

**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 June 30, 2022
OR

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

For the transition period from _____ to _____
Commission File Number: 001-39463

Ouster, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

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

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

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

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

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

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

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

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

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

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

As of August 4, 2022, the registrant had 181,719,695 shares of common stock, \$0.0001 par value per share, outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. 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 on Form 10-Q other than statements of historical fact, including statements regarding Ouster’s future operating results and financial position, its business strategy and plans, potential acquisitions, market growth and trends, and its objectives for future operations, are forward-looking statements. The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” “could,” “would,” “project,” “plan,” “potentially,” “preliminary,” “likely,” “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, including Ouster’s limited operating history and history of losses; the negotiating power and product standards of its customers; fluctuations in its operating results; supply chain constraints and challenges; cancellation or postponement of contracts or unsuccessful implementations; the adoption of its products and the growth of the lidar market generally; its ability to grow its sales and marketing organization; substantial research and development costs needed to develop and commercialize new products; the competitive environment in which it operates; selection of its products for inclusion in target markets; its future capital needs and ability to secure additional capital on favorable terms or at all; its ability to use tax attributes; its dependence on key third party suppliers, in particular Benchmark Electronics, Inc., and manufacturers; its ability to maintain inventory and the risk of inventory write-downs; inaccurate forecasts of market growth; its ability to manage growth; the creditworthiness of its customers; risks related to acquisitions; risks related to international operations; risks of product delivery problems or defects; costs associated with product warranties; its ability to maintain competitive average selling prices or high sales volumes or reduce product costs; conditions in its customers’ industries; its ability to recruit and retain key personnel; its use of professional employer organizations; its ability to adequately protect and enforce its intellectual property rights; its ability to effectively respond to evolving regulations and standards; risks related to operating as a public company; risks related to the COVID-19 pandemic; and risks related to certain of its warrants being accounted for as liabilities. Other risk factors include the important factors described in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on February 28, 2022, 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 on Form 10-Q, and you should not rely on forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, performance, or achievements reflected in the forward-looking statements will be achieved or occur. Except as required by applicable law, we undertake no obligation to update any of these forward-looking statements for any reason after the date of this Quarterly Report on Form 10-Q or to conform these statements to actual results or revised expectations.

GENERAL

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

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 159,707	\$ 182,644
Restricted cash, current	977	977
Accounts receivable, net	9,382	10,723
Inventory	17,181	7,448
Prepaid expenses and other current assets	7,539	5,566
Total current assets	194,786	207,358
Property and equipment, net	8,393	10,054
Operating lease, right-of-use assets	14,369	15,156
Goodwill	51,151	51,076
Intangible assets, net	20,408	22,652
Restricted cash, non-current	1,088	1,035
Other non-current assets	355	371
Total assets	<u>\$ 290,550</u>	<u>\$ 307,702</u>
Liabilities, redeemable convertible preferred stock and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 5,825	\$ 4,863
Accrued and other current liabilities	14,520	14,173
Operating lease liability, current portion	3,067	3,067
Total current liabilities	23,412	22,103
Operating lease liability, long-term portion	15,191	16,208
Warrant liabilities (at June 30, 2022 and December 31, 2021 related party \$172 and \$2,669, respectively)	492	7,626
Debt	19,119	—
Other non-current liabilities	1,365	1,065
Total liabilities	59,579	47,002
Commitments and contingencies (Note 7)		
Redeemable convertible preferred stock, \$0.0001 par value per share; 100,000,000 shares authorized at June 30, 2022 and December 31, 2021; Nil shares issued and outstanding at June 30, 2022 and December 31, 2021, respectively (aggregate liquidation preference of nil at June 30, 2022 and December 31, 2021, respectively)	—	—
Stockholders' equity (deficit):		
Common stock, \$0.0001 par value; 1,000,000,000 shares authorized at June 30, 2022 and December 31, 2021; 181,424,515 and 172,200,417 issued and outstanding at June 30, 2022 and December 31, 2021, respectively	18	17
Additional paid-in capital	594,800	564,045
Accumulated deficit	(363,753)	(303,356)
Accumulated other comprehensive loss	(94)	(6)
Total stockholders' equity	230,971	260,700
Total liabilities, redeemable convertible preferred stock, and stockholders' equity	<u>\$ 290,550</u>	<u>\$ 307,702</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 June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Product revenue	\$ 10,329	\$ 7,360	\$ 18,887	\$ 13,971
Cost of product revenue	7,547	5,465	13,514	10,333
Gross profit	2,782	1,895	5,373	3,638
Operating expenses:				
Research and development	15,893	6,474	31,799	11,186
Sales and marketing	7,563	4,614	14,653	8,040
General and administrative	12,515	12,197	26,298	22,104
Total operating expenses	35,971	23,285	72,750	41,330
Loss from operations	(33,189)	(21,390)	(67,377)	(37,692)
Other (expense) income:				
Interest income	344	139	498	140
Interest expense	(444)	—	(444)	(504)
Other income (expense), net	5,326	(10,760)	7,010	(14,912)
Total other expense, net	5,226	(10,621)	7,064	(15,276)
Loss before income taxes	(27,963)	(32,011)	(60,313)	(52,968)
Provision for income tax expense	37	—	84	—
Net loss	\$ (28,000)	\$ (32,011)	\$ (60,397)	\$ (52,968)
Other comprehensive loss				
Foreign currency translation adjustments	\$ (76)	\$ —	\$ (88)	\$ —
Total comprehensive loss	\$ (28,076)	\$ (32,011)	\$ (60,485)	\$ (52,968)
Net loss per common share, basic and diluted	\$ (0.16)	\$ (0.21)	\$ (0.35)	\$ (0.50)
Weighted-average shares used to compute basic and diluted net loss per share	175,057,360	155,923,689	172,965,833	106,070,590

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

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

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in-Capital	Accumulated Deficit	Accumulated other comprehensive loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance — December 31, 2021	—	\$ —	172,200,417	\$ 17	\$ 564,045	\$ (303,356)	\$ (6)	\$ 260,700
Issuance of common stock upon exercise of stock options	—	—	822,702	—	209	—	—	209
Issuance of common stock upon exercise of restricted stock awards - net of tax withholding	—	—	812,491	—	(59)	—	—	(59)
Repurchase of common stock	—	—	(233,107)	—	(31)	—	—	(31)
Stock-based compensation expense	—	—	—	—	8,750	—	—	8,750
Vesting of early exercised stock options	—	—	—	—	19	—	—	19
Net loss	—	—	—	—	—	(32,397)	—	(32,397)
Other Comprehensive loss	—	—	—	—	—	—	(12)	(12)
Balance — March 31, 2022	—	—	173,602,503	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 \$546	—	—	6,749,344	1	14,021	—	—	14,022
Issuance of common stock upon exercise of stock options	—	—	234,241	—	45	—	—	45
Issuance of common stock upon exercise of restricted stock awards	—	—	950,858	—	—	—	—	—
Repurchase of common stock	—	—	(57,301)	—	(12)	—	—	(12)
Vesting of early exercised stock options	—	—	—	—	52	—	—	52
Cancellation of Sense acquisition shares	—	—	(55,130)	—	(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	—	\$ —	181,424,515	\$ 18	\$ 594,800	\$ (363,753)	\$ (94)	\$ 230,971

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

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

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

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

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

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

	Six months ended June 30,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (60,397)	\$ (52,968)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,739	2,254
Stock-based compensation	16,869	11,410
Change in right-of-use asset	1,358	1,047
Interest expense	402	36
Amortization of debt issuance costs and debt discount	42	250
Change in fair value of warrant liabilities	(7,134)	14,898
Inventory write down	447	144
Gain from disposal of property and equipment	(100)	—
Changes in operating assets and liabilities:		
Accounts receivable	1,341	(2,344)
Inventory	(10,180)	(48)
Prepaid expenses and other assets	(1,957)	(37)
Accounts payable	1,094	(3,317)
Accrued and other liabilities	(329)	1,692
Operating lease liability	(1,588)	(1,363)
Net cash used in operating activities	(55,393)	(28,346)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property & equipment	275	—
Purchases of property and equipment	(1,277)	(659)
Net cash used in investing activities	(1,002)	(659)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the merger and private offering	—	291,454
Payment of offering costs	—	(27,124)
Repayment of debt	—	(7,000)
Proceeds from issuance of promissory notes to related parties	—	5,000
Repayment of promissory notes to related parties	—	(5,000)
Repurchase of common stock	(43)	(43)
Proceeds from exercise of stock options	252	504
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	14,568	—
At-the-market offering costs for the issuance of common stock	(196)	—
Taxes paid related to net share settlement of restricted stock awards	(59)	—
Net cash provided by financing activities	33,599	257,791
Effect of exchange rates on cash and cash equivalents	(88)	—
Net increase (decrease) in cash, cash equivalents and restricted cash	(22,884)	228,786
Cash, cash equivalents and restricted cash at beginning of period	184,656	12,642
Cash, cash equivalents and restricted cash at end of period	\$ 161,772	\$ 241,428
SUPPLEMENTAL DISCLOSURES OF OPERATING ACTIVITIES:		
Cash paid for interest	\$ 184	\$ 635
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING INFORMATION:		
Property and equipment purchases included in accounts payable and accrued liabilities	\$ 45	\$ 178
Private placement warrants acquired as part of the merger	\$ —	\$ 19,377
Issuance of redeemable convertible preferred stock upon exercise of warrants	\$ —	\$ 58,097
Conversion of redeemable convertible preferred stock to common stock	\$ —	\$ 97,322
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”. 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 Colonnade Acquisition Corp.) and its consolidated subsidiaries following the consummation of the Merger.

Colonnade Acquisition Corp. (“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 with the Company pursuant to an Agreement and Plan of Merger (the “Merger Agreement”) dated as of December 21, 2020, details of which are included below.

Basis of Presentation and Principles of Consolidation

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

The unaudited condensed consolidated financial statements include all adjustments (consisting of only normal recurring adjustments) necessary for a fair statement of the results of operations for the periods shown. The unaudited condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements as of and for the year ended December 31, 2021 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 February 28, 2022. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by US GAAP. Certain information and note disclosures normally included in the audited financial statements prepared in accordance with US GAAP have been condensed or omitted from this report, as is permitted by 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, 2022 or for any other future years or interim periods.

