

EASTMAN KODAK CO  
Form POS AM  
September 29, 2004  
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As filed with the Securities and Exchange Commission on September 29, 2004

Registration No. 333-111726

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# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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**POST-EFFECTIVE AMENDMENT NO. 9**

**TO**

**FORM S-3**

**REGISTRATION STATEMENT**

**UNDER**

**THE SECURITIES ACT OF 1933**

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**EASTMAN KODAK COMPANY**

(Exact name of registrant as specified in its charter)

New Jersey  
(State or other jurisdiction of incorporation or organization)

16-0417150  
(I.R.S. Employer Identification No.)

343 State Street

Rochester, New York 14650

(585) 724-4000

(Address, including zip code, and telephone number, including area)

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code, of registrant s principal executive offices)

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**Gary P. Van Graafeiland**

**Senior Vice President and General Counsel**

**Eastman Kodak Company**

**343 State Street**

**Rochester, New York 14650-0218**

**(585) 724-4332**

(Name, address, including zip code, and telephone  
number, including area code, of agent for service)

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*Copy to:*

**John H. Newman**

**Sidley Austin Brown & Wood LLP**

**787 Seventh Avenue**

**New York, New York 10019**

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**Approximate date of commencement of proposed sale to the public:** From time to time after the effective date of this registration statement.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.



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**The information in this prospectus is not complete and may be changed. The selling securityholders may not use this prospectus to sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**PROSPECTUS**

**Subject to Completion**

**Preliminary Prospectus Dated September 29, 2004**

**Eastman Kodak Company**

**\$575,000,000 3.375% Convertible Senior Notes due 2033 and Common Stock Issuable Upon Conversion of the Notes**

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On October 10, 2003, we issued and sold in a private offering \$575,000,000 aggregate principal amount of our 3.375% Convertible Senior Notes due 2033, which we refer to as the notes, to certain initial purchasers, which we refer to as the initial purchasers. The initial purchasers have advised us that they resold their notes to qualified institutional buyers in accordance with Rule 144A under the Securities Act of 1933. The notes and the shares of our common stock issuable upon conversion of the notes that are offered for resale in this prospectus are offered for the accounts of their current holders, which we refer to as the selling securityholders. We will not receive any of the proceeds from the sale by the selling securityholders of the notes or the shares of our common stock issuable upon conversion of the notes.

The notes bear interest at the rate of 3.375% per year. Interest on the notes will be payable on April 15 and October 15 of each year, beginning on April 15, 2004.

The notes are convertible by holders into shares of our common stock at an initial conversion rate of 32.2373 shares of our common stock per \$1,000 principal amount of notes (subject to adjustment in certain events), which is equal to an initial conversion price of \$31.02 per share, under the following circumstances: (1) during any calendar quarter, if the price of our common stock issuable upon conversion reaches specified thresholds during the previous calendar quarter as described in this prospectus, (2) during any five consecutive trading day period following any 10 consecutive trading day period in which the trading price of a note for each day of such period is below a specified percentage of the conversion value and the conversion value for each day of such period is below a specified percentage of the principal amount of a note as described in this prospectus, (3) if we call the notes for redemption, (4) upon the occurrence of specified corporate transactions described in this prospectus or (5) during any period in which either of the credit ratings assigned to the notes are below the levels described in this prospectus.

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The notes will mature on October 15, 2033. We may redeem some or all of the notes at any time on or after October 15, 2010. The redemption prices are described under the caption "Description of the Notes - Optional Redemption."

The notes are unsecured and rank equally with all of our other unsecured and unsubordinated indebtedness from time to time outstanding. Holders will have the right to require us to purchase their notes at a purchase price equal to 100% of the principal amount of the notes plus accrued and unpaid interest, including additional amounts, if any, on October 15, 2010, October 15, 2013, October 15, 2018, October 15, 2023 and October 15, 2028 or upon a fundamental change as described in this prospectus.

We have not applied for listing of the notes on any securities exchange or for quotation through any automated quotation system. The notes are currently trading in the Private Offerings, Resale and Trading Through Automated Linkages (PORTAL) market of the National Association of Securities Dealers, Inc. Notes sold by means of this prospectus will not be eligible for trading in the PORTAL market. Our common stock is listed on the New York Stock Exchange under the symbol "EK." The last reported sales price of our common stock on the New York Stock Exchange on September 28, 2004 was \$31.89 per share.

**Investing in the notes and the common stock issuable upon conversion of the notes involves risks. See "Risk Factors" beginning on page 11.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

**The date of this prospectus is \_\_\_\_\_, 2004**

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You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone else to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. This prospectus may only be used where it is legal to sell these securities. You should assume that the information in this prospectus and the documents incorporated by reference is accurate only as of their respective dates. Our business, financial condition and results of operations may have changed since those dates. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the securities described in this prospectus or an offer to sell or a solicitation of an offer to buy any of the securities offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

In this prospectus, the Company, we, us, and our refer to Eastman Kodak Company.

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**WHERE YOU CAN FIND MORE INFORMATION**

We file reports, proxy statements and other information with the SEC. You may read and copy any document we file with the SEC at the SEC's public reference room located at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain further information regarding the operation of the SEC's public reference room by calling the SEC at 1-800-SEC-0330. Our filings are also available to the public on the SEC's website located at <http://www.sec.gov>. Our SEC filings are also available free of charge from our website at [www.kodak.com](http://www.kodak.com). The website addresses provided herein are not intended to be active links. Information contained on our website or any other website is not incorporated by reference into this prospectus and does not constitute a part of this prospectus. You may also inspect our SEC reports, proxy statements and other information concerning us at the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

We are incorporating by reference into this prospectus information we file with the SEC, which means that we are disclosing important information to you by referring you to those documents. The information we incorporate by reference is considered to be part of this prospectus, unless we update or supersede that information by the information contained in this prospectus or the information we file subsequently that is incorporated by reference into this prospectus. We are incorporating by reference the following documents that we have filed with the SEC, other than any information in these documents that is deemed not to be filed with the SEC:

our Annual Report on Form 10-K for the fiscal year ended December 31, 2003;

our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004;

our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004;

our Current Report on Form 8-K filed on May 14, 2004;

our Current Report on Form 8-K filed on June 3, 2004;

our Current Report on Form 8-K filed on September 10, 2004; and

our Current Report on Form 8-K filed on September 16, 2004.

We also incorporate by reference into this prospectus any filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 (other than information in the filings that is deemed to have been furnished and not filed) after the initial filing of the registration statement that contains this prospectus and before termination of this offering.

You may obtain without charge a copy of any of the documents we incorporate by reference, except for exhibits to such documents which are not specifically incorporated by reference into such documents, by contacting us at Eastman Kodak Company, 343 State Street, Rochester, New York 14650-0218, Attention: Sharon E. Underberg, Assistant Secretary. You may also telephone your request to Ms. Underberg at (585) 781-5824.



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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

Certain statements in this prospectus and the documents incorporated by reference may be forward-looking in nature, or forward-looking statements as defined in the United States Private Securities Litigation Reform Act of 1995. For example, references to our revenue, cash flow expectations, debt reductions and future focused cost reductions are forward-looking statements.

Actual results may differ from those expressed or implied in forward-looking statements. In addition, any forward-looking statements represent our estimates only as of the date they are made, and should not be relied upon as representing our estimates as of any subsequent date. While we may elect to update forward-looking statements at some point in the future, we specifically disclaim any obligation to do so, even if our estimates change. The forward-looking statements contained in this prospectus and the documents incorporated by reference are subject to a number of factors and uncertainties, including:

the successful

implementation of our digitally-oriented growth strategy;

implementation of our recently announced three-year cost reduction program;

implementation of our debt reduction plans;

implementation of product strategies (including digital products, category expansion, digitization, and organic light emitting diode (OLED) displays);

implementation of intellectual property licensing strategies;

development and implementation of e-commerce strategies;

completion of information systems upgrades, including SAP, our enterprise system software;

completion of various portfolio actions;

reduction of inventories;

integration of newly acquired businesses;

reduction in capital expenditures;

improvement in receivables performance;

improvement in manufacturing productivity and techniques;

improvement in supply chain efficiency; and

implementation of future focused cost reductions, including personnel reductions;

development of our business in emerging markets like China, India, Brazil, Mexico and Russia;

inherent unpredictability of currency fluctuations and raw material costs;

competitive actions, including pricing;

the nature and pace of technology evolution, including the analog-to-digital transition;

continuing customer consolidation and buying power;

current and future proposed changes to tax laws, as well as other factors which could adversely impact our effective tax rate in the future;

general economic, business, geopolitical, regulatory and public health conditions;

market growth predictions; and

other factors and uncertainties disclosed from time to time in our filings with the SEC.

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2003, incorporated by reference in this prospectus (see [Where You Can Find More Information](#) ), contains an expanded discussion of the above factors and uncertainties to which forward-looking statements in this prospectus and the documents incorporated by reference herein are subject. Any forward looking statements in this prospectus and the documents incorporated by reference should be evaluated in light of these important factors and uncertainties as well as the risk factors and other cautionary information contained in this prospectus.

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**SUMMARY OF INFORMATION**

*The following summary highlights selected information contained or incorporated by reference in this prospectus. The summary does not contain all of the information that may be important to you or that you should consider when making an investment decision. You should carefully read the summary together with the more detailed information that is contained and incorporated by reference in the rest of this prospectus.*

**THE COMPANY**

We are the leader in helping people take, share, print and view images for information and for entertainment. We are a major participant in infoimaging a \$385 billion industry composed of devices (digital cameras and flat-panel displays), infrastructure (online networks and delivery systems for images) and services and media (software, film and paper) enabling people to access, analyze and print images. Our traditional products and services are sold directly to retailers and through distributors throughout the world. A significant portion of our digital equipment and solutions is sold direct to end-users with the balance sold through original equipment manufacturers (OEMs). On August 21, 2003, we announced an organizational realignment which, effective January 1, 2004, changed our corporate segment reporting structure. Our new reporting structure is described below.

**Reportable Segments**

*Digital and Film Imaging Systems Segment (68% of Revenues for the Six-Month Period Ended June 30, 2004)*

Our Digital and Film Imaging Systems segment includes digital and traditional product offerings for consumers, professional photographers and the entertainment industry. This segment combines digital and traditional photography and photographic services in all its forms, including consumer, advanced amateur, professional, and motion picture. We manufacture and market films (consumer, professional and motion picture), photographic papers, processing services, photofinishing equipment, photographic chemicals and cameras (including one-time-use, traditional and digital). We have also developed products that bridge traditional silver halide and digital products. Product and service offerings include kiosks, printer docks, consumer digital services and inkjet media. In addition, other digitization options have been created to stimulate more pictures in use, adding to the consumption of film and paper. These products serve amateur photographers, as well as professional, motion picture and television customers. Through Ofoto, Inc., we have also accelerated our growth in the online photography market and helped drive more rapid adoption of digital and online services.

On September 7, 2004, as part of our efforts to deal with continued deterioration in overnight photofinishing volume in France, we announced plans to close five overnight photofinishing laboratories in France and to transfer their manufacturing operations to our six remaining French laboratories. On September 13, 2004, as part of our efforts to effectively deal with the continued worldwide volume decline in traditional photography products, we announced plans to close our manufacturing operations and wholesale photofinishing laboratory in Coburg, Australia.

*Health Imaging Segment (20% of Revenues for the Six-Month Period Ended June 30, 2004)*

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Analog and digital products and services of our Health Imaging segment enable healthcare customers (e.g., hospitals, imaging centers, etc.) to capture, process, integrate, archive and display images and information in a variety of forms. These products and services provide intelligent decision support through the entire patient pathway from research to detection to diagnosis to treatment. Our Health Imaging segment also provides products and services that help customers improve workflow and productivity in their facilities, which in turn helps them enhance the quality and productivity of healthcare delivery.

Traditional products of our Health Imaging segment include analog medical films, chemicals, and processing equipment, and our history has both made us a leader in this area and has served as the foundation for

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building our important digital imaging business. Health Imaging provides digital medical imaging and information products, systems and solutions, including digital print films, laser imagers, computed and digital radiography systems, and Healthcare Information Systems (HCIS). Our Health Imaging segment serves the general radiology market and specialty health markets, including dental, mammography and oncology. With our recent acquisition of PracticeWorks, Inc., we are positioned to offer choices within a full spectrum of dental imaging products traditional and digital and services providing innovative information technology to dental professionals. This segment also provides molecular imaging for the biotechnology research market.

### *Commercial Imaging Segment (6% of Revenues for the Six-Month Period Ended June 30, 2004)*

Our Commercial Imaging segment encompasses our business of providing imaging capture and solutions, analysis, printing and archiving, and optics. Markets for the segment include industrial, banking and insurance applications. Products include high-speed production document scanners, micrographic peripherals, aerial and industrial films, and optics and optical systems. This segment also provides maintenance and professional services for our products as well as those of other manufacturers and provides imaging services to customers. On August 13, 2004, we announced that we completed the sale of the assets and business of our Remote Sensing Systems operation, including the stock of our wholly owned subsidiary Research Systems, Inc., to ITT Industries, Inc. as part of our efforts to further align our product portfolio with our business strategy.

On September 20, 2004, we announced that we will begin to take actions that will result in the repositioning of the management and product lines of our Commercial Imaging segment into our other segments. We expect that this repositioning will take effect on January 1, 2005. The intent of this repositioning is to manage more effectively the remaining product lines of the current Commercial Imaging segment and to better serve our customers.

### *Graphic Communications Segment (5% of Revenues for the Six-Month Period Ended June 30, 2004)*

Our Graphic Communications segment is comprised of our investment in Kodak Polychrome Graphics, Kodak Versamark, NexPress, and our graphics and wide-format inkjet businesses. Products include high-speed digital printing equipment, wide-format inkjet printers, inks, media and services, and graphic films. On January 5, 2004, we acquired the assets of Scitex Digital Printing (now Kodak Versamark), the world leader in high-speed, variable data inkjet printing systems, from Scitex Corporation Ltd. Through this acquisition, we plan to accelerate our participation in the growing digital commercial printing equipment market. On May 1, 2004, we acquired two lines of business and a subsidiary from Heidelberger Druckmaschinen AG, which we refer to as Heidelberg. We purchased Heidelberg's 50% interest in NexPress Solutions LLC, a 50/50 joint venture of Kodak and Heidelberg that makes digital color printing systems. We also purchased the equity of Heidelberg Digital L.L.C., a leading maker of digital black-and-white printing systems. In addition, we acquired NexPress GmbH, Heidelberg's German subsidiary, and certain inventory and assets held by Heidelberg's regional operations, or market centers, and we offered employment to sales and service employees with those market centers. Through the Heidelberg acquisitions, we are further accelerating our participation in the digital commercial printing equipment market and diversifying our business portfolio.

### *All Other*

All Other consists primarily of our components group, which represents our diversification into high-growth product areas that are consistent with our historical strengths in imaging science. Our components group is comprised of our display business and the imaging sensor solutions business. Products of this group include organic light emitting diode (OLED) displays and imaging sensor solutions.

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On September 25, 2003, recognizing that demand for our traditional products is declining, especially in developed markets, we announced plans to emphasize digital technology to expand into a range of commercial businesses in order to create a more balanced and diversified business portfolio. For more information regarding this and other recent developments with respect to our business, see [Recent Developments](#) below.



