
Total liabilities	<u>127,784</u>	<u>84,518</u>
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock, \$0.0001 par value; 100,000,000 shares authorized at September 30, 2023 and December 31, 2022; 40,626,201 and 18,658,799 issued and outstanding at September 30, 2023 and December 31, 2022, respectively.	39	19
Additional paid-in capital	971,419	613,665
Accumulated deficit	(777,031)	(441,916)
Accumulated other comprehensive loss	(380)	(149)
Total stockholders' equity	<u>194,047</u>	<u>171,619</u>
Total liabilities and stockholders' equity	<u>\$ 321,831</u>	<u>\$ 256,137</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,	
	2023	2022	2023	2022
Revenue	\$ 22,209	\$ 11,204	\$ 58,835	\$ 30,091
Cost of revenue	19,116	7,488	55,932	21,002
Gross (loss) profit	3,093	3,716	2,903	9,089
Operating expenses:				
Research and development	16,678	17,212	75,584	49,011
Sales and marketing	7,887	8,541	33,086	23,194
General and administrative	14,270	14,008	63,437	40,306
Goodwill impairment charges	—	—	166,675	—
Total operating expenses	38,835	39,761	338,782	112,511
Loss from operations	(35,742)	(36,045)	(335,879)	(103,422)
Other income (expense):				
Interest income	2,495	733	6,459	1,231
Interest expense	(1,825)	(699)	(5,222)	(1,143)
Other income (expense), net	(13)	61	(124)	7,071
Total other income, net	657	95	1,113	7,159
Loss before income taxes	(35,085)	(35,950)	(334,766)	(96,263)
Provision for income tax expense	17	37	349	121
Net loss	\$ (35,102)	\$ (35,987)	\$ (335,115)	\$ (96,384)
Other comprehensive loss				
Changes in unrealized loss on available for sale securities	63	—	40	—
Foreign currency translation adjustments	(213)	(87)	(271)	(175)
Total comprehensive loss	\$ (35,252)	\$ (36,074)	\$ (335,346)	\$ (96,559)
Net loss per common share, basic and diluted	\$ (0.89)	\$ (1.98)	\$ (9.39)	\$ (5.48)
Weighted-average shares used to compute basic and diluted net loss per share	39,228,118	18,136,135	35,670,408	17,576,509

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

OUSTER, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(unaudited)
(in thousands, except share data)

	Common Stock		Additional Paid-in- Capital	Accumulated Deficit	Accumulated other comprehensive loss	Total Stockholders' Equity
	Shares	Amount				
Balance — December 31, 2022	18,658,799	\$ 19	\$ 613,665	\$ (441,916)	\$ (149)	\$ 171,619
Issuance of common stock upon Velodyne Merger	19,483,269	20	306,582	—	—	306,602
Issuance of common stock upon exercise of stock options	10,007	—	18	—	—	18
Issuance of common stock upon vesting of restricted stock	568,675	—	—	—	—	—
Repurchase of common stock	(3,753)	—	—	—	—	—
Vesting of early exercised stock options	—	—	27	—	—	27
Stock-based compensation expense	—	—	21,780	—	—	21,780
Net loss	—	—	—	(177,280)	—	(177,280)
Other Comprehensive loss	—	—	—	—	(30)	(30)
Balance — March 31, 2023	38,716,997	39	942,072	(619,196)	(179)	322,736
Common Stock adjustment reflected as a result of the one-for-10 reverse stock split effectuated on April 6, 2023	85,893	—	—	—	—	—
Issuance of common stock upon exercise of stock options	69,080	—	131	—	—	131
Issuance of common stock upon vesting of restricted stock	385,865	—	—	—	—	—
Issuance of common stock to employees under employee stock purchase plan	62,880	—	310	—	—	310
Common stock warrants issuable to customer	—	—	61	—	—	61
Vesting of early exercised stock options	—	—	71	—	—	71
Stock-based compensation expense	—	—	16,466	—	—	16,466
Net loss	—	—	—	(122,733)	—	(122,733)
Other Comprehensive loss	—	—	—	—	(51)	(51)
Balance — June 30, 2023	39,320,715	39	959,111	(741,929)	(230)	216,991
Proceeds from at-the-market offering, net of commissions and fees of \$122 and issuance costs of \$327	802,832	—	3,616	—	—	3,616
Issuance of common stock upon exercise of stock options	47,710	—	93	—	—	93
Issuance of common stock upon exercise of restricted stock	454,944	—	—	—	—	—
Common stock warrants issuable to customer	—	—	227	—	—	227
Vesting of early exercised stock options	—	—	—	—	—	—
Stock-based compensation expense	—	—	8,372	—	—	8,372
Net loss	—	—	—	(35,102)	—	(35,102)
Other Comprehensive loss	—	—	—	—	(150)	(150)
Balance — September 30, 2023	40,626,201	\$ 39	\$ 971,419	\$ (777,031)	\$ (380)	\$ 194,047

	Common Stock		Additional	Accumulated	Accumulated other	Total
	Shares	Amount	Paid-in-Capital	Deficit	comprehensive loss	Stockholders' Equity
Balance — December 31, 2021	17,220,042	\$ 17	\$ 564,045	\$ (303,356)	\$ (6)	260,700
Issuance of common stock upon exercise of stock options	82,270	—	209	—	—	209
Issuance of common stock upon vesting of restricted stock - net of tax withholding	81,249	—	(59)	—	—	(59)
Repurchase of common stock	(23,311)	—	(31)	—	—	(31)
Vesting of early exercised stock options	—	—	19	—	—	19
Stock-based compensation expense	—	—	8,750	—	—	8,750
Net loss	—	—	—	(32,397)	—	(32,397)
Other Comprehensive loss	—	—	—	—	(12)	(12)
Balance — March 31, 2022	17,360,250	17	572,933	(335,753)	(18)	237,179
Proceeds from at-the-market offering, net of commissions and fees of \$451 and issuance costs of \$873	674,934	1	14,021	—	—	14,022
Issuance of common stock upon exercise of stock options	23,424	—	45	—	—	45
Issuance of common stock upon exercise of restricted stock awards	95,086	—	—	—	—	—
Repurchase of common stock	(5,730)	—	(12)	—	—	(12)
Vesting of early exercised stock options	—	—	52	—	—	52
Cancellation of Sense acquisition shares	(5,513)	—	(358)	—	—	(358)
Stock-based compensation expense	—	—	8,119	—	—	8,119
Net loss	—	—	—	(28,000)	—	(28,000)
Other Comprehensive loss	—	—	—	—	(76)	(76)
Balance — June 30, 2022	18,142,451	\$ 18	\$ 594,800	\$ (363,753)	\$ (94)	\$ 230,971
Proceeds from at-the-market offering, net of commissions and fees of \$54	108,437	—	1,754	—	—	1,754
Issuance of common stock upon exercise of stock options	72,209	—	146	—	—	146
Issuance of common stock upon exercise of restricted stock awards	97,515	—	—	—	—	—
Repurchase of common stock	(1,610)	—	(3)	—	—	(3)
Vesting of early exercised stock options	—	—	43	—	—	43
Stock-based compensation expense	—	—	8,455	—	—	8,455
Net loss	—	—	—	(35,987)	—	(35,987)
Other Comprehensive loss	—	—	—	—	(87)	(87)
Balance — September 30, 2022	18,419,002	\$ 18	\$ 605,195	\$ (399,740)	\$ (181)	\$ 205,292

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,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (335,115)	\$ (96,384)
Adjustments to reconcile net loss to net cash used in operating activities:		
Goodwill impairment charges	166,675	—
Depreciation and amortization	14,290	7,070
Loss on write-off of construction in progress and right-of-use asset impairment	1,423	
Gain on lease termination	(807)	—
Stock-based compensation	46,618	25,324
Reduction of revenue related to stock warrant issued to customer	288	—
Amortization of right-of-use asset	3,268	2,075
Interest expense	1,112	290
Amortization of debt issuance costs and debt discount	190	104
Accretion or amortization on short-term investments	(3,303)	—
Change in fair value of warrant liabilities	(67)	(7,350)
Inventory write-downs and purchase commitment losses	8,223	894
Provision for doubtful accounts	1,015	9
Gain from disposal of property and equipment	(248)	(100)
Changes in operating assets and liabilities, net of acquisition effects:		
Accounts receivable	4,498	(69)
Inventory	(4,474)	(14,249)
Prepaid expenses and other assets	676	(1,540)
Accounts payable	(4,112)	3,225
Accrued and other liabilities	(10,229)	(158)
Contract liabilities	410	—
Operating lease liability	(4,034)	(2,431)
Net cash used in operating activities	(113,703)	(83,290)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	560	275
Purchases of property and equipment	(2,633)	(2,353)
Purchase of short-term investments	(82,021)	—
Proceeds from sales of short-term investments	115,481	—
Cash and cash equivalents acquired in the Velodyne Merger	32,137	—
Net cash provided by (used in) investing activities	63,524	(2,078)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase of common stock	—	(46)
Proceeds from ESPP purchase	310	—
Proceeds from exercise of stock options	243	398
Proceeds from borrowings, net of debt discount and issuance costs	—	19,077
Proceeds from the issuance of common stock under at-the-market offering, net of commissions and fees	2,936	16,322
At-the-market offering costs for the issuance of common stock	(104)	(278)
Taxes paid related to net share settlement of restricted stock units	—	(59)
Net cash provided by financing activities	3,385	35,414
Effect of exchange rates on cash and cash equivalents	(269)	(175)
Net decrease in cash, cash equivalents and restricted cash	(47,063)	(50,129)
Cash, cash equivalents and restricted cash at beginning of period	124,278	184,656
Cash, cash equivalents and restricted cash at end of period	\$ 77,215	\$ 134,527

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

	Nine Months Ended September 30,	
	2023	2022
SUPPLEMENTAL DISCLOSURES OF OPERATING ACTIVITIES:		
Cash paid for interest	\$ 4,362	\$ 750
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING INFORMATION:		
Property and equipment purchases included in accounts payable and accrued liabilities	\$ 470	\$ 45
Common stock shares issued in the Velodyne Merger	\$ 297,425	\$ —
Common stock warrants issued in the Velodyne Merger	\$ 9,177	\$ —
Unpaid at-the-market offering costs	\$ 223	\$ 267
Right-of-use assets obtained in exchange for operating lease liability	\$ —	\$ 571

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 Cayman Islands on June 4, 2020 as “Colonnade Acquisition Corp.” (“CLA”). Following the closing of the business combination in March 2021, the Company domesticated as a Delaware corporation and changed its name to “Ouster, Inc.” The Company’s prior operating subsidiary, Ouster Technologies, Inc. (“OTI” and prior to the Merger (as defined below)), 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 CLA) and its consolidated subsidiaries following the consummation of the Merger.

CLA, the Company’s legal predecessor, was originally a blank check company incorporated as a Cayman Islands exempted company on June 4, 2020. CLA 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 (the “Merger”) with OTI pursuant to an Agreement and Plan of Merger (the “Merger Agreement”) dated as of December 21, 2020. The Merger was accounted for as a reverse recapitalization, CLA is treated as the “acquired” company for financial reporting purposes. 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.

On February 10, 2023, the Company completed the merger with Velodyne Lidar, Inc., a Delaware corporation (“Velodyne”) pursuant to the terms of the Agreement and Plan of Merger (the “Velodyne Merger Agreement”) with Velodyne, Oban Merger Sub, Inc. (“Merger Sub I”) and Oban Merger Sub II LLC (“Merger Sub II”) (the “Velodyne Merger”) dated as of November 4, 2022, accounted for as a business combination with the Company being an accounting acquiror (Note 3).

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 (“U.S. GAAP”) applicable to interim periods. All intercompany balances and transactions have been eliminated in consolidation. The presentation of certain prior period amounts has been reclassified to conform with current year presentation.

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, 2022 and the notes related thereto, included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on March 24, 2023. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. 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 applicable 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, 2023 or for any other future years or interim periods.

On April 6, 2023, the Board of Directors approved a one-for-10 reverse stock split and a corresponding reduction in authorized shares of common stock (the “Reverse Stock Split”). On April 20, 2023, the Company filed with the Secretary of State of the State of Delaware a Certificate of Amendment to its Certificate of Incorporation to effect the one-for-10 Reverse Stock Split of the Company’s common stock and a corresponding reduction in authorized shares of common stock. The par value of the Company’s common stock was not adjusted as a result of the Reverse Stock Split. All share and per share amounts and related stockholders’ equity balances presented herein have been retroactively adjusted to reflect the Reverse Stock Split.

Liquidity

The Company's principal sources of liquidity are its cash and cash equivalents and short-term investments funded from the Merger and the Velodyne Merger, cash generated from revenues, sales of common stock under its at-the-market equity offering program and debt financing.

As of September 30, 2023, the Company's existing sources of liquidity included cash, cash equivalents and short-term investments of \$200.5 million. The Company has incurred losses and negative cash flows from operations for several years. If the Company continues to incur losses in the future, it may need to improve liquidity and raise additional capital through the issuance of equity and/or debt. There can be no assurance that the Company would be able to raise such capital. However, management believes that the Company's existing sources of liquidity are adequate to fund its operations for at least twelve months from the date the condensed consolidated financial statements herein were available for issuance.

Note 2 – Summary of Significant Accounting Policies

During the nine months ended September 30, 2023, there were no significant changes to the Company's significant accounting policies as disclosed in the Company's Annual Report on Form 10-K filed with the SEC on March 24, 2023, except for the changes described below. The Company has consistently applied the accounting policies to all periods presented in these condensed consolidated financial statements.

Revenue Recognition

The Company recognizes revenue when a customer obtains control of promised products or services. The amount of revenue recognized reflects the consideration that the Company expects to be entitled to receive in exchange for these products or services. To achieve the core principle of this standard, the Company performs the following five steps:

1) Identify the contract with a customer

A contract with a customer exists when the contract is approved, each party's rights regarding the product or services to be transferred and the payment terms for the product or services can be identified, it is determined that the customer has the ability and intent to pay and the contract has commercial substance. The Company applies judgement in determining the customer's ability and intent to pay, which is based on a variety of factors, including the customer's historical payment experience or, in the case of a new customer, credit and financial information pertaining to the customer. Accounts receivable are due under normal trade terms, typically three months or less.

2) Identify the performance obligations in the contract

Performance obligations promised in a contract are identified based on the product or services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the product or service either on its own or together with other resources readily available from third parties or from the Company, and are distinct in the context of the contract, whereby the transfer of the product or services is separately identifiable from other promises in the contract.