Impact of the COVID-19 Pandemic

Ouster has been actively monitoring the COVID-19 pandemic on a global scale and continues to evaluate the long-term impacts on the business while keeping abreast of the latest developments, particularly the variants of the virus, to ensure preparedness for Ouster’s employees and its business. We maintain our commitment to protecting the health and safety of our employees and customers. We continue to adapt and enhance our safety protocols as we follow the guidance from local authorities. The full extent to which the COVID-19 pandemic will directly or indirectly impact the Company’s business, results of operations and financial condition, including sales, expenses, reserves and allowances, manufacturing, research and development costs and employee-related amounts, will depend on future events that are uncertain, including as a result of new information that continues to emerge concerning the virus, its variants, the deployment and effectiveness of vaccination roll-outs, vaccination hesitancy, therapeutics, and the actions taken to contain the virus or treat it, as well as the economic impact on local, regional, national and international customers and markets. Thus, the Company is not able to estimate the future consequences on its operations, its financial condition, or its liquidity.

Liquidity

The accompanying unaudited condensed consolidated financial statements have been prepared on a going concern basis. The Company has experienced recurring losses from operations, and negative cash flows from operations. As of June 30, 2022, the Company had an accumulated deficit of approximately \$363.8 million. The Company has historically financed its operations primarily through the Merger and related transactions, the sale of convertible notes, equity securities, proceeds from debt and, to a lesser extent, cash received from sales. Management expects significant operating losses and negative cash flows from operations to continue for the foreseeable future. The Company expects to continue investing in product development and sales and marketing activities. The long-term continuation of the Company's business plan is dependent upon the generation of sufficient revenues from its products to offset expenses and its ability to raise more capital. In the event that the Company does not generate sufficient cash flows from operations and is unable to obtain funding, the Company will be forced to delay, reduce, or eliminate some or all of its discretionary spending, which could adversely affect the Company's business prospects, ability to meet long-term liquidity needs or ability to continue operations. The Company has concluded that its cash and cash equivalents as of June 30, 2022 will be sufficient for the Company to continue as a going concern for at least one year from the date these unaudited condensed consolidated financial statements are available for issuance.

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

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

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

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

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

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

PIPE Investment

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

At the Market Issuance Sales Agreement

On April 29, 2022, the Company entered into an At Market Issuance Sales Agreement (the “ATM Agreement”) with B. Riley Securities, Inc., Cantor Fitzgerald & Co. and Oppenheimer & Co. Inc., pursuant to which the Company may offer and sell, from time to time, through or to the agents, acting as agent or principal, shares of the Company’s common stock having an aggregate offering price of up to \$150 million under the Company’s Form S-3 registration statement. From the date of the ATM Agreement through June 30, 2022, the Company sold 6,749,344 shares at a weighted-average sales price of \$2.16 per share, resulting in cumulative gross proceeds to the Company totaling approximately \$15.0 million before deducting offering expenses and sales commissions. Cumulative net proceeds to the Company totaled approximately \$14.0 million after deducting commissions and offering expenses. The remaining availability under the ATM Agreement as of June 30, 2022 is approximately \$135.0 million.

Loan and Security Agreement

On April 29, 2022, the Company entered into a loan and security agreement (the “Loan Agreement”) with Hercules. The Loan Agreement provides with the term loan of up to \$50.0 million, subject to terms and conditions. The Company borrowed the first initial tranche of \$20.0 million on April 29, 2022. The Company may borrow an additional \$20.0 million on or before March 15, 2023, subject satisfying certain conditions. An additional \$10.0 million may be drawn on or before June 15, 2023, subject to satisfying certain conditions relating to the achievement of trailing twelve month revenue and profit milestones.

For additional information, see Note 5, Debt.

Note 2 – Summary of Significant Accounting Policies

During the six months ended June 30, 2022, 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 February 28, 2022, except for the changes described below. The Company has consistently applied the accounting policies to all periods presented in these condensed consolidated financial statements.

Deferred Debt Financing Costs

Financing costs incurred in connection with a loan and security agreement with Hercules Capital, Inc. (“Hercules”) are deferred and amortized using the effective interest rate method over the life of the respective agreement. Any discount or premium on the issuance of any debt is amortized using the effective interest method over the life of the respective debt security.

The Company presents deferred debt financing costs on the balance sheet as a contra-liability as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts.

Recently Issued and Adopted Accounting Pronouncements

In August 2020, the FASB issued Accounting Standards Update (“ASU”) No. 2020-06, Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity (“ASU 2020-06). ASU 2020-06 simplifies the accounting for convertible debt and convertible preferred stock by removing the requirements to separately present certain conversion features in equity. In addition, the amendments in the ASU also simplify the guidance in ASC 815-40, Derivatives and Hedging: Contracts in Entity’s Own Equity, by removing certain criteria that must be satisfied in order to classify a contract as equity, which is expected to decrease the number of freestanding instruments and embedded derivatives accounted for as assets or liabilities. Finally, the amendments revise the guidance on calculating earnings per share, requiring use of the if-converted method for all convertible instruments and rescinding an entity’s ability to rebut the presumption of share settlement for instruments that may be settled in cash or other assets. The new standard became effective for the Company for annual periods beginning December 15, 2021. The Company adopted this ASU as of January 1, 2022 using a modified retrospective method of transition, which did not have an impact on its condensed consolidated financial statements and related disclosures.

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 consolidated financial statements.

In October 2021, the FASB issued ASU 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers, which amends ASC 805 to add contract assets and contract liabilities to the list of exceptions to the recognition and measurement principles that apply to business combinations and to require that an entity (acquirer) recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606. The amendments in this ASU are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years and should be applied prospectively to business combinations occurring on or after the effective date of the amendments. Early adoption of the amendments is permitted, including adoption in an interim period. The Company is currently evaluating the impact of the adoption of this ASU on the Company’s 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, and accounts receivable. Cash, cash equivalents, and restricted cash are deposited with federally insured commercial banks in the United States; and at times, cash balances may be in excess of federal insurance limits. The Company generally does not require collateral or other security deposits for accounts receivable.

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

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

	June 30, 2022	December 31, 2021
Customer A	*	11 %
Customer B	10 %	*

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Customer C	*	*	*	15 %

* 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 June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Supplier A	*	12 %	*	*
Supplier B	38 %	14 %	37 %	15 %

* Supplier accounted for less than 10% of total purchases in the period.

Supplier B accounted for 75% and 55% of total accounts payable balance as of June 30, 2022 and December 31, 2021.

Note 3. Fair Value of Financial Instruments

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

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

As of June 30, 2022 and December 31, 2021, the Company's Level 3 liabilities consisted of the Private Placement warrant liability. The determination of the fair value of warrant liability is discussed in Note 6.

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):

	June 30, 2022			
	Level 1	Level 2	Level 3	Total
Assets				
Money market funds	\$ 156,851	\$ —	\$ —	\$ 156,851
Total financial assets	\$ 156,851	\$ —	\$ —	\$ 156,851
Liabilities				
Warrant liabilities	\$ —	\$ —	\$ 492	\$ 492
Total financial liabilities	\$ —	\$ —	\$ 492	\$ 492

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Assets				
Money market funds	\$ 177,513	\$ —	\$ —	\$ 177,513
Total financial assets	<u>\$ 177,513</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 177,513</u>
Liabilities				
Warrant liabilities	\$ —	\$ —	\$ 7,626	\$ 7,626
Total financial liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7,626</u>	<u>\$ 7,626</u>

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

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

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

	Redeemable Convertible Preferred Stock Warrant Liability	Private Placement Warrant Liability
Fair value as of December 31, 2021	\$ —	\$ 7,626
Change in the fair value included in other income (expense), net	—	(7,134)
Fair value as of June 30, 2022	<u>\$ —</u>	<u>\$ 492</u>
Fair value as of December 31, 2020	(49,293)	—
Private placement warrant liability acquired as part of the merger	—	(19,377)
Change in the fair value included in other income (expense), net	(8,804)	(6,094)
Issuance of preferred stock upon exercise of warrants	58,097	—
Fair value as of June 30, 2021	<u>\$ —</u>	<u>\$ (25,471)</u>

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 4. Balance Sheet Components

Cash and Cash Equivalents

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

	June 30, 2022	December 31, 2021
Cash	\$ 2,856	\$ 5,131
Cash equivalents:		
Money market funds ⁽¹⁾	156,851	177,513
Total cash and cash equivalents	<u>\$ 159,707</u>	<u>\$ 182,644</u>

⁽¹⁾The Company maintains a cash sweep account, which is included in money market funds as of June 30, 2022. Cash is invested in the short-term money market funds that earns interest.

Restricted Cash

Restricted cash consists of certificates of deposit held by a bank as security for outstanding letters of credit. The Company had a restricted cash balance of \$2.1 million and \$2.0 million as of June 30, 2022 and December 31, 2021, respectively, which has been excluded from the Company's cash and cash equivalents balances. The Company presented \$1.0 million of the total amount of restricted cash within current assets on the condensed consolidated balance sheets as of June 30, 2022 and December 31, 2021. The remaining restricted cash balance of \$1.1 million and \$1.0 million is included in non-current assets on the condensed consolidated balance sheets as of June 30, 2022 and December 31, 2021, respectively.

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

	June 30, 2022	June 30, 2021
Cash and cash equivalents	\$ 159,707	\$ 240,148
Restricted cash, current	977	276
Restricted cash, non-current	1,088	1,004
Total cash, cash equivalents and restricted cash	<u>\$ 161,772</u>	<u>\$ 241,428</u>

Inventory

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

	June 30, 2022	December 31, 2021
Raw materials	\$ 4,612	\$ 2,401
Work in process	1,547	1,951
Finished goods	11,022	3,096
Total inventory	<u>\$ 17,181</u>	<u>\$ 7,448</u>

Total inventory balance as of June 30, 2022 and December 31, 2021 includes a write down of 1.9 million and \$1.7 million, respectively, for obsolete, scrap, or returned inventory. During the three months ended June 30, 2022 and 2021, \$0.2 million and \$0.1 million of inventory write offs were charged to cost of revenue. During the six months ended June 30, 2022 and 2021, respectively, \$0.4 million and \$0.1 million of inventory write offs were charged to cost of revenue.