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We plan to center our growth efforts on three broad markets: the commercial market, the consumer market and the health market. Our commercial initiatives include developing commercial imaging services for business customers, such as on-demand digital color printing. Our consumer initiatives include accelerating the growth of our EasyShare digital camera business and increasing the printing of pictures at home, from home or at retail. Our health initiatives involve gaining more market share in the digital capture of medical images and building an information services business that takes full advantage of the convergence of images and information technology. In connection with these growth efforts, we recently acquired PracticeWorks Inc., which allows us to offer choices within a full spectrum of dental imaging products and services that provide innovative information technology to dental professionals. In addition, we recently acquired the assets of Scitex Digital Printing and two lines of business

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and a subsidiary from Heidelberg. Through these acquisitions, we are accelerating our participation in the growing digital commercial printing equipment market.

We plan to reinforce our foundation in consumer, medical, entertainment and professional film imaging products and services by continuing to cut costs and by managing the consumer film and paper businesses for cash and manufacturing share. We plan to use the cash generated by our traditional businesses to strengthen our share of the commercial, consumer and health markets, and to reduce debt. Thereafter, we plan to use our brand and technology to build new businesses in such markets as commercial workflow management, mobile imaging and flat-panel and flexible film displays, among others.

In order to achieve our goals, we will need to maintain financial flexibility while taking advantage of the cash-generation capability of our traditional businesses. To this end, on September 24, 2003 our board of directors reduced the semi-annual dividend that we paid on our common stock on December 12, 2003 to \$0.25 per share (\$0.50 annually) from the semi-annual dividend payment of \$0.90 per share (\$1.80 annually) paid in July 2003. On May 12, 2004, our board of directors declared a semi-annual dividend of \$0.25 per share that was paid on July 15, 2004.

*Ratings Downgrade*

On September 25, 2003, Standard & Poor's Ratings Services downgraded our long-term credit rating to BBB- and our short-term credit rating to A-3, each with a stable outlook, and removed us from CreditWatch. On November 26, 2003, Standard & Poor's Ratings Services revised our outlook to negative from stable and affirmed our ratings. On September 19, 2003, Moody's Investor Services, Inc. downgraded our long-term credit rating to Baa3 and our short-term credit rating to Prime-3, each with a negative outlook. On August 11, 2003, Fitch, Inc. downgraded our long-term credit rating to BBB- and our commercial paper rating (short-term credit rating) to F3, each with a negative outlook.

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**SUMMARY OF THE OFFERING**

For a more complete description of the terms of the notes and the common stock issuable upon conversion of the notes, see Description of the Notes and Description of Our Common Stock.

Issuer	Eastman Kodak Company
Issue Price	100%
Notes Offered	\$575,000,000 aggregate principal amount of 3.375% Convertible Senior Notes due 2033.
Maturity	October 15, 2033
Interest	3.375% per year on the principal amount, payable semiannually in arrears on each April 15 and October 15, beginning on April 15, 2004.

We will also pay to the selling securityholders additional amounts, if any, on their notes and shares of our common stock issued upon conversion of such notes in accordance with the registration rights agreement, under the circumstances described in this prospectus. Purchasers of notes in the offering made by this prospectus, and of shares of our common stock issued upon conversion of the notes, will not be entitled to receive additional amounts. See Registration Rights and Description of the Notes Registration Rights.

Ranking	The notes are unsecured and rank equally in right of payment with all of our other existing and future unsecured and unsubordinated indebtedness. The notes are effectively subordinated to existing and future indebtedness and other liabilities of our subsidiaries.
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Conversion Rights	<p>Holder may convert their notes, in whole or in part, into shares of our common stock only under the following circumstances:</p>
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- (1) during any calendar quarter (and only during such calendar quarter), beginning with the quarter ended March 31, 2004, if the last reported sale price of our common stock for at least 20 trading days, whether or not consecutive, during the period of 30 consecutive trading days ending on the last trading day of the previous calendar quarter, is greater than or equal to 120% of the applicable conversion price per share of our common stock on such last trading day,
- (2) during any five consecutive trading day period following any 10 consecutive trading day period in which (1) the trading price of a note for each day of such period was less than 105% of the conversion value, as each term is described herein, and (2) the conversion value for each day of such period was less than 95% of the principal amount of a note,

- (3) if the notes have been called for redemption (but only those notes so called),
- (4) upon the occurrence of specified corporate transactions described under Description of the Notes Conversion

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Rights Conversion Upon Specified Corporate Transactions, and

- (5) during any period in which the credit rating assigned to the notes by either Moody's or S&P is lower than Ba2 or BB, respectively, or the notes are no longer rated by at least one of these rating services or their successors.

For each \$1,000 principal amount of notes surrendered for conversion, you will receive 32.2373 shares of our common stock. This represents an initial conversion price of \$31.02 per share of common stock. As described in this prospectus, the conversion rate may be adjusted for certain reasons, but it will not be adjusted for accrued and unpaid interest. Except as otherwise described in this prospectus, you will not receive any payment representing accrued and unpaid interest upon conversion of a note. Notes called for redemption may be surrendered for conversion prior to the close of business on the second business day immediately preceding the redemption date.

Optional Redemption

Prior to October 15, 2010, the notes will not be redeemable. On or after October 15, 2010, we may redeem for cash all or part of the notes at any time and from time to time, upon not less than 30 nor more than 60 days' notice before the redemption date by mail to the trustee under the indenture under which the notes have been issued, the paying agent and each holder of notes, for a price equal to 100% of the principal amount of the notes to be redeemed plus any accrued and unpaid interest, including additional amounts owed, if any, to, but excluding, the redemption date. See Description of the Notes Optional Redemption.

Purchase of Notes by Us at the Option of the Holder

Holder have the right to require us to purchase all or any portion of their notes for cash on October 15, 2010, October 15, 2013, October 15, 2018, October 15, 2023 and October 15, 2028. In each case, we will pay a purchase price equal to 100% of the principal amount of the notes to be purchased plus any accrued and unpaid interest, including additional amounts owed, if any, to, but excluding, such purchase date. See Description of the Notes Purchase of Notes by Us at the Option of the Holder.

Fundamental Change

If we undergo a Fundamental Change (as defined under Description of the Notes Fundamental Change Requires Purchase of Notes by Us at the Option of the Holder ) prior to maturity, holders will have the right, at their option, to require us to purchase for cash all of their notes or any portion of the principal amount thereof that is equal to \$1,000 or an integral multiple of \$1,000. The cash price we are required to pay is equal to 100% of the principal amount of the notes to be purchased plus accrued and unpaid interest, including additional amounts owed, if any, to, but excluding, the Fundamental Change purchase date. See Description of the Notes Fundamental Change Requires Purchase of Notes by Us at the Option of the Holder.

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Significant Covenants	<p>The notes have been issued under an indenture that contains certain restrictive covenants for your benefit. The covenants, which are described under <a href="#">Description of the Notes</a>, restrict our ability, with certain exceptions, to:</p> <p style="padding-left: 40px;">incur certain debt secured by liens, without equally and ratably securing the notes;</p> <p style="padding-left: 40px;">engage in certain sale and leaseback transactions; and</p> <p style="padding-left: 40px;">merge, consolidate or transfer substantially all of our assets.</p>
Registration Rights	<p>Pursuant to a registration rights agreement that we entered into in connection with the private offering of the notes in October 2003, we have filed a shelf registration statement under the Securities Act of 1933, of which this prospectus is a part, relating to the resale of the notes and the common stock issuable upon conversion thereof. If the registration statement has not become effective within the time periods set forth in this prospectus, or if this prospectus is unavailable for longer periods of time than are set forth in this prospectus, we will be required to pay additional amounts to holders of notes (and the common stock issuable upon conversion thereof) that have not been sold in the offering made by this prospectus. Investors who purchase notes or shares of common stock from selling securityholders in this offering will not be entitled to any rights under the registration rights agreement (including the right to receive any additional amounts payable by us). See <a href="#">Description of the Notes Registration Rights</a>.</p>
Use of Proceeds	<p>We will not receive any of the proceeds from the sale by the selling securityholders of the notes or the common stock issuable upon conversion of the notes.</p>
Trustee, Paying Agent and Conversion Agent	<p>The Bank of New York</p>
Risk Factors	<p>You should consider carefully all of the information set forth in this prospectus and, in particular, you should evaluate the specific factors set forth under <a href="#">Risk Factors</a> beginning on page 11, before deciding whether to invest in the notes.</p>
Governing Law	<p>The indenture and the notes are governed by, and are to be construed in accordance with, the laws of the State of New York.</p>
Book-Entry Form	<p>The notes were issued in book-entry form and are represented by permanent global certificates without interest coupons deposited with, or on behalf of, The Depository Trust Company ( <a href="#">DTC</a> ) and registered in the name of a nominee of DTC. Beneficial interests in any of the notes will be shown on, and transfers will be effected only through, records maintained by DTC or its nominee and any such interest may not be exchanged for certificated notes, except in limited circumstances.</p>

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Trading

The notes will not be listed on any securities exchange or included in any automated quotation system. No assurance can be given as to the development or liquidity of any trading market for the notes. The notes originally issued and sold in the private offering are trading in the PORTAL market. However, notes sold pursuant to this prospectus will no longer be eligible for trading in the PORTAL market. Our common stock is listed on the New York Stock Exchange under the symbol EK.

**Table of Contents****SUMMARY CONSOLIDATED FINANCIAL INFORMATION**

The following table sets forth summary consolidated financial information and other data with respect to each of the fiscal years in the three-year period ended December 31, 2003, as well as for the six-month periods ended June 30, 2004 and 2003. The summary consolidated financial information as of and for the six-month periods ended June 30, 2004 and 2003 are derived from our unaudited consolidated financial statements which, in our opinion, include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of such information. When you read this summary consolidated financial information and other data, you should also read the historical consolidated financial statements and accompanying notes that we have included in our Current Report on Form 8-K filed with the SEC on May 14, 2004, which includes the financial results from our Annual Report on Form 10-K for the fiscal year ended December 31, 2003 as revised for the discontinued operation and change in our segment reporting structure, each of which was first reflected in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004. In addition, you should read Management's Discussion and Analysis of Financial Condition and Results of Operations in our Current Report on Form 8-K filed with the SEC on May 14, 2004 and our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004. You can obtain these reports by following the instructions we provide under Where You Can Find More Information. The results for the six months ended June 30, 2004 are not necessarily indicative of the results that may be achieved for the full year ending December 31, 2004.

	As of or for the				
	Six Months		As of or for the Year Ended		
	Ended June 30,		December 31,		
	2004	2003	2003	2002	2001
(in millions)					
<b>Statement of Earnings Data:</b>					
Net sales	\$ 6,388	\$ 5,899	\$ 12,893	\$ 12,549	\$ 12,976
Cost of goods sold	4,461	4,002	8,715	8,022	8,488
Gross profit	1,927	1,897	4,178	4,527	4,488
Selling, general and administrative expenses	1,165	1,265	2,612	2,504	2,592
Research and development costs	409	371	775	757	777
Goodwill amortization					147
Restructuring costs and other	185	76	484	98	653
Earnings from continuing operations before interest, other charges, net, and income taxes	168	185	307	1,168	319
Interest expense and other charges, net	81	101	198	274	236
Earnings from continuing operations before income taxes	87	84	109	894	83
(Benefit) provision for income taxes	(72)	(10)	(90)	133	22
Earnings from continuing operations	159	94	199	761	61
Earnings from discontinued operations, net of income tax provision	23	30	66	9	15
Net earnings	\$ 182	\$ 124	\$ 265	\$ 770	\$ 76
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 519	\$ 838	\$ 1,250	\$ 569	\$ 448
Goodwill	1,432	992	1,364	961	927
Total assets	14,720	14,076	14,818	13,494	13,362

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Short-term borrowings	1,043	1,474	946	1,442	1,534
Long-term debt, net of current portion	1,997	1,516	2,302	1,164	1,666
Total shareholders' equity	3,271	2,854	3,264	2,777	2,894

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	For the Six Months Ended June 30,		For the Year Ended December 31,		
	2004	2003	2003	2002	2001
(in millions, except ratios)					
<b>Cash Flow Data:</b>					
Net cash (used in) provided by:					
Operating activities	\$ 37	\$ 254	\$ 1,645	\$ 2,204	\$ 2,206
Investing activities	(555)	(396)	(1,267)	(758)	(1,188)
Financing activities	(208)	399	270	(1,331)	(808)
Depreciation and amortization	426	392	824	813	907
Additions to properties	(182)	(232)	(500)	(571)	(738)
Effect of exchange rate changes on cash	(5)	12	33	6	(8)
<b>Other Data:</b>					
Ratio of earnings to fixed charges <sup>(1)</sup>	1.9		2.0	5.6	1.6

- (1) For purposes of calculating the ratio of earnings to fixed charges, earnings represent earnings from continuing operations before income taxes and before adjustments for minority interest in consolidated subsidiaries and income or loss from equity investees, plus interest expense, the interest component of rental expense and amortization of capitalized interest. Fixed charges consist of interest expense, the interest component of rental expense, and capitalized interest. (The interest portion of rental expense is assumed to approximate one-third of rental expense.)

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**RISK FACTORS**

*In considering whether to purchase the notes, you should carefully consider the risks described below and the other information we have included or incorporated by reference in this prospectus.*

**Risks Related to Our Business**

*Our credit ratings were downgraded in 2003. Further downgrades of our credit ratings would give certain rights to holders of certain of our outstanding debt securities and would increase our cost of financing and adversely affect the trading price and liquidity of the notes.*

In the third quarter of 2003, Standard & Poor's Ratings Services downgraded our long-term credit rating to BBB- and our short-term credit rating to A-3, each with a stable outlook, and removed us from CreditWatch, Moody's Investor Services, Inc. downgraded our long-term credit rating to Baa3 and our short-term credit rating to Prime-3, each with a negative outlook, and Fitch, Inc. downgraded our long-term credit rating to BBB- and our commercial paper rating (short-term credit rating) to F3, each with a negative outlook. On November 26, 2003, Standard & Poor's Ratings Services revised our outlook to negative from stable and affirmed our ratings. We cannot assure you that our credit ratings will not be further downgraded by Standard & Poor's Ratings Services, Moody's Investor Services, Inc. or Fitch, Inc.

In the event that our long-term credit rating falls below BB by Standard & Poor's Ratings Services or Ba2 by Moody's Investor Services, Inc. and such condition continues for a period of 30 days, any outstanding borrowings under our accounts receivable securitization program could be accelerated. Further, a negative change in our credit rating could have an adverse effect on the market price and liquidity of the notes, could adversely affect our ability to access capital and could result in an increase in borrowing costs, including an increase in interest rates payable under future indebtedness.

We cannot assure you that we will be successful in carrying out our recently announced digitally-oriented growth strategy in a manner that strengthens or maintains our credit profile, nor can we assure you that the rating agencies will regard the measures we do carry out as sufficient. While we intend to fund the acquisition part of our digitally-oriented growth strategy from free cash flow, if the level of cash flow from our traditional consumer film and paper businesses decreases faster than we anticipate, or if we identify attractive acquisition candidates sooner than we expect, we may need to incur additional indebtedness in an amount which could cause adverse rating consequences. We cannot assure you that we will proceed with any measures that might be favorable from a credit protection point of view if we believe these measures are inconsistent with our growth and diversification strategy.