3) Determine the transaction price

The transaction price is determined based on the consideration to which the Company expects to be entitled in exchange for transferring product or services to the customer. Royalties from the license of IP are included in the transaction price in the period the sales occur. Other forms of variable consideration are included in the transaction price if the Company judges that it is probable that a significant future reversal of cumulative revenue under the contract will not occur. None of the Company's contracts contain a significant financing component. All taxes assessed by a governmental authority on a specific revenue-producing transaction collected by the Company from a customer are excluded from the transaction price.

4) Allocate the transaction price to performance obligations in the contract

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price ("SSP"). In the three and nine months ended September 30, 2023 and 2022, respectively, the Company did not have a material volume of contracts that required the allocation of transaction price to multiple performance obligations.

5) Recognize revenue when or as the Company satisfies a performance obligation

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

Product revenue

The majority of the Company's revenue comes from product sales of lidar sensors to direct customers and distributors. Revenue is recognized at a point in time when control of the goods is transferred to the customer, generally occurring upon shipment or delivery dependent upon the terms of the underlying contract. Product sales to certain customers may require customer acceptance due to performance acceptance criteria that is considered more than a formality. For these product sales, revenue is recognized upon the expiration of the customer acceptance period. For custom products that require engineering and development based on customer requirements, the Company recognizes revenue over time using an output method based on units of product shipped to date relative to total production units under the contract. Amounts billed to customers for shipping and handling are included in revenue, and the Company has 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 shipping costs are accrued and recognized within cost of revenue when the related revenue is recognized.

Services

The Company's services revenue consists primarily of product development, validation services and providing maintenance services under our extended warranty contracts. The obligation to provide services is generally satisfied over time, with the customer simultaneously receiving and consuming the benefits as the Company satisfies its performance obligations. For product development and validation service projects, the Company bills and recognizes revenue as the services are performed. For these arrangements, control is transferred over as the Company's inputs incurred to complete the project; therefore, revenue is recognized over the service period with the measure of progress using the input method based on labor costs incurred to total labor cost ("cost-to-cost") as the services are provided. The revenue from the sale of extended warranties is recognized over the warranty period on a ratable basis as the Company stands ready to provide services as needed.

Licenses

The Company licenses rights to its IP to certain third parties and collects royalties based on the third parties' product sales. IP revenue recognition is dependent on the nature and terms of each agreement. The Company recognizes license revenue upon the later of (a) delivery of the IP or (b) commencement of the license term if there are no substantive future obligations to perform under the arrangement. Revenue for licenses to future technology developed on a when-and-if -available basis is recognized straight-line over the license period as long as customers continue to have access to the future technology. Royalties from the license of IP are recognized at the later of the period the sales occur or the satisfaction of the performance obligation to which some or all of the royalties have been allocated.

Product Warranties

The Company provides standard product warranties for a term of typically one to two years depending on the product to ensure that its products comply with agreed-upon specifications. Standard warranties are considered to be assurance type warranties and are not accounted for as separate performance obligations. The Company also provides service type extended warranties for typically an additional term ranging up to two additional years. For service type extended warranty contracts, the Company allocates revenue to this performance obligation on a relative standalone selling price basis and recognizes the revenue on a ratable basis over time during the effective period of the services.

Costs to obtain a contract

The Company expenses the incremental costs of obtaining a contract when incurred because the amortization period for these costs would be less than one year. These costs primarily relate to sales commissions and are expensed as incurred in sales and marketing expense in the Company's consolidated statements of operations and comprehensive loss.

Remaining performance obligations

Revenue allocated to remaining performance obligations represents the transaction price allocated to the performance obligations that are unsatisfied, or partially unsatisfied. It includes unearned revenue and amounts that will be invoiced and recognized as revenue in future periods and does not include contracts where the customer is not committed. The customer is not considered committed where they are able to terminate for convenience without payment of a substantive penalty under the contract.

Investments

The Company considers investments with an original maturity greater than three months and remaining maturities less than one year to be short-term investments. The Company classifies those investments that are not required for use in current operations and that mature in more than 12 months as long-term investments.

The Company classifies its investments as available for sale and reports them at fair value, with unrealized gains and losses recorded in accumulated other comprehensive loss. For investments sold prior to maturity, the cost of investments sold is based on the specific identification method. Realized gains and losses on the sale of investments are recorded in other income, net in the condensed consolidated statement of operations.

Amazon Warrant

The Amazon Warrant (as defined in Note 7) is accounted for as an equity instrument. To determine the fair value of the Amazon Warrant on its issuance date, the Company used the Black-Scholes option pricing model.

For awards granted to a customer, which are not in exchange for distinct goods or services, the fair value of the awards earned based on service or performance conditions is recorded as a reduction of the transaction price. Accordingly, when Amazon purchases goods or services and vesting conditions become probable of being achieved, the Company records a non-cash stock-based reduction to revenue associated with the Amazon Warrant, which is calculated based on the fair value of the Amazon Warrant shares as of the Velodyne Merger date.

Recently Issued Accounting Pronouncements Not Yet Adopted

The Company considers the applicability and impact of all ASUs. ASUs not referenced below were assessed and determined to be either not applicable or are not expected to have a material 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, restricted cash, short-term investments and accounts receivable. Cash, cash equivalents, restricted cash and short-term investments are deposited with federally insured commercial banks. At times, cash balances in the U.S. may be in excess of federal insurance limits. As of September 30, 2023 and December 31, 2022, the Company had cash, cash equivalents and restricted cash with financial institutions in the U.S. of \$72.8 million and \$123.5 million, respectively. As of September 30, 2023 and December 31, 2022, the Company also had cash on deposit with financial institutions in countries other than the U.S. of approximately \$4.4 million and \$0.8 million, respectively, that was not federally insured.

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 and unbilled receivable was as follows:

	September 30, 2023	December 31, 2022
Customer A	36 %	*
Customer B	19 %	*

*Customer accounted for less than 10% of total accounts and unbilled receivable in the period.

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,	
	2023	2022	2023	2022
Customer E	16 %	*	*	*
Customer F	11 %	*	*	*

* 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,	
	2023	2022	2023	2022
Supplier A	15 %	*	12 %	*
Supplier B	18 %	29 %	20 %	33 %

*Accounted for less than 10% of total purchases.

Accounts payable to the Company's major suppliers and professional services vendors representing 10% or more of total accounts payable were as follows:

	September 30, 2023	December 31, 2022
Supplier A	20 %	*
Supplier B	49 %	39 %
Professional Services Vendor A	*	14 %

*Accounted for less than 10% of total accounts payable.

Note 3. Business Combination

On February 10, 2023, the Company completed the Velodyne Merger. Velodyne shares ceased trading on the Nasdaq Stock Market LLC after market close on February 10, 2023, and each Velodyne share was exchanged for 0.8204 shares of the Company's common stock. Velodyne is treated as the acquired company for financial reporting purposes. This determination is primarily based on the Company's senior management prior to Velodyne Merger comprising a majority of the senior management of the Company following Velodyne Merger, the Company being the initiator of acquiring Velodyne and the Company being the party issuing shares in the Velodyne Merger. The acquisition price for the Velodyne Merger was \$306.6 million, primarily consisting of fair value of the Company's common stock issued in exchange for Velodyne shares and fair value of the Amazon Warrant (Note 7) of \$8.6 million. Through September 30, 2023, transaction costs incurred by the Company in connection with the Velodyne Merger, including professional fees, were \$13.0 million.

Under the acquisition method of accounting in accordance with ASC 805, the total purchase price was allocated to identifiable tangible and intangible assets acquired and liabilities assumed based on their respective estimated fair values using management's best estimates and assumptions to assign fair value as of the acquisition date. The following table provides the assets acquired and liabilities assumed as of the date of acquisition (in thousands):

	Estimated Fair Value
Purchase consideration	\$ 306,602
Preliminary amounts of identifiable assets and liabilities assumed	
Cash and cash equivalents	\$ 32,137
Short-term investments	155,031
Accounts receivable, net	8,611
Inventory	9,700
Prepaid expenses and other current assets	4,387
Unbilled receivable, long-term portion	6,657
Property and equipment, net	9,900
Operating lease, right-of-use assets	10,887
Intangible assets, net	13,000
Other non-current assets	1,047
Accounts payable	(3,356)
Accrued and other current liabilities	(32,821)
Contract liabilities	(5,475)
Operating lease liability, current portion	(3,735)
Operating lease liability, long-term portion	(11,940)
Contract liabilities, long-term portion	(2,206)
Other non-current liabilities	(745)
Total identifiable net assets	\$ 191,079
Goodwill	\$ 115,523
	\$ 306,602

Under the acquisition method of accounting in accordance with ASC 805, the total purchase price was allocated to identifiable tangible and intangible assets acquired and liabilities assumed based on their estimated fair values using management's best estimates and assumptions to assign fair value as of the acquisition date. The initial purchase accounting, including the identification and allocation of consideration to assets acquired, is not complete and the preliminary purchase price allocation is subject to further adjustment as additional information becomes available and as additional analyses and final valuations are completed.

Identified intangible assets acquired and their estimated useful lives as of February 10, 2023, were (in thousands, except years):

	Estimated Useful Life (in years)	Estimated Fair Value
Developed technology - Hardware	3	\$ 2,500
Developed technology - Software	5	5,100
Customer relationships	8	5,400
Intangible assets, net	5.9	\$ 13,000

Developed technology relates to Velodyne's lidar sensors and BlueCity AI software used to monitor traffic networks and public spaces. The Company valued the hardware developed technology using the relief-from-royalty method under the income approach. Software developed technology was valued using the excess earnings method. The economic useful life was determined based on the technology cycle related to each developed technology, as well as the cash flows over the forecasted period.

The estimated fair value of the customer relationships was determined using the distributor method with the estimated useful life of 8 years that approximates the pattern in which the economic benefits are expected to be realized.

The estimated fair value of the inventory was determined using the comparative sales method, which estimated the expected sales price of the product, reduced by all costs expected to be incurred to complete or dispose of the inventory, as well as a profit on the sale.

The estimated fair value of property and equipment utilized a replacement cost method incorporating the age, quality and condition of the assets.

The excess of the purchase consideration and the fair value of identifiable assets acquired and liabilities assumed at the acquisition date over the fair value of net tangible and identified intangible assets acquired was recorded as goodwill, which is not deductible for tax purposes. Goodwill is primarily attributable to the assembled workforce and the anticipated operational synergies at the time of the Velodyne Merger.

The Company's consolidated statement of operations as of September 30, 2023, includes Velodyne revenue of \$21.5 million for the period from the acquisition date of February 10, 2023 to September 30, 2023. Due to the continued integration of the combined businesses, it was impractical to determine the earnings.

The unaudited supplemental pro forma information below presents the combined historical results of operations of the Company and Velodyne as if the Velodyne Merger had been completed as of January 1, 2022 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenue	\$ 22,209	\$ 20,845	\$ 58,835	\$ 57,419
Net loss	\$ (35,102)	\$ (78,228)	\$ (335,115)	\$ (255,392)

The unaudited supplemental pro forma information above includes the following adjustments to net loss in the appropriate pro forma periods (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
An increase in amortization expense related to the fair value of acquired identifiable intangible assets, net of the amortization expense already reflected in actual historical results	\$ —	\$ (678)	\$ (277)	\$ (2,186)
A decrease (increase) in expenses related to the transaction expenses	\$ —	\$ —	\$ 6,058	\$ (6,058)
A net increase in revenue related to the impact of the acceleration of the Amazon Warrant vesting recognized by Velodyne at the close of the Velodyne Merger transaction	\$ —	\$ —	\$ 3,656	\$ —
A decrease in expenses related to the impact of the acceleration of the Amazon Warrant vesting recognized by Velodyne at the close of the Velodyne Merger transaction	\$ —	\$ —	\$ 26,704	\$ —
Represents decrease (increase) in additional stock-based compensation expense related to Ouster employee terminations due to change in control.	\$ —	\$ —	\$ 6,383	\$ (5,195)
Represents a decrease (increase) in severance expense in connection with the Velodyne Merger transaction	\$ —	\$ —	\$ 10,586	\$ (10,586)

The unaudited supplemental pro forma information has been presented for illustrative purposes only and is not necessarily indicative of results of operations that would have been achieved had the Velodyne Merger taken place on the date indicated, or of the Company's future consolidated results of operations. The supplemental pro forma information presented above has been derived from the Company's historical consolidated financial statements and from historical consolidated financial statements and the historical accounting records of Velodyne.

Note 4. Fair Value of Financial Instruments

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, 2023			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents:				
Money market funds	\$ 45,974	\$ —	\$ —	\$ 45,974
Short-term investments:				
Commercial paper	—	\$ 73,159	—	73,159
Corporate debt and U.S. government agency securities	—	\$ 51,754	—	51,754
Total short-term investments	—	124,913	—	124,913
Total financial assets	\$ 45,974	\$ 124,913	\$ —	\$ 170,887
Liabilities				
Warrant liabilities	\$ —	\$ —	\$ 113	\$ 113
Total financial liabilities	\$ —	\$ —	\$ 113	\$ 113

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Assets				
Money market funds	\$ 121,100	\$ —	\$ —	\$ 121,100
Total financial assets	\$ 121,100	\$ —	\$ —	\$ 121,100
Liabilities				
Warrant liabilities	\$ —	\$ —	\$ 180	\$ 180
Total financial liabilities	\$ —	\$ —	\$ 180	\$ 180

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

Commercial paper, corporate debt and U.S. government agency securities are included within Level 2 of the fair value hierarchy because they are valued using inputs other than quoted prices that are directly or indirectly observable in the market, including readily available pricing sources for the identical underlying security which may not be actively traded.

The fair value of the warrant liabilities from the private placement warrants issued by CLA ("Private Placement warrants") 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 7).

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

	Private Placement Warrant Liability
Fair value as of December 31, 2022	180
Change in the fair value included in other income, net	(67)
Fair value as of September 30, 2023	113
Fair value as of December 31, 2021	\$ 7,626
Change in the fair value included in other income, net	(7,350)
Fair value as of September 30, 2022	\$ 276

Non-Recurring Fair Value Measurements

The Company has certain assets, including intangible assets, which are measured at fair value on a non-recurring basis and are adjusted to fair value only if an impairment charge is recognized. The categorization of the framework used to measure fair value of the assets is considered to be within the Level 3 valuation hierarchy due to the subjective nature of the unobservable inputs used.