Prepaid Expenses and Other Current Assets

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

	June 30, 2022	December 31, 2021
Prepaid expenses	\$ 1,915	\$ 1,970
Prepaid insurance	1,698	1,355
Receivable from contract manufacturer	3,002	1,344
Other current assets	924	897
Total prepaid and other current assets	<u>\$ 7,539</u>	<u>\$ 5,566</u>

Property and Equipment, Net

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

	Estimated Useful Life (in years)	June 30, 2022	December 31, 2021
Machinery and equipment	3	\$ 8,733	\$ 8,404
Computer equipment	3	504	498
Automotive and vehicle hardware	5	93	93
Software	3	104	104
Furniture and fixtures	7	767	730
Construction in progress		2,396	1,700
Leasehold improvements	Shorter of useful life or lease term	9,311	9,265
		21,908	20,794
Less: Accumulated depreciation		(13,515)	(10,740)
Property and equipment, net		\$ 8,393	\$ 10,054

Depreciation expense associated with property and equipment was \$2.5 million and \$2.3 million in the six months ended June 30, 2022 and 2021, respectively.

Goodwill and Acquired Intangible Assets, Net

In the fourth quarter of 2021, the Company completed the acquisition of Sense Photonics Inc. (“Sense”), a privately held lidar technology company for autonomous vehicles. The transaction has been accounted for as a business combination. The Company purchased all of the outstanding shares of the capital stock of Sense and settled all Sense debt for total consideration of \$72.8 million. Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and assumed liabilities acquired and is primarily attributable to the assembled workforce and expected synergies at the time of the acquisition. Goodwill is not deductible for tax purposes.

Measurement period adjustments recognized during 2022 related primarily to updated estimated fair values for assumed employer withholding tax liabilities, royalty liability and a net working capital adjustment. A reconciliation of preliminary total consideration as of December 31, 2021, and total consideration as of June 30, 2022, are presented below (in thousands):

	As Reported	Measurement Period Adjustment	As Adjusted Value
Fair value of common stock issued at closing	\$ 60,024	\$ (358)	\$ 59,666
Fully vested replacement equity awards	1,081	—	1,081
Cash paid at closing to settle Sense pre-existing debt and transaction costs incurred by Sense	11,703	—	11,703
Total consideration	\$ 72,808	\$ (358)	\$ 72,450

	As Reported	Measurement Period Adjustment	As Adjusted Value
Assets acquired:			
Cash	689	—	689
Restricted cash	69	—	69
Accounts receivable, net	768	—	768
Prepaid expenses and other current assets	463	—	463
Property and equipment, net	626	—	626
Developed technology	15,900	—	15,900
Vendor relationship	6,600	—	6,600
Customer relationships	900	—	900
Goodwill	51,076	76	51,152
Total assets acquired	\$ 77,091	\$ 76	\$ 77,167
Liabilities assumed:			
Accounts payable	\$ (266)	\$ —	\$ (266)
Accrued and other current liabilities	\$ (1,540)	\$ (234)	\$ (1,774)
Other non-current liabilities	\$ —	\$ (200)	\$ (200)
Deferred tax liability	\$ (2,477)	\$ —	\$ (2,477)
Total liabilities assumed	\$ (4,283)	\$ (434)	\$ (4,717)
Net Assets acquired	\$ 72,808	\$ (358)	\$ 72,450

The following tables present acquired intangible assets, net as of June 30, 2022 and December 31, 2021 (in thousands):

	Estimated Useful Life (in years)	June 30, 2022		
		Gross Carrying amount	Accumulated Amortization	Net Book Value
Developed technology	8	\$ 15,900	\$ (1,325)	\$ 14,575
Vendor relationship	3	6,600	(1,467)	5,133
Customer relationships	3	900	(200)	700
Intangible assets, net		\$ 23,400	\$ (2,992)	\$ 20,408

	Estimated Useful Life (in years)	December 31, 2021		
		Gross Carrying amount	Accumulated Amortization	Net Book Value
Developed technology	8	\$ 15,900	\$ (331)	\$ 15,569
Vendor relationship	3	6,600	(367)	6,233
Customer relationships	3	900	(50)	850
Intangible assets, net		\$ 23,400	\$ (748)	\$ 22,652

Amortization expense was \$2.2 million in the six months ended June 30, 2022.

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

Years:	Amount
2022 (the remainder of 2022)	\$ 2,242
2023	4,488
2024	4,071
2025	1,988
2026	1,988
Thereafter	5,631
Total	<u>\$ 20,408</u>

Accrued and Other Current Liabilities

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

	June 30, 2022	December 31, 2021
Accrued compensation	\$ 4,507	\$ 3,229
Uninvoiced receipts	8,213	9,835
Accrued interest	218	—
Other	1,582	1,109
Total accrued and other current liabilities	<u>\$ 14,520</u>	<u>\$ 14,173</u>

Note 5. Debt

Runway Growth Loan Agreement

On November 27, 2018, the Company entered into a Loan and Security Agreement with Runway Growth Credit Fund Inc. (“Runway Loan and Security Agreement”). The Runway Loan and Security Agreement provided for loans in an aggregate principal amount up to \$10.0 million with a loan maturity date of November 15, 2021. The loan carried an interest rate equal to LIBOR plus 8.5%, unless LIBOR was no longer attainable or ceased to fairly reflect the costs of the lender, in which case the applicable interest rate would have been Prime Rate plus 6.0%. In an event of default, annual interest would have been increased by 5.0% above the otherwise applicable rate.

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

The warrants were exercised on March 11, 2021 and the warrant liability was remeasured to fair value with the increase recognized as a loss of \$0.6 million for the three months ended March 31, 2021 within other income (expense), net in the consolidated statements of operations and comprehensive loss. The warrant liability was remeasured to fair value as of March 31, 2021 and the reduction was recognized as a gain of \$0.2 million.

On March 26, 2021, the Company terminated the Runway Loan and Security Agreement and repaid the \$7.0 million principal amount outstanding as well as interest and fees amounting to \$0.4 million. The Company incurred no prepayment fees in connection with the termination and all liens and security interests securing the loan made pursuant to the Runway Loan and Security Agreement were released upon termination. As of June 30, 2022 and December 31, 2021, the outstanding principal balance of the loan was nil, respectively.

Promissory Notes

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

Loan and Security Agreement

On April 29, 2022, the Company entered into the Loan Agreement with Hercules. The Loan Agreement provides with the term loan of up to \$50.0 million, subject to terms and conditions. The Company borrowed the first initial tranche of \$20.0 million on April 29, 2022. The Company may borrow an additional \$20.0 million on or before March 15, 2023, subject satisfying certain conditions. An additional \$10.0 million may be drawn on or before June 15, 2023, subject to satisfying certain conditions relating to the achievement of trailing twelve-month revenue and profit milestones.

Advances under the Loan Agreement bear 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 includes covenants, limitations, and events of default customary for similar facilities. The Loan Agreement matures on May 1, 2026.

Interest on amounts borrowed under the Loan Agreement is payable on a monthly basis until June 1, 2025. After June 1, 2025, payments consist of equal monthly installments of principal and interest payable until the secured obligations are repaid in full. However, if the Company achieves certain equity proceeds, revenue or profit targets for the twelve-month period ending December 31, 2023, then the interest-only payments will continue and the Company will be obligated to repay the aggregate principal amount on May 1, 2026. The entire principal balance and all accrued but unpaid interest shall be due and payable on May 1, 2026. On the earliest to occur of May 1, 2026, the date on which the obligations under the Loan Agreement are paid and the date on which such obligations become due and payable, the Company is also required to pay Hercules an end of term charge from \$1.5 million to \$3.7 million, depending on the amount borrowed.

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 is 14.3% 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 six months ended June 30, 2022.

The Company may 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 is prepaid in any of the first 12 months following the Closing Date, 1.50%, if such advance is prepaid after 12 months but prior to 24 months following the Closing Date, and 1.0%, if such advance is prepaid anytime thereafter.

If the Company failed to maintain an unrestricted cash balance of \$60.0 million, it would then be subject to a financial covenant that requires the Company to achieve certain trailing twelve-month revenue targets tested quarterly as set forth in the Loan Agreement and commencing with the quarter ending on June 30, 2023. All obligations under the Loan Agreement are unconditionally guaranteed by the Company's subsidiary Sense Photonics, Inc. The Term Loan Facility is secured by substantially all of the Company's and the guarantors' existing and after-acquired assets, including all intellectual property, all securities in existing and future domestic subsidiaries and 65.0% of the securities in foreign subsidiaries, subject to certain exceptions and exclusions.

The Loan Agreement contains customary covenants for transactions of this type and other covenants agreed to by the parties, including, among others, (i) the provision of annual, quarterly and monthly financial statements, management rights and insurance policies and (ii) restrictions on incurring debt, granting liens, making acquisitions, making loans, paying dividends, dissolving, and entering into leases and asset sales. The Loan Agreement also provides for customary events of default, including, among others, payment, bankruptcy, covenant, representation and warranty, change of control, judgment and material adverse effect defaults.

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

	June 30, 2022
Long-term debt	\$ 20,000
Less: unamortized debt discount	(570)
Less: debt issuance costs	(311)
Total debt	\$ 19,119

The unamortized debt discount and debt issuance costs are amortized to interest expense over the life of the instrument using the effective interest rate method.

Note 6. Warrants

Series A and B Redeemable Convertible Preferred Stock Warrants

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

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

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

On April 3, 2020, in connection with the closing of the Series B redeemable convertible preferred stock, OTI issued a warrant to purchase 4,513,993 shares of Series B redeemable convertible preferred stock of the Company at an exercise price of \$0.3323 per share (the "Series B warrants"). The Series B warrants could be exercised prior to the earliest to occur of (i) the 10-year anniversary of the date of issuance, (ii) the consummation of a liquidation transaction, or (iii) the consummation of an initial public offering. The Series B warrants included a cashless exercise provision under which their holders may, in lieu of payment of the exercise price in cash, surrender the warrant and receive a net amount of shares based on the fair market value of the Company's stock at the time of exercise of the warrants after deduction of the aggregate exercise price. The Series B warrants contained provisions for adjustment of the exercise price and number of shares issuable upon the exercise of the Series B warrants in the event of certain stock dividends, stock splits, reorganizations, reclassifications, and consolidations.

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

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

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

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

Private Placement Warrants

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

The private placement warrant liability was remeasured to fair value as of June 30, 2022, resulting in a gain of \$5.4 million and \$7.1 million for the three and six months ended June 30, 2022, respectively, classified within other income (expense), net in the condensed consolidated statements of operations and comprehensive loss. The private placement warrant liability was remeasured to fair value as of June 30, 2021 resulting in a loss of \$10.7 million and \$6.1 million for the three and six months ended June 30, 2021, respectively, classified within other income (expense), net in the condensed consolidated statements of operations and comprehensive loss.