*Failure to achieve the benefits we expect from our digitally-oriented growth strategy could adversely affect our results of operations and future growth.*

On September 25, 2003, we announced plans to emphasize digital technology to expand into a range of commercial businesses in order to create a more balanced and diversified business portfolio while accelerating the implementation of our existing digital product strategies in the consumer markets. We expect that these initiatives will require us to incur restructuring charges. Our expected benefits from these initiatives are subject to many estimates and assumptions, including assumptions regarding:

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the amount and timing of cost savings and cash flow that we can achieve from our traditional consumer film and paper businesses;

the speed at which consumer transition from traditional photography to digital photography occurs;

our ability to develop new digital businesses in our commercial, consumer and health markets;

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our ability to identify and complete compatible strategic acquisitions consistent with our growth timeline; and

the costs and timing of activities undertaken in connection with these initiatives.

In addition, these estimates and assumptions are subject to significant economic, competitive and other uncertainties that are beyond our control. If these assumptions are not realized, or if other unforeseen events occur, our results of operations could be adversely affected, as we may not be able to grow our business, and our ability to compete could be negatively affected.

*Delay or inability to implement our product development strategies could adversely affect our revenues and business.*

Unanticipated delay in implementing or a failure to implement our product development strategies, including strategies related to digital products, category expansion, digitization, displays, including organic light emitting diode (OLED), inkjet products, and complementary metal oxide semiconductor (CMOS) image sensors, could adversely affect our revenues. In order to successfully transition our existing products and develop and deploy new products, we must make accurate predictions of the product development schedule as well as volumes, product mix, customer demand, sales channels, and configuration. The process of developing new products and services is complex and often uncertain due to the frequent introduction of new products that offer improved performance and pricing. We may anticipate demand and perceived market acceptance that differs from the product's realizable customer demand and revenue stream. Further, in the face of intense industry competition, any delay in the development, production or marketing of a new product could decrease any advantage we may have to be the first or among the first to market. Our failure to carry out a product rollout in the time frame anticipated and in the quantities appropriate to customer demand, or at all, could adversely affect future demand for our products and services and have an adverse effect on our business.

*The failure to effectively integrate new acquisitions as well as the failure to streamline and simplify our business could adversely affect our revenues.*

We have recently completed various business acquisitions and intend to complete various other business acquisitions in the future, particularly in our Health Imaging and Graphic Communications segments, in order to strengthen and diversify our portfolio of businesses. At the same time, we need to streamline and simplify our traditional businesses, including our photofinishing operations in the United States and Europe, Africa, and the Middle East Region (EAMER). In the event that we fail to effectively manage the portfolio of our more traditional businesses while simultaneously integrating these acquisitions, we could fail to obtain the expected synergies and favorable impact of these acquisitions. Such a failure could cause us to lose market opportunities and experience a resulting adverse impact on our revenues and earnings.

*Delays in our plans to reduce inventories and capital expenditures and to improve receivable performance and manufacturing productivity could adversely affect our cash flow outlook and gross margins.*

We continue to focus on reducing inventories and capital expenditures and improving receivable performance and manufacturing productivity. Unanticipated delays in our plans to continue inventory reductions could adversely impact our cash flows. Planned inventory reductions could be compromised by slower sales that could result from continued weak global economic conditions. Purchasers' uncertainty about future global economic growth could result in lower demand for our products and services. In addition, the competitive environment and the transition to digital products and services could also place pressures on our sales and market share. In the event we are unable to successfully manage these issues in a timely manner, our planned inventory reductions could be adversely impacted.

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If we exceed our 2004 capital spending plan, our cash flow outlook could be adversely impacted. Further, if we deem it necessary to increase spending with respect to regulatory requirements or if unanticipated general

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maintenance obligations arise that require more capital spending than planned, the increased spending could have an adverse impact on our cash flow.

Unanticipated delays in our plans to continue to improve our accounts receivable collection and to reduce the number of day sales outstanding could also adversely impact our cash outlook. A continued weak economy could slow customer payment patterns. In addition, competitive pressures in major segments may cause the financial condition of certain of our customers to deteriorate. These same pressures may adversely affect our efforts to shorten customer payment terms. Further, our ability to manage customer risk while maintaining a competitive market share may adversely affect continued accounts receivable improvement.

Delays in our plans to improve manufacturing productivity and control costs of operations could negatively impact our gross margins. Our failure to successfully manage operational performance factors could delay or curtail planned improvements in manufacturing productivity. Accelerating digital substitution could result in lower factory volumes than planned, which would also negatively impact our gross margins. Similarly, if we are unable to successfully negotiate raw material costs with our suppliers, or if we experience adverse pricing with respect to certain of our commodity-based raw materials, reduction in our gross margins could occur. Additionally, if we are delayed in increasing our manufacturing capabilities for certain of our products in some of our developing markets, particularly cost competitive markets such as China, our gross margins would be adversely impacted.

Delay in our planned improvement in supply chain efficiency could adversely affect our business by preventing shipments of certain products to be made in the desired quantities and in a timely manner. The planned efficiencies could be compromised if we expand into new markets with new applications that are not fully understood or if our product portfolio broadens beyond that anticipated when the plans were initiated. Unforeseen changes in manufacturing capacity could also compromise our supply chain efficiencies.

*Intense price competition and customer consolidation could adversely impact our revenue, gross margins, earnings and growth rate.*

Competition remains intense in the imaging sector in our consumer, commercial and health segments. On the consumer side, price competition has been driven somewhat by consumers' conservative spending behaviors during times of a weak world economy, international tensions and the accompanying concern over war and terrorism. On the commercial and health side, aggressive pricing tactics have intensified during contract negotiations as competitors vie for customers and market share domestically. If our pricing and marketing programs are not sufficiently competitive with those offered by our current and future competitors, we may lose market share, adversely affecting our revenue and gross margins.

The impact of continuing customer consolidation and buying power could have an adverse impact on our revenue, gross margins, and earnings. In the competitive consumer retail environment, there is a movement from small individually owned retailers to larger and commonly known mass merchants. In the commercial environment, there is a continuing consolidation of various group purchasing organizations. Our resellers and distributors may elect to use suppliers other than us. Our challenge is to successfully negotiate contracts that provide the most favorable conditions to us in the face of price and marketing programs by our aggressive competitors.

*Developments in foreign markets in which we conduct business, changes in currency exchange and interest rates and multinational trade agreements, sanctions and tax laws could adversely affect our operations, earnings, business, and financial position.*

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We conduct business in developing markets with economies that tend to be more volatile than those in the United States and Western Europe. The risks of doing business in certain of these markets include the financial instability of customers, political instability and potential conflict and other non-economic factors, such as irregular trade flows that need to be managed successfully with the help of local governments. Our failure to successfully manage the economic, political and other risks relating to doing business in developing countries and economically and politically volatile areas could adversely affect our operations and earnings.

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Our global operating and financing activities expose us to changes in currency exchange rates and interest rates, which could adversely affect our results of operations and financial position. Exchange rates and interest rates in certain markets in which we do business tend to be more volatile than those in the United States and Western Europe. For example, in early 2002, the United States dollar was eliminated as Argentina's monetary benchmark, resulting in significant currency devaluation. There can be no guarantee that the economic situation in developing markets or elsewhere will not worsen, which could result in future effects on earnings should such events occur.

Historically, pursuant to the Foreign Sales Corporation/Extra-Territorial Income ( FSC/ETI ) provisions of the U.S. federal income tax law, our U.S. federal income tax liability has been reduced with respect to income we receive from certain products manufactured in the United States for export and ultimate sale outside of the United States. The World Trade Organization has authorized the imposition of trade sanctions on the United States as a result of the FSC/ETI tax regime. In addition, legislative proposals currently pending before the United States Congress generally would repeal the current U.S. federal income tax benefits associated with the FSC/ETI provisions and, in certain circumstances, replace these benefits with alternative U.S. federal income tax benefits. However, to date, these legislative proposals have not been enacted into law. If the FSC/ETI tax regime were to be repealed or, in certain circumstances, replaced, our liability for U.S. federal income taxes could be materially increased, which could significantly reduce our future cash flows. However, the exact net financial impact, if any, on us as a result of a repeal or replacement of the FSC/ETI tax regime cannot be known by us unless and until the current proposed legislation or any alternative legislation is actually enacted.

## **Risks Related to the Notes**

*The price of our common stock declined considerably in 2003 and may fluctuate widely in the future, which would affect the market value of the notes.*

We expect that the market price of our notes will be significantly affected by the market price of our common stock. This may result in greater volatility in the market price of the notes than would be expected for nonconvertible debt securities. The market price of our common stock will likely continue to fluctuate in response to factors including the following, many of which are beyond our control:

quarterly fluctuations in our operating and financial results,

changes in financial estimates and recommendations by financial analysts,

changes in the ratings of our notes or other securities,

fluctuations in the stock price and operating results of our competitors,

dispositions, acquisitions and financings, and

general conditions in the industries in which we operate.

The market price of our common stock declined considerably during 2003, due in part to our announcement of a decrease in the amount of dividends declared on our common stock and of our digitally-oriented growth strategy. In addition, the stock markets in general, including the

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New York Stock Exchange, recently have experienced significant price and trading fluctuations. These fluctuations have resulted in volatility in the market prices of securities that often has been unrelated or disproportionate to changes in operating performance. These broad market fluctuations may affect adversely the market prices of our notes and our common stock.

*An active trading market may not develop for the notes.*

The notes are a recent issue of securities with no established trading market and will not be listed on any securities exchange. An active trading market for the notes may not develop or continue for any period of time. Even if a market for the notes does develop, there may not be liquidity in that market, or the notes might trade for less than their original value or face amount. If an active trading market does not develop, the market price and liquidity of the notes may be adversely affected.

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*We may not have the ability to raise the funds necessary to purchase the notes upon a Fundamental Change or other purchase date, as required by the indenture governing the notes.*

On October 15, 2010, October 15, 2013, October 15, 2018, October 15, 2023 and October 15, 2028, holders of the notes may require us to purchase their notes for cash. In addition, holders of the notes also may require us to purchase their notes upon a Fundamental Change as described under [Description of the Notes Fundamental Change Requires Purchase of Notes by Us at the Option of the Holder](#). A Fundamental Change also may constitute an event of default under, and result in the acceleration of the maturity of, our other indebtedness under another indenture or other agreement. We cannot assure you that we would have sufficient financial resources, or would be able to arrange financing, to pay the purchase price for the notes tendered by holders. Failure by us to purchase the notes when required will result in an Event of Default with respect to the notes.

*If you hold notes, you will not be entitled to any rights with respect to our common stock that your notes are convertible into, but you will be subject to all changes made with respect to our common stock.*

If you hold notes, you will not be entitled to any rights with respect to our common stock that your notes are convertible into (including, without limitation, voting rights and rights to receive any dividends or other distributions on our common stock), but you will be subject to all changes affecting the common stock. You will only be entitled to rights on the common stock if and when we deliver shares of common stock to you upon conversion of your notes and in limited cases under the conversion rate adjustments of the notes. For example, in the event that an amendment is proposed to our restated certificate of incorporation or by-laws requiring shareholder approval and the record date for determining the shareholders of record entitled to vote on the amendment occurs prior to delivery of common stock to you upon the conversion of your notes, you will not be entitled to vote on the amendment, although you will nevertheless be subject to any changes in the powers, preferences or special rights of our common stock effected by the amendment.

*We may issue additional shares of common stock and thereby materially and adversely affect the price of our common stock.*

We are not restricted from issuing additional common stock during the life of the notes and have no obligation to consider your interests for any reason. If we issue additional shares of common stock, it may materially and adversely affect the price of our common stock and, in turn, the price of the notes.

*Our restated certificate of incorporation provisions, and several other factors, could limit another party's ability to acquire us and could deprive you of the opportunity to obtain a takeover premium for your shares of common stock.*

A number of provisions in our restated certificate of incorporation and New Jersey law could make it difficult for another company to acquire us and for you to receive any related takeover premium for our common stock. See [Description of Our Common Stock Anti-Takeover Protection](#).

**Table of Contents****USE OF PROCEEDS**

We will not receive any of the proceeds from the sale by the selling securityholders of the notes or the common stock issuable upon conversion of the notes.

We received approximately \$1,057,795,000 in aggregate net proceeds from the sale of the notes to the initial purchasers on October 10, 2003 and the concurrent registered public offering of \$500,000,000 aggregate principal amount of our 7.25% senior notes due 2013. Approximately \$610,000,000 of the aggregate net proceeds from those offerings was used to retire some of our outstanding short-term debt, primarily commercial paper borrowings. The balance of the aggregate net proceeds we received from those offerings was used to fund our previously announced acquisition of PracticeWorks, Inc.

**PRICE RANGE OF COMMON STOCK AND DIVIDENDS**

Our common stock trades on the NYSE under the symbol **EK**. The following table sets forth on a per share basis the high and low closing prices for our common stock for the periods indicated.

	<u>High</u>	<u>Low</u>
2002		
First Quarter	\$ 33.49	\$ 26.12
Second Quarter	35.25	28.69
Third Quarter	31.58	26.63
Fourth Quarter	38.22	25.86
2003		
First Quarter	40.24	27.68
Second Quarter	31.99	27.25
Third Quarter	29.80	20.94
Fourth Quarter	25.67	20.50
2004		
First Quarter	30.95	24.80
Second Quarter	26.98	24.95
Third Quarter (through September 28, 2004).	32.18	24.80

On September 28, 2004, the last reported sale price of our common stock on the NYSE was \$31.89 per share. As of September 28, 2004, there were approximately 81,431 holders of record of our common stock.

We declared semi-annual dividends on our common stock at the rate of \$0.90 per share in 2001 and 2002. On September 24, 2003, our board of directors reduced the semi-annual dividend that we paid on our common stock on December 12, 2003 to \$0.25 per share (\$0.50 annually) from the semi-annual dividend payment of \$0.90 per share (\$1.80 annually) in July 2003. On May 12, 2004, our board of directors declared a semi-annual dividend of \$0.25 per share that was paid on July 15, 2004.



**Table of Contents****CAPITALIZATION**

The following table sets forth our cash and cash equivalents and capitalization as of June 30, 2004. This information should be read in conjunction with our consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004, incorporated by reference in this prospectus.

	<b>As of June 30, 2004</b>
	<b>(in millions)</b>
Cash and cash equivalents	\$ 519
Short-term debt	
Commercial paper	125
Other short-term debt	918
Total short-term debt	1,043
Long-term debt, net of current portion	
Outstanding	922
The notes	575
7.25% senior notes due 2013	500
Total long-term debt, net of current portion	1,997
Shareholders' equity	
Common stock, \$2.50 par value; authorized 950,000,000 shares; 286,609,169 shares outstanding at June 30, 2004 <sup>(1)</sup>	978
Additional paid-in capital	850
Retained earnings	7,636
Accumulated other comprehensive loss	(336)
Unearned restricted stock	(6)
Treasury stock	(5,851)
Total shareholders' equity	3,271
Total capitalization	\$ 6,311

(1) Does not include 18,536,447 shares of our common stock reserved for issuance upon conversion of the notes.