Disclosure of Fair Values

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

Note 5. Balance Sheet Components

Cash, Cash Equivalents and Short-Term Investments

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

	September 30, 2023	December 31, 2022
Cash	\$ 29,611	\$ 1,832
Cash equivalents:		
Money market funds ⁽¹⁾	45,974	121,100
Total cash and cash equivalents	<u>\$ 75,585</u>	<u>\$ 122,932</u>

⁽¹⁾The Company maintains a cash sweep account, which is included in money market funds as of September 30, 2023 and December 31, 2022. Cash is invested in short-term money market funds that earn interest.

The Company acquired short-term investments consisting of commercial paper, corporate debt and U.S. government agency securities as a result of the merger with Velodyne that closed on February 10, 2023 (see Note 3). Short-term investments were \$124.9 million as of September 30, 2023. Unrealized gains and losses on the Company's short-term investments were not significant as of September 30, 2023 and therefore, the amortized cost of the Company's short-term investments approximated their fair value.

Cash, Cash Equivalents and Restricted Cash

Restricted cash consists of collateral to merchant credit card and certificates of deposit held by a bank as security for outstanding letters of credit.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported in the condensed consolidated balance sheets to the amounts reported in the condensed consolidated statements of cash flows (in thousands):

	September 30, 2023	September 30, 2022
Cash and cash equivalents	\$ 75,585	\$ 133,189
Restricted cash, current	540	250
Restricted cash, non-current	1,090	1,088
Total cash, cash equivalents and restricted cash	<u>\$ 77,215</u>	<u>\$ 134,527</u>

Inventory

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

	September 30, 2023	December 31, 2022
Raw materials	\$ 9,768	\$ 6,971
Work in process	2,916	3,857
Finished goods	13,790	8,705
Total inventory	<u>\$ 26,474</u>	<u>\$ 19,533</u>

Total inventory balance as of September 30, 2023 includes remaining inventory balance acquired as part of the Velodyne Merger at its fair value as of February 10, 2023. During the nine months ended September 30, 2023 and 2022, the Company recorded the inventory write-downs of \$7.2 million and \$0.9 million, respectively.

Prepaid Expenses and Other Current Assets

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

	September 30, 2023	December 31, 2022
Prepaid expenses	\$ 7,426	\$ 3,944
Receivable from contract manufacturer	2,083	2,526
Other current assets	2,462	2,073
Total prepaid and other current assets	<u>\$ 11,971</u>	<u>\$ 8,543</u>

As of September 30, 2023, prepaid expenses included a \$2.5 million prepayment made by the Company to a contract manufacturer for the purchase of inventories which the Company expects to be converted to finished goods.

Property and Equipment, Net

Property and equipment consists of the following (in thousands):

	Estimated Useful Life (in years)	September 30, 2023	December 31, 2022
Machinery and equipment	3	\$ 15,710	\$ 8,716
Computer equipment	3	1,101	340
Automotive and vehicle hardware	5	22	93
Software	3	593	85
Furniture and fixtures	7	943	848
Construction in progress		4,458	3,448
Leasehold improvements	Shorter of useful life or lease term	10,879	9,319
		33,706	22,849
Less: Accumulated depreciation		(22,177)	(13,154)
Property and equipment, net		<u>\$ 11,529</u>	<u>\$ 9,695</u>

Depreciation expense associated with property and equipment was \$9.2 million and \$3.7 million during the nine months ended September 30, 2023 and 2022, respectively.

Goodwill

Goodwill represents the excess of the aggregate purchase price over the fair value of net identifiable assets acquired in a business combinations. The following table displays the changes in the carrying amount of goodwill (in thousands):

	Goodwill
Balance - December 31, 2022	\$ 51,152
Goodwill addition related to Velodyne Merger	115,523
Goodwill impairment charges	(166,675)
Balance - September 30, 2023	\$ —

Goodwill is not amortized and is tested for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Since February 10, 2023, the date of the Velodyne Merger, the Company experienced a significant decline in its stock price. This decline resulted in the total market value of its shares of stock outstanding (“market capitalization”) being less than the carrying value of its reporting unit as of March 31, 2023 and June 30, 2023. The Company also considered the impact of current macroeconomic conditions in the lidar sensor industry that potentially impact the fair value of the Company’s reporting unit. The macroeconomic conditions considered include deterioration in the equity markets evidenced by sustained declines in the Company’s stock price, those of its peers, along with an increase in the weighted-average cost of capital primarily driven by an increase in interest rates. After considering all available evidence in the evaluation of goodwill impairment indicators, the Company determined it was appropriate to perform an interim quantitative assessment of its goodwill as of March 31, 2023 and June 30, 2023. In connection with the Company’s interim goodwill impairment assessments the Company recorded goodwill impairment charges of approximately \$99.4 million in the three months ended March 31, 2023 and \$67.3 million in the three months ended June 30, 2023. The Company’s goodwill impairment analysis included a comparison of the aggregate estimated fair value of our reporting unit to our total market capitalization.

As of September 30, 2023, remaining goodwill balance was nil. No goodwill impairment charges were recognized during the year ended December 31, 2022.

Intangible Assets, Net

The following tables present acquired intangible assets, net as of September 30, 2023 and December 31, 2022 (in thousands):

	Estimated Useful Life (in years)	September 30, 2023		
		Gross Carrying amount	Accumulated Amortization	Net Book Value
Developed technology	3 - 8	\$ 23,500	\$ (5,126)	\$ 18,374
Vendor relationship	3	6,600	(4,217)	2,383
Customer relationships	3 - 8	6,300	(1,004)	5,296
Intangible assets, net		\$ 36,400	\$ (10,347)	\$ 26,053

	Estimated Useful Life (in years)	December 31, 2022		
		Gross Carrying amount	Accumulated Amortization	Net Book Value
Developed technology	8	\$ 15,900	\$ (2,318)	\$ 13,582
Vendor relationship	3	6,600	(2,567)	4,033
Customer relationships	3	900	(350)	550
Intangible assets, net		\$ 23,400	\$ (5,235)	\$ 18,165

Amortization expense was \$5.1 million and \$3.4 million during the nine months ended September 30, 2023 and 2022, respectively.

The following table summarizes estimated future amortization expense of finite-lived intangible assets-net (in thousands):

Years:	Amount
2023 (the remainder of 2023)	\$ 1,759
2024	6,604
2025	4,515
2026	3,776
2027	3,682
Thereafter	5,717
Total	<u>\$ 26,053</u>

Accrued and Other Current Liabilities

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

	September 30, 2023	December 31, 2022
Accrued compensation	\$ 6,433	\$ 3,758
Uninvoiced receipts	20,523	10,727
Warranty	3,319	937
Other	5,518	1,649
Total accrued and other current liabilities	<u>\$ 35,793</u>	<u>\$ 17,071</u>

Note 6. Debt

Loan and Security Agreement

On April 29, 2022, the Company entered into a Loan Agreement with Hercules Capital, Inc. (“Hercules”) (as amended, the “Loan Agreement”). The Loan Agreement provided the Company with a term loan facility of up to \$50.0 million, subject to certain terms and conditions. The Company borrowed the initial tranche of \$20.0 million on April 29, 2022. On October 17, 2022, the Company borrowed an additional \$20.0 million. As of September 30, 2023, the Company did not achieve certain conditions relating to trailing twelve month revenue and profit milestones under the Loan Agreement therefore an additional \$10.0 million is no longer available to the Company.

The Loan Agreement included a minimum liquidity financial covenant whereby the Company was required to maintain at least \$60.0 million of cash in deposit accounts that are subject to an account control agreement in favor of Hercules.

On February 10, 2023, the Company entered into the Third Amendment, which amended the Loan Agreement to (i) increase the existing debt baskets for (a) purchase money debt and capital leases and (b) letter of credit obligations, (ii) provide for increased flexibility to maintain cash in non-US accounts, and (iii) provide for increased flexibility to relocate certain equipment.

Advances under the Loan Agreement bore interest at the rate of interest equal to greater of either (i) (x) the prime rate as reported in The Wall Street Journal plus (y) 6.15%, and (ii) 9.40%, subject to compliance with financial covenants and other conditions. The Loan Agreement included covenants, limitations, and events of default customary for similar facilities. Prior to its termination (see Note 16), the Loan Agreement would mature on May 1, 2026.

In connection with the Loan Agreement, the Company paid the lender a cash facility and legal fees of \$0.6 million and incurred debt issuance costs to third parties that were directly related to issuing debt in the amount of \$0.3 million. The effective interest rate on this debt was 17.9% after giving effect to the debt discount, debt issuance costs and the end of term charge. Amortization expense included in the interest expense related to debt discount and debt issuance costs of the Loan Agreement was not material for the three and nine months ended September 30, 2023.

Interest on amounts borrowed under the Loan Agreement were payable on a monthly basis until June 1, 2025 (the “Amortization Date”). On and as of the Amortization Date, payments were to consist of equal monthly installments of principal and interest payable until the secured obligations were repaid in full. However, if the Company achieved certain equity proceeds, revenue or profit targets for the twelve-month period ending December 31, 2023, then the Amortization Date would have been extended to the Maturity Date. The entire principal balance and all accrued but unpaid interest would be due and payable on the Maturity Date. On the earliest to occur of May 1, 2026, the date on which the obligations under the Loan Agreement were to be paid and the date on which such obligations become due and payable, the Company was also required to pay Hercules an end of term fee in an amount equal to 7.45% of the aggregated amount of all Advances made under the Loan Agreement.

The Company was permitted to prepay the principal of any advance made pursuant to the terms of the Term Loan Facility at any time subject to a prepayment charge equal to: 2.50%, if such advance was prepaid in any of the first 12 months following the Closing Date, 1.50%, if such advance was prepaid after 12 months but prior to 24 months following the Closing Date, and 1.0%, if such advance was prepaid anytime thereafter.

As of September 30, 2023, the Company was in compliance with all financial covenants under the Loan Agreement.

Long-term debt outstanding is summarized below (in thousands):

	September 30, 2023
Long-term debt	\$ 40,000
End of term fee	994
Less: unamortized debt discount	(372)
Less: debt issuance costs	(200)
Total debt	<u>\$ 40,422</u>

The long-term debt was repaid with proceeds drawn under a credit line agreement with UBS Bank USA and UBS Financial Services Inc. on October 25, 2023 (see Note 16).

Note 7. Warrants

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 600,000 Private Placement warrants at a price of \$10.00 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 5 years from the completion of the Merger, or earlier upon redemption or liquidation. On March 11, 2021, as adjusted to reflect the Reverse Stock Split, each outstanding Private Placement warrant automatically converted into a warrant to purchase one-tenth of a share of Ouster common stock pursuant to the Warrant Agreement. Each 10 Private Placement warrants is exercisable for one share of Ouster common stock at an exercise price of \$115.00 per share, with no fractional shares being issuable upon exercise of a warrant.

The private placement warrant liability was remeasured to fair value as of September 30, 2023 and 2022, resulting in a loss of \$0.1 million and \$7.4 million gain for the nine months ended September 30, 2023 and 2022, respectively, classified within other income, 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:

	September 30, 2022	December 31, 2022	September 30, 2023
Stock price	\$ 9.60	\$ 8.60	\$ 5.04
Exercise price of warrant	\$ 115.00	\$ 115.00	\$ 115.00
Expected term (years)	3.4	3.2	2.4
Expected volatility	69.2 %	70.0 %	93.00 %
Risk-free interest rate	4.21 %	4.39 %	4.93 %

Public Warrants

CLA, in its IPO in August 2020, issued 2,000,000 units that each consisted of one Class A ordinary share and one-half warrant to purchase a Class A ordinary share (the “Public warrants”). 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. As adjusted for the Reverse Stock Split, each 10 Public warrants is exercisable for one share of Ouster common stock at an exercise price of \$115.00 per share, with no fractional shares issuable upon exercise of a warrant. 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 \$0.10 per warrant, provided that the closing price of the Company’s common stock equals or exceeds \$180.00 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.

The Company also assumed 5,973,170 outstanding public warrants upon closing the Velodyne Merger to purchase shares of the Company’s common stock (the “Velodyne Public warrants”). Each warrant entitles the holder to purchase 0.06153 shares of the Company’s common stock. Each 10 Velodyne Public warrants is exercisable for 0.6153 shares of the Company’s common stock at an exercise price of \$140.20 per 0.6153 share of common stock, with no fractional shares being issuable upon exercise of a warrant. The warrants are exercisable at any time and expire in September 2025. The Company may redeem the outstanding warrants in whole and not in part at a price of \$0.10 per warrant at any time after they become exercisable, provided that the last sale price of the Company’s common stock equals or exceeds \$219.41 per share, subject to adjustments, for any 20-trading days within a 30-trading day period ending three business days prior to the date on which the Company sends the notice of redemption to the warrant holders.

Amazon Warrant

On February 10, 2023, as part of the Velodyne Merger, the Company assumed a warrant agreement and a transaction agreement, pursuant to which Velodyne agreed to issue to Amazon.com NV Investment Holdings LLC, a wholly-owned subsidiary of Amazon Inc. (“Amazon”), a warrant to acquire, following customary antidilution adjustments, up to an aggregate of 3,263,898 shares of the Company’s common stock at an exercise price of \$50.71 per share (the “Amazon Warrant”). The exercise price and the warrant shares issuable upon exercise of the Amazon Warrant are subject to further antidilution adjustments, including in the event we make certain sales of common stock (or securities exercisable or convertible into or exchangeable for shares of our common stock) at a price less than the exercise price of the Amazon Warrant. As a result of the issuance and sale by the Company of an additional 802,832 shares of common stock in the three months ended September 30, 2023 pursuant to the At-Market-Issuance Sales Agreement at prices below the exercise price of the Amazon Warrant, an antidilution adjustment to the terms of the Amazon Warrant occurred (see Note 11), resulting in the increase in the number of shares issuable under the Amazon Warrant by 120 shares of common stock and a reduction to the original strike price of the Amazon Warrant to \$50.70 per share. As of September 30, 2023, there were 3,264,018 shares of common stock issuable under the Amazon Warrant.

The Amazon Warrant is subject to vesting; 50% of the unvested Amazon Warrant as of the date of the Velodyne Merger vested as a result of the Velodyne Merger and the remainder will vest over time based on payments by Amazon or its affiliates to us in connection with Amazon’s purchase of goods and services from the Company. The vested portion of the Amazon Warrant, representing 1,848,694 shares of Ouster common stock with a fair value of \$8.6 million, was included in the Velodyne Merger purchase price consideration on February 10, 2023.