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

	June 30, 2021	December 31, 2021	June 30, 2022
Stock price	\$ 12.49	\$ 5.20	\$ 1.62
Exercise price of warrant	11.5	11.5	11.5
Expected term (years)	4.7	4.19	3.7
Expected volatility	43.00 %	57.00 %	57.98 %
Risk-free interest rate	0.92 %	1.14 %	3.00 %

Public Warrants

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

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

Note 7. Commitments and Contingencies

Letters of Credit

In connection with the 350 Treat Building lease, the 2741 16th Street lease and Paris office lease agreements, 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 June 30, 2022 and December 31, 2021. The outstanding amount of the letters of credit was \$2.1 million and \$2.0 million as of June 30, 2022 and December 31, 2021, respectively.

Non-Cancelable Purchase Commitments

As of June 30, 2022, the Company had non-cancelable purchase commitments to a third-party contract manufacturer for approximately \$23.1 million and other vendors for approximately \$6.3 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 made no accruals with respect to the following:

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. The Company has complied with the SEC's requests to date; however, the SEC may request additional documents or information.

On June 14, 2022, Velodyne Lidar USA, Inc. ("Velodyne") filed a lawsuit against the Company relating to two patents and requested an International Trade Commission proceeding with respect to the same two patents. On July 8, 2022, the Company filed a complaint against Velodyne, alleging multiple claims including intellectual property misappropriation and false advertising.

Other than as set forth above, as of June 30, 2022 and December 31, 2021 there were no material litigation matters.

Indemnification

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

The Company has also entered into indemnity agreements pursuant to which it has indemnified its directors and officers, to the extent legally permissible, against all liabilities reasonably incurred in connection with any action in which such individual may be involved by reason of such individual being or having been a director or executive officer, other than liabilities arising from willful misconduct of the individual. To date, the Company has never incurred costs to defend lawsuits or settle claims related to these indemnity agreements. The unaudited condensed consolidated financial statements do not include a liability for any potential obligations under the indemnification agreements at June 30, 2022 and December 31, 2021.

Note 8. Redeemable Convertible Preferred and Common Stock

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

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

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

On March 11, 2021, upon the closing of the Transaction pursuant to the Merger Agreement (Note 1), all of the outstanding redeemable convertible preferred stock was converted to the Company's common stock pursuant to the conversion rate effective immediately prior to the Transaction and the remaining amount was reclassified to additional paid-in capital. As of June 30, 2022 and December 31, 2021, the Company does not have any redeemable convertible preferred stock outstanding.

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.

From the date of the ATM Agreement through June 30, 2022, the Company sold 6,749,344 shares at a weighted-average sales price of \$2.16 per share, resulting in cumulative gross proceeds to the Company totaling approximately \$15.0 million before deducting offering expenses and sales commissions. Cumulative net proceeds to the Company totaled approximately \$14.0 million after deducting commissions and offering expenses. 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 June 30, 2022 is approximately \$135.0 million.

Note 9. Stock-based Compensation

As of June 30, 2022, the Company has four equity incentive plans, the 2015 Stock Plan (the "2015 Plan"), the Sense 2017 Equity Incentive Plan (the "Sense Plan"), the 2021 Incentive Award Plan (the "2021 Plan") and 2022 Employee Stock Purchase Plan (the "2022 ESPP" and, collectively with the 2015 Plan, the Sense Plan and the 2021 Plan, together the "Plans").

The Plans provide for the grant of stock options, stock appreciation rights, restricted stock awards ("RSA"), 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. All awards within the Plans may be granted to employees, including officers, as well as directors and consultants, within the limits defined in the Plans. As of June 30, 2022, no awards were granted under the 2022 ESPP.

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.

On October 12, 2020, the Company issued \$1.1 million partial recourse promissory notes to certain executives and employees. The promissory notes carried 0.38% annual cash interest and were due on the earliest of 9th anniversary of the date of issuance of the notes, or termination of employment of the executive/employee, or filing by the Company of a registration statement under the Securities Act of 1933, or promissory notes being prohibited under Section 13(k) of the Securities Exchange Act of 1934 or closing of change in control of the Company. At issuance, the promissory notes were used to settle certain executives' and employees' obligations for 2,883,672 vested and 4,603,833 unvested ISOs that were exercised and no cash was exchanged. In March 2021, in connection with the close of the Merger, the Company forgave half of the respective obligations under the promissory notes for certain executives and required such noteholders to repay the remaining balance of \$0.3 million under each of their respective notes. Additional compensation expense of \$0.3 million was recognized in general and administrative expenses for the six months ended June 30, 2021 for the value of the loans forgiven. No obligations under the promissory notes for non-executive noteholders were outstanding as of June 30, 2022 and December 31, 2021.

Stock option activity for the six months ended June 30, 2022 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, 2021	24,129,096	\$ 1.01	8.60	\$ 100,992
Options exercised	(1,031,621)	0.19		
Options cancelled	(611,194)	3.60		
Outstanding—June 30, 2022	22,486,281	\$ 0.98	8.16	\$ 21,212
Vested and expected to vest—June 30, 2022	22,486,281	\$ 0.98	8.16	\$ 21,212
Exercisable—June 30, 2022	10,918,377	\$ 0.83	8.09	\$ 11,035

The following table summarizes information about stock options outstanding and exercisable at June 30, 2022.

Exercise Price	Options Outstanding			Options Exercisable		
	Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price	
\$ 0.18	4,753,134	7.94	\$ 0.18	3,332,416	\$ 0.18	
\$ 0.21	9,167,718	8.20	\$ 0.21	4,000,264	\$ 0.21	
\$ 1.42	7,524,114	8.25	\$ 1.42	3,135,046	\$ 1.42	
\$ 1.49	40,581	5.60	\$ 1.49	40,581	\$ 1.49	
\$ 5.24	354,937	7.47	\$ 5.24	221,713	\$ 5.24	
\$ 10.26	645,797	8.85	\$ 10.26	188,357	\$ 10.26	
	22,486,281			10,918,377		

As of June 30, 2022, there was approximately \$18.0 million of unamortized stock-based compensation expense related to unvested stock options that is expected to be recognized over a weighted average period of 2.1 years.

Restricted Stock Units (“RSU”)

A summary of RSU activity is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value (per share)
Unvested—December 31, 2021	9,326,572	\$ 7.82
Granted during the year	6,821,427	4.08
Canceled during the year	(1,891,074)	6.41
Vested during the year	(1,779,779)	7.59
Unvested—June 30, 2022	12,477,146	\$ 6.02

Stock compensation expense is recognized on a straight-line basis over the vesting period of each RSU. As of June 30, 2022, total compensation expense related to unvested RSUs granted to employees, but not yet recognized, was \$69.4 million, with a weighted-average remaining vesting period of 2.9 years.

RSUs settle into shares of common stock upon vesting.

Stock-Based Compensation Expense

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Cost of revenue	\$ 146	\$ 133	\$ 365	\$ 251
Research and development	3,806	1,321	7,566	2,242
Sales and marketing	1,839	719	3,362	985
General and administrative	2,328	3,981	5,576	7,932
Total stock-based compensation	\$ 8,119	\$ 6,154	\$ 16,869	\$ 11,410

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
RSUs	\$ 6,246	\$ 3,619	\$ 12,147	\$ 4,176
Stock Options	1,868	2,530	4,708	7,223
RSAs	5	5	14	11
Total stock-based compensation	\$ 8,119	\$ 6,154	\$ 16,869	\$ 11,410

Note 10. Net Loss Per Common Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Numerator:				
Net loss	\$ (28,000)	\$ (32,011)	\$ (60,397)	\$ (52,968)
Denominator:				
Weighted average shares used to compute basic and diluted net loss per share	175,057,360	155,923,689	172,965,833	106,070,590
Net loss per common share—basic and diluted	\$ (0.16)	\$ (0.21)	\$ (0.35)	\$ (0.50)

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

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

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

	As of June 30,	
	2022	2021
Options to purchase common stock	22,486,281	25,218,265
Public and private common stock warrants	15,999,900	15,999,996
Restricted Stock Units	12,477,146	2,588,629
Unvested early exercised common stock options	1,214,249	2,756,906
Unvested RSAs	—	29,110
Vested and early exercised options subject to nonrecourse notes	—	2,172,238
Total	52,177,576	48,765,144

Note 11. Income Taxes

The Company's income tax provision for interim periods is determined using an estimate of the Company's annual effective tax rate, adjusted for discrete items arising in the quarter. The Company's effective tax rate differs from the U.S. statutory tax rate primarily due to valuation allowances on the deferred tax assets as it is more likely than not that some, or all, of the Company's deferred tax assets will not be realized. The Company continues to maintain a full valuation allowance against its net deferred tax assets. Due to tax losses and the offsetting valuation allowance, the income tax provision for the three and six months ended June 30, 2022 and 2021 was not material to the Company's condensed consolidated financial statements.

Note 12. Revenue

Revenue from the sale of lidar sensor kits, which is recognized at a point in time, was \$10.3 million and \$7.4 million in the three months ended June 30, 2022 and 2021, respectively, and \$18.9 million and \$14.0 million in the six months ended June 30, 2022 and 2021, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
United States	\$ 2,977	\$ 2,572	\$ 5,840	\$ 4,426
North and South America, excluding United States	208	161	663	528
Asia and Pacific	2,575	1,696	4,932	2,947
Europe, Middle East and Africa	4,569	2,931	7,452	6,070
Total	\$ 10,329	\$ 7,360	\$ 18,887	\$ 13,971

Note 13. Related Party Transactions

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

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

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 filed with the Securities and Exchange Commission (“SEC”) on February 28, 2022. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Ouster’s actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in the section titled “Risk Factors” in Ouster’s Annual Report on Form 10-K dated and filed with the SEC on February 28, 2022.

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

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

Overview

We are a leading provider of high-resolution digital lidar sensors that offer advanced 3D vision to machinery, vehicles, robots, and fixed infrastructure assets, allowing each to understand and visualize the surrounding world and ultimately enabling safe operation and autonomy. We design and manufacture digital lidar sensors that we believe are the highest-performing, lowest-cost lidar solutions available today across each of our four target markets: industrial automation; smart infrastructure; robotics; and automotive. We shipped sensors to approximately 665 customers in the twelve months ended June 30, 2022.

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 our OS scanning product line and our DF solid-state product line. With our unique digital lidar technology, we offer numerous customization options across our products, all enabled by flexible technology and embedded software. Today, we offer short, medium, and long-range lidar products at varying price points and with tailored capabilities to meet the different needs of our diverse customer base.