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**DESCRIPTION OF THE NOTES**

The following description of the notes is only a summary and is not intended to be comprehensive. For purposes of this Description of the Notes, the terms Kodak, we, our, ours and us refer only to Eastman Kodak Company and not to any of our subsidiaries.

**General**

On October 10, 2003, we issued and sold in a private offering \$575,000,000 aggregate principal amount of the notes. The notes were issued as a series of senior debt securities under the indenture dated as of January 1, 1988 between us and The Bank of New York, as trustee, as supplemented by a first supplemental indenture dated as of September 6, 1991, a second supplemental indenture dated as of September 20, 1991, a third supplemental indenture dated as of January 26, 1993, a fourth supplemental indenture dated as of March 1, 1993 and a fifth supplemental indenture dated as of October 10, 2003. As used in this prospectus, indenture means the original indenture as supplemented by the supplemental indentures. A copy of the indenture is filed as an exhibit to the registration statement. The following summary of certain provisions of the indenture and the notes is not complete and is subject to, and is qualified in its entirety by reference to, the provisions of the indenture. Unless otherwise indicated, capitalized terms we use but do not define under this caption of the prospectus have the meanings given them in the indenture.

The indenture does not limit the amount of debt securities that we may issue under it. It permits us to issue debt securities from time to time in one or more series, in an aggregate principal amount authorized by us before each issuance. We may issue multiple series of debt securities with different terms or reopen a previous series of debt securities and issue additional debt securities of that series.

The notes have been issued in registered form without coupons only in denominations of \$1,000 and integral multiples of \$1,000.

Interest on the notes accrues at the rate of 3.375% per year. We will pay interest on the notes in arrears on each April 15 and October 15, beginning April 15, 2004 to the person or persons in whose names the notes are registered at the close of business on the April 1 or October 1, respectively, immediately preceding the relevant interest payment date, except that we will pay interest payable at maturity or on a repurchase or redemption date to the person or persons to whom principal is payable. If any date on which interest is payable is not a business day, we will pay interest on the next business day (without any interest or other payment due on account of the delay). Interest on the notes will be calculated on the basis of a 360-day year consisting of twelve 30-day months and, in the case of an incomplete month, the actual number of days elapsed. If the maturity date or any redemption date or purchase date (including upon the occurrence of a Fundamental Change, as described below) for the notes falls on a day that is not a business day, we will pay the interest and principal payable on the next business day (without any interest or other payment due on account of the delay). The term business day, when used with respect to any place of payment for the notes, means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in that place of payment are authorized or obligated by law to close.

In addition, we will pay additional amounts on the notes under the circumstances described under Registration Rights.

Interest payments on the notes will include accrued interest from and including the date of issue or from and including the last date in respect of which interest has been paid, as the case may be, to, but excluding, the interest payment date or the date of maturity, as the case may be.



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Holders may present notes for conversion at the office of the conversion agent and may present notes for exchange or for registration of transfer at the office or agency maintained by us for that purpose in the Borough of Manhattan, The City of New York. We will not charge a service charge for any exchange or registration of transfer of notes. However, we may require payment of a sum sufficient to cover any tax or other governmental charge payable for the registration of transfer or exchange. The trustee is serving as the initial conversion agent, paying agent, registrar and transfer agent for the notes. At any time, we may designate additional paying agents and transfer agents. However, at all times we will be required to maintain a paying agent and transfer agent for the notes in the Borough of Manhattan, The City of New York.

Any monies deposited with the trustee or any paying agent or then held by us in trust for the payment of principal, premium, if any, and interest (including additional amounts, if any) on the notes that remains unclaimed for two years after the date the payments became due and payable, shall, at our request, be repaid to us or released from trust, as applicable, and the holder of the note shall thereafter look, as a general unsecured creditor, only to us for payment thereof.

## **Ranking**

The notes are our direct, unsecured and unsubordinated obligations. The notes rank equally in right of payment with all of our other existing and future unsecured and unsubordinated indebtedness and senior in right of payment to all of our existing and future subordinated debt. In addition, the notes effectively rank junior to all of our existing and future secured indebtedness to the extent of the assets securing such indebtedness. Claims of creditors of our subsidiaries, including trade creditors and secured creditors, will generally have a claim to the assets of our subsidiaries that is superior to the claims of our creditors, including holders of the notes. All debt securities issued under the indenture will rank equally with each other, including other debt securities previously or hereafter issued under the indenture.

As of June 30, 2004, we had outstanding approximately \$2,500,000,000 of unsecured, unsubordinated indebtedness ranking equally in right of payment with the notes, excluding indebtedness of subsidiaries. As of June 30, 2004, we had \$120,000,000 of secured indebtedness. As of June 30, 2004, we did not have any subordinated indebtedness. As of June 30, 2004, our subsidiaries had approximately \$420,000,000 of indebtedness outstanding, all of which ranks structurally senior to the notes. Except as described below under **Certain Covenants** with respect to secured indebtedness, the indenture will not limit the amount of indebtedness we or our subsidiaries may incur.

## **Optional Redemption**

Prior to October 15, 2010, the notes will not be redeemable. On or after October 15, 2010, we may redeem the notes for cash at any time in whole, or from time to time in part, upon not less than 30 nor more than 60 days notice before the redemption date by mail to the trustee, the paying agent and each holder of notes, for a price equal to 100% of the principal amount of the notes to be redeemed plus any accrued and unpaid interest, including additional amounts, if any, to but excluding the redemption date.

If we decide to redeem fewer than all of the outstanding notes, the trustee will select the notes to be redeemed (in principal amounts of \$1,000 or integral multiples thereof) by lot, on a pro rata basis or by another method the trustee considers fair and appropriate.

If the trustee selects a portion of your note for partial redemption and you convert a portion of the same note, the converted portion will be deemed to be from the portion selected for redemption.



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In the event of any redemption in part, we will not be required to:

issue, register the transfer of or exchange any note during a period of 15 days before the mailing of the redemption notice, or

register the transfer of or exchange any note so selected for redemption, in whole or in part, except the unredeemed portion of any note being redeemed in part.

No sinking fund is provided for the notes.

## **Conversion Rights**

Subject to satisfaction of the conditions and during the periods and under the circumstances described below, holders may convert their notes into shares of our common stock initially at a conversion rate of 32.2373 shares of common stock per \$1,000 principal amount of notes (equivalent to an initial conversion price of \$31.02 per share of common stock) prior to the close of business on October 15, 2033. The conversion rate and the equivalent conversion price in effect at any given time are referred to as the applicable conversion rate and the applicable conversion price, respectively, and will be subject to adjustment as described below. A holder may convert fewer than all of such holder's notes so long as the notes converted are an integral multiple of \$1,000 principal amount.

Except as otherwise described below, you will not receive any cash payment representing accrued and unpaid interest upon conversion of a note and we will not adjust the conversion rate to account for the accrued and unpaid interest. Upon conversion we will deliver to you a whole number of shares of our common stock and any cash payment to account for fractional shares. The cash payment for fractional shares will be based on the last reported sale price of our common stock on the trading day immediately prior to the conversion date. Delivery of shares of common stock and the cash payment for fractional shares, if any, will be deemed to satisfy our obligation to pay the principal amount of the notes and to satisfy our obligation to pay accrued and unpaid interest attributable to the period from the most recent interest payment date through the conversion date. As a result, unpaid interest through the conversion date is deemed to be paid in full rather than cancelled, extinguished or forfeited. Notwithstanding conversion of any notes, holders of the notes and any shares of common stock issuable upon conversion thereof that are entitled to the rights under the registration rights agreement will continue to be entitled to receive additional amounts in accordance with the registration rights agreement. See Registration Rights.

If a holder converts notes, we will pay any documentary, stamp or similar issue or transfer tax due on the issue of shares of our common stock upon the conversion, unless the tax is due because the holder requests that the shares be issued or delivered to a person other than the holder, in which case the holder will pay that tax.

If a holder wishes to exercise its conversion right, such holder must deliver an irrevocable conversion notice, together, if the notes are in certificated form, with the certificated security, to the conversion agent along with appropriate endorsements and transfer documents, if required, and pay any transfer or similar tax, if required. The holder may also be required to pay the amount of interest due on the notes on the next succeeding interest payment date as described below. The conversion agent will, on the holder's behalf, convert the notes into shares of our common stock. Holders may obtain copies of the required form of the conversion notice from the conversion agent. A certificate for the number of full shares of our common stock into which any notes are converted, together with any cash payment for fractional shares, will be delivered through the conversion agent as soon as practicable, but no later than the fifth business day following the conversion date.

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If a holder has already delivered a purchase notice as described under either Purchase of Notes by Us at the Option of the Holder or Fundamental Change Requires Purchase of Notes by Us at the Option of the

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Holder with respect to a note, the holder may not surrender that note for conversion until the holder has withdrawn the purchase notice in accordance with the indenture.

Holders of notes at the close of business on a regular record date will receive payment of interest payable on the corresponding interest payment date notwithstanding the conversion of such notes at any time after the close of business on such regular record date. Notes surrendered for conversion by a holder during the period from the close of business on any regular record date to the opening of business on the immediately following interest payment date must be accompanied by payment of an amount equal to the interest that the holder is to receive on the notes; provided, however, that no such payment need be made if (1) we have specified a redemption date that is after a record date and on or prior to the immediately following interest payment date, (2) we have specified a purchase date following a Fundamental Change that is during such period or (3) any overdue interest exists at the time of conversion with respect to such notes to the extent of such overdue interest. Holders of the notes and any shares of common stock issued upon conversion thereof that are entitled to the rights under the registration rights agreement will continue to be entitled to receive additional amounts in accordance with the registration rights agreement.

Holders may surrender their notes for conversion into shares of our common stock prior to stated maturity only under the circumstances described below. For a discussion of the United States federal income tax consequences of a conversion of the notes into our common stock, see Certain United States Federal Income Tax Considerations.

***Conversion Upon Satisfaction of Sale Price Condition.*** A holder may surrender all or any of its notes for conversion into shares of our common stock in any calendar quarter (and only during such calendar quarter), beginning with the quarter ending March 31, 2004, if the last reported sale price of our common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the previous calendar quarter is greater than or equal to 120% of the applicable conversion price per share of our common stock on such last trading day.

***Conversion Rights Based on Notes Trading Price.*** Holders may also surrender the notes for conversion, in whole or in part, during any five consecutive trading day period following any 10 consecutive trading day period in which (1) the trading price of a note for each day of such period was less than 105% of the conversion value, as each term is described herein, and (2) the conversion value for each day of such period was less than 95% of the principal amount of a note.

The trading price of the notes on any date of determination means the average of the secondary market bid quotations per \$1,000 principal amount of notes obtained by the bid solicitation agent for \$10,000,000 principal amount of notes at approximately 4:00 p.m., New York City time, on such determination date from three unaffiliated, nationally recognized securities dealers we select, provided that if:

at least three such bids are not obtained by the bid solicitation agent, or

in our reasonable judgment, the bid quotations are not indicative of the secondary market value of the notes,

then the trading price of the notes on such determination date will equal (a) the then applicable conversion rate of the notes multiplied by (b) the average last reported sale price of our common stock for the five trading days ending on such determination date.

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The last reported sale price of our common stock on any date means the closing sale price per share (or, if no closing sale price is reported, the average of the bid and ask prices or, if more than one in either case, the average of the average bid and the average ask prices) on that date as reported in composite transactions for the principal U.S. securities exchange on which our common stock is traded or, if our common stock is not listed on a U.S. national or regional securities exchange, as reported by the Nasdaq National Market.

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If our common stock is not listed for trading on a U.S. national or regional securities exchange and not reported by the Nasdaq National Market on the relevant date, the last reported sale price will be the last quoted bid price for our common stock in the over-the-counter market on the relevant date as reported by the National Quotation Bureau or similar organization.

If our common stock is not so quoted, the last reported sale price will be the average of the midpoint of the last bid and ask prices for our common stock on the relevant date from each of at least three nationally recognized independent investment banking firms selected by us for this purpose.

The trustee is the initial bid solicitation agent. We may change the bid solicitation agent, but the bid solicitation agent will not be our affiliate. The bid solicitation agent will solicit bids from nationally recognized securities dealers that are believed by us to be willing to bid for the notes.

Conversion value is equal to the product of the last reported sale price for a share of Kodak common stock on a given day multiplied by the then-current conversion rate, which is the number of shares of common stock into which each note is then convertible.

***Conversion Upon Redemption.*** If we issue a notice that we intend to redeem the notes, holders may convert their notes called for redemption, in whole or in part, into our common stock at any time prior to the close of business on the second business day immediately preceding the redemption date, even if the notes are not otherwise convertible at such time.

***Conversion Upon Specified Corporate Transactions.*** If we elect to:

distribute to all holders of our common stock rights entitling them to purchase, for a period expiring within 60 days after the date of the distribution, shares of our common stock at less than the last reported sale price of a share of our common stock on the trading day immediately preceding the declaration date of the distribution, or

distribute to all holders of our common stock our assets, debt securities or rights to purchase our securities, which distribution has a per share value as determined by our board of directors exceeding 5% of the last reported sale price of a share of our common stock on the trading day immediately preceding the declaration date for such distribution,

we must notify the holders of the notes at least 20 business days prior to the ex-dividend date for such distribution. Once we have given such notice, holders may surrender their notes for conversion, in whole or in part, at any time until the earlier of the close of business on the business day immediately prior to the ex-dividend date and the date of our announcement that such distribution will not take place, even if the notes are not otherwise convertible at such time; provided, however, that a holder may not exercise this right to convert if the holder may participate in the distribution without conversion. The ex-dividend date is the first date upon which a sale of the common stock does not automatically transfer the right to receive the relevant dividend from the seller of the common stock to its buyer.

In addition, if we are party to a consolidation, merger or binding share exchange pursuant to which our common stock would be converted into cash, property or securities, a holder may surrender notes for conversion at any time from and after the date which is 15 days prior to the anticipated effective date of the transaction until 15 days after the actual effective date of such transaction (or the close of business of the business day immediately preceding the date on which we announce that the transaction will not take place). If we engage in certain reclassifications of our common stock or are a party to a consolidation, merger, binding share exchange or transfer of all or substantially all of

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our assets pursuant to which our common stock is converted into cash, securities or other property, then at the effective time of the transaction, the right to convert a note into our common stock will be changed into a right to convert a note into the kind and amount of cash, securities or other property which the holder would have received if the holder had converted its notes immediately prior to the

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transaction. If we engage in any transaction described in the preceding sentence, the conversion rate will not be adjusted. If the transaction also constitutes a Fundamental Change, as defined below, a holder may require us to purchase all or a portion of its notes as described below under Fundamental Change Requires Purchase of Notes by Us at the Option of the Holder.

***Conversion Upon Credit Ratings Event.*** A holder may convert notes, in whole or in part, into shares of our common stock during any period in which the credit rating assigned to the notes by either Moody's Investor Services, Inc. or Standard & Poor's Ratings Services is lower than Ba2 or BB, respectively, or the notes are no longer rated by at least one of these ratings services or their successors.