The Amazon Warrant shares vest in multiple tranches over time based on payments of up to \$100.0 million by Amazon or its affiliates (directly or indirectly through third parties) to the Company in connection with Amazon’s purchase of goods and services. The fair value of the unvested Amazon Warrant, representing 1,387,018 unvested Ouster common stock shares will be recognized as a non-cash stock-based reduction to revenue when Amazon makes payments and vesting conditions become probable of being achieved.

During the three and nine months ended September 30, 2023, 28,306 Amazon Warrant shares vested and the Company recognized non-cash stock-based reduction to revenue of \$0.2 million and \$0.3 million, respectively.

The fair value of the Amazon Warrant shares was estimated on February 10, 2023, the date of completion of the Velodyne Merger, using the Black-Scholes option pricing model on the remaining contractual term of 6.98 years, an expected volatility of 53.7%, a 3.86% risk-free interest rate and a 0% expected dividend yield. The Company estimated expected volatility by using historical volatility of the Company’s publicly traded stock and historical volatility of a group of publicly traded peer companies for the period commencing February 16, 2016 and ending on the date of the Merger.

The right to exercise the Amazon Warrant and receive the warrant shares that have vested expires February 4, 2030.

As of September 30, 2023, 1,877,000 Amazon Warrant shares have vested.

Note 8 . Commitments and Contingencies

Letters of Credit

In connection with certain office leasehold interests in real property located in San Francisco (350 Treat Ave and, 2741 16th Street) and in Paris, the Company obtained letters of credit from certain banks 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, 2023 and December 31, 2022. The outstanding amount of the letters of credit was \$1.4 million and \$1.3 million as of September 30, 2023 and December 31, 2022, respectively.

Non-Cancelable Purchase Commitments

As of September 30, 2023, the Company had non-cancelable purchase commitments to third-party contract manufacturers for approximately \$24.9 million and other vendors for approximately \$5.1 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. Legal fees are expensed as incurred. 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.

The Company has recorded immaterial accruals with respect to the following because a loss is not considered probable or cannot be reasonably estimated:

Velodyne Legacy Litigation

On March 3, 2021, a purported shareholder of Velodyne filed a complaint for a putative class action against Velodyne, Anand Gopalan and Andrew Hamer in the United States District Court, Northern District of California, entitled *Moradpour v. Velodyne Lidar, Inc., et al.*, No. 3:21-cv01486-SI. The complaint alleged purported violations of the federal securities laws and that, among other things, the defendants made materially false and/or misleading statements and failed to disclose material facts about Velodyne's business, operations and prospects, including with respect to David Hall's role with Velodyne and removal as Chairman of Velodyne's Board of Directors. The complaint alleged that purported class members have suffered losses and sought, among other things, an award of compensatory damages on behalf of a putative class of persons who purchased or otherwise acquired Velodyne's securities between November 9, 2020 and February 19, 2021. On March 12, 2021, a putative class action entitled *Reese v. Velodyne Lidar, Inc., et al.*, No. 3:21-cv-01736-VC, was filed against Velodyne, Mr. Gopalan and Mr. Hamer in the United States District Court for the Northern District of California, based on allegations similar to those in the earlier class action and seeking recovery on behalf of the same putative class. On March 19, 2021, another putative class action entitled *Nick v. Velodyne Lidar, Inc., et al.*, No. 4:21-cv-01950-JST, was filed in the United States District Court for the Northern District of California, against Velodyne, Mr. Gopalan, Mr. Hamer, two current or former directors, and three other entities. The complaint was based on allegations similar to those in the earlier class actions and sought, among other things, an award of compensatory damages on behalf of a putative class of persons who purchased or otherwise acquired Velodyne's securities between July 2, 2020 and March 17, 2021. The class actions have been consolidated, lead plaintiffs have been appointed and an amended consolidated complaint was filed on September 1, 2021, based on allegations similar to those in the earlier class actions. Velodyne filed a motion to dismiss the amended and consolidated complaint on November 1, 2021. The plaintiffs filed a first amended complaint on February 11, 2022. Velodyne filed a motion to dismiss on March 4, 2022. On July 1, 2022, the court denied the motion to dismiss as it relates to the claims related to David Hall's role with Velodyne, but granted the motion to dismiss as to all other claims. On July 14, 2023, the Court granted Diane Smith's motion for class certification. The case is proceeding with discovery with trial set for August 4, 2025. The Court encouraged the parties to conduct mediation in 2023 and thus the parties agreed to mediation on November 29, 2023. The Company does not believe the claims are meritorious and intends to defend the actions vigorously.

On March 12, 2021, a putative shareholder derivative lawsuit entitled *D’Arcy v. Gopalan, et al.*, No. 1:21-cv-00369-MN, was filed in the United States District Court for the District of Delaware against current and former directors and/or officers Anand Gopalan, Andrew Hamer, David S. Hall, Marta Thoma Hall, Joseph B. Culkin, Michael E. Dee, James A. Graf, Barbara Samardzich, and Christopher A. Thomas, and names Velodyne as a nominal defendant. The complaint asserted claims for breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, and waste of corporate assets against all of the individual defendants, and asserted a contribution claim under the federal securities laws against Mr. Gopalan and Mr. Hamer. On March 16, 2021, a second shareholder derivative lawsuit entitled *Kondner, et al. v. Culkin, et al.*, No. 1:21cv-00391-MN, was filed in the United States District Court for the District of Delaware against most of the same defendants named in the earlier derivative complaint, and asserted claims against the individual defendants for alleged breaches of fiduciary duty and waste of corporate assets. Both derivative actions are based on allegations similar to those in the class actions discussed above, and have now been consolidated. On January 3, 2022, the plaintiffs filed an amended complaint. The case has been stayed pending the outcome of the *Moradpour* lawsuit. On November 7, 2023, the court approved the parties’ stipulation to dismiss the derivative action and directed that the case be closed.

On January 18, 2022, David and Marta Hall filed a lawsuit in the Superior Court of California, County of Alameda, against current and former officers and directors of Velodyne, as well as Jeff Vetter, Velodyne’s outside counsel. The Halls are seeking to recover damages for financial and other injuries they allegedly sustained as a result of the merger between Graf and Velodyne. On May 3, 2022, certain defendants filed motions to compel arbitration and other defendants filed motions to quash service of process for lack of personal jurisdiction. The court conducted a hearing on the motions on July 20, 2022. On August 30, 2022, the court granted the motion to quash service with respect to the out of state defendants. On October 3, 2022, the court granted the motion to compel Mr. Hall to arbitrate his claims, and stayed proceedings on Ms. Hall’s claims pending arbitration of Mr. Hall’s claims. On October 20, 2022, the Halls voluntarily dismissed the action without prejudice. On January 3, 2023, the Halls filed an arbitration demand with the same allegations as the prior lawsuit. On or about August 22, 2023, the Halls filed an application in Texas District Court, Dallas County to compel arbitration of Messrs. Graf and Dee who had been dismissed from the prior court action for lack of personal jurisdiction. Messrs. Graf and Dee agreed to participate in the arbitration and thus the Texas action has been stayed. The arbitrator has not yet set a schedule in the arbitration. The Company does not believe the claims are meritorious and intends to defend the action vigorously.

On December 8, 2021, Velodyne received a subpoena for documents related to Wei Weng’s trading in stock of Graf Acquisition Corp. (Velodyne’s predecessor) stock during 2020, prior to the announcement that Velodyne was planning to merge into Graf Acquisition Corp. Velodyne has complied with the SEC’s requests to date; however, the SEC may request additional documents or information. No such follow up requests have been received to date.

On December 1, 2022 and December 20, 2022, purported stockholders of Velodyne filed the following lawsuits against Velodyne and certain of its directors in the Southern District of New York for violations of Sections 14(a) and 20(a) of the Securities Exchange Act of 1934 and U.S. Securities and Exchange Commission (“SEC”) Rule 14a-9: *O’Dell v. Velodyne Lidar, Inc., et al.*, Civil Action No. 22-cv-10211, *Carlisle v. Velodyne Lidar, Inc., et al.*, Civil Action No. 22-cv-10720. On December 29, 2022, a complaint alleging generally the same claims was filed in the United States District Court for the District of Delaware, captioned *Wheeler v. Velodyne Lidar, Inc., et al.*, Civil Action No. 22-cv-01641-UNA. All of the lawsuits were voluntarily dismissed by the respective Plaintiffs. The parties settled immaterial mootness fees.

On August 25, 2023, a putative shareholder class action suit was filed in the Delaware Court of Chancery against six former officers and directors of Graf Industrial Corp. (“GIC”), the predecessor entity of Velodyne, as well as two other entities, entitled *Berger v. Graf Acquisition, LLC, et al.*, No. C.A. 2023 0873 LWW. The Company, GIC and Velodyne are not named as defendants. The plaintiff, who was allegedly a GIC shareholder, asserts claims for breach of fiduciary duty and unjust enrichment in connection with the merger of GIC and Velodyne on September 29, 2020, and seeks damages, disgorgement and other recovery on behalf of the putative class of GIC shareholders in an unspecified amount. The Company is obligated to indemnify such former officers and directors under certain circumstances. The Company does not believe the claims are meritorious.

Ouster Litigation

On June 10, 2021, the Company 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. On August 15, 2023, the SEC informed the Company that they have concluded the investigation and that they do not intend to recommend any enforcement action.

On April 11, 2023, the Company filed a complaint with the United States International Trade Commission (the “Commission”) pursuant to 19 U.S.C. § 1337 (“Section 337”). The complaint requests that the Commission institute an investigation relating to the unlawful importation, sale for importation, and/or sale after importation into the United States by Hesai Group, Hesai Technology Co., Ltd., and Hesai Inc. (collectively “Hesai”) of certain LiDAR (Light Detection and Ranging) systems and/or components thereof. The complaint alleges that Hesai’s LiDAR products infringe certain claims of the Company’s U.S. Patent Nos. 11,175,405, 11,178,381, 11,190,750, 11,287,515 and/or 11,422,236. The complaint seeks the issuance of a permanent exclusion order and cease and desist order. On May 11, 2023, the Commission decided to institute an investigation based on the Company’s complaint as in the Matter of Certain LiDAR (Light Detection and Ranging) Systems and Components Thereof, 337-TA-1363. On May 25, 2023, the Administrative Law Judge issued a procedural schedule whereby the evidentiary hearing is set to begin on January 4, 2024, with a target date for completion of the Investigation by the Commission on October 17, 2024. On June 7, 2023, Hesai responded to the complaint and denied all allegations. On June 22, 2023, Hesai filed a motion to terminate or alternatively stay the investigation in light of an alleged agreement to arbitrate based on the Settlement Agreement signed in 2020 between Hesai and Velodyne (the “Settlement Agreement”). Hesai alleges that the Company is bound to the 2020 Settlement Agreement as a result of the Company’s merger with Velodyne in 2023. The Company has opposed the motion, including any allegation that the Company has any obligation to arbitrate or that its patents are subject to any terms of the 2020 Settlement Agreement, which the Company never signed. On August 24, 2023, the administrative law judge (“ALJ”) issued an initial determination granting the motion to terminate, holding that a valid arbitration agreement exists as part of the Settlement Agreement, and thus the Company has obligation to arbitrate. On August 31, 2023, the Company filed a petition for review of the initial determination with the Commission. On September 14, 2023, Hesai responded. On October 11, 2023, the Commission issued a notice of its determination to review and, on review, to affirm with modification the ALJ’s initial determination granting the motion to terminate the investigation in its entirety based upon the arbitration agreement. As a result, the investigation was terminated. The Company has until December 11, 2023 to file a notice of appeal with the Federal Circuit.

On April 11, 2023, the Company also filed a complaint in the District of Delaware alleging patent infringement of the same patents as in the aforesaid Section 337 proceeding against Hesai Group and Hesai Technology Co., Ltd. The complaint seeks monetary damages as well as the issuance of a permanent injunction. On May 30, 2023, the Court granted stay the case pending the resolution, including all appeals, of In the Matter of Certain LiDAR (Light Detection and Ranging) Systems and Components Thereof, 337-TA-1363.

On May 17, 2023, Hesai Photonics Technology Co. Ltd. and Hesai Group (collectively “Hesai Photonics”) filed a request for arbitration with JAMS against the Company, Velodyne, Velodyne, LLC, and Oban Merger Sub II LLC. Hesai Photonics alleges that the Company is bound by the terms and conditions, including an obligation to arbitrate disputes, of a Settlement Agreement signed in 2020 between Hesai Photonics and Velodyne as a result of the Company’s 2023 merger with Velodyne. On June 13, 2023, the Company responded to the arbitration demand. The Company denied all allegations. The Company also disputed that there was an obligation to arbitrate, and thus, alleged that JAMS lacked jurisdiction. No further dates have been set.

On September 14, September 25, and September 26, 2023, Hesai filed Petitions for Inter Partes Review with the Patent Trial and Appeal Board (“PTAB”) challenging the validity of the Company’s patents asserted in the ITC and Delaware patent actions. The Company has an opportunity to respond in late December 2023 and early January 2024. The PTAB is expected to issue decisions on whether to institute inter parties review for two patents by March 21, 2024 and the remaining three patents by April 3, 2024.

Other than as set forth above, as of September 30, 2023 and December 31, 2022, the Company is currently not aware of any legal proceedings or claims that the Company believes could have a material adverse effect on its business, financial condition or operating results.

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 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. The unaudited condensed consolidated financial statements do not include a liability for any potential obligations under the indemnification agreements at September 30, 2023 and December 31, 2022.

Note 9. Leases

The Company leases its headquarters located in San Francisco, California, where we lease properties as follows: (i) 26,125 square feet of office space pursuant to a lease that is scheduled to expire in August 2027 and (ii) 20,032 square feet of office space in a building adjacent to our corporate headquarters, which term is scheduled to expire in August 2027. Prior to 2023, the Company has executed or assumed as lessee other five operating leases for rental of office space. The terms of those leases range from 1 to 3 years.

Since February 10, 2023, the Company also assumed long-term non-cancellable lease agreements stemming from the Velodyne Merger: (i) approximately 204,000 square feet of office and manufacturing space in San Jose, California and (ii) additional space pursuant to the assumed leases for offices located in Alameda, California; and Bengaluru, India.

Supplemental balance sheet information related to leases was as follows:

	As of	
	September 30, 2023	December 31, 2022
Weighted-average remaining lease term (years)	3.98	4.52
Weighted-average discount rate	6.79 %	4.66 %

The Company incurred total lease costs in its condensed consolidated statements of operations of \$6.3 million and \$3.0 million for the nine months ended September 30, 2023 and 2022, respectively.