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

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

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

We founded Ouster in 2015 with the invention of our high-performance digital lidar. Since then, we have grown to approximately 290 employees serving approximately 665 customers globally in the twelve months ended June 30, 2022. To continue to grow our business in the coming years, we have expanded and plan to continue to expand our sales and marketing efforts and our software development capabilities, and to accelerate sensor development efforts. We are headquartered in San Francisco, CA.

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

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

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

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

As a result of and upon the closing of the Merger, among other things, all shares of OTI Capital Stock (after giving effect to the OTI Warrant Settlement) outstanding immediately prior to the closing of the Merger together with shares of OTI common stock reserved in respect of options to purchase shares of OTI common stock and restricted shares of OTI common stock (together, the "OTI Awards") outstanding immediately prior to the closing of the Merger that were converted into awards based on Ouster common stock, were cancelled in exchange for the right to receive, or the reservation of, an aggregate of \$1.5 billion of shares of Ouster common stock (at a deemed value of \$10.00 per share), which, in the case of OTI Awards, were shares underlying awards based on Ouster common stock, representing a fully-diluted pre-transaction shares. Upon the closing of the Merger, the Company received gross proceeds of \$299.9 million from the Merger and private offering, offset by \$8.5 million of pre-merger costs relating to CLA and transaction costs of \$26.6 million.

Sense Acquisition

On October 22, 2021, we completed the acquisition of Sense Photonics, Inc. ("Sense"). Under the terms of the merger agreement, we acquired 100% of Sense and all of its property for approximately 10 million shares of Ouster common stock or approximately \$63.0 million in equity value based on the closing price of \$6.55 per share as of the day the transaction closed on October 22, 2021, inclusive of 0.8 million shares underlying assumed options, after closing adjustments. This acquisition is expected to help Ouster expand its presence in the automotive vertical by executing on our hiring goals and product roadmap on a faster timeline.

COVID-19 Impact

Beginning in 2020, the worldwide spread of the pandemic caused by the novel coronavirus (“COVID-19”), including its variants, and the measures intended to contain the spread of COVID-19, have resulted in a global slowdown of economic activity and caused disruptions to our business.

Our suppliers are located worldwide, and some of our key suppliers have been affected by the pandemic resulting in persistent supply chain disruptions. We have experienced and continue to experience some unfavorable purchase price variance and situational expedite fees in order to meet production and delivery timelines. While we may experience additional and new pressures on our supply chain that may or may not be related to the pandemic, we are actively taking steps to mitigate the impact of the materials shortages on our business.

At times during the pandemic, some customers have delayed and continue to delay orders and production schedules. The pandemic continues to evolve, and the full extent to which it will directly or indirectly impact our business, results of operations and financial condition, including sales, expenses, reserves and allowances, manufacturing, research and development costs and personnel-related costs, will depend on future developments that are highly uncertain, including new information that may emerge concerning COVID-19, the impact of new variants of the disease and the actions taken to contain, prevent or treat COVID-19, rate and success of vaccination efforts, vaccination reticence, resurgence of the pandemic in areas where we, Benchmark or our suppliers operate, and the economic impact on local, regional, national and international customers and markets.

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

Factors Affecting Our Performance

Supply Chain Continuity. Beginning in 2021, a surge in demand for electronics containing semiconductor chips and stockpiling of chips by certain companies created disruptions in the supply chain, which continue to persist and have resulted in a global chip shortage impacting our industry. Some chip manufacturers are estimating that this supply shortage may continue through mid-2023. These chip manufacturers are working to increase capacity in the future, and we are managing our inventory and working closely with our regular suppliers and customers to minimize the potential impacts of any supply shortages including by securing additional inventory. While we do not expect the shortage to have a material near-term impact on our ability to meet existing demand for our current products, the shortage adversely impacted our gross margins for the year ended December 31, 2021 and the six months ended June 30, 2022 and may continue to do so. We anticipate fluctuation in our cost of goods sold over the next 12-18 months as a result of ongoing supply chain constraints. These constraints have caused and may in the future cause us to implement certain temporary price surcharges. Over time, we expect our overall average selling prices to decline as our volume increases. If our mitigating efforts are not successful or the shortage continues or worsens in ways we did not anticipate, our ability to supply or improve our current products as well as our development and rollout of future products could also be adversely affected.

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

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

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

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

Competition. Lidar is an emerging market, and there are competitors for the growing market. Competitors may offer lidar products at lower prices than ours, including pricing that may be below their cost, or may offer superior performing lidar products. These companies also compete with us indirectly by attempting to solve some of the same challenges with different technology. Established competitors in the market for lidar sensors have significantly greater resources and more experience than we do. These competitors have commercialized lidar technology that has achieved market adoption, strong brand recognition and may continue to improve in both anticipated and unanticipated ways. They may also enter, and have entered, into commercial relationships with key customers and potential customers and have built relationships and dependencies between themselves and those key customers and potential customers. This has created downward pressure on our ASPs, particularly in the Asia and Pacific region. We expect this pressure to continue to push our ASPs lower in the coming years. However, we believe that because of our complementary metal-oxide-semiconductor ("CMOS"), digital lidar technology, we are in the position to scale more rapidly than our analog competitors and leverage our scale to deliver positive gross margins.

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

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

Although increasing adoption of semi-autonomous solutions that rely on lidar technology may generate higher demand, we may not be able to take advantage of demand if we are unable to anticipate regulatory changes and adapt quickly enough to meet such new regulatory standards or requirements applicable to us or to our customers' products in which our digital lidar sensors are used. Market acceptance of semi-autonomous solutions and active safety technology depend upon many factors, including cost, performance, safety performance, regulatory requirements and international taxes or tariffs related to such technologies. These factors may impact the ultimate market acceptance of our lidar technology.

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

Components of Results of Operations

Revenue

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

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

Cost of Revenue

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

Gross Profit and Gross Margin

Our gross profit equals total revenues less our total cost of revenues, and our gross margin is our gross profit expressed as a percentage of total revenue. Subject to quarterly fluctuations and volatility, we expect unit costs to improve as we manufacture higher unit volumes of sensors and a greater portion of our sensors are produced by our contract manufacturer in Thailand.

Operating Expenses

Research and Development Expenses

Research and development ("R&D") activities are primarily conducted at our San Francisco based headquarters and our additional R&D facility in Edinburgh, Scotland and consist of the following activities:

- Design, prototyping, and testing of proprietary electrical, optical, and mechanical subsystems for our digital lidar products;
- Robust testing for industrial and autonomous vehicle safety certifications;

- Development of new products and enhancements to existing products in response to customer requirements including firmware development and software development of lidar integration products;
- Custom system-on-a-chip (“SoC”) design for Ouster’s digital lidar products; and
- Development of custom manufacturing equipment.

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

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

Sales and Marketing Expenses

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

General and Administrative Expenses

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

Stock-Based Compensation

We measure stock options granted based on the fair value on the date of the grant and recognize compensation expense of those awards, over the requisite service period, which is the vesting period of the respective award. Forfeitures are accounted for as they occur. The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option pricing model. The grant date fair value of restricted stock unit awards is based on the grant date share price.

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

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

Income Taxes

Our income tax provision consists of federal, state and foreign current and deferred income taxes. Our income tax provision for interim periods is determined using an estimate of our annual effective tax rate, adjusted for discrete items arising in the quarter. Our effective tax rate differs from the U.S. statutory tax rate primarily due to valuation allowances on its deferred tax assets as it is more likely than not that some, or all, of our deferred tax assets will not be realized. We continue to maintain a full valuation allowance against its net deferred tax assets. Income tax provision for the three and six months ended June 30, 2022 and 2021, respectively, was not material to the Company’s condensed consolidated financial statements.

Results of Operations:

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(dollars in thousands)		(dollars in thousands)	
Product revenue	\$ 10,329	\$ 7,360	\$ 18,887	\$ 13,971
Cost of product revenue ⁽¹⁾	7,547	5,465	13,514	10,333
Gross profit	2,782	1,895	5,373	3,638
Operating expenses ⁽¹⁾ :				
Research and development	15,893	6,474	31,799	11,186
Sales and marketing	7,563	4,614	14,653	8,040
General and administrative	12,515	12,197	26,298	22,104
Total operating expenses	35,971	23,285	72,750	41,330
Loss from operations	(33,189)	(21,390)	(67,377)	(37,692)
Other (expense) income:				
Interest income	344	139	498	140
Interest expense	(444)	—	(444)	(504)
Other income (expense), net	5,326	(10,760)	7,010	(14,912)
Total other expense, net	5,226	(10,621)	7,064	(15,276)
Loss before income taxes	(27,963)	(32,011)	(60,313)	(52,968)
Provision for income tax expense	37	—	84	—
Net loss	\$ (28,000)	\$ (32,011)	\$ (60,397)	\$ (52,968)

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 June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(% of total revenue)		(% of total revenue)	
Product revenue	100 %	100 %	100 %	100 %
Cost of product revenue ⁽¹⁾	73	74	72	74
Gross profit	27	26	28	26
Operating expenses ⁽¹⁾ :				
Research and development	154	88	168	80
Sales and marketing	73	63	78	58
General and administrative	121	166	139	158
Total operating expenses	348	316	385	296
Loss from operations	(321)	(291)	(357)	(270)
Other (expense) income:				
Interest income	3	2	3	1
Interest expense	(4)	0	(2)	(4)
Other income (expense), net	52	(146)	37	(107)
Total other expense, net	51	(144)	37	(109)
Loss before income taxes	(271)	(435)	(319)	(379)
Provision for income tax expense	—	—	—	—
Net loss	(271)%	(435)%	(319)%	(379)%

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(dollars in thousands)		(dollars in thousands)	
Cost of revenue	\$ 146	\$ 133	\$ 365	\$ 251
Research and development	3,806	1,321	7,566	2,242
Sales and marketing	1,839	719	3,362	985
General and administrative	2,328	3,981	5,576	7,932
Total stock-based compensation	\$ 8,119	\$ 6,154	\$ 16,869	\$ 11,410

Comparison of the three months ended June 30, 2022 and 2021

Revenue

	Three Months Ended June 30,		Change	Change
	2022	2021	\$	%
	(dollars in thousands)			
Product revenue	\$ 10,329	\$ 7,360	\$ 2,969	40 %
Revenue by geographic location:				
United States	\$ 2,977	\$ 2,572	\$ 405	16 %
North and South America, excluding United States	208	161	47	29
Asia and Pacific	2,575	1,696	879	52
Europe, Middle East and Africa	4,569	2,931	1,638	56
Total	\$ 10,329	\$ 7,360	\$ 2,969	40 %

Product Revenue

Product revenue increased by \$3.0 million, or 40%, to \$10.3 million for the three months ended June 30, 2022 from \$7.4 million for the comparable period in the prior year. The increase in product revenue was driven by a 38% increase in volume which we attribute primarily to the global expansion of our sales team and the increase of high volume, long-term agreements as some of our customers begin to move into a production stage with their autonomous products. Our average selling price increased by 1.5% when compared to the comparable period in the prior year. As our volumes increase we expect further reductions in our costs per unit.