***Conversion Rate Adjustments.*** The conversion rate will be subject to adjustment, without duplication, upon the occurrence of any of the following events:

- (1) the payment of dividends and other distributions on our common stock payable exclusively in shares of our common stock,
  
- (2) the issuance to all holders of our common stock of rights or warrants that allow the holders to purchase shares of our common stock for a period expiring within 60 days from the date of issuance of the rights or warrants at less than the market price on the record date for the determination of shareholders entitled to receive the rights or warrants,
  
- (3) subdivisions or combinations of our common stock,
  
- (4) distributions to all holders of our common stock of our assets, debt securities, shares of our capital stock or rights or warrants to purchase our securities (excluding (A) any dividend, distribution or issuance covered by clause (1) or (2) above and (B) any dividend or distribution paid exclusively in cash), in which event the conversion rate will be adjusted by multiplying:

the conversion rate by

a fraction, the numerator of which is the current market price of a share of our common stock and the denominator of which is the current market price of a share of our common stock minus the fair market value, as determined by our board of directors, except as described in the following paragraph, of the portion of those assets, debt securities, shares of capital stock or rights or warrants so distributed applicable to one share of common stock.

In the event that we make a distribution to all holders of our common stock consisting of capital stock of, or similar equity interests in, a subsidiary or other business unit of ours, the conversion rate will be adjusted based on the market value of the securities so distributed relative to the market value of our common stock, in each case based on the average of the closing sales prices of those securities for each of the 10 trading days commencing on and including the fifth trading day after the date on which ex-dividend trading commences for such dividend or distribution on the New York Stock Exchange or such other national or regional exchange or market on which the securities are then listed or quoted.

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(5) distributions by us consisting exclusively of cash to all holders of our common stock, excluding any cash dividend on our common stock to the extent that the aggregate cash dividend per share of our common stock in any semi-annual period does not exceed \$0.25 (the dividend threshold amount); the dividend threshold amount is subject to adjustment on the same basis as the conversion rate, provided that no adjustment will be made to the dividend threshold amount for any adjustment made to the conversion rate pursuant to this clause (5), in which event the conversion rate will be adjusted by multiplying:

the conversion rate by

a fraction, the numerator of which will be the current market price of a share of our common stock and the denominator of which will be the current market price of a share of our common stock minus the amount per share of such dividend increase (as determined below) or distribution.

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If an adjustment is required to be made under this clause (5) as a result of a cash dividend in any six-month period that exceeds the dividend threshold amount, the adjustment would be based upon the amount by which the distribution exceeds the dividend threshold amount (the dividend increase). If an adjustment is otherwise required to be made under this clause (5), the adjustment would be based upon the full amount of the distribution.

(6) a payment by us or one of our subsidiaries in respect of a tender offer or exchange offer for our common stock to the extent that the cash and value of any other consideration included in the payment per share of our common stock exceeds the last reported sale price of our common stock on the trading day next succeeding the last date on which tenders or exchanges may be made pursuant to such tender or exchange offer, in which event the conversion rate will be adjusted by multiplying:

the conversion rate by

a fraction, the numerator of which will be the sum of (x) the fair market value, as determined by our board of directors, of the aggregate consideration payable for all shares of our common stock we purchase in such tender or exchange offer and (y) the product of the number of shares of our common stock outstanding less any such purchased shares and the last reported sale price of our common stock on the trading day next succeeding the expiration of the tender or exchange offer and the denominator of which will be the product of the number of shares of our common stock outstanding, including any such purchased shares, and the last reported sale price of a share of our common stock on the trading day next succeeding the expiration of the tender or exchange offer.

Notwithstanding the foregoing, in the event of an adjustment pursuant to clause (5) or (6), or clauses (5) and (6), in no event will the conversion rate exceed 47.3934, subject to adjustment pursuant to clauses (1), (2), (3) and (4) above.

To the extent that we have a rights plan in effect upon conversion of the notes into shares of our common stock, the holder will receive, in addition to the shares of our common stock, the rights under the rights plan pertaining to such shares of our common stock unless the rights have separated from the common stock prior to the time of conversion, in which case the conversion rate will be adjusted at the time of separation as if we distributed to all holders of our common stock our assets, debt securities, shares of our capital stock or rights or warrants to purchase our securities as described in clause (4) above.

In addition to these adjustments, we may increase the conversion rate as our board of directors considers advisable to avoid or diminish any income tax to holders of our common stock or rights to purchase our common stock resulting from any dividend or distribution of stock (or rights to acquire stock) or from any event treated as such for income tax purposes. We may also, from time to time, to the extent permitted by applicable law, increase the conversion rate by any amount for any period of at least 20 business days if our board of directors has determined that such increase would be in our best interests. If our board of directors makes such a determination, it will be conclusive. We will give holders of notes at least 15 days notice of such an increase in the conversion rate.

Certain adjustments to, or failures to adjust, the conversion price of the notes may cause holders of notes or common stock to be treated for United States federal income tax purposes as having received a taxable distribution under the United States federal income tax laws. See Certain United States Federal Income Tax Considerations.

As used in this prospectus, market price means the average of the last reported sale prices per share of our common stock for the 20 consecutive trading day period ending on the applicable date of determination (if the applicable date of determination is a trading day or, if not, then on the

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last trading day prior to the applicable date of determination), appropriately adjusted to take into account the occurrence, during the period commencing on the first of the trading days during the 20 consecutive trading day period and ending on the applicable date of determination, of any event that would result in an adjustment of the conversion rate under the indenture.

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No adjustment to the conversion rate or the ability of a holder of a note to convert will be made if the holder will otherwise participate in the distribution without conversion or in certain other cases.

The applicable conversion rate will not be adjusted:

upon the issuance of any shares of our common stock pursuant to any present or future plan providing for the reinvestment of dividends or interest payable on our securities and the investment of additional optional amounts in shares of our common stock under any plan,

upon the issuance of any shares of our common stock or options or rights to purchase those shares pursuant to any present or future employee, director or consultant benefit plan or program of or assumed by us or any of our subsidiaries,

upon the issuance of any shares of our common stock pursuant to any option, warrant, right or exercisable, exchangeable or convertible security not described in the preceding bullet and outstanding as of the date the notes were first issued,

for a change in the par value of the common stock, or

for accrued and unpaid interest, including additional amounts, if any.

No adjustment in the applicable conversion rate will be required unless the adjustment would require an increase or decrease of at least 1% of the applicable conversion rate. If the adjustment is not made because the adjustment does not change the applicable conversion rate by more than 1%, then the adjustment that is not made will be carried forward and taken into account in any future adjustment.

## **Purchase of Notes by Us at the Option of the Holder**

Holders have the right to require us to purchase all or any portion of their notes on October 15, 2010, October 15, 2013, October 15, 2018, October 15, 2023 and October 15, 2028 (each, a purchase date). Any note purchased by us on a purchase date will be paid for in cash. We will be required to purchase any outstanding notes for which a holder delivers a written purchase notice to the paying agent. This purchase notice must be delivered during the period beginning at any time from the opening of business on the date that is 20 business days prior to the relevant purchase date until the close of business on the business day prior to the purchase date. If the purchase notice is given and withdrawn during such period, we will not be obligated to purchase the related notes. Our purchase obligation will be subject to some additional conditions as described in the indenture. Also, as described in the Risk Factors section of this prospectus under the caption Risks Related to the Notes We may not have the ability to raise the funds necessary to purchase the notes upon a Fundamental Change or other purchase date, as required by the indenture governing the notes, we may not have funds sufficient to purchase the notes when we are required to do so. Our failure to purchase the notes when we are required to do so will constitute an Event of Default under the indenture with respect to the notes.

The purchase price payable will be equal to 100% of the principal amount of the notes to be purchased plus any accrued and unpaid interest, including additional amounts, if any, to, but excluding, such purchase date. For a discussion of the United States federal income tax treatment of a holder receiving cash, see Certain United States Federal Income Tax Considerations.

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On or before the 20th business day prior to each purchase date, we will provide to the trustee, the paying agent and to all holders of the notes at their addresses shown in the register of the registrar, and to beneficial owners as required by applicable law, a notice stating, among other things:

the purchase price,

the name and address of the paying agent and the conversion agent, and

the procedures that holders must follow to require us to purchase their notes.

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In connection with providing such notice, we will issue a press release and publish a notice containing this information in a newspaper of general circulation in The City of New York or publish the information on our web site or through such other public medium as we may use at that time.

A notice from you electing to require us to purchase your notes must state:

if certificated notes have been issued, the certificate numbers of the notes to be delivered for purchase,

the portion of the principal amount of notes to be purchased, in integral multiples of \$1,000, and

that the notes are to be purchased by us pursuant to the applicable provisions of the notes and the indenture.

If the notes are not in certificated form, your withdrawal notice must comply with appropriate DTC procedures.

No notes may be purchased at the option of holders if there has occurred and is continuing an Event of Default other than an Event of Default that is cured by the payment of the purchase price of the notes.

You may withdraw any purchase notice in whole or in part by a written notice of withdrawal delivered to the paying agent prior to the close of business on the business day prior to the purchase date. The notice of withdrawal must state:

the principal amount of the withdrawn notes,

if certificated notes have been issued, the certificate numbers of the withdrawn notes, and

the principal amount, if any, which remains subject to the purchase notice.

If the notes are not in certificated form, your notice must comply with appropriate DTC procedures.

You must either effect book-entry transfer or deliver the notes, together with necessary endorsements, to the office of the paying agent after delivery of the purchase notice to receive payment of the purchase price. You will receive payment promptly following the later of the purchase date or the time of book-entry transfer or the delivery of the notes. If the paying agent holds money or securities sufficient to pay the purchase price of the notes on the business day following the purchase date, then:

the notes will cease to be outstanding and interest will cease to accrue (whether or not book-entry transfer of the notes is made or whether or not the note is delivered to the paying agent), and

all other rights of the holder will terminate (other than the right to receive the purchase price upon delivery or transfer of the notes).

**Fundamental Change Requires Purchase of Notes by Us at the Option of the Holder**

If a Fundamental Change (as defined below in this section) occurs at any time prior to maturity, holders will have the right, at their option, to require us to purchase for cash all or any portion of their notes that is equal to \$1,000 or an integral multiple of \$1,000. The cash price we are required to pay is equal to 100% of the principal amount of the notes to be purchased plus accrued and unpaid interest, including additional amounts, if any, to, but excluding, the Fundamental Change purchase date. For a discussion of the United States federal income tax treatment of a holder receiving cash upon requiring us to purchase the notes upon a Fundamental Change, see Certain United States Federal Income Tax Considerations.

A Fundamental Change will be deemed to have occurred at the time after the notes are originally issued that any of the following occurs:

(1) our common stock or other common stock into which the notes are convertible is neither listed for trading on a United States national securities exchange nor approved for trading on the Nasdaq National Market or another established automated over-the-counter trading market in the United States,

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(2) a person or group within the meaning of Section 13(d) of the Securities Exchange Act of 1934 other than us, our subsidiaries or our or their employee benefit plans, files a Schedule TO or any schedule, form or report under the Securities Exchange Act of 1934 disclosing that such person or group has become the direct or indirect ultimate beneficial owner, as defined in Rule 13d-3 under the Securities Exchange Act of 1934, of our common equity representing more than 50% of the voting power of our common equity entitled to vote generally in the election of directors,

(3) consummation of any share exchange, consolidation or merger of us pursuant to which our common stock will be converted into cash, securities or other property or any sale, lease or other transfer in one transaction or a series of transactions of all or substantially all of the consolidated assets of us and our subsidiaries, taken as a whole, to any person other than us or one or more of our subsidiaries; provided, however, that a transaction where the holders of our common equity immediately prior to such transaction have, directly or indirectly, more than 50% of the aggregate voting power of all classes of common equity of the continuing or surviving corporation or transferee entitled to vote generally in the election of directors immediately after such event shall not be a Fundamental Change, or

(4) continuing directors (as defined below in this section) cease to constitute at least a majority of our board of directors.

A Fundamental Change will not be deemed to have occurred in respect of any of the foregoing, however, if either:

(1) the last reported sale price of our common stock for any five trading days within the 10 consecutive trading days ending immediately before the later of the Fundamental Change or the public announcement thereof, equals or exceeds 105% of the conversion price of the notes in effect immediately before the Fundamental Change or the public announcement thereof, or

(2) at least 90% of the consideration, excluding cash payments for fractional shares, in the transaction or transactions constituting the Fundamental Change consists of shares of capital stock traded on a national securities exchange or quoted on the Nasdaq National Market or which will be so traded or quoted when issued or exchanged in connection with a Fundamental Change (these securities being referred to as publicly traded securities ) and as a result of this transaction or transactions the notes become convertible into such publicly traded securities, excluding cash payments for fractional shares.

For purposes of the above paragraph, the term capital stock of any person means any and all shares (including ordinary shares or American Depositary Shares), interests, participations or other equivalents however designated of corporate stock or other equity participations, including partnership interests, whether general or limited, of such person and any rights (other than debt securities convertible or exchangeable into an equity interest), warrants or options to acquire an equity interest in such person.

Continuing director means a director who either was a member of our board of directors on October 7, 2003 or who becomes a member of our board of directors subsequent to that date and whose appointment, election or nomination for election by our stockholders is duly approved by a majority of the continuing directors on our board of directors at the time of such approval, either by a specific vote or by approval of the proxy statement issued by us on behalf of the board of directors in which such individual is named as nominee for director.

On or before the 30th day after the occurrence of a Fundamental Change, we will provide to all holders of the notes and the trustee and paying agent a notice of the occurrence of the Fundamental Change and of the resulting purchase right. Such notice shall state, among other things:

the events causing a Fundamental Change,

the date of the Fundamental Change,

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the last date on which a holder may exercise the purchase right,

the Fundamental Change purchase price,

the Fundamental Change purchase date,

the name and address of the paying agent and the conversion agent,

the conversion rate and any adjustments to the conversion rate,

the notes with respect to which a Fundamental Change purchase notice has been given by the holder may be converted only if the holder withdraws the Fundamental Change purchase notice in accordance with the terms of the indenture, and

the procedures that holders must follow to require us to purchase their notes.

Simultaneously with providing such notice, we will issue a press release and publish a notice containing this information in a newspaper of general circulation in The City of New York or publish the information on our website or through such other public medium as we may use at that time.

To exercise the purchase right, holders must deliver, on or before the 35th day after the date of our notice of a Fundamental Change, subject to extension to comply with applicable law, the notes to be purchased, duly endorsed for transfer, together with a written purchase notice and the form entitled *Form of Fundamental Change Purchase Notice* duly completed, to the paying agent. Their purchase notice must state:

if certificated, the certificate numbers of their notes to be delivered for purchase,

the portion of the principal amount of notes to be purchased, which must be \$1,000 or an integral multiple thereof, and

that the notes are to be purchased by us pursuant to the applicable provisions of the notes and the indenture.

If the notes are not in certificated form, their withdrawal notice must comply with appropriate DTC procedures.

Holders may withdraw any purchase notice (in whole or in part) by a written notice of withdrawal delivered to the paying agent prior to the close of business on the business day prior to the Fundamental Change purchase date. The notice of withdrawal shall state:

the principal amount of the withdrawn notes,

if certificated notes have been issued, the certificate numbers of the withdrawn notes, and

the principal amount, if any, which remains subject to the purchase notice.