Additionally, the Company determined that the lease office facility located in Bengaluru, India assumed in the Velodyne Merger was not needed to support the future growth of its business. The Company fully vacated the facilities in March 2023 and remained contractually obligated to the lessor for the underlying lease. The Company recorded \$0.8 million for right-of-use asset impairment in connection with these leased office facilities in the three months ended March 31, 2023. In the three months ended September 30, 2023, the Company recorded \$0.8 million gain on lease modification due to the termination of its Bengaluru, India lease.

As of September 30, 2023, the carrying amount of the acquired lease liability stemming from the Velodyne Merger on the condensed consolidated balance sheet was approximately \$13.2 million.

As of September 30, 2023, maturities of lease liabilities under non-cancelable operating leases were as follows (in thousands):

Year ending December 31,	
2023 remainder	\$ 2,039
2024	7,943
2025	7,668
2026	7,688
2027	6,512
Total undiscounted lease payments	31,850
Less: imputed interest	(4,396)
Total operating lease liabilities	<u>\$ 27,454</u>

Note 10. Common Stock

Pursuant to the terms of the Second Amended and Restated Certificate of Incorporation, the Company is authorized to issue the following shares and classes of capital stock, each with a par value of \$0.0001 per share: (i) 100,000,000 shares of common stock; (ii) 100,000,000 shares of preferred stock. The holder of each share of common stock is entitled to one vote.

On April 29, 2022, the Company entered into an At-Market-Issuance Sales Agreement (the “ATM Agreement”) pursuant to which the Company may, subject to the terms and conditions set forth in the agreement offer and sell, from time to time, through or to the agents, acting as agent or principal, shares of the Company’s common stock, par value \$0.0001 per share, having an aggregate offering price of up to \$150.0 million.

During the three and nine months ended September 30, 2023, the Company issued 802,832 shares of common stock under the ATM Agreement at a weighted-average price of \$5.06 per share, for net proceeds of \$3.6 million which is net of sales commissions and other fees of approximately \$0.1 million.

From the date of the ATM Agreement through September 30, 2023, the Company sold 1,586,203 shares at a weighted-average sales price of \$13.17 per share, resulting in cumulative gross proceeds to the Company totaling approximately \$20.9 million before deducting offering costs, sales commissions and fees. Cumulative net proceeds to the Company totaled approximately \$20.3 million after deducting offering costs, sales commissions and fees. The Company plans to use the net proceeds from this offering for working capital and general corporate purposes.

The remaining availability under the ATM Agreement as of September 30, 2023 is approximately \$129.1 million.

Note 11. Stock-based Compensation

As of September 30, 2023, the Company has five equity incentive plans: its Amended and Restated 2015 Stock Plan (the “2015 Plan”), the Sense Photonics, Inc. 2017 Equity Incentive Plan (the “Sense Plan”), the Velodyne Lidar, Inc. 2020 Equity Incentive Plan (the “Velodyne Plan”), its 2021 Incentive Award Plan (the “2021 Plan”) and its 2022 Employee Stock Purchase Plan (the “2022 ESPP” and, collectively with the 2015 Plan, the Sense Plan, the Velodyne Plan and the 2021 Plan, the “Plans”).

The Plans, other than the 2022 ESPP, provide for the grant of stock options, stock appreciation rights, restricted stock awards (“RSAs”), restricted stock units (“RSUs”), 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. New equity awards may only be granted under the Velodyne Plan and the 2021 Plan. Awards under the Velodyne Plan may be granted to employees, including officers, and other service providers who were not previously employed by or who did not previously provide services to the Company or a subsidiary of the Company, in each case, prior to February 10, 2023, within the limits provided in the Velodyne Plan. Awards under the 2021 Plan can also be granted to employees, including officers, directors and consultants of the Company and its subsidiaries, in each case, within the limits provided in the 2021 Plan.

The Company’s 2022 ESPP has been offered to all eligible employees since August 2022 and generally permits certain employees to purchase shares of our common stock through payroll deductions of up to 15% of their compensation of each offering period, subject to certain limitations.

The ESPP provides offering periods that have a duration of 24 months in length and are comprised of purchase periods of six months in length. The offering periods are scheduled to start on the first trading day on or after May 16 and November 16 of each year. Under the 2022 ESPP, the purchase price of a share under the ESPP equals 85% of the lesser of the fair market value of a share of common stock on either the first or last day of the applicable offering period or the last day of the applicable purchase period.

In May 2023, the Company increased the share purchase limit under the 2022 ESPP to 3,000 shares of Company common stock per offering period and added Velodyne Lidar, Inc. as a participating employer in the 2022 ESPP.

During the three and nine months ended September 30, 2023, 62,880 shares of common stock were issued under the 2022 ESPP Plan, at a price of \$4.92 per share, which represented 85% of the market price of the common stock on May 15, 2023, the exercise date, which was lower than the market price of the common stock on the offering date. As of September 30, 2023, 0.9 million shares of the Company’s common stock were pending issuance under the 2022 ESPP.

The stock-based compensation expense is calculated as of the beginning of the offering period as the fair value of the 2022 ESPP shares utilizing the Black-Scholes option valuation model and is recognized over the offering period. The first offering period under the 2022 ESPP commenced on September 6, 2022.

Certain employees have the right to early exercise unvested stock options, subject to rights held by the Company to repurchase unvested shares in the event of voluntary or involuntary termination. The Company accounts for cash received in consideration for the early exercise of unvested stock options as a non-current liability, included as a component of other liabilities in the Company’s condensed consolidated balance sheets.

Stock option activity for the nine months ended September 30, 2023 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, 2022	2,101,536	\$ 10.12	7.69	\$ 8,285
Options exercised	(126,797)	\$ 1.92		
Options forfeited	(41,792)	\$ 73.84		
Outstanding—September 30, 2023	1,932,947	\$ 9.28	6.75	\$ 3,344
Vested and expected to vest—September 30, 2023	1,932,947	\$ 9.28	6.75	\$ 3,344
Exercisable—September 30, 2023	1,482,065	\$ 9.74	6.68	\$ 2,621

The following table summarizes information about stock options outstanding and exercisable at September 30, 2023.

Options Outstanding				
Exercise Price	Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Options Exercisable	
\$ 1.85	280,227	6.64	251,412	
\$ 2.13	842,578	6.95	625,765	
\$ 14.22	752,408	7.00	548,628	
\$ 52.40	20,063	4.27	18,589	
\$ 102.60	37,671	0.17	37,671	
	1,932,947		1,482,065	

As of September 30, 2023, there was approximately \$6.1 million of unamortized stock-based compensation expense related to unvested stock options that is expected to be recognized over a weighted average period of 0.93 years.

Restricted Stock Units

A summary of RSU activity is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value (per share)
Unvested—December 31, 2022	1,650,815	\$ 39.83
Granted	2,563,999	11.95
Forfeited	(720,854)	21.04
Vested	(1,409,484)	26.45
Unvested—September 30, 2023	2,084,476	\$ 21.08

Stock compensation expense is recognized on a straight-line basis over the vesting period of each award of RSUs. As of September 30, 2023, total compensation expense related to unvested RSUs granted to employees, but not yet recognized, was \$41.9 million, with a weighted-average remaining vesting period of 2.21 years. RSUs settle into shares of common stock upon vesting.

Restricted Stock Awards

A summary of RSA activity is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value (per share)
Unvested—December 31, 2022	—	\$ —
Granted	732,110	15.30
Vested	(350,288)	15.30
Unvested—September 30, 2023	381,822	\$ 15.30

Stock compensation expense is recognized on a straight-line basis over the vesting period of each award of RSAs. As of September 30, 2023, total compensation expense related to unvested RSAs granted to employees, but not yet recognized, was \$3.6 million, with a weighted-average remaining vesting period of 1.95 years. The common stock comprising RSAs is issued at grant but, generally, is subject to a risk of forfeiture if the holder terminates service with the Company and its subsidiaries prior to vesting.

Stock-Based Compensation Expense

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

	Three Months Ended September 30,	
	2023	2022
Cost of revenue	\$ 570	\$ 207
Research and development	4,056	3,681
Sales and marketing	1,345	1,913
General and administrative	2,401	2,654
Total stock-based compensation	<u>\$ 8,372</u>	<u>\$ 8,455</u>

The following table summarizes stock-based compensation expense by award type (in thousands):

	Three Months Ended September 30,	
	2023	2022
RSUs	\$ 5,437	\$ 6,313
Stock Options	1,713	2,099
Employee stock purchase plan	649	43
RSAs	573	—
Total stock-based compensation	<u>\$ 8,372</u>	<u>\$ 8,455</u>

Share based compensation recognized upon completion of the Velodyne Merger

In the nine months ended September 30, 2023, the Company recognized \$6.1 million of stock-based compensation expense related to accelerated vesting of certain RSUs upon completion of the Velodyne Merger and termination of employment of some of its executives and members of the board, who had accelerated vesting provisions in the event of a change in control. Additionally, the Company recognized \$2.4 million of stock-based compensation expense related to accelerated vesting of certain Velodyne restricted stock units, restricted stock awards and performance-based awards upon completion of the Velodyne Merger and termination of employment of some of Velodyne executives.

Note 12. 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,	
	2023	2022	2023	2022
Numerator:				
Net loss	<u>\$ (35,102)</u>	<u>\$ (35,987)</u>	<u>\$ (335,115)</u>	<u>\$ (96,384)</u>
Denominator:				
Weighted average shares used to compute basic and diluted net loss per share	39,228,118	18,136,135	35,670,408	17,576,509
Net loss per common share—basic and diluted	<u>\$ (0.89)</u>	<u>\$ (1.98)</u>	<u>\$ (9.39)</u>	<u>\$ (5.48)</u>

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:

	September 30,	
	2023	2022
Options to purchase common stock	1,932,947	2,151,818
Public and private common stock warrants	5,231,417	1,599,990
Restricted Stock Units	2,084,476	1,838,592
Unvested early exercised common stock options	23,958	97,009
ESPP shares pending issuance	869,260	34,963
Unvested Restricted Stock Awards	381,822	—
Total	10,523,880	5,722,372

Note 13. 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 nine months ended September 30, 2023 and 2022, respectively, was not material to the Company's condensed consolidated financial statements.

Note 14. Revenue

The majority of the Company's revenue is recognized at a point in time when the customer obtains control of the respective lidar sensor kits. Revenue from the sale of licenses and services was not material for any period presented and, therefore, is not presented separately.

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,	
	2023	2022	2023	2022
Americas	\$ 13,317	\$ 4,182	\$ 35,204	\$ 10,685
Asia-Pacific	2,325	2,072	5,994	7,004
Europe, Middle East and Africa	6,567	4,950	17,637	12,402
Total	\$ 22,209	\$ 11,204	\$ 58,835	\$ 30,091

Revenue contract balances

Timing of revenue recognition may differ from the timing of invoicing to customers. An unbilled receivable is recorded in instances when revenue is recognized prior to invoicing, and amounts collected in advance of services being provided are recorded as deferred revenue. Contract assets are generated when contractual billing schedules differ from revenue recognition timing.

Unbilled receivables

A receivable for multi-year licensing services is generally recorded upon invoicing. A receivable for multi-year license contracts is recorded upon delivery, whether or not invoiced, to the extent the Company has an unconditional right to receive payment in the future related to those licenses. As of September 30, 2023, the current portion of these unbilled receivables in the amount of \$3.2 million, primarily consisting of unbilled receivables from multi-year license contracts, is included in "Accounts receivable, net" on the condensed consolidated balance sheet.

Contract Assets

Contract assets primarily relate to the Company's rights to consideration under license arrangements when the licenses have been transferred to the customers, but payment is contingent upon a future event, other than the passage of time (i.e. type of unbilled receivable) and for which the Company does not have an unconditional right at the reporting date.

Contract asset also arises when the timing of billing differs from the timing of revenue recognized, such as when revenue is recognized on guaranteed minimum payments at the inception of the contract when there is not yet a right to invoice in accordance with contract terms and payment is contingent upon future event.

Contract Liabilities

Contract liabilities consist of deferred revenue, customer advanced payments and customer deposits. Deferred revenue includes billings in excess of revenue recognized related to product sales, licenses, extended warranty and other services revenue, and is recognized as revenue when the Company performs under the contract. The long-term portion of deferred revenue, mostly related to obligations under license arrangements and extended warranty, is classified as non-current contract liabilities and is included in other non-current liabilities in the Company's condensed consolidated balance sheets. Customer advanced payments represent required customer payments in advance of product shipments according to customer's payment term. Customer advance payments are recognized as revenue when control of the performance obligation is transferred to the customer. Customer deposits represent consideration received from a customer which can be applied to future product or service purchases, or refunded.

Contract assets and liabilities are presented net at the individual contract level in the condensed consolidated balance sheet and are classified as current or noncurrent based on the nature of the underlying contractual rights and obligations.

	September 30, 2023	December 31, 2022
Contract liabilities, current		
Deferred revenues from licensing arrangements	\$ 4,198	\$ —
Other contract liabilities	6,578	402
Contract liabilities, long-term portion		
Deferred revenues from licensing arrangements	1,691	—
Other contract liabilities	2,223	342
Total contract liabilities	<u>\$ 14,690</u>	<u>\$ 744</u>

During the nine months ended September 30, 2023, the Company entered into a multiyear contract with a customer to sell its products. The \$6.6 million cash payment received prior to the entering into the contract was accounted for as a deposit liability in accrued and other current liabilities, because it did not meet the requirements of ASC 606 to be considered a contract with a customer. Entering into a contract satisfied ASC 606 criteria concerning enforceable rights and obligations criteria, therefore deposit liability was reclassified as deferred revenues in other contract liabilities. During the three and nine months ended September 30, 2023, the Company partially satisfied the related performance obligation and recognized \$0.5 million revenue that was included in the contract liabilities balance. As of September 30, 2023, \$6.1 million remained deferred until a future product delivery date.

Note 15. Restructuring

In connection with the closing of the Velodyne Merger, in the nine months ended September 30, 2023, the Company undertook actions to reduce operating expenses, which included a reduction in force and the closure of its India facility (see Note 9) (collectively, the "Restructuring Initiatives").