Geographic Locations

Revenue increased across the geographic regions of the United States; North and South America, excluding the United States; Asia and Pacific; and Europe, Middle East and Africa by \$0.4 million, \$0.047 million, \$0.9 million, and \$1.6 million, respectively, as compared to the comparable period in the prior year. The revenue increases in those geographic regions was primarily attributable to our continued focus and investment in our global sales team and an expansion in the demand of our customers as only 11% of our revenue was from new customers during the three months ended June 30, 2022.

Cost of Product Revenue and Gross Margin

	Three Months Ended June 30,		Change	Change
	2022	2021	\$	%
(dollars in thousands)				
Cost of product revenue	\$ 7,547	\$ 5,465	\$ 2,082	38 %

Cost of product revenue increased by \$2.1 million, or 38%, to \$7.5 million for the three months ended June 30, 2022 from \$5.5 million for the comparable period in the prior year. The increase in cost of product revenue was primarily because of an increase of \$0.8 million in purchase price variance due to the supply chain shortage, increases related to volume of \$0.8 million in material costs, \$0.1 million in freight costs and \$0.6 million in manufacturing overhead costs. The increases were partially offset by a decrease of \$0.2 million in per unit costs of materials, labor and overhead and other costs related to product revenue.

Product gross margin increased from 26% for the three months ended June 30, 2021 to 27% for the three months ended June 30, 2022. The increase in product gross margin was due to the 2% increase in average selling price.

Operating Expenses

	Three Months Ended June 30,		Change	Change
	2022	2021	\$	%
(dollars in thousands)				
Operating expenses:				
Research and development	\$ 15,893	\$ 6,474	\$ 9,419	145 %
Sales and marketing	7,563	4,614	2,949	64
General and administrative	12,515	12,197	318	3
Total operating expenses:	\$ 35,971	\$ 23,285	\$ 12,686	54 %

Research and Development

Research and development expenses increased by \$9.4 million, or 145%, to \$15.9 million for the three months ended June 30, 2022 from \$6.5 million for the comparable period in the prior year. The increase was primarily attributable to an increase of \$2.2 million in stock-based compensation expense, \$4.3 million in payroll-related expenses, \$0.6 million in depreciation and amortization expense, \$1.8 million increase in contractor, prototype, and equipment costs related to product development, and \$0.6 million in other materials and supplies, facilities, professional fees and other miscellaneous costs attributable to research and development functions. The increase in employee-related costs was mainly due to the higher headcount associated with the Sense Photonics, Inc. acquisition.

Sales and Marketing

Sales and marketing expenses increased by \$2.9 million, or 64%, to \$7.6 million for the three months ended June 30, 2022 from \$4.6 million for the comparable period in the prior year. The increase was primarily attributable to an increase of \$1.8 million in payroll and personnel-related costs and \$1.1 million in stock-based compensation expense driven by the addition of sales personnel in all our global regions.

General and Administrative

General and administrative expenses increased by \$0.3 million, or 3%, to \$12.5 million for the three months ended June 30, 2022 from \$12.2 million for the comparable period in the prior year. The increase was primarily due to an increase of \$1.2 million in payroll and personnel-related costs, \$0.5 million in depreciation expenses and \$0.8 million in office, facility and other expenses partially offset by a decrease of \$1.7 million in stock-based compensation expenses, \$0.4 million in professional services fees and \$0.1 million in insurance premiums.

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

	Three Months Ended June 30,		Change	Change
	2022	2021	\$	%
(dollars in thousands)				
Interest income	\$ 344	\$ 139	\$ 205	147 %
Interest expense	(444)	—	(444)	*
Other income (expense), net	5,326	(10,760)	16,086	(149)

*Not meaningful

The increase in interest income was primarily related to an increase in our cash and cash equivalent balances.

Interest expense was \$0.4 million for the three months ended June 30, 2022 relating to term loan borrowings and amortization of debt issuance costs and discount under our Loan Agreement. There was no interest expense in the three months ended June 30, 2021 as we did not have outstanding debt in that period.

Other income (expense), net was \$5.3 million for the three months ended June 30, 2022 compared to \$(10.8) million for the comparable period in the prior year. During the three months ended June 30, 2022, we recorded a gain of \$5.4 million for the fair value change of the private placement warrant liability. During the comparable period in the prior year, we recorded a loss of \$10.7 million for the fair value change of the private placement warrant liability.

Income Taxes

We were subject to income taxes in the United States, California, and miscellaneous foreign jurisdictions for the three months ended June 30, 2022 and 2021. Our income tax expense for three months ended June 30, 2022 and 2021 was not material to our condensed consolidated financial statements.

Comparison of the Six Months Ended June 30, 2022 and 2021

Revenue

	Six Months Ended June 30,		Change	Change
	2022	2021	\$	%
(dollars in thousands)				
Product revenue	\$ 18,887	\$ 13,971	\$ 4,916	35 %
Revenue by geographic location:				
United States	\$ 5,840	\$ 4,426	\$ 1,414	32 %
North and South America, excluding United States	663	528	135	26
Asia and Pacific	4,932	2,947	1,985	67
Europe, Middle East and Africa	7,452	6,070	1,382	23
Total	\$ 18,887	\$ 13,971	\$ 4,916	35 %

Product Revenue

Product revenue increased by \$4.9 million, or 35%, to \$18.9 million for the six months ended June 30, 2022 from \$14.0 million for the comparable period in the prior year. The increase in product revenue was driven by an increase in volume of 46%, which we attribute primarily to the global expansion of our sales team and the increase of high volume, long-term deals as some of our customers begin to move into a production stage with their autonomous products. Our average selling price declined by 8% when compared to the comparable period in the prior year. As our volumes increase we expect further reductions in our costs per unit.

Geographic Locations

Revenue increased across the geographic regions of the United States; North and South America, excluding the United States; Asia and Pacific; and Europe, Middle East and Africa by \$1.4 million, \$0.1 million, \$2.0 million, and \$1.4 million, respectively, as compared to the comparable period in the prior year. The revenue increases in those geographic regions were a result of our continued focus and investment in our global sales team and an expansion in the demand of our customers as only 16% of our revenue was from new customers during the six months ended June 30, 2022.

Cost of Product Revenue and Gross Margin

	Six Months Ended June 30,		Change	Change
	2022	2021	\$	%
	(dollars in thousands)			
Cost of product revenue	\$ 13,514	\$ 10,333	\$ 3,181	31 %

Cost of product revenue increased by \$3.2 million, or 31%, to \$13.5 million for the six months ended June 30, 2022 from \$10.3 million for the comparable period in the prior year. The increase in cost of product revenue was primarily due to an increase of \$2.0 million in purchase price variance due to the supply chain shortage, increases related to volume of \$1.8 million in material costs, \$0.2 million in freight costs and \$1.6 million in manufacturing overhead costs. The increases were partially offset by a decrease of \$2.4 million in per unit costs of materials, labor and overhead and other costs related to product revenue.

Product gross margin increased from 26% for the six months ended June 30, 2021 to 28% for the six months ended June 30, 2022. The increase in product gross margin was primarily due to the 11% decrease in cost per unit partially offset by the 8% decrease in average selling price.

Operating Expenses

	Six Months Ended June 30,		Change	Change
	2022	2021	\$	%
	(dollars in thousands)			
Operating expenses:				
Research and development	\$ 31,799	\$ 11,186	\$ 20,613	184 %
Sales and marketing	14,653	8,040	6,613	82
General and administrative	26,298	22,104	4,194	19
Total operating expenses:	\$ 72,750	\$ 41,330	\$ 31,420	76 %

Research and Development

Research and development expenses increased by \$20.6 million, or 184%, to \$31.8 million for the six months ended June 30, 2022 from \$11.2 million for the comparable period in the prior year. The increase was primarily attributable to an increase of \$8.9 million in payroll and benefits related costs, \$5.1 million in stock-based compensation expense, \$4.1 million in contractor, prototype, and equipment costs related to product development, \$1.3 million in depreciation and amortization expense, and \$1.3 million in other materials and supplies, facilities, professional fees and other miscellaneous costs attributable to research and development functions. The increase in employee-related costs was mainly due to the higher headcount associated with the Sense Photonics, Inc. acquisition.

Sales and Marketing

Sales and marketing expenses increased by \$6.6 million, or 82%, to \$14.7 million for the six months ended June 30, 2022 from \$8.0 million for the comparable period in the prior year. The increase was primarily attributable to an increase of \$4.0 million in payroll and personnel-related costs, \$2.4 million in stock-based compensation expense driven by the addition of sales personnel in all our global regions, as well as a \$0.3 million increase in other expenses associated with our marketing and business development programs.

General and Administrative

General and administrative expenses increased by \$4.2 million, or 19%, to \$26.3 million for the six months ended June 30, 2022 from \$22.1 million for the comparable period in the prior year. The increase was primarily due to an increase of \$2.6 million in payroll and personnel-related costs, \$1.2 million in insurance premiums, \$1.1 million in depreciation expenses, \$0.1 million in professional services fees, and \$1.6 million in office, facility and other expenses, partially offset by a decrease of \$2.4 million in stock-based compensation expenses.

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

	Six Months Ended June 30,		Change	Change
	2022	2021	\$	%
	(dollars in thousands)			
Interest income	\$ 498	\$ 140	\$ 358	256 %
Interest expense	(444)	(504)	60	(12)
Other income (expense), net	7,010	(14,912)	21,922	(147)

Interest income was \$0.5 million for the six months ended June 30, 2022 compared to \$0.1 million for the comparable period in the prior year. This increase in interest income was primarily related to an increase in our cash and cash equivalent balances after the Merger closed on March 11, 2021.