If the notes are not in certificated form, their notice must comply with appropriate DTC procedures.

We will be required to purchase the notes no later than 35 business days after the date of our notice of the occurrence of the relevant Fundamental Change subject to extension to comply with applicable law. Holders will receive payment of the Fundamental Change purchase price promptly following the later of the Fundamental Change purchase date or the time of book-entry transfer or the delivery of the notes. If the paying agent holds money or securities sufficient to pay the Fundamental Change purchase price of the notes on the business day following the Fundamental Change purchase date, then:

the notes will cease to be outstanding and interest, including additional amounts, if any, will cease to accrue (whether or not book-entry transfer of the notes is made or whether or not the note is delivered to the paying agent), and

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all other rights of the holder will terminate (other than the right to receive the Fundamental Change purchase price upon delivery or transfer of the notes).

The rights of the holders to require us to purchase their notes upon a Fundamental Change could discourage a potential acquirer of us. The Fundamental Change purchase feature, however, is not the result of management's knowledge of any specific effort to accumulate shares of our common stock, to obtain control of us by any means or part of a plan by management to adopt a series of anti-takeover provisions. Instead, the Fundamental Change purchase feature is a standard term contained in other offerings of debt securities similar to the notes that have been marketed by certain of the initial purchasers. The terms of the Fundamental Change purchase feature resulted from negotiations between the initial purchasers and us.

The term Fundamental Change is limited to specified transactions and may not include other events that might adversely affect our financial condition. In addition, the requirement that we offer to purchase the notes upon a Fundamental Change may not protect holders in the event of a highly leveraged transaction, reorganization, merger or similar transaction involving us.

No notes may be purchased at the option of holders upon a Fundamental Change if there has occurred and is continuing an Event of Default other than an Event of Default that is cured by the payment of the Fundamental Change purchase price of the notes.

The definition of Fundamental Change includes a phrase relating to the conveyance, transfer, sale, lease or disposition of all or substantially all of our consolidated assets. There is no precise, established definition of the phrase substantially all under applicable law. Accordingly, the ability of a holder of the notes to require us to purchase its notes as a result of the conveyance, transfer, sale, lease or other disposition of less than all of our assets may be uncertain.

If a Fundamental Change were to occur, we may not have enough funds to pay the Fundamental Change purchase price. See Risk Factors under the caption Risks Related to the Notes. We may not have the ability to raise the funds necessary to purchase the notes upon a Fundamental Change or other purchase date, as required by the indenture governing the notes. Our failure to purchase the notes when required following a Fundamental Change will constitute an Event of Default under the indenture with respect to the notes. In addition, we have, and may in the future incur, other indebtedness with similar change in control provisions permitting holders to accelerate or to require us to purchase our indebtedness upon the occurrence of similar events or on some specific dates.

## **Certain Covenants**

**Limitations on Liens.** We covenant in the indenture that we will not, nor will we permit any Restricted Subsidiary to, issue, assume or guarantee any debt for money borrowed secured by a mortgage, security interest, pledge, lien or other encumbrance (including mortgages) upon any Principal Property of ours or any Restricted Subsidiary or upon any shares of stock or indebtedness of any Restricted Subsidiary without equally and ratably securing the notes. The foregoing restriction, however, will not apply to debt secured by:

mortgages on property, shares of stock or indebtedness of any corporation existing at the time it becomes a Restricted Subsidiary,

mortgages existing at the time of acquisition of property by us or a Restricted Subsidiary or mortgages to secure the payment of all or any part of the purchase price of, or improvements on, property upon the acquisition thereof,

mortgages to secure indebtedness of a Restricted Subsidiary to us or another Restricted Subsidiary,

mortgages existing at the date of the indenture,

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mortgages on property of a corporation existing at the time it is merged into or consolidated with us or a Restricted Subsidiary,

certain mortgages in favor of governmental entities, or

extensions, renewals or replacements (or successive extensions, renewals or replacements) of any mortgage referred to above.

We and our Restricted Subsidiaries will be permitted to issue, assume or guarantee debt for money borrowed secured by a mortgage without equally and ratably securing the notes if, after giving effect thereto, the aggregate amount of all debt so secured by mortgages (other than the mortgages listed above) together with the Attributable Debt of any lease arrangements described in the third bullet under **Limitation on Sale and Leaseback Transactions** does not exceed 10% of our Consolidated Net Tangible Assets.

***Limitation on Sale and Lease-Back Transactions.*** We covenant in the indenture that we will not, nor will we permit any Restricted Subsidiary to, enter into any arrangement with any person that provides for the leasing to us or any Restricted Subsidiary of any Principal Property which has been or is to be sold or transferred by us or such Restricted Subsidiary to such person, unless:

the lease is for a term of not more than three years;

the lease is between us and a Restricted Subsidiary or between Restricted Subsidiaries;

either we or such Restricted Subsidiary would be entitled pursuant to the covenant described under **Limitations on Liens** to incur indebtedness secured by a mortgage on the Principal Property at least equal in amount to the Attributable Debt in respect of such arrangement without equally and ratably securing the outstanding debt securities; or

we shall apply an amount equal to the greater of the net proceeds of such sale or the Attributable Debt in respect of such arrangement within 120 days after the effective date of the arrangement to the retirement of indebtedness that matures at or is extendable or renewable at our option to a date more than twelve months after the creation of such indebtedness.

***Certain Definitions.*** The term **Attributable Debt** means, at the time of determination, the lesser of:

the fair value of such property (as determined by our board of directors); or

the present value (discounted at the annual rate of 9%, compounded semi-annually) of the obligation of the lessee for net rental payments during the remaining term of the lease (including any period for which such lease has been extended).

The term **Consolidated Net Tangible Assets** means as of any particular time the aggregate amount of assets (less applicable reserves and other properly deductible items) after deducting therefrom:

all current liabilities except for

notes and loans payable;

current maturities of long-term debt; and

current maturities of obligations under capital leases; and

all goodwill, tradenames, trademarks, patents, unamortized debt discount and expenses (to the extent included in said aggregate amount of assets) and other like intangibles, all as set forth on our most recent consolidated balance sheet and computed in accordance with generally accepted accounting principles.

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The term **Principal Property** means any manufacturing plant or manufacturing facility which is:

owned by us or any Restricted Subsidiary;

located within the continental United States; and

in the opinion of our board of directors materially important to the total business conducted by us and our Restricted Subsidiaries, taken as a whole.

The term **Restricted Subsidiary** means any Subsidiary:

substantially all the property of which is located within the continental United States; and

which owns any Principal Property;

provided, however, that the term **Restricted Subsidiary** shall not include any Subsidiary which is principally engaged in leasing or in financing receivables, or which is principally engaged in financing our operations outside the continental United States.

The term **Subsidiary** means any corporation more than 50% of the outstanding stock of which that ordinarily has voting power for the election of directors is owned, directly or indirectly, by us or by one or more other Subsidiaries, or by us and one or more other Subsidiaries.

**Consolidation, Merger and Sale of Assets**

The indenture generally permits us to consolidate with or merge with or into any other corporation, or to convey, transfer or lease our properties substantially as an entirety to, any person, or to acquire the properties and assets of another person substantially as an entirety, if:

either (1) we are the survivor of the merger or (2) the entity that survives the merger or is formed by the consolidation or acquires our assets is a corporation organized and existing under the laws of the United States or any State or the District of Columbia and assumes all of our obligations and covenants under the indenture, including payment obligations;

immediately after the transaction, no Event of Default exists and no event exists which, with the giving of notice or passage of time or both, would be an Event of Default; and

as a result of the transaction any of our properties or assets would become subject to a mortgage or other encumbrance not permitted by the indenture, we or such successor corporation or person, as the case may be, takes such steps as shall be necessary to secure the debt securities equally and ratably with or prior to all indebtedness secured thereby.

However, certain of these transactions occurring prior to maturity could constitute a Fundamental Change (as defined above) permitting each holder to require us to purchase the notes of such holder as described above.

**Events of Default**

If an Event of Default with respect to any notes occurs and is continuing, the trustee or the holders of at least 25% in aggregate principal amount of the notes may declare, by notice as provided in the indenture, the principal amount of all of the notes due and payable immediately, except that if an Event of Default occurs due to bankruptcy, insolvency or reorganization as provided in the indenture, then the principal of and accrued interest on the notes shall become due and payable immediately without any act by the trustee or any holder of notes. If all Events of Default with respect to the notes have been cured or waived, and all amounts due otherwise than because of the acceleration have been paid or deposited with the trustee, the holders of a majority in aggregate principal amount of the notes may rescind the acceleration and its consequences.

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The holders of a majority in aggregate principal amount of the notes may waive any past default with respect to the notes, and any Event of Default arising from a past default, except in the case of:

a default in the payment of the principal of or any premium or interest on any note; or

a default in respect of a covenant or provision that may not be amended or modified without the consent of the holder of each note.

Event of Default means the occurrence and continuance of any of the following events with respect to the notes:

failure to pay when due any interest, including additional amounts, if any, on the notes, continued for 30 days;

failure to pay when due the principal of and any premium on any note;

failure to perform when required any other covenant that applies to the notes and continuance of that failure for 60 days after written notice from the trustee or holders of 25% of the outstanding principal amount of the notes as provided in the indenture;

failure to pay when due, or acceleration, of any of our indebtedness in a principal amount in excess of \$10,000,000 if the indebtedness is not discharged, or the acceleration is not rescinded or annulled, within 10 days after written notice from the trustee or holders of 25% of the outstanding principal amount of the notes as provided in the indenture; and

certain events in bankruptcy, insolvency or reorganization.

The trustee is required, within 90 days after the occurrence of any continuing default that it knows of, to notify the holders of the notes of the default. However, unless the default is a payment default, the trustee may withhold the default notice if it in good faith decides that withholding the notice is in the holders' interests. In addition, in the case of any default referred to in the third event listed in the previous paragraph, the trustee will not give notice to holders until at least 30 days after the default occurs.

Subject to its duty to act with the required standard of care in the case of a default, the trustee is not obligated to exercise any of its rights or powers under the indenture at the request, order or direction of any holders of notes unless the holders offer the trustee reasonable indemnification. If reasonable indemnification is provided, then, subject to other limitations, the holders of a majority in aggregate principal amount of the notes may direct the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or power of the trustee, with respect to the notes.

No holder of a note may institute any action against us under the indenture, except actions for payment of overdue principal of, premium, if any, or interest on that note, unless:

the holder has previously given written notice to the trustee of a continuing Event of Default with respect to the notes;

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the holders of at least 25% in aggregate principal amount of the notes have previously made a written request of the trustee to institute that action and offered the trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with the request;

the trustee has not instituted the action within 60 days of the notice, request and offer of indemnity; and

the trustee has not received any inconsistent written request within that 60 day period from the holders of a majority in aggregate principal amount of the notes.

The indenture requires us to deliver to the trustee annual statements as to our compliance with all conditions and covenants under the indenture.

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A default in the payment of the notes, or a default with respect to the notes that causes them to be accelerated, may give rise to a cross-default under our credit facilities or other indebtedness.

## **Satisfaction and Discharge**

Except as described below we will be discharged from our obligations in respect of the notes on the 91st day after we deposit in trust with the trustee money and/or Government Obligations sufficient to pay the principal of, and any premium and interest on, the notes on the dates the payments are due if the following conditions have been satisfied:

the deposit will not result in a breach of or constitute a default under the indenture or any other agreement to which we are a party;

no Event of Default or event which, after notice or lapse of time or both, would become an Event of Default shall have occurred and be continuing; and

we have received from, or there has been published by, the United States Internal Revenue Service a ruling to the effect that the discharge will not cause the holders of the notes to recognize income, gain or loss for U.S. federal income tax purposes.

We would not, however, be discharged from the following obligations:

to register the transfer or exchange of notes;

to replace stolen, lost or mutilated notes;

to maintain offices and paying agencies; and

to hold moneys for payment in trust.

In addition to the above provisions, we will be released from any further obligations under the indenture with respect to the notes, except for obligations to register the transfer or exchange of notes and certain obligations to the trustee, when certain conditions are satisfied including that:

all notes either have been delivered to the trustee for cancellation or are due, or are to be called for redemption, within one year; and

with respect to all notes not previously delivered to the trustee for cancellation, we have deposited in trust with the trustee money sufficient to pay the principal of, and any premium and interest on, those notes on the dates the payments are due.

## **Legal Defeasance and Covenant Defeasance**

The notes are not subject to any defeasance provisions under the indenture.

**Modification and Waiver**

The indenture may be modified or amended with the consent of the holders of at least 66 <sup>2</sup>/<sub>3</sub>% in aggregate principal amount of the outstanding debt securities of each series affected by the modification or amendment. However, unless each holder to be affected by the proposed change consents, no modification or amendment may:

change the Stated Maturity of the principal of, or any installment of principal of or interest on, any outstanding debt security;

reduce the principal amount of, or the rate or amount of interest on, or any premium payable with respect to, any debt security;

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reduce the amount of principal of an Original Issue Discount Security that would be due and payable upon acceleration of the Original Issue Discount Security;

change the places or currency of payment of the principal of, or any premium or interest on, any debt security;

impair the right to sue for the enforcement of any payment of principal of, or any premium or interest on, any debt security on or after the date the payment is due;

reduce the percentage in aggregate principal amount of outstanding debt securities of any series necessary to:

    modify or amend the indenture with respect to that series,

    waive any past default or compliance with certain restrictive provisions; or

otherwise modify the provisions of the indenture concerning modification or amendment or concerning waiver of compliance with certain provisions of, or certain defaults and their consequences under, the indenture, except to:

    increase the percentage of outstanding debt securities necessary to modify or amend the indenture or to give the waiver, or

    provide that certain other provisions of the indenture cannot be modified or waived without the consent of the holder of each outstanding debt security affected by the modification or waiver.

The holders of at least 66<sup>2</sup>/<sub>3</sub>% in aggregate principal amount of the outstanding notes may waive our obligation to comply with certain restrictive provisions applicable to the notes.

The indenture may be modified or amended without the consent of any holder of outstanding debt securities for any of the following purposes:

    to evidence that another corporation is our successor and has assumed our obligations with respect to the indenture and the debt securities;

    to add to our covenants for the benefit of the holders of all or any series of debt securities or to surrender any of our rights or powers under the indenture;

    to add any Events of Default to all or any series of debt securities;

    to add to or change any provision of the indenture so as to permit or facilitate the issuance of debt securities in bearer form;

    to change or eliminate any provision of the indenture in respect of one or more series of debt securities, so long as there is no outstanding debt security of any series entitled to the benefit of the provision;

to secure the debt securities;

to establish the form or terms of the debt securities of any series;

to provide for the appointment of a successor trustee with respect to the debt securities of one or more series and to add to or change any of the provisions to facilitate the administration of the trusts under the indenture by more than one trustee; or

to cure any ambiguity or inconsistency in the indenture or to make any other provisions with respect to matters or questions arising under the indenture, so long as the action does not adversely affect the interests of the holders of the debt securities of any series in any material respect.

### **Book-Entry System**

The notes are represented by global securities. Each global security was deposited with, or on behalf of, DTC and registered in the name of a nominee of DTC. Except under circumstances described below, the notes will not be issued in definitive form.