The following table shows the amount incurred and the liability, which is recorded in accrued expenses in the condensed consolidated balance sheets, for Restructuring Initiatives related to one-time employee termination and associated benefits as of September 30, 2023 (in thousands):

	Employee termination and associated benefits
Balance at February 10, 2023	\$ 422
Restructuring Initiative expenses related to one-time employee termination and associated benefits	15,172
Amount paid during the period	(14,774)
Balance at September 30, 2023	<u>\$ 820</u>

The following table shows the Restructuring Initiatives expenses related to one-time employee termination and associated benefits during the three and nine months ended September 30, 2023 (in thousands):

	Three Months Ended September 30,	Nine Months Ended September 30,
Cost of product revenue	\$ —	\$ 1,293
Research and development	—	6,758
Sales and marketing	—	2,322
General and administrative	—	4,799
Total	<u>\$ —</u>	<u>\$ 15,172</u>

The following table shows the total stock-based compensation expense associated with these Restructuring Initiatives during the three and nine months ended September 30, 2023 (in thousands):

	Three Months Ended September 30,	Nine Months Ended September 30,
Cost of product revenue	\$ —	\$ 70
Research and development	—	4,922
Sales and marketing	—	1,225
General and administrative	—	922
Total	<u>\$ —</u>	<u>\$ 7,139</u>

Note 16. Subsequent Event

On October 25, 2023, the Company entered into the Credit Line Account Application and Agreement for Organizations and Businesses (the “Credit Agreement”) and the Addendum to Credit Line Account Application and Agreement (the “Addendum”; and the Credit Agreement as amended, modified, and/or supplemented by the Addendum, the “UBS Agreement”) by and among the Company, UBS Bank USA (the “Bank”), and UBS Financial Services Inc. The facility under the UBS Agreement matures and terminates on August 2, 2025 (the “Maturity Date”).

The UBS Agreement provides the Company with a revolving credit line of up to \$45.0 million, subject to certain terms and conditions. The Company borrowed \$44.0 million on October 25, 2023, and all of the proceeds were used to prepay and terminate the Company’s Loan Agreement on October 25, 2023.

Pursuant to the terms of the UBS Agreement, the Company has agreed to maintain minimum liquidity, comprised of unencumbered cash and cash equivalents, U.S. treasuries and other assets acceptable to the Bank, of \$52.0 million in an account maintained with the Bank or its affiliates at all times. This amount is expected to appear as restricted cash on the Company’s balance sheet. As collateral for the facility, the Company has agreed to maintain securities accounts with the Bank or its affiliates with deposits in an amount sufficient to meet the collateral value as determined by the Bank pursuant to the UBS Agreement. The facility under the UBS Agreement is secured by the Company’s assets in securities accounts and any other accounts maintained with the Bank or its affiliates, and any supporting obligations, general intangibles and other rights ancillary or attributable to such assets, subject to customary exceptions.

Loans under the UBS Agreement bear interest at a rate equal to (x) for variable rate loans, the sum of (i) the applicable SOFR average plus 0.110%, plus (ii) 1.20%, and (y) for fixed rate loans, the sum of either (1) CME Term Rate or (2) the U.S. Treasury Rate, as applicable and as defined in the UBS Agreement, as determined based on the duration of the advance, plus the applicable liquidity premium with a range of 0.15% to 0.50%, as set forth in the UBS Agreement. Interest payments are due (x) for variable rate loans, on the last day of each calendar month, and on each date that any portion of the principal amount is due, including on the Maturity Date, and (y) for fixed rate loans, on the last day of the applicable interest period, and on each date that any portion of the principal amount is due, including on the Maturity Date. The Company may repay any variable rate loans at any time in whole or in part, without penalty. The Company may repay any fixed rate loans in whole, but not in part, subject to certain breakage costs.

The Company has agreed to pay an unused line fee in an amount equal to (i) the commitment amount of \$45.0 million less the average daily balance of the sum of the principal amount of the obligations outstanding during the preceding calendar quarter, multiplied by (ii) 0.50% per annum, and such unused line fee is payable quarterly in arrears on the last day of each calendar quarter.

The UBS Agreement also contains affirmative and negative covenants customary for a credit line of this type, including requirements for maintenance of the collateral accounts and certain limitations on withdrawal of cash from such collateral accounts. The UBS Agreement also provides for customary events of default, including, among others, non-payment, failure to maintain an amount equal to the greater of (x) the outstanding loans and (y) the collateral value as determined by the Bank, in the securities accounts maintained with the Bank, bankruptcy, or breach of a covenant, representation and warranty.

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 our condensed consolidated financial statements and the notes thereto included elsewhere in this Form 10-Q, as well as our audited consolidated financial statements and the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in Ouster’s Annual Report on Form 10-K (the “2022 Form 10-K”) filed with the Securities and Exchange Commission (“SEC”) on March 24, 2023. This discussion contains forward-looking statements which are based upon current plans, expectations and beliefs. Such forward-looking statements 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 the 2022 Form 10-K, as updated in Part II, Item 1A “Risk Factors” herein, and as may be further updated from time to time in the Company’s other filings with the SEC.

On April 20, 2023, Ouster filed with the Secretary of State of the State of Delaware a Certificate of Amendment to its Certificate of Incorporation to effect a one-for-10 reverse stock split of Ouster’s common stock and a corresponding reduction in Ouster’s authorized shares of common stock (the “Reverse Stock Split”). The historical share and per share information included herein have been adjusted to reflect the Reverse Stock Split.

Unless the context otherwise requires, references in this subsection to “we”, “our”, “Ouster” and “the Company” refer to the business and operations of Ouster, Inc.

Overview

We founded Ouster in 2015 with the invention of our high-performance digital lidar. 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.

We are a leading global provider of high-resolution digital lidar sensors that offer advanced 3D vision to machinery, vehicles, robots, and fixed infrastructure assets, which allows each to understand and visualize the surrounding world and ultimately enables 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.

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 four models of sensors in our OS product line: the hemispherical view OSDome, the ultra-wide field of view OS0, the mid-range OS1, and the long-range OS2. 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 DF product line, which is a suite of short, mid, and long-range solid-state digital lidar sensors that provide uniform precision imaging without motion blur across an entire field of view. In October 2022, we announced the launch of our newest OS series scanning sensors, REV7, powered by our next-generation L3 chip. REV7 features the all-new OSDome sensor, as well as upgraded OS0, OS1, and OS2 sensors that deliver double the range, enhanced object detection, increased precision and accuracy, and greater reliability. The new REV7 sensors offer performance upgrades that we believe will enhance Ouster’s market opportunity, driven by new opportunities for longer-range and mapping applications.

In recognition of growing demand for lidar-powered software solutions, in January 2023, we announced Ouster Gemini, a software platform for our sensors that provides privacy-safe object detection and tracking capabilities. The Ouster Gemini platform is designed primarily for the smart infrastructure vertical, providing alerts and analytics on the movement of people and vehicles for the intelligent transportation systems (ITS), security, and retail analytics industries.

Following the Velodyne Merger, we added three additional sensor products and a software solution to our portfolio. The VLP-16, VLP32, and VLS-128 lidar sensors expand the price and performance range of our offering, and have a sizeable existing install base. We intend to continue to sell these products when they present a fit for key customer requirements. Blue City is a software-based solution that includes lidar sensors, computing hardware and tailored software for the ITS market. The solution complements our Gemini platform and adds additional software capabilities, such as signal control and traffic analytics for our ITS customers.

The Company outsources certain product lines to its manufacturing partners, Benchmark Electronics, Inc. and Fabrinet. Both partners manufacture products at their facilities in Thailand, which management expects will reduce the Company's product costs and allow the Company to rapidly scale production to meet its anticipated product demand.

Merger with Velodyne Lidar, Inc.

On February 10, 2023, we completed our merger of equals with Velodyne Lidar, Inc. pursuant to the terms of the Agreement and Plan of Merger with Velodyne, Merger Sub I and Merger Sub II (the "Velodyne Merger"). The Velodyne Merger was accounted for as a business combination with Ouster being an accounting acquirer. Since February 11, 2023, our results of operations have included Velodyne.

For additional information regarding the terms of the Velodyne Merger, see Note 3, to our unaudited condensed consolidated financial statements included in this Quarterly Report.

Amazon Warrant

Amazon.com NV Investment Holdings LLC, a wholly-owned subsidiary of Amazon.com, Inc. ("Amazon"), holds a warrant ("Amazon Warrant") to acquire shares of our common stock. We assumed the Amazon Warrant as part of the Velodyne Merger. As a result of the issuance and sale by us of an additional 802,832 shares of common stock in the three months ended September 30, 2023 pursuant to the At-Market-Issuance Sales Agreement at prices below the exercise price of the Amazon Warrant, an antidilution adjustment to the terms of the Amazon Warrant occurred, resulting in the increase in the number of shares issuable under the Amazon Warrant by 120 shares of common stock and a reduction to the original strike price of the Amazon Warrant to \$50.70 per share. As of September 30, 2023, there were 3,264,018 shares of common stock issuable under the Amazon Warrant. The exercise price and the warrant shares issuable upon exercise of the Amazon Warrant are subject to further antidilution adjustments, including in the event we make certain sales of common stock (or securities exercisable or convertible into or exchangeable for shares of our common stock) at a price less than the exercise price of the Amazon Warrant. The Amazon Warrant is subject to vesting; 50% of the unvested Amazon Warrant as of the date of the Velodyne Merger vested as a result of the Velodyne Merger and the remainder will vest over time based on payments by Amazon or its affiliates to us in connection with Amazon's purchase of goods and services from us.

Factors Affecting Our Performance

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 continue to 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. In May 2023, the Company announced that it had been awarded a serial production agreement with Motional, a global leader in driverless technology, to be Motional's exclusive supplier of long-range lidar using the VLS-128 lidar sensor through 2026, and we intend to seek to establish similar relationships with other customers. 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 for these customers 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 aim to 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.

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 anticipate 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 the impact of the Velodyne Merger and related integration activities including the transition of manufacturing of our products to Thailand and excess and obsolete charges. We believe that 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 surcharges on our products, we expect that over time our volume-driven product costs will decrease.

Competition. Lidar is an emerging market, and there are many competitors for the growing market. This has created downward pressure on our ASPs, particularly in the Asia-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 well-positioned to scale more rapidly than our competitors and leverage our scale to deliver positive gross margins.

Continued Investment and Innovation. We believe that we are a leading digital lidar and solutions 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 increasing 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 and associated software solutions.

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: Americas; Asia-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 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. We also recognize revenue by performing services related to product development, validation, maintenance under our extended warranty contracts 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 innovators and early technology adopters incorporating our products into their solutions. 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 believe we are still at the very beginning of the lidar adoption curve, and some customers are still learning their growth and demand rates which can impact the timing of purchase orders quarter to quarter. As we grow our business, we expect to continue to improve our own understanding of our customers' needs and timelines, and expect the timing of orders will have a less notable impact on our quarterly results.

Cost of Revenue

Cost of revenue consists of the manufacturing cost of our digital lidar sensors, which primarily consists of sensor components, personnel-related expenses, including salaries, benefits, and stock-based compensation 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, amortization of intangible assets, an allocated portion of overhead, facility and IT costs, 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. Subject to quarterly fluctuations and volatility, we expect unit costs to decline as we manufacture higher unit volumes of sensors and a greater portion of our sensors are produced by our contract manufacturers in Thailand.

Operating Expenses

Research and Development Expenses

Research and development ("R&D") activities are primarily conducted at our San Francisco based headquarters and our additional R&D facilities in Scotland, Canada and San Jose 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, prototype expenses, amortization of intangible assets, and an allocation of shared overhead costs including facilities, utilities and IT-related costs that support R&D activities.

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 expenses is expected to grow over time; however, we expect R&D as a percentage of revenue to decrease over time 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. Sales and marketing expenses also include amortization expense of intangible assets related to customer relationships associated with the acquisitions. We have experienced additional sales and marketing expenses as a result of our global expansion, and 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 resources, an allocation of shared overhead costs including facilities, utilities and IT-related costs that support general and administrative activities, as well as amortization of intangible assets, 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 expenses will grow over time; however, we expect the general and administrative spend as a percentage of revenue to decrease over time as our business grows. We have experienced and may in the near-term experience additional increases in general and administrative expenses related to legal, accounting, finance and professional services costs associated with the Velodyne Merger, litigation activities, 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 SEC rules and regulations as a result of being a public company.

Goodwill Impairment Charges

In the nine months ended September 30, 2023, we recorded goodwill impairment charges of \$166.7 million. These charges were primarily driven by the decrease in the Company's market capitalization during the period. Our goodwill impairment analysis includes a comparison of the aggregate estimated fair value of our reporting unit to our total market capitalization. There were no goodwill impairment charges during the three months ended September 30, 2023. As of September 30, 2023, our remaining goodwill balance was nil. No goodwill impairment charges were recognized during the year ended December 31, 2022.

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 in interest bearing deposit accounts and market rates. Interest expense consists primarily of interest on our debt and amortization of debt issuance costs and discounts. Other income (expense), net consists primarily of realized and unrealized gains and losses on foreign currency transactions and balances, realized gains and losses related to sales of our available-for-sale investments, the change in fair value of the private placement warrant liability.

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 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, excluding specific balances due to the Velodyne Merger, against our net deferred tax assets. Income tax provision for the three and nine months ended September 30, 2023 and 2022, respectively, was not material to the Company's condensed consolidated financial statements.