Interest expense was \$0.4 million for the six months ended June 30, 2022 compared to \$0.5 million for the comparable period in the prior year. We recorded interest expense on our debt and amortization of debt issuance costs and discount in six months ended June 30, 2022 relating to term loan borrowings and amortization of debt issuance costs and discount under our loan and security agreement with Hercules Capital, Inc. Interest expense recorded in 2021 primarily consisted of interest and amortization of debt issuance cost and discount on the loan and security agreement with Runway Growth Credit and Fund Inc., which was terminated on March 26, 2021.

Other income (expense), net was \$7.0 million income for the six months ended June 30, 2022 compared to \$(14.9) million in expense for the comparable period in the prior year. During the six months ended June 30, 2022, we recorded a gain of \$7.1 million for the fair value change of private placement warrant liability. During the six months ended June 30, 2021, we recorded a loss of \$8.8 million for the fair value change of redeemable convertible preferred stock warrant liability and a loss of \$6.1 million for the fair value change of private placement warrant liability.

Income Taxes

We were subject to income taxes in the United States, California, and miscellaneous foreign jurisdictions for the six months ended June 30, 2022 and 2021. Our income tax expense for six months ended June 30, 2022 and 2021 was not material to the Company's condensed consolidated financial statements.

Liquidity and Capital Resources

Our principal sources of liquidity are expected to be our cash and cash equivalents, cash generated from product revenues, sales of common stock under our at-the market equity offering program and our loan and security agreement with Hercules Capital, Inc.

Our primary requirements for liquidity and capital are working capital, inventory management, capital expenditures, public company costs and general corporate needs. We expect these needs to continue as we develop and grow our business. Prior to the Merger, we primarily funded our operations from the net proceeds from sales of our preferred convertible stock and convertible notes, borrowing under our loan and security agreement with Runway Growth Credit Fund, Inc. and product revenue. Upon closing of the Merger, we received gross proceeds of \$299.9 million from the Merger and private offering, offset by \$8.5 million of pre-merger costs relating to CLA and transactions cost of \$26.6 million.

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" 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 its funding. During the three months ended June 30, 2022, we sold 6,749,344 shares of common stock for net proceeds of \$14.0 million under the ATM Agreement. We currently intend to use the net proceeds from any sale of shares pursuant to the ATM Agreement for working capital and general corporate purposes.

On April 29, 2022, we entered into a loan and security agreement (the “Loan Agreement”) with Hercules Capital, Inc. (“Hercules”). The Loan Agreement provides us with the term loan of up to \$50.0 million, subject to terms and conditions. \$20.0 million has been drawn to date under the Loan Agreement, and can be used for general working capital purposes. For additional information, see “Debt Arrangements” below.

As of June 30, 2022, we had an accumulated deficit of \$363.8 million and cash and cash equivalents of \$159.7 million. We have experienced recurring losses from operations, and negative cash flows from operations, and we expect to continue operating at a loss and to have negative cash flows from operations for the foreseeable future. We believe our cash and cash equivalents on hand, together with cash we expect to generate from future operations, will be sufficient to meet our working capital and capital expenditure requirements for a period of at least twelve months from the date of this Quarterly Report on Form 10-Q. However, because we are in the growth stage of our business and operate in an emerging field of technology, we expect to continue to invest in research and development and expand our sales and marketing teams worldwide. We are likely to require additional capital to respond to technological advancements, competitive dynamics or technologies, customer demands, business opportunities, challenges, acquisitions or unforeseen circumstances and in either the short-term or long-term may determine to engage in equity or debt financings or enter into credit facilities for other reasons. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to grow or support our business and to respond to business challenges could be significantly limited. In particular, the widespread COVID-19 pandemic, including variants, has resulted in, and may continue to result in, significant disruption of global financial markets, reducing our ability to access capital. If we are unable to raise additional funds when or on the terms desired, our business, financial condition and results of operations could be adversely affected.

Debt Arrangements

As described above, on April 29, 2022, we entered into the Loan Agreement with Hercules, which provides us with a term loan facility of up to \$50.0 million, subject to terms and conditions (the “Term Loan Facility”). As of June 30, 2022, \$20.0 million has been drawn to date under the Loan Agreement, and can be used for general working capital purposes subject to certain terms and conditions. We may borrow an additional \$20.0 million on or before March 15, 2023, subject satisfying certain conditions. An additional \$10.0 million may be drawn on or before June 15, 2023, subject to satisfying certain conditions relating to the achievement of trailing twelve-month revenue and profit milestones.

For additional information regarding the terms of the Loan Agreement, see Note 5, Debt.

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 June 30, 2022, 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, operating leases and obligations related to Loan Agreement with Hercules. For information regarding our other contractual obligations, refer to Note 7, Commitments and Contingencies and our Annual Report on Form 10-K as filed with the SEC on February 28, 2022.

Cash Flow Summary

	Six months ended June 30,	
	2022	2021
	(dollars in thousands)	
Net cash provided by (used in):		
Operating activities	\$ (55,393)	\$ (28,346)
Investing activities	(1,002)	(659)
Financing activities	33,599	257,791

Operating Activities

During the six months ended June 30, 2022, operating activities used \$55.4 million in cash. The primary factors affecting our operating cash flows during this period were our net loss of \$60.4 million, impacted by our non-cash charges of \$16.6 million primarily consisting of stock-based compensation of \$16.9 million, a \$7.1 million change in fair value of warrant liabilities, depreciation and amortization of \$4.7 million, change in right-of-use asset of \$1.4 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 \$11.6 million were primarily due to a decrease in operating lease liability of \$1.6 million, an increase in accounts payable of \$1.1 million, a decrease in accounts receivable of \$1.3 million and an increase in accrued and other liabilities of \$0.3 million.

During the six months ended June 30, 2021, operating activities used \$28.3 million in cash. The primary factors affecting our operating cash flows during this period were our net loss of \$53.0 million, impacted by our non-cash charges of \$30.0 million primarily consisting of inventory write down of \$0.1 million, interest expense and amortization of debt issuance costs and debt discount of \$0.3 million, depreciation and amortization of \$2.3 million, change in right-of-use asset of \$1.0 million, stock-based compensation of \$11.4 million. The changes in our operating assets and liabilities of \$5.4 million were primarily due to an increase in accounts receivable of \$2.3 million, a decrease of accounts payable of \$3.3 million, and an increase in accrued and other current liabilities of \$1.7 million.

Investing Activities

During the six months ended June 30, 2022, cash used in investing activities was \$1.0 million, which was related to purchases of property, plant and equipment, partially offset by sales of property and equipment.

During the six months ended June 30, 2021, cash used in investing activities was \$0.7 million, which was related to purchases of property, plant and equipment.

Financing Activities

During the six months ended June 30, 2022, cash provided by financing activities was \$33.6 million, consisting primarily of \$19.1 million of proceeds from borrowings, net of debt discount and issuance costs, \$14.6 million of proceeds from the issuance of common stock under the ATM Agreement, net of commissions and fees and proceeds from exercise of stock options of \$0.3 million.

During the six months ended June 30, 2021, cash provided by financing activities was \$257.8 million, consisting primarily of \$291.5 million of net proceeds from the Merger and private placement that was consummated concurrent with the Merger offset by offering costs of \$27.1 million, and proceeds from the exercise of stock options of \$0.5 million, partially offset by repayment of debt of \$7.0 million. There were promissory notes to related parties of \$5.0 million that were issued and repaid during the six months ended June 30, 2021.

Critical Accounting Policies and Estimates

Our critical accounting policies and 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, 2021. There have been no significant changes to our critical accounting policies since the filing of our Annual Report on Form 10-K for the year ended December 31, 2021 except for the addition of deferred debt financing costs as a significant accounting policy, which is described in Note 2 – Summary of Significant Accounting Policies to our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Recent Accounting Pronouncements

Refer to Note 2 in our unaudited condensed consolidated financial statements contained elsewhere in this Quarterly Report on Form 10-Q for recently adopted accounting pronouncements and recently issued accounting pronouncements not yet adopted as of the date of this Quarterly Report on Form 10-Q.

Smaller Reporting Company Status

For the year ending December 31, 2022, we expect that we will be considered a "smaller reporting company" and a "non-accelerated filer" as defined by Rule 12b-2 of the Exchange Act. We therefore would be exempt from certain disclosure requirements and permitted to rely on certain reduced disclosure requirements. For instance, smaller reporting companies are not required to obtain an auditor attestation report regarding management's assessment of internal control over financial reporting; are not required to provide a compensation discussion and analysis; and may present only two years of audited financial statements and related MD&A disclosure.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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

Interest Rate Risk

As of June 30, 2022, we had cash and cash equivalents of approximately \$159.7 million, out of which \$156.9 million consisted of institutional money market funds, which carries a degree of interest rate risk. A hypothetical 10% change in interest rates would not have a material impact on our financial condition or results of operations due to the short-term nature of our investment portfolio.

In addition, our operating results are subject to risk from interest rate fluctuations on borrowings under our Loan Agreement, 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 Loan Agreement 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 June 30, 2022, we had \$19.1 million of variable rate debt outstanding under our Loan Agreement. Based upon a sensitivity analysis of our debt levels on June 30, 2022, an increase or decrease of 1% in the effective interest rate would cause an increase or decrease in interest expense of approximately \$0.2 million over the next 12 months. 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.

Item 4. Controls and Procedures

Limitations on Effectiveness of Controls and Procedures

We maintain disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well-designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were not effective as of June 30, 2022 due to the material weaknesses in our internal control over financial reporting described below.

Material Weaknesses and Remediation Plan

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

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

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

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

We have taken several measures to remediate the foregoing material weaknesses. To date, our efforts have included the following:

- Recruiting additional personnel with appropriate internal controls and 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 trainings.
- Strengthening IT governance and designing IT general controls including restricted user access to our internal systems for financial reporting, change management, program development and computer operations.
- Designing 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.

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

Changes in Internal Control over Financial Reporting

Other than execution of the material weakness remediation plan activities described above, there has been no change 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 three months ended June 30, 2022 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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. The Company has complied with the SEC's requests to date; however, the SEC may request additional documents or information.

On June 14, 2022, Velodyne Lidar USA, Inc. ("Velodyne") filed a lawsuit against the Company relating to two patents and requested an International Trade Commission proceeding with respect to the same two patents. On July 8, 2022, the Company filed a complaint against Velodyne, alleging multiple claims including intellectual property misappropriation and false advertising.

From time to time, we have been and may again become involved in legal proceedings arising in the ordinary course of our business. There is no material litigation, arbitration or governmental proceeding currently pending or to Ouster's knowledge, threatened against us or any members of Ouster's management team in their capacity as such. See Part I, Item 1 "Financial Statements (Unaudited) - Note 7. Commitments and Contingencies".