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Ownership of beneficial interests in a global security is limited to persons that have accounts with DTC or its nominee ( participants ) or persons that may hold interests through participants. Ownership of beneficial interests in a global security are shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of persons other than participants). The laws of some states require that some purchasers of securities take physical delivery of the securities in definitive form. Such limits and such laws may impair the ability to transfer beneficial interests in a global security.

So long as DTC or its nominee is the registered owner of a global security, DTC or its nominee, as the case may be, will be considered the sole owner or holder of the notes represented by that global security for all purposes under the indenture. Except as provided below, owners of beneficial interests in a global security will not be entitled to have notes represented by that global security registered in their names, will not receive or be entitled to receive physical delivery of notes in definitive form and will not be considered the owners or holders thereof under the indenture. Principal and interest payments, if any, on notes registered in the name of DTC or its nominee will be made to DTC or its nominee, as the case may be, as the registered owner of the relevant global security. Neither we, the trustee, any paying agent or the security registrar for the notes have any responsibility or liability for any aspect of the records relating to nor payments made on account of beneficial interests in a global security or for maintaining, supervising or reviewing any records relating to such beneficial interests.

We expect that DTC or its nominee, upon receipt of any payment of principal or interest will credit immediately participants accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant global security as shown on the records of DTC or its nominee. We also expect that payments by participants to owners of beneficial interests in a global security held through these participants will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in street name, and will be the responsibility of the participants.

Beneficial owners of interests in global securities who desire to convert their interests into common stock should contact their brokers or other participants or indirect participants through whom they hold such beneficial interests to obtain information on procedures, including proper forms and cut-off times, for submitting requests for conversion.

Unless and until they are exchanged in whole or in part for notes in definitive form, the global securities may not be transferred except as a whole by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC. Transfers between participants in DTC will be effected in the ordinary way in accordance with DTC rules and will be settled in same-day funds.

If DTC at any time is unwilling or unable to continue as a depository, defaults in the performance of its duties as depository or ceases to be a clearing agency registered under the Securities Exchange Act of 1934 or other applicable statute or regulation, and a successor depository is not appointed by us within 90 days, we will issue notes in definitive form in exchange for the global securities relating to the notes. In addition, we may at any time and in our sole discretion determine not to have the notes or portions of the notes represented by one or more global securities and, in that event, will issue individual notes in exchange for the global security or securities representing the notes. Further, if we so specify with respect to any notes, an owner of a beneficial interest in a global security representing the notes may, on terms acceptable to us and the depository for the global security, receive individual notes in exchange for the beneficial interest. In any such instance, an owner of a beneficial interest in a global security will be entitled to physical delivery in definitive form of notes represented by the global security equal in principal amount to the beneficial interest, and to have the notes registered in its name. Notes so issued in definitive form will be issued as registered notes in denominations of \$1,000 and integral multiples thereof, unless otherwise specified by us.

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### **The Trustee**

The Bank of New York is the initial trustee, conversion agent, paying agent, transfer agent and registrar with respect to the notes. We and certain of our affiliates maintain banking and borrowing relations with The Bank of New York. The address of the trustee is 101 Barclay Street, New York, New York 10286.

### **Governing Law**

The indenture and the notes are governed by, and will be construed in accordance with, the laws of the State of New York of the United States of America.

### **Registration Rights**

On October 10, 2003, we entered into a registration rights agreement with the initial purchasers of the notes for the benefit of such initial purchasers and qualified institutional buyers that purchase the notes and the common stock issuable upon conversion thereof in connection with the private offering. Under this agreement, we agreed to file, on or prior to the 90th day after the date of original issuance of the notes, a shelf registration statement with the SEC covering resales of the notes and the common stock issuable upon conversion thereof. We have timely filed with the SEC a registration statement, of which this prospectus is a part, to satisfy the filing obligation under the registration rights agreement. Under the registration rights agreement, we also agreed to, at our cost, use our reasonable best efforts to:

cause the shelf registration statement to be declared effective under the Securities Act of 1933 no later than 180 days after the earliest date of original issuance of the notes, and

keep the shelf registration statement effective after its effective date until the earliest to occur of the following:

the sale pursuant to the registration statement of all of the notes and the common stock issuable upon conversion of the notes registered thereunder,

the date on which all registrable securities, as defined below, have been sold pursuant to Rule 144 under the Securities Act of 1933,

such time as there are no longer any registrable securities outstanding, and

October 10, 2005, which is the second anniversary of the date of original issuance of the notes.

The registration rights agreement defines registrable securities as the notes and the common stock issuable upon conversion of the notes, except that notes and common stock issuable upon conversion of the notes shall cease to be registrable securities when (a) they have been disposed of pursuant to an effective registration statement, (b) they have been distributed to the public pursuant to Rule 144 under the Securities Act of 1933

or may be sold pursuant to Rule 144(k) under the Securities Act of 1933 or (c) they cease to be outstanding. **Accordingly, upon a sale or other transfer of any notes, or common stock issued upon conversion of the notes, pursuant to the registration statement of which this prospectus is a part, such notes or common stock, as the case may be, shall cease to be registrable securities and the holders thereof will not be entitled to require us to register those notes or common stock, as the case may be, under the Securities Act of 1933. In addition, our obligation to pay additional amounts, if any, in respect of any notes or common stock issuable upon conversion of the notes will terminate when such notes or common stock, as the case may be, cease to be registrable securities.**

We are permitted to suspend the effectiveness of the shelf registration statement or the use of this prospectus during specified periods (not to exceed 45 consecutive days or an aggregate of 90 days in any consecutive 12-month period) in specified circumstances, including circumstances relating to pending corporate developments, without being required to pay additional amounts. We need not specify the nature of the event giving rise to a suspension in any notice to the holders of the notes of the existence of a suspension.

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If:

the shelf registration statement is not declared effective by the SEC within 180 days following the date of original issuance of the notes,

after effectiveness of the shelf registration statement, we fail to file a prospectus supplement or report with the SEC within five business days (or, if a post-effective amendment to the shelf registration statement is required, file a post-effective amendment within 10 business days) after a holder of registrable securities provides us with a Selling Securityholder Notice and Questionnaire, if such filing is necessary to enable such holder to deliver this prospectus to purchasers of such holder's registrable securities,

the registration statement ceases to be effective or fails to be usable without being succeeded within 30 days by a post-effective amendment, prospectus supplement or report filed with the SEC pursuant to the Securities Exchange Act of 1934 that cures the failure of the registration statement to be effective or usable or by an additional registration statement filed and declared effective, or

the aggregate duration of any suspension periods in any period exceeds the limits described above,

then, in each case, we will pay additional amounts, until such failure is cured, with respect to all notes that are registrable securities equal to 0.25% of the aggregate principal amount of such notes per annum for the first 90 days following such failure, increasing by 0.25% per annum at the beginning of the subsequent 90-day period. With respect to shares of common stock that are registrable securities that were issued upon conversion of notes, we will pay additional amounts equal to 0.25% per annum of the then applicable conversion price for the first 90 days, increasing by 0.25% per annum at the beginning of the subsequent 90-day period. Additional amounts on the registrable securities will not, however, exceed 0.50% per annum at any time. Any additional amounts due will be payable in cash semiannually in arrears on the same dates as the interest payment dates for the notes.

The term "applicable conversion price" means, as of any date of determination, \$1,000 principal amount of notes divided by the conversion rate in effect as of such date of determination or, if no notes are then outstanding, the conversion rate that would be in effect were notes then outstanding.

The foregoing summary of certain provisions of the registration rights agreement is not complete and is subject to, and is qualified entirely by reference to, the provisions of the registration rights agreement, a copy of which is filed as an exhibit to the registration statement.

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**DESCRIPTION OF OUR COMMON STOCK**

The following is a brief description of our common stock:

**Dividend Rights**

Each share of our common stock ranks equally with all other shares of our common stock with respect to dividends. Dividends may be declared by our board of directors and paid by us at such times as the board of directors determines, all pursuant to the provisions of the New Jersey Business Corporation Act.

**Voting Rights**

Each holder of our common stock is entitled to one vote per share. Our common stock does not have cumulative voting rights. Holders of our common stock are entitled to vote on all matters requiring shareholder approval under New Jersey law and our restated certificate of incorporation and amended and restated bylaws, and to elect the members of the board of directors. Directors are divided into three classes, with each class, as nearly as possible, having the same number of directors. At each annual meeting of the shareholders, the directors chosen to succeed those whose terms have then expired are identified as being of the same class as the directors they succeeded and are elected by the shareholders for a term expiring at the third succeeding annual meeting-Right:0.75pt;padding-Top:0.75pt;padding-Bottom:0pt;width:1.42%;">

(1,233

)

Accounts payable and other liabilities

4,164

1,707

Deferred revenue

458

251

Net cash (used in) provided by operating activities

(1,805

)

2,379

Cash flows from investing activities:

Purchases of short-term investments

(26,709

)

(38,898

)

Proceeds from maturities and sales of short-term investments

40,762

39,327

Purchases of property and equipment

(1,438

)

(1,747

)

Business acquisition, net of cash assumed

(2,402

)

—

Net cash provided by (used in) investing activities

10,213

(1,318

)

Cash flows from financing activities:

Shares repurchased for tax withholdings on vesting of restricted stock units

(2,298

)

(1,973

)

Proceeds from issuance of common stock

2,763

1,869

Net cash provided by (used in) financing activities

465

(104

)

Net increase in cash and cash equivalents

8,873

957

Cash and cash equivalents at beginning of period

4,483

3,990

Cash and cash equivalents at end of period

\$

13,356

\$

4,947

Non-cash investing and financing activities:

Unpaid portion of property and equipment purchases

\$

140

\$

177

Contingent consideration for business acquisition

\$

231

\$

—

Holdback payable for business acquisition

\$

780

\$

—

Shares issued for business acquisition

\$

390

\$

—

See notes to condensed consolidated financial statements

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Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

#### Note 1: Overview and Basis of Presentation

Ooma, Inc. and its wholly-owned subsidiaries (collectively, “Ooma” or the “Company”) create new communications experiences for businesses and consumers. The Company’s smart SaaS platform serves as a communications hub, which offers cloud-based communications solutions, smart security and other connected services. The Company was founded in 2003 and is headquartered in Sunnyvale, California.

In March 2018, the Company acquired Voxter Communications, Inc., (“Voxter”) a provider of customizable Unified-Communications-as-a-Service (“UCaaS”) offerings for mid-market and enterprise businesses. See Note 11: Business Acquisition below. The Company also refers to its Voxter UCaaS offering as Ooma Enterprise and refers to both Ooma Office and Ooma Enterprise collectively as Ooma Business. The Company refers to its Ooma Telo basic and premier services as well as its Smart Security solutions as Ooma Residential.

Fiscal Year. The Company’s fiscal year ends on January 31. References to fiscal 2019 and fiscal 2018 refer to the fiscal year ending January 31, 2019 and the fiscal year ended January 31, 2018, respectively.

#### Principles of Presentation and Consolidation

These unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (the “SEC”) regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, the information included in this Quarterly Report on Form 10-Q should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended January 31, 2018 (“Annual Report”).

These financial statements have been prepared on the same basis as the Company’s annual financial statements and, in the opinion of management, reflect all normal recurring adjustments necessary to present fairly the Company’s financial position, its results of operations, and cash flows for the interim periods presented, but are not necessarily indicative of the results of operations to be anticipated for the full fiscal year ending January 31, 2019. The condensed consolidated balance sheet as of January 31, 2018 included herein was derived from the audited financial statements as of that date.

The condensed consolidated financial statements include accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated upon consolidation.

Use of Estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the Company’s condensed consolidated financial statements and notes thereto. Significant estimates include, but are not limited to, those related to revenue recognition, inventory valuation, deferred commissions, valuation of goodwill and intangible assets, regulatory fees and indirect tax accruals, loss contingencies, stock-based compensation, income taxes (including valuation allowances) and fair value measurements. Estimates are based on historical experience, where applicable, and other assumptions believed to be reasonable by management. These estimates are based on information available as of the date of the condensed

consolidated financial statements, and assumptions are inherently subjective in nature. Therefore, actual results could differ from management's estimates.

**Comprehensive Loss.** For all periods presented, comprehensive loss approximated net loss in the condensed consolidated statements of operations. Therefore, the condensed consolidated statements of comprehensive loss have been omitted.

**Significant Accounting Policies.** Except for the accounting policies related to revenue recognition and customer acquisition costs that were updated as a result of adopting Topic 606, Revenue from Contracts with Customers, there have been no significant changes in the Company's accounting policies from those disclosed in its Annual Report. See Note 2: Revenue, Deferred Revenue and Commissions below.

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Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

### Recently Adopted Accounting Standards

**Revenue recognition.** In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606), which superseded the revenue recognition guidance in Topic 605 with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. Topic 606 also includes Subtopic 340-40, Other Assets and Deferred Costs – Contracts with Customers, which requires the deferral of incremental costs to acquire customer contracts, including sales commissions. The Company adopted the new standard effective February 1, 2018 under the modified retrospective method. The Company has implemented policies, processes and controls to support the standard's measurement and disclosure requirements. See Note 2: Revenue, Deferred Revenue and Commissions for disclosure on the impact of adopting this standard and updated accounting policies.

**Goodwill.** The Company early adopted ASU 2017-04, Intangibles – Goodwill and Other (Topic 350) in the first quarter of fiscal 2019. The updated standard eliminated the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, an impairment charge will be based on the excess of a reporting unit's carrying amount over its fair value. The adoption of this standard had no impact on the Company's condensed consolidated financial statements.

**Business Combinations.** The Company adopted ASU 2017-01, Business Combinations (Topic 805) – Clarifying the Definition of a Business in the first quarter of fiscal 2019. The updated standard provided guidance to assist entities in evaluating when a set of transferred assets and activities constitutes a business. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The adoption of this standard had no impact on the Company's condensed consolidated financial statements.

### Accounting Standards Not Yet Adopted

**Leases.** In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) which supersedes the lease accounting requirements in Topic 840 and requires that lessees recognize a right-of-use asset and a lease liability on the balance sheet for all leases, with the exception of short-term leases. The standard also requires qualitative and quantitative disclosures to help investors and other readers of the financial statements to better understand the amount, timing and uncertainty of cash flows arising from leases. The Company will adopt Topic 842 in the first quarter of fiscal 2020, utilizing the optional transition method, whereby it will not be adjusting comparative period financial statements for the new standard. The Company continues to make progress in evaluating potential lease arrangements under Topic 842. The Company believes the most significant impact upon adoption of Topic 842 will be the recognition of right-of-use assets and lease liabilities that were not previously recognized, which will increase total assets and liabilities on its consolidated balance sheets. The Company does not expect the adoption to have a material impact on its consolidated statements of operations.

**Stock-based Compensation.** In June 2018, the FASB issued ASU 2018-07, Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting, which expands the scope of Topic 718 to include and simplify the accounting for share-based payments issued to nonemployees. Under the amended standard, most of the guidance on nonemployee share-based payments would be aligned with the requirements for share-based payments granted to employees. The new standard will become effective for the Company beginning in fiscal 2020. The Company does not expect the adoption to have a material impact on its consolidated financial

statements.