Results of Operations:

The results of operations presented below should be reviewed in conjunction with the condensed consolidated financial statements and notes included elsewhere in this Quarterly Report. 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,	
	2023	2022	2023	2022
	(dollars in thousands)		(dollars in thousands)	
Revenue	\$ 22,209	\$ 11,204	\$ 58,835	\$ 30,091
Cost of revenue ⁽¹⁾	19,116	7,488	55,932	21,002
Gross profit (loss)	3,093	3,716	2,903	9,089
Operating expenses ⁽¹⁾ :				
Research and development	16,678	17,212	75,584	49,011
Sales and marketing	7,887	8,541	33,086	23,194
General and administrative	14,270	14,008	63,437	40,306
Goodwill impairment charges	—	—	166,675	—
Total operating expenses	38,835	39,761	338,782	112,511
Loss from operations	(35,742)	(36,045)	(335,879)	(103,422)
Other income (expense):				
Interest income	2,495	733	6,459	1,231
Interest expense	(1,825)	(699)	(5,222)	(1,143)
Other (expense) income, net	(13)	61	(124)	7,071
Total other income, net	657	95	1,113	7,159
Loss before income taxes	(35,085)	(35,950)	(334,766)	(96,263)
(Benefit from) provision for income tax expense	17	37	349	121
Net loss	\$ (35,102)	\$ (35,987)	\$ (335,115)	\$ (96,384)

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,	
	2023	2022	2023	2022
	(% of total revenue)		(% of total revenue)	
Revenue	100 %	100 %	100 %	100 %
Cost of revenue ⁽¹⁾	86	67	95	70
Gross profit (loss)	14	33	5	30
Operating expenses ⁽¹⁾ :				
Research and development	75	154	128	163
Sales and marketing	36	76	56	77
General and administrative	64	125	108	134
Goodwill impairment charges	0	—	283	—
Total operating expenses	175	355	575	374
Loss from operations	(161)	(322)	(570)	(344)
Other income (expense):				
Interest income	11	7	11	4
Interest expense	(8)	(6)	(9)	(4)
Other income (expense), net	—	1	—	23
Total other income, net	3	2	2	23
Loss before income taxes	(158)	(320)	(568)	(321)
Benefit from income tax expense	—	—	—	—
Net loss	(158)%	(320)%	(568)%	(321)%

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(dollars in thousands)		(dollars in thousands)	
Cost of revenue	\$ 570	\$ 207	\$ 1,998	\$ 570
Research and development	4,056	3,681	19,765	11,248
Sales and marketing	1,345	1,913	7,726	5,276
General and administrative	2,401	2,654	17,129	8,230
Total stock-based compensation	\$ 8,372	\$ 8,455	\$ 46,618	\$ 25,324

Comparison of the Three Months Ended September 30, 2023 and 2022

Revenue

	Three Months Ended September 30,		Change	
	2023	2022	\$	%
(dollars in thousands)				
Revenue by geographic location:				
Americas	\$ 13,317	\$ 4,182	\$ 9,135	218 %
Asia-Pacific	2,325	2,072	253	12
Europe, Middle East and Africa	6,567	4,950	1,617	33
Total	<u>\$ 22,209</u>	<u>\$ 11,204</u>	<u>\$ 11,005</u>	<u>98 %</u>

Revenue

Revenue increased by \$11.0 million, or 98%, to \$22.2 million for the three months ended September 30, 2023 from \$11.2 million for the comparable period in the prior year. The increase in revenue was driven by higher volume that was primarily due to the Velodyne Merger. In addition, the Company launched the REV7 sensors and realized higher OS sensor revenues in 2023.

Geographic Locations

Revenue increased across the geographic regions of Americas; Asia-Pacific; and Europe, Middle East and Africa as compared to the comparable period in the prior year. The revenue increases in those geographic regions were primarily attributable to the Velodyne Merger, our focus and investment in our global sales team and higher demand for our sensors during the three months ended September 30, 2023.

Cost of Revenue

	Three Months Ended September 30,		Change	
	2023	2022	\$	%
(dollars in thousands)				
Cost of revenue	\$ 19,116	\$ 7,488	\$ 11,628	155 %

Cost of revenue increased by \$11.6 million, or 155%, to \$19.1 million for the three months ended September 30, 2023 from \$7.5 million for the comparable period in the prior year. The increase in cost of revenue was primarily attributable to the Velodyne Merger, which increased revenues and costs, and higher costs related to cancelling certain Velodyne products and transitioning to the REV7 sensors.

Operating Expenses

	Three Months Ended September 30,		Change	
	2023	2022	\$	%
(dollars in thousands)				
Operating expenses:				
Research and development	\$ 16,678	\$ 17,212	\$ (534)	(3)%
Sales and marketing	7,887	8,541	(654)	(8)
General and administrative	14,270	14,008	262	2
Total operating expenses:	<u>\$ 38,835</u>	<u>\$ 39,761</u>	<u>\$ (926)</u>	<u>(2)%</u>

Research and Development

Research and development expenses decreased by \$0.5 million, or 3%, to \$16.7 million for the three months ended September 30, 2023 from \$17.2 million for the comparable period in the prior year. The decrease was primarily attributable to lower spending related to product development materials and contract engineering, partially offset by impacts from the Velodyne Merger, which increased headcount-related expenses and other associated costs.

Sales and Marketing

Sales and marketing expenses decreased by \$0.7 million, or 8%, to \$7.9 million for the three months ended September 30, 2023 from \$8.5 million for the comparable period in the prior year. The decrease was primarily attributable to the decrease in headcount-related expenses and other costs, associated with our June 2023 restructuring activities.

General and Administrative

General and administrative expenses increased by \$0.3 million, or 2%, to \$14.3 million for the three months ended September 30, 2023 from \$14.0 million for the comparable period in the prior year. The increase was primarily attributable to the Velodyne Merger, which increased headcount-related expenses and other costs.

Goodwill Impairment Charges

There were no goodwill impairment charges for the three months ended September 30, 2023 and 2022.

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

	Three Months Ended September 30,		Change	
	2023	2022	\$	%
(dollars in thousands)				
Interest income	\$ 2,495	\$ 733	\$ 1,762	240 %
Interest expense	\$ (1,825)	\$ (699)	\$ (1,126)	161
Other (expense) income, net	\$ (13)	\$ 61	\$ (74)	(121)

The increase in interest income was primarily attributable to a higher average cash and cash equivalent balances driven by additions from the Velodyne Merger transaction.

Interest expense was \$1.8 million and \$0.7 million for the three months ended September 30, 2023 and 2022, respectively, related to higher interest on term loan borrowings and amortization of debt issuance costs and discount under the former our Loan Agreement (as defined below).

Other (expense) income, net was not material for either of the periods presented.

Income Taxes

We were subject to income taxes in the United States and miscellaneous foreign jurisdictions for the three months ended September 30, 2023 and 2022. Our income tax expense for three months ended September 30, 2023 and 2022 was not material to our condensed consolidated financial statements.

Comparison of the Nine Months Ended September 30, 2023 and 2022

Revenue

	Nine Months Ended September 30,		Change	
	2023	2022	\$	%
(dollars in thousands)				
Revenue	\$ 58,835	\$ 30,091	\$ 28,744	96 %
Revenue by geographic location:				
Americas	\$ 35,204	\$ 10,685	\$ 24,519	229 %
Asia-Pacific	5,994	7,004	(1,010)	(14)
Europe, Middle East and Africa	17,637	12,402	5,235	42
Total	\$ 58,835	\$ 30,091	\$ 28,744	96 %

Revenue

Revenue increased by \$28.7 million, or 96%, to \$58.8 million for the nine months ended September 30, 2023 from \$30.1 million for the comparable period in the prior year. The increase in revenue was primarily driven by higher volume that was largely due to the Velodyne Merger. In addition, the Company launched the REV7 sensors and realized higher OS sensor revenues in 2023.

Geographic Locations

Revenue increased across the geographic regions of Americas and Europe, Middle East and Africa as compared to the comparable period in the prior year. The revenue increases in those geographic regions were primarily attributable to the Velodyne Merger, our focus and investment in our global sales team and increased demand for our sensors during the nine months ended September 30, 2023. Revenue in the Asia-Pacific geographic region was relatively flat.

Cost of Revenue

	Nine Months Ended September 30,		Change	
	2023	2022	\$	%
(dollars in thousands)				
Cost of revenue	\$ 55,932	\$ 21,002	\$ 34,930	166 %

Cost of revenue increased by \$34.9 million, or 166%, to \$55.9 million for the nine months ended September 30, 2023 from \$21.0 million for the comparable period in the prior year. The increase in cost of revenue was primarily attributable to the Velodyne Merger, which increased costs primarily associated with higher costs and excess and obsolete charges related to canceling certain Velodyne products and transitioning to the REV7 sensors.

Operating Expenses

	Nine Months Ended September 30,		Change	
	2023	2022	\$	%
(dollars in thousands)				
Operating expenses:				
Research and development	\$ 75,584	\$ 49,011	\$ 26,573	54 %
Sales and marketing	33,086	23,194	9,892	43
General and administrative	63,437	40,306	23,131	57
Goodwill impairment charges	166,675	—	166,675	*
Total operating expenses:	\$ 338,782	\$ 112,511	\$ 226,271	201 %

*Not meaningful.

Research and Development

Research and development expenses increased by \$26.6 million, or 54%, to \$75.6 million for the nine months ended September 30, 2023 from \$49.0 million for the comparable period in the prior year. The increase was primarily attributable to the Velodyne Merger, which increased headcount-related expenses and other costs.

Sales and Marketing

Sales and marketing expenses increased by \$9.9 million, or 43%, to \$33.1 million for the nine months ended September 30, 2023 from \$23.2 million for the comparable period in the prior year. The increase was primarily attributable to the Velodyne Merger, which increased headcount-related expenses and other costs.

General and Administrative

General and administrative expenses increased by \$23.1 million, or 57%, to \$63.4 million for the nine months ended September 30, 2023 from \$40.3 million for the comparable period in the prior year. The increase was primarily attributable to the Velodyne Merger, which increased headcount-related expenses and other costs.

Goodwill Impairment Charges

Goodwill impairment charges were \$166.7 million for the nine months ended September 30, 2023 for the reasons described above under “Goodwill impairment charges.” There were no goodwill impairment charges during the nine months ended September 30, 2022.

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

	Nine Months Ended September 30,		Change	
	2023	2022	\$	%
	(dollars in thousands)			
Interest income	\$ 6,459	\$ 1,231	\$ 5,228	425 %
Interest expense	\$ (5,222)	\$ (1,143)	\$ (4,079)	357
Other (expense) income, net	\$ (124)	\$ 7,071	\$ (7,195)	(102)

The increase in interest income was primarily attributable to a higher average cash and cash equivalent balances driven by additions from the Velodyne Merger transaction.

Interest expense was \$5.2 million for the nine months ended September 30, 2023 and was related to term loan borrowings and amortization of debt issuance costs and discount under our former Loan Agreement (as defined below). Interest expense recorded for the nine months ended September 30, 2022 was \$1.4 million and consisted of interest and amortization of debt issuance cost under our former Loan Agreement with Hercules Capital, Inc., which commenced on April 29, 2022.

Other (expense) income, net was \$0.1 million for the nine months ended September 30, 2023 compared to \$7.1 million for the comparable period in the prior year. During the nine months ended September 30, 2023, we recorded a loss of \$0.1 million for the fair value change of private placement warrant liability. During the nine months ended September 30, 2022, we recorded a gain of \$7.4 million for the fair value change of private placement warrant liability.

Income Taxes

We were subject to income taxes in the United States and miscellaneous foreign jurisdictions for the nine months ended September 30, 2023 and 2022. Our income tax expense for the nine months ended September 30, 2023 and 2022 was not material to our condensed consolidated financial statements.

Liquidity and Capital Resources

Our principal sources of liquidity are our cash and cash equivalents and short-term investments funded from the Velodyne Merger, cash generated from revenues, sales of common stock under our at-the market equity offering program and proceeds from our debt financing.

On April 29, 2022, we entered into an open market sale agreement with B. Riley Securities, Inc., Cantor Fitzgerald & Co. and Oppenheimer & Co. Inc. (the “ATM Agreement”), pursuant to which we may offer and sell shares of our common stock with an aggregate offering price of up to \$150.0 million under an “at-the-market” equity offering program. Subject to the terms and conditions of the agreement, we may sell the shares in amounts and at times to be determined by us but we are under no obligation to sell any of the shares. Actual sales, if any, will depend on a variety of factors to be determined by us from time to time, including, among other things, market conditions, the trading price of our common stock, capital needs and determinations by us of the appropriate sources of funding.

During the three months ended September 30, 2023, the Company sold 802,832 shares under the ATM Agreement at a weighted-average sales price of \$5.06 per share, resulting in cumulative gross proceeds to the Company totaling approximately \$4.1 million before deducting offering costs, sales commissions and fees. Cumulative net proceeds to the Company totaled approximately \$3.6 million after deducting offering costs, sales commissions and fees. The remaining availability under the ATM Agreement as of September 30, 2023 is approximately \$129.1 million. The Company intends to use the net proceeds from the sale of shares pursuant to the ATM Agreement for working capital and general corporate purposes.

On October 25, 2023, we entered into a Credit Line Account Application and Agreement for Organizations and Businesses (the “Credit Agreement”) and the Addendum to Credit Line Account Application and Agreement (the “Addendum”; and the Credit Agreement as amended, modified, and/or supplemented by the Addendum, the “UBS Agreement”) with UBS Bank USA (the “Bank”) and UBS Financial Services Inc. The UBS Agreement provides us with a revolving credit line of up to \$45.0 million, subject to certain terms and conditions. We borrowed \$44.0 million on October 25, 2023, and all of the proceeds were used to prepay and terminate our Loan Agreement with Hercules Capital, Inc., dated April 29, 2022 (as amended, the “Loan Agreement”) on October 25, 2023. Pursuant to the terms of the UBS Agreement, we have agreed to maintain minimum liquidity, comprised of unencumbered cash and cash equivalents, U.S. treasuries and other assets acceptable to the Bank, of \$52.0 million in an account maintained with the Bank or its affiliates at all times. This amount is expected to appear as restricted cash on our balance sheet in future periods. For a description of the other material terms of the UBS Agreement, see Note 16, Subsequent Event to our unaudited condensed consolidated financial statements included in this Quarterly Report.

For a description of our former Loan Agreement with Hercules Capital, Inc., see Note 6, Debt to our unaudited condensed consolidated financial statements included in this Quarterly Report.

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.

Material Cash Requirements

We are a party to many contractual obligations involving commitments to make payments to third parties. These obligations impact our short-term and long-term liquidity and capital resource needs. Certain contractual obligations are reflected on the condensed consolidated balance sheet as of September 30, 2023, while others are considered future commitments. Our contractual obligations primarily consist of non-cancelable purchase commitments with various parties to purchase goods or services, primarily inventory, entered into in the normal course of business and operating leases. For information regarding our other contractual obligations, refer to Note 8, Commitments and Contingencies to our unaudited condensed consolidated financial statements included in this Quarterly Report and Part II, Item 7 of our Annual Report on Form 10-K as filed with the SEC on March 24, 2023.

As of September 30, 2023, the Company’s existing sources of liquidity included cash, cash equivalents and short-term investments of \$200.5 million. The Company has incurred losses and negative cash flows from operations for several years. If the Company continues to incur losses in the future, it may need to improve liquidity and raise additional capital through the issuance of equity, including under the ATM Agreement, and/or debt financing. This is subject, to a certain extent, to general economic, financial, competitive, regulatory, and other factors that are beyond our control and there can be no assurance that the Company would be able to raise such capital. Nevertheless, management believes that the Company’s existing sources of liquidity will be adequate to fund its operations for at least twelve months from the date the unaudited condensed consolidated financial statements in this Quarterly Report were available for issuance.