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in the Company's Annual Report on Form 10-K filed with the SEC on February 28, 2022, other than the following:

Adverse conditions in the industries we target or the global economy more generally could have adverse effects on our results of operations.

While we make our strategic planning decisions based on the assumption that the markets we are targeting will grow, our business is dependent, in large part on, and directly affected by, business cycles and other factors affecting the robotics, industrial automation, smart infrastructure, and transportation industries and global economy generally. Our target markets are highly cyclical and depend on general economic conditions and other factors, including consumer spending and preferences, changes in interest rates and credit availability, consumer confidence, inflation, environmental impact, governmental incentives and regulatory requirements, political volatility, labor relations issues, trade agreements and other factors.

For example, 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.

We have been and may in the future become involved in legal and regulatory proceedings and commercial or contractual disputes, which could have a material adverse effect on our profitability and consolidated financial position.

We have been and may in the future be, from time to time, involved in litigation, regulatory proceedings and commercial or contractual disputes and these matters may be significant. These matters may include, without limitation, disputes with our distributors, suppliers and customers, intellectual property claims, stockholder litigation, government investigations, class action lawsuits, personal injury claims, environmental issues, customs and value-added tax disputes and employment and tax issues. In addition, we have in the past and could face in the future a variety of labor and employment claims against us, which could include but is not limited to general discrimination, wage and hour, privacy, ERISA or disability claims. In such matters, government agencies or private parties may seek to recover from us large, indeterminate amounts in penalties or monetary damages (including, in some cases, treble or punitive damages) or seek to limit our operations in some way. These types of lawsuits could require significant management time and attention or could involve substantial legal liability, adverse regulatory outcomes, or substantial expenses to defend. Often these cases raise complex factual and legal issues and create risks and uncertainties.

For example, on June 14, 2022, Velodyne filed a lawsuit against the Company in the District Court for the Northern District of California relating to two patents and requested an International Trade Commission proceeding alleging patent infringement with respect to the same two patents. On July 8, 2022, the Company filed a complaint against Velodyne in the Superior Court of California, alleging multiple claims including intellectual property misappropriation and false advertising.

In addition, on June 10, 2021, we received a letter from the SEC notifying us of an investigation and document subpoena. The subpoena seeks documents regarding projected financial information in CLA's Form S-4 registration statement filed on December 22, 2020. We are cooperating with the SEC's subpoena. There can be no assurance whether there will be further information requests or potential litigation, which is necessarily uncertain.

It is not possible to predict the outcome of the ongoing lawsuits, including when or how these matters will be resolved. Regardless of whether the Company is ultimately successful in these lawsuits, such matters could result in substantial costs and significantly and adversely impact the Company's reputation and divert management's attention and resources, which could have a material adverse effect on its business, operating results and financial condition, and negatively affect the price of the Company's common stock. No assurances can be given that any proceedings and claims will not have a material adverse impact on our operating results and consolidated financial position or that our available insurance will mitigate this impact.

We may not be able to adequately protect or enforce our intellectual property rights or prevent competitors or other unauthorized parties from copying or reverse engineering our technology.

Our success depends in part on our ability to obtain patents and other intellectual property rights covering our technology and products, and to maintain adequate legal protection for our technology and products in the United States and worldwide. We rely on patent, trademark, copyright, and trade secret laws, as well as confidentiality procedures and contractual restrictions, to establish and protect our proprietary rights, all of which provide only limited protections.

We can make no assurances whether any of our pending patent applications will mature into issued patents, or that any of our pending trademark applications will be registered, in a manner that gives us any or adequate defensive protection or competitive advantages. We also cannot assure whether any patents issued to us or any trademarks registered by us will not be challenged, invalidated or circumvented. Our portfolio of currently-issued patents and registered trademarks, and any patents that may be issued, any copyrights and trademarks that may be registered in the future, may not provide sufficiently broad protections to us, or may not prove to be enforceable in actions against third parties. We cannot be certain that the actions we have undertaken to protect our technology and products will prevent unauthorized use of our technology or the reverse engineering of our products. Moreover, others may independently develop technologies and products that compete with ours, or infringe our intellectual property.

We have filed for patents and trademarks in the United States and in certain international jurisdictions, but such protections may not be available, and we may not have applied for protections in all countries in which we operate or sell our products. Though we may have obtained intellectual property and related proprietary rights in various jurisdictions, it may prove difficult to enforce our intellectual property rights in practice. Discovering and protecting against unauthorized use of our intellectual property, products and other proprietary rights is expensive and difficult, particularly internationally. We believe that our patents are foundational in the area of lidar products, and intend to enforce our intellectual property rights. Competitors and other unauthorized parties may attempt to copy or reverse engineer our lidar technology and other aspects of our solutions that we consider proprietary. Litigation may be necessary in the future to enforce or defend our intellectual property rights, to prevent unauthorized parties from copying or reverse engineering our products, to determine the validity and scope of the proprietary rights of others or to block the importation of infringing products into the United States or other markets. Failure to adequately protect our intellectual property rights could result in our competitors offering similar products, potentially resulting in the loss of some of our competitive advantage, market share and a decrease in our revenue, which would adversely affect our business, operating results, financial condition and prospects.

Claims that we are infringing third-party intellectual property, whether successful or not, could subject us to costly and time-consuming litigation or expensive licenses, and adversely affect our business.

Any intellectual property and related contractual litigation, if it is initiated in the future by us or a third party, such as the Velodyne actions, would result in substantial costs and diversion of management resources, either of which could materially and adversely affect our business, operating results and financial condition. Such claims may also divert management resources and attention away from other business efforts and force us to acquire intellectual property rights and licenses, which may involve substantial royalty or other payments that may not be acceptable to us. Further, a party making such a claim against us, if successful, could secure a judgment that requires us to pay substantial damages or such a party could obtain an injunction. An adverse determination also could invalidate our intellectual property rights and adversely affect our ability to offer our products to our customers and may require that we procure or develop substitute products that do not infringe, which could require significant effort and expense. Even if we obtain favorable outcomes in any such litigation, we may not be able to obtain adequate remedies, or may have incurred costs that threaten our financial stability. Assertions of our attempts to enforce our rights against third parties could also lead these third parties to assert their own intellectual property or other rights against us or seek invalidation or a narrowed scope of our rights, in whole or in part. Any of these events could adversely affect our business, operating results, financial condition and prospects.

Lidar is a heavily populated intellectual property field, in which many companies, both within and outside of the lidar industry, hold patents covering lidar products and other adjacent technologies. In addition to patents, companies in the lidar industry typically rely on copyrights and trade secrets to protect their technology. As a result, there has been frequent litigation in the lidar industry based on allegations of patent infringement, misappropriation or other violations of intellectual property rights. We have, and in the future may, receive inquiries from other intellectual property holders and we are subject and may become subject to claims that we infringe others' intellectual property rights, particularly as our market presence increases, as our products expand to new use cases and geographies, and as we face increasing competition. In addition, parties may claim that our name and the branding of our products infringe their trademark rights in certain countries or territories. If such a claim were to prevail, we may have to change the names of and branding of our products in the affected territories which would be costly and could cause market confusion.

We currently have various agreements in effect pursuant to which we have agreed to defend, indemnify and hold harmless our customers, suppliers, and other partners from damages and costs which may arise from the infringement by our products of third-party patents or other intellectual property rights. The scope of these indemnity obligations may vary and in some instances, include indemnification for damages and expenses, including attorneys' fees. Our insurance does not typically cover intellectual property infringement claims. A claim that our products infringe a third party's intellectual property rights, even if unsuccessful, could adversely affect our relationships with our customers and deter future customers from purchasing our products. Our defense of intellectual property rights claims brought against us, or our customers, suppliers or partners, with or without merit, could be time-consuming and expensive to litigate or settle.

Even if we are not a party to any litigation between a customer and a third party relating to infringement of its products, an adverse outcome in any such litigation could make it more difficult for us to defend our products against intellectual property infringement claims in any subsequent litigation matter in which we are a named party. Any of these results could adversely affect our brand and operating results.

Any intellectual property and related contractual litigation, if it is initiated in the future by us or a third party, would result in substantial costs and diversion of management resources, either of which could adversely affect our business, operating results and financial condition. Such claims may also divert management resources and attention away from other business efforts and force us to acquire intellectual property rights and licenses, which may involve substantial royalty or other payments that may not be acceptable to us. Further, a party making such a claim against us, if successful, could secure a judgment that requires us to pay substantial damages or such a party could obtain an injunction. An adverse determination also could invalidate our intellectual property rights and adversely affect our ability to offer our products to our customers and may require that we procure or develop substitute products that do not infringe, which could require significant effort and expense. Even if we obtain favorable outcomes in any such litigation, we may not be able to obtain adequate remedies, or may have incurred costs that threaten our financial stability. Assertions of our rights against third parties could also lead third parties to assert their own intellectual property or other rights against us or seek invalidation or a narrowed scope of our rights, in whole or in part. Any of these events could adversely affect our business, operating results, financial condition and prospects.

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

Unregistered Sales of Equity Securities

We did not sell any securities during the three months ended June 30, 2022 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 June 30, 2022.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits.

Exhibit Number	Description	Incorporated by Reference				Filed/ Furnished herewith
		Form	File No.	Exhibit	Filing Date	
2.1†	Agreement and Plan of Merger, dated as of December 21, 2020, by and among the Company, Beam Merger Sub, Inc. and Ouster, Inc.	S-4/A	333-251611	2.1	2/10/2021	
3.1	Certificate of Incorporation of Ouster, Inc.	S-4 POS	333-251611	3.1	3/10/2021	
3.2	Bylaws of Ouster, Inc.	S-4 POS	333-251611	3.2	3/10/2021	
10.1	Ouster, Inc. 2022 Employee Stock Purchase Plan	8-K	001-39463	10.1	6/14/2022	
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: August 5, 2022

Ouster, Inc.

By: /s/ Anna Brunelle

Name: Anna Brunelle

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

CERTIFICATION

I, Angus Pacala, certify that:

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

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

Date: August 5, 2022

By: /s/ Angus Pacala

Angus Pacala

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

CERTIFICATION

I, Anna Brunelle, certify that:

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

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

Date: August 5, 2022

By: /s/ Anna Brunelle
Anna Brunelle
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 June 30, 2022 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: August 5, 2022

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