Cash Flow Summary

The following table summarizes our cash flows from continuing operations for the periods presented:

	Nine Months Ended September 30,	
	2023	2022
	(dollars in thousands)	
Net cash provided by (used in):		
Operating activities	\$ (113,703)	\$ (83,290)
Investing activities	\$ 63,524	\$ (2,078)
Financing activities	\$ 3,385	\$ 35,414

Operating Activities

During the nine months ended September 30, 2023, operating activities used \$113.7 million in cash. The primary factors affecting our operating cash flows during this period were our net loss of \$335.1 million, impacted by our non-cash charges of \$238.7 million, primarily consisting of goodwill impairment charges of \$166.7 million, depreciation and amortization of \$14.3 million, loss on write-off of construction in progress and right-of-use asset impairment of \$1.4 million, gain on lease termination of \$0.8 million, stock-based compensation of \$46.6 million, a change in right-of-use asset of \$3.3 million and inventory write down of \$8.2 million. The changes in our operating assets and liabilities of \$17.3 million were primarily due to an increase in accounts receivable of \$4.5 million, increase in inventory of \$4.5 million, a decrease in accounts payable of \$4.1 million and an increase in accrued and other liabilities of \$10.2 million.

During the nine months ended September 30, 2022, operating activities used \$83.3 million in cash. The primary factors affecting our operating cash flows during this period were our net loss of \$96.4 million, impacted by our non-cash charges of \$28.3 million primarily consisting of stock-based compensation of \$25.3 million, a \$7.4 million change in fair value of warrant liabilities, depreciation and amortization of \$7.1 million, change in right-of-use asset of \$2.1 million, interest expense and amortization of debt issuance costs and debt discount of \$0.4 million. The changes in our operating assets and liabilities of \$15.2 million were primarily due to a decrease in operating lease liability of \$2.4 million, an increase in accounts payable of \$3.2 million, an increase in accounts receivable of \$0.1 million and an increase in accrued and other liabilities of \$0.2 million.

Investing Activities

During the nine months ended September 30, 2023, cash provided by investing activities was \$63.5 million, which was attributed primarily to the Velodyne Merger and proceeds from sales of short-term investments.

During the nine months ended September 30, 2022, cash used in investing activities was \$2.1 million, which was related to purchases of property, plant and equipment, partially offset by sales of property and equipment.

Financing Activities

During the nine months ended September 30, 2023, cash provided by financing activities was \$3.4 million, consisting primarily of \$2.9 million of proceeds from the issuance of common stock under the ATM Agreement, net of commissions and fees.

During the nine months ended September 30, 2022, cash provided by financing activities was \$35.4 million, consisting primarily of \$19.1 million of proceeds from borrowings, net of debt discount and issuance costs, \$16.3 million of proceeds from the issuance of common stock under the ATM Agreement, net of commissions and fees, and proceeds from the exercise of stock options of \$0.4 million.

Critical Accounting Estimates

Our critical accounting estimates are described in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2022. There have been no significant changes to our critical accounting policies and estimates since the filing of our Annual Report on Form 10-K for the year ended December 31, 2022 except for the revision in our revenue policies and addition of investments as a significant accounting policy, both in connection with Velodyne Merger, which is described in Note 2 - Summary of Significant Accounting Policies to our unaudited condensed consolidated financial statements included in this Quarterly Report.

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions. Certain of these policies require the application of subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. These estimates and assumptions are based on historical experience, changes in the business environment and other factors that we believe to be reasonable under the circumstances. Different estimates that could have been applied in the current period or changes in the accounting estimates that are reasonably likely can result in a material impact on our financial condition and operating results in the current and future periods.

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, foreign currency exchange rates and to a lesser extent, inflation risk. The following analysis provides quantitative information regarding these risks.

Inflation Risk

General inflation in the United States, Europe and other geographies has risen to levels not experienced in recent decades. General inflation, including rising prices for inputs and rising wages, as well as rising interest rates negatively impact our business by increasing our operating costs. General inflation also negatively impacts our business by decreasing the capital for our customers to deploy to purchase our products. Inflation may cause our customers to reduce or delay orders for our products thereby causing a decrease in sales. Increased instability relating to this higher inflation as well as rising interest rates may enhance volatility in currency exchange rates, limit our suppliers' and customers' access to credit and limit our ability to access debt and equity financing. These uncertainties may make it difficult for us and our suppliers and customers to accurately plan future business activities and materially adversely impact our operating results and financial condition. While we adjust our prices to try to offset rising operating costs, we may not be able to fully offset such higher costs or demand may decline. Our inability to offset costs or consequential decline in demand could harm our business, results of operations or financial condition.

Interest Rate Risk

As of September 30, 2023, we had cash and cash equivalents and short-term investments of approximately \$200.5 million, of which \$46.0 million consisted of institutional money market funds, \$73.2 million commercial paper, and \$51.8 million corporate debt and U.S. government agency securities, all of which carries a degree of interest rate risk. The primary goals of our investment policy are liquidity and capital preservation. We do not enter into investments for trading or speculative purposes. These investments are subject to interest rate risk, as sharp increases in market interest rates could have an adverse impact on their fair value. Although the fair values of these instruments can fluctuate, we believe that the short-term, highly liquid nature of these investments, and our ability to hold these instruments to maturity, reduces our risk for potential material losses. A hypothetical 100 basis point 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.

In addition, our operating results are subject to risk from interest rate fluctuations on borrowings under our debt financing arrangements, which carry variable interest rates. Interest rate risk is the exposure to loss resulting from changes in the level of interest rates and the spread between different interest rates. Because our borrowings under our financing arrangements bear interest at variable rates, we are exposed to market risks relating to changes in interest rates. Interest rate risk is highly sensitive due to many factors, including U.S. monetary and tax policies, U.S. and international economic factors and other factors beyond our control. As of September 30, 2023, we had \$40.0 million of variable rate debt outstanding under our former Loan Agreement, which was refinanced on October 25, 2023. Based upon a sensitivity analysis of our debt levels on September 30, 2023, an increase or decrease of 1% point in the effective interest rate under our former Loan Agreement would cause an increase or decrease in interest expense of approximately \$0.4 million over the next 12 months.

We anticipate that interest payable on borrowings under the UBS Agreement will be substantially less than the interest payable on the term loan facility with Hercules Capital, Inc, and that the new Agreement will provide more operational flexibility.

We do not use derivative financial instruments for speculative or trading purposes, but this does not preclude our adoption of specific hedging strategies in the future.

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 U.S. 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. No strategy can completely insulate us from risks associated with such fluctuations and our currency exchange rate risk management activities could expose us to substantial losses if such rates move materially differently from our expectations.

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 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) as of September 30, 2023. 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, 2023 due to the material weaknesses in our internal control over financial reporting described below.

Material weaknesses and remediation measures

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act).

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.

Remediation Measures Taken

We have taken several measures to design and implement controls to improve our internal control over financial reporting and continued to make progress during the quarter ended September 30, 2023 towards establishing an effective internal control framework to remediate the foregoing material weaknesses. Our efforts have included the following:

- Recruiting additional personnel with appropriate internal controls, accounting knowledge and experience commensurate with our accounting and reporting requirements, in addition to engaging and utilizing third party consultants and specialists.
- Enhancing entity level controls (ELCs) including increasing Board and Audit Committee oversight, expanding senior management review of financial and business performance, creating an internal audit function and charter, and providing code of conduct and compliance training to Company employees.
- Strengthening IT governance and designing IT general controls including restricted user access to our internal systems for financial reporting, and IT change management
- Designing and implementing additional controls for financial close and reporting including review of accounting policies, journal entry review controls, review of significant or non-routine transactions, period end close procedures, financial statement preparation, review, and reporting, and controls within various business processes as they relate to financial reporting. This included design and implementation of controls around classification of balances in our financial statements and strengthening processes for management oversight over financial reporting and disclosure controls.
- Conducting internal control training for personnel responsible for implementing internal controls for the Company.

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 review our internal control over financial reporting diligently.

Changes in Internal Control over Financial Reporting

Other than the remediation measures described above, 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, 2023 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

We are, from time to time, party various claims and legal proceedings arising in the ordinary course of our business. See Part I, Item 1 “Financial Statements (Unaudited) - Note 8, Commitments and Contingencies” for a discussion of our material legal proceedings.

Item 1A. Risk Factors

Investing in our securities involves a high degree of risk. You should carefully consider the risks described under the heading “Risk Factors” in Part I, Item 1A. of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 (“2022 Form 10-K”), the other information in this Quarterly Report, including our unaudited condensed consolidated financial statements and the related notes, as well as our other public filings with the SEC, before deciding to invest in our securities. There have been no material changes to the Company’s risk factors previously disclosed in our 2022 Form 10-K, other than the below. The occurrence of any of the events described therein could harm our business, financial condition, results of operations, liquidity or prospects. In such an event, the market price of our common stock could decline, and you may lose all or part of your investment. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business.

Our indebtedness could adversely affect our financial health and competitive position.

On October 25, 2023, we entered into a Credit Line Account Application and Agreement for Organizations and Businesses (the “Credit Agreement”) and the Addendum to Credit Line Account Application and Agreement (the “Addendum”; and the Credit Agreement as amended, modified, and/or supplemented by the Addendum, the “UBS Agreement”) with UBS Bank USA (the “Bank”), and UBS Financial Services Inc. We may incur additional indebtedness in the future.

Pursuant to the terms of the UBS Agreement, we have agreed to maintain minimum liquidity, comprised of unencumbered cash and cash equivalents, U.S. treasuries and other assets acceptable to the Bank, of \$52.0 million in an account maintained with the Bank or its affiliates at all times. This amount is expected to appear as restricted cash on our balance sheet in future periods. As collateral for the facility, we have agreed to maintain securities accounts with the Bank or its affiliates with deposits in an amount sufficient to meet the collateral value as determined by the Bank pursuant to the UBS Agreement. The facility under the UBS Agreement is secured by our assets in securities accounts and any other accounts maintained with the Bank or its affiliates, and any supporting obligations, general intangibles and other rights ancillary or attributable to such assets, subject to customary exceptions.

The UBS Agreement also contains affirmative and negative covenants customary for a credit line of this type, including requirements for maintenance of the collateral accounts and certain limitations on withdrawal of cash from such collateral accounts. The UBS Agreement also provides for customary events of default, including, among others, non-payment, failure to maintain an amount equal to the greater of (x) the outstanding loans and (y) the collateral value as determined by the Bank, in the securities accounts maintained with the Bank, bankruptcy, or breach of a covenant, representation and warranty.

Our leverage could have important consequences to us, including:

- exposing us to the risk of increased interest rates as our borrowings under the UBS Agreement are at variable rates;
- making it more difficult for us to make payments on our debt;
- limiting our ability to pay future dividends;
- increasing our vulnerability to downturns in our business, lidar industry or the general economy and limiting our flexibility in planning for, or reacting to, changes in our business;
- requiring a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on our debt, thereby reducing our ability to use our cash flow to fund our operations, capital expenditures, and future business opportunities;

- restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;
- requiring us to comply with financial and operational covenants, restricting us, among other things, from placing liens on our assets, making investments, incurring debt, making payments to our equity or debt holders and engaging in transactions with affiliates;
- limiting our ability to obtain additional financing for working capital, capital expenditures, product development, debt service requirements, acquisitions, and general corporate or other purposes;
- preventing us from taking advantage of business opportunities as they arise or successfully carrying out our plans to expand our store base and product offerings; and
- placing us at a competitive disadvantage compared to our competitors who may be less leveraged.

Consequences of this indebtedness may require a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on our debt, thereby reducing our ability to use our cash flow to fund operations, capital expenditures, and future business opportunities. If we cannot generate sufficient cash flow from operations to service our debt, we may need to refinance our debt, dispose of assets or issue equity to obtain necessary funds. We do not know whether we would be able to take any of these actions on a timely basis, on terms satisfactory to us, or at all. A failure by us or our subsidiaries to comply with the agreements governing our indebtedness could result in an event of default under such indebtedness, which could adversely affect our ability to respond to changes in our business and manage our operations. Upon the occurrence of an event of default under any of the agreements governing our indebtedness, the lenders could elect to declare all amounts outstanding to be due and payable and exercise other remedies as set forth in the agreements. If any of our indebtedness were to be accelerated, there can be no assurance that our assets would be sufficient to repay this indebtedness in full, which could have a material adverse effect on our ability to continue to operate as a going concern.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities

Unregistered Sales of Equity Securities

We did not sell any securities during the three months ended September 30, 2023 that were not registered under the Securities Act.

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, 2023.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

- a. None.
- b. None.
- c. Not applicable.

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	
2.2†	Agreement and Plan of Merger, dated November 4, 2022, by and among Velodyne Lidar, Inc., Ouster, Inc., Oban Merger Sub, Inc. and Oban Merger Sub II LLC.	8-K	001-39463	2.1	11/7/2022	
3.1	Certificate of Incorporation of Ouster, Inc.	S-4 POS	333-251611	3.1	3/10/2021	
3.2	Certificate of Amendment to Certificate of Incorporation of Ouster, Inc.	8-K	001-39463	3.1	4/20/2023	
3.3	Amended and Restated Bylaws of Ouster, Inc.	8-K	001-39463	3.1	11/8/2023	
4.1	Warrant Agreement, dated October 14, 2018, by and between Continental Stock Transfer & Trust Company and Velodyne Lidar, Inc.	8-K	001-38703	4.1	10/18/2018	
4.2	Warrant to Purchase Common Stock of Velodyne Lidar, Inc., by and between Velodyne Lidar, Inc. and Amazon.com NV Investment Holdings LLC, dated as of February 4, 2022	8-K	001-38703	4.1	2/7/2022	
10.1	Credit Line Agreement for Organizations and Business and Addendum, dated October 25, 2023, by and between the Company, UBS Bank USA, and UBS Financial Services Inc.	8-K	001-38703	10.1	10/31/2023	*
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.
- * Filed herewith.
- ** Furnished herewith.

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 13, 2023

Ouster, Inc.
By: /s/ Mark Weinswig
Name: Mark Weinswig
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 13, 2023

By: /s/ Angus Pacala
Angus Pacala
Co-Founder and Chief Executive Officer
(*principal executive officer*)

CERTIFICATION

I, Mark Weinswig, 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 13, 2023

By: /s/ Mark Weinswig
Mark Weinswig
Chief Financial Officer
(*principal financial officer*)

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

In connection with the Quarterly Report on Form 10-Q of Ouster, Inc. (the “Company”) for the period ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 13, 2023

By: /s/ Angus Pacala
Angus Pacala
Co-Founder and Chief Executive Officer
(*principal executive officer*)

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

In connection with the Quarterly Report on Form 10-Q of Ouster, Inc. (the “Company”) for the period ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 13, 2023

By: /s/ Mark Weinswig
Mark Weinswig
Chief Financial Officer
(*principal financial officer*)