Fair Value Measurement. In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurements, which expands the disclosure requirements for Level 3 fair value measurements as well as eliminates, adds and modifies certain other disclosure requirements for fair value measurements. The amendment will become effective for the Company beginning in fiscal 2020. The Company is evaluating the effect of adoption on its consolidated financial statements.

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Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

## Note 2: Revenue, Deferred Revenue and Commissions

On February 1, 2018, the Company adopted Topic 606, Revenue from Contracts with Customers using the modified retrospective method applied to only those contracts that were not completed as of the adoption date. The Company's financial results for the three and nine months ended October 31, 2018 are presented in accordance with the provisions under Topic 606. Comparative prior period amounts have not been adjusted and continue to be reported under the historic accounting standards in effect for the periods presented.

The new standard impacted revenue recognition timing on product sales made to certain channel partners, whereby revenue is now recognized when the Company delivers product to the channel partner (sell-in basis) rather than deferring recognition until resale by the partner to the end customer (sell-through basis). The adoption of the new standard also changed the treatment of sales commissions, whereby the Company now capitalizes its incremental costs of acquiring customer contracts and amortizes these deferred costs over the estimated customer life. Previously, all sales commissions were expensed as incurred. See below for further discussion of the Company's updated significant accounting policies.

As a result of adopting Topic 606, the February 1, 2018 beginning balance of accumulated deficit increased by \$0.3 million, reflecting a net decrease to deferred revenue of approximately \$1.0 million and corresponding adjustments to deferred inventory costs and other related accounts. Deferred commissions related to open contracts as of the adoption date were immaterial.

The following tables summarize the impact of adopting Topic 606 on the Company's condensed consolidated statement of operations and balance sheet (in thousands, except per share amounts):

Statement of Operations:	Three Months Ended October 31, 2018		
	As Reported	Effect of Change	Balances without adoption of Topic 606
Total revenue	\$32,608	\$(212 )	\$32,396
Total cost of revenue	12,535	(507 )	12,028
Gross profit	20,073	295	20,368
Sales and marketing expense	10,755	1,238	11,993
Net loss	(3,494 )	(943 )	(4,437 )
Net loss per share - basic and diluted	(0.18 )	(0.04 )	(0.22 )

  

	Nine Months Ended October 31, 2018		
	As Reported	Effect of Change	Balances without adoption of Topic 606

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Total revenue	\$94,511	\$(90 )	\$94,421
Total cost of revenue	37,727	(394 )	37,333
Gross profit	56,784	304	57,088
Sales and marketing expense	30,149	3,499	33,648
Net loss	(11,083 )	(3,195 )	(14,278 )
Net loss per share - basic and diluted	(0.56 )	(0.17 )	(0.73 )

Balance Sheet:

As of October 31, 2018

	As Reported	Effect of Change	Balances without adoption of Topic 606
Accounts receivable, net	\$2,880	\$840	\$3,720
Other current assets <sup>(1)</sup>	3,830	491	4,321
Other assets <sup>(2)</sup>	2,967	(2,688 )	279
Accrued expenses <sup>(3)</sup>	17,471	(162 )	17,309
Deferred revenue	15,098	1,695	16,793
Accumulated deficit	(102,306)	(2,890 )	(105,196)

<sup>(1)</sup> Other current assets include deferred commissions and deferred inventory costs.

<sup>(2)</sup> Other assets include non-current deferred commissions.

<sup>(3)</sup> Accrued expenses include certain accrued sales incentives.

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Notes to Condensed Consolidated Financial Statements (Unaudited)

The adoption of the new standard did not have any impact on net cash flows for operating, investing and financing activities in the consolidated statements of cash flows.

Revenue Recognition

The Company derives its revenue from two sources: (1) subscription and services revenue, which are generated from sales of subscription plans for communications services and other connected services; and (2) product and other revenue. Subscriptions and services are sold directly to end-customers. Products are sold to end-customers through several channels, including but not limited to, distributors, retailers and resellers (collectively the “channel partners”), and Ooma sales representatives.

Under Topic 606, the Company determines revenue recognition through the following steps:

- identification of the contract(s) with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, the Company satisfies a performance obligation

Revenue is recorded net of any sales and telecommunications taxes collected from customers to be remitted to government authorities. Under Topic 606, the Company has maintained its policy to exclude these taxes from revenue.

Revenue disaggregated by revenue source consisted of the following (in thousands):

	Three Months Ended		Nine Months Ended	
	October 31,	October 31,	October 31,	October 31,
	2018	2017	2018	2017
Subscription and services revenue	\$29,794	\$25,524	\$85,532	\$74,830
Product and other revenue	2,814	2,981	8,979	9,440
<b>Total revenue</b>	<b>\$32,608</b>	<b>\$28,505</b>	<b>\$94,511</b>	<b>\$84,270</b>

No individual country outside of the United States represented 10% or more of total revenue for the periods presented. No single customer accounted for 10% or more of total revenue for the periods presented.

**Subscription and services revenue.** Most of the Company’s revenue is derived from recurring subscription fees related to service plans such as Ooma Business, Ooma Residential and other communications services. All subscription revenue is recognized ratably over the contractual service term. The Company’s service plans are generally sold as monthly subscriptions; however, certain plans are also offered as annual subscriptions.

The Company recognizes a small portion of its revenue on a point-in-time usage basis from services such as: prepaid international calls, directory assistance, and advertisements displayed through its Talkatone mobile application.

**Product and other revenue.** Product and other revenue is generated from the sale of on-premise appliances and end-point devices, including shipping and handling fees for the Company’s direct customers, and to a lesser extent

from porting fees that enable customers to transfer their existing phone numbers. The Company recognizes revenue from sales to direct end-customers and channel partners when it delivers the product or when all customer contractual provisions have been met, if any. The Company's distribution agreements with channel partners typically contain clauses for price protection and right of return. Therefore, the amount of product revenue recognized is adjusted for any variable consideration, such as expected returns and customer sales incentives as described in "Sales allowances" below.

Amounts billed to customers related to shipping and handling are classified as revenue. Shipping and handling costs are expensed as incurred and classified as cost of revenue.

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Notes to Condensed Consolidated Financial Statements (Unaudited)

**Multiple performance obligations.** The Company's contracts with customers typically contain multiple performance obligations that consist of product(s) and related communications services. For these contracts, the Company accounts for individual performance obligations separately if they are distinct. The contract transaction price is then allocated to the separate performance obligations on a relative stand-alone selling price ("SSP") basis. The Company determines the SSP for its communications services based on observable historical stand-alone sales to customers, for which the Company requires that a substantial majority of selling prices fall within a reasonably narrow pricing range. The Company does not have a directly observable SSP for its on-premise appliance and end-point devices, and therefore establishes SSP based on its best estimates and judgments, considering company-specific factors such as pricing strategies, estimated product and other costs, and bundling and discounting practices.

**Sales allowances.** Credits and/or rebates issued to customers for product returns and sales incentives are deemed to be variable consideration under Topic 606, which the Company estimates and records as a reduction to revenue at the point of sale. Product returns and customer sales incentives are estimated based on the Company's historical experience, current trends and expectations regarding future experience. Trends are influenced by product life cycles, new product introductions, market acceptance of products, the type of customer, seasonality and other factors. Product return and sales incentive rates may fluctuate over time but are sufficiently predictable to allow the Company to estimate expected future amounts. If actual future returns and sales incentives differ from past experience, additional reserves may be required. As of October 31, 2018 and January 31, 2018, the Company had total reserves for product returns and customer sales incentives of \$0.8 million and \$0.6 million.

**Accounts Receivable**

Accounts receivable are stated at invoice value less estimated allowances for doubtful accounts, product returns and customer sales incentives. The Company records its allowances for doubtful accounts based upon assessment of several factors, including historical experience, aging of receivable balances and economic conditions. As of October 31, 2018 and January 31, 2018, the Company had allowances for doubtful accounts of \$0.1 million. (See "Sales allowances" above regarding allowances for product returns and sales incentives.)

Customers who represented 10% or more of the Company's net accounts receivable balance were as follows:

	As of		
	October	January	
	31,	31,	
	2018	2018	
Customer A	18%	10%	%
Customer B	17%	*	

\*Represented less than 10% of accounts receivable, net at the end of respective periods

**Customer Acquisition Costs**

The Company recognizes an asset related to the costs incurred to obtain a contract if management expects to recover those costs and the Company would not have incurred those costs if the contract had not been obtained.

Based on this policy, the Company capitalizes its sales commissions and other costs paid to internal sales personnel, third-party sales entities and value-added resellers that are incremental to obtaining customer contracts. These deferred costs are then amortized on a systematic basis over the estimated customer life of five years, calculated based on both qualitative and quantitative factors, such as product life cycles and customer attrition. Amortization expense is included in sales and marketing expenses in the accompanying condensed consolidated statement of operations. The Company periodically evaluates whether there have been any changes in its business, the market conditions in which it operates or other events which would indicate that its amortization period should be changed or if there are there are potential indicators of impairment.

As of October 31, 2018, total deferred commission costs on the Company's consolidated balance sheet was approximately \$3.5 million, of which the \$0.8 million current portion was included in other current assets and the \$2.7 million non-current portion was included in other assets. During the three and nine months ended October 31, 2018, amortization expense was \$0.2 million and \$0.4 million, respectively, and there was no impairment loss in relation to the costs capitalized.

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

## Deferred Revenue

Deferred revenue primarily consists of billings or payments received in advance of meeting revenue recognition criteria. The Company's communications services are sold as monthly or annual subscriptions, payable in advance. The Company recognizes deferred services revenue on a ratable basis over the term of the contract as the services are provided. For all arrangements, any revenue that has been deferred and is expected to be recognized beyond one year is classified in long term liabilities on the consolidated balance sheets.

	As of	
	October 31,	January 31,
	2018	2018
Subscription and services	\$15,375	\$14,568
Product and other	62	1,416
Total deferred revenue	15,437	15,984
Less: current deferred revenue	15,098	15,556
Noncurrent deferred revenue included in other long-term liabilities	\$339	\$428

During the three and nine months ended October 31, 2018, the Company recognized revenue of approximately \$2.2 million and \$14.4 million, respectively, pertaining to amounts deferred as of January 31, 2018. As of October 31, 2018, the Company's deferred revenue balance was primarily composed of subscription contracts that were invoiced during the first nine months of fiscal 2019.

## Remaining Performance Obligations

As of October 31, 2018, revenue of approximately \$0.8 million is expected to be recognized from remaining performance obligations for open contracts with an original expected length of more than one year. This amount includes both long-term deferred revenue and non-cancelable contract amounts that will be invoiced and recognized as revenue in future periods. The Company expects to recognize revenue of approximately \$0.4 million over the next 12 months and the remainder thereafter.

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## Notes to Condensed Consolidated Financial Statements (Unaudited)

## Note 3: Fair Value Measurements

The Company records its financial assets and liabilities at fair value. The Company estimates and categorizes fair value by applying the following hierarchy:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Observable prices based on inputs not quoted in active markets, but are corroborated by market data.

Level 3: Unobservable inputs that are supported by little or no market activity.

The Company's financial assets and liabilities that are measured at fair value on a recurring basis by level within the fair value hierarchy were as follows (in thousands):

	Balance as of October 31, 2018				Balance as of January 31, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets:</b>								
<b>Cash and cash equivalents:</b>								
Money market funds	\$4,947	\$—	\$—	\$4,947	\$554	\$—	\$—	\$554
U.S. government securities	997	—	—	997	—	—	—	—
Commercial paper	—	899	—	899	—	2,844	—	2,844
Total cash equivalents	\$5,944	\$899	\$—	\$6,843	\$554	\$2,844	\$—	\$3,398
Cash				6,513				1,085
Total cash and cash equivalents				\$13,356				\$4,483
<b>Short-term investments:</b>								
U.S. government securities	\$13,870	\$—	\$—	\$13,870	\$20,867	\$—	\$—	\$20,867
Corporate debt securities	—	7,617	—	7,617	—	13,895	—	13,895
Commercial paper	—	9,755	—	9,755	—	9,272	—	9,272
U.S. agency securities	—	—	—	—	—	1,996	—	1,996
Asset-backed securities	—	2,285	—	2,285	—	1,277	—	1,277
Total short-term investments	\$13,870	\$19,657	\$—	\$33,527	\$20,867	\$26,440	\$—	\$47,307
<b>Liabilities:</b>								
Contingent consideration	\$—	\$—	\$414	\$414	\$—	\$—	\$311	\$311
Total liabilities	\$—	\$—	\$414	\$414	\$—	\$—	\$311	\$311

The Company classifies its cash equivalents and short-term investments within Level 1 or Level 2 because it uses quoted market prices or alternative pricing sources and models utilizing market observable inputs to determine their fair value. There were no transfers of financial assets or liabilities between levels during the periods presented.

For the periods presented, the amortized cost of cash equivalents and marketable securities approximated their fair value and there were no material realized or unrealized gains or losses, either individually or in the aggregate. No investments in the Company's portfolio were other-than-temporarily impaired.

Level 3 liabilities consisted of contingent consideration related to the Company’s acquisitions of Butterfleye, Inc. (“Butterfleye”) in December 2017 and Voxter in March 2018 that were estimated using an income-based approach. Key inputs included assumptions regarding the achievement of certain performance milestones and discount rates consistent with the level of risk and economy in general. Contingent consideration is classified as a component of accrued expenses on the condensed consolidated balance sheets and changes in fair value are recorded to general and administrative expenses in the condensed consolidated statements of operations.

Changes in the Level 3 fair value category for the periods presented were as follows (in thousands):

	Contingent Consideration
Balance at January 31, 2018	\$ 311
Add: Acquired contingent consideration	231
Changes in fair value	(128 )
Balance at October 31, 2018	\$ 414

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Notes to Condensed Consolidated Financial Statements (Unaudited)

The following table classifies the Company's short-term investments by contractual maturities (in thousands):

	As of October 31, 2018		As of January 31, 2018	
	Amortized Value	Fair Value	Amortized Value	Fair Value
One year or less	\$33,561	\$33,527	\$43,227	\$43,172
Over one year and less than two years	—	—	4,164	4,135
Total	\$33,561	\$33,527	\$47,391	\$47,307

#### Note 4: Balance Sheet Components

The following sections and tables provide details of selected balance sheet items (amounts in tables are in thousands):

##### Inventories

	As of	
	October 31, 2018	January 31, 2018
Raw material	\$5,547	\$562
Finished goods	2,270	5,517
Total inventory	\$7,817	\$6,079

##### Other Current Assets

	As of	
	October 31, 2018	January 31, 2018
Prepaid expenses	\$1,707	\$1,921
Deferred sales commissions <sup>(1)</sup>	810	—
Deferred inventory costs <sup>(1)</sup>	114	1,061
Other current assets	1,199	1,415
Total other current assets	\$3,830	\$4,397

(1) Changes in deferred inventory costs and deferred sales commissions were attributable to the Company's adoption of Topic 606 on February 1, 2018. See Note 2: Revenue, Deferred Revenue and Commissions above.

##### Intangible Assets and Goodwill

The carrying amount of goodwill was \$3.8 million and \$1.9 million as of October 31, 2018 and January 31, 2018, respectively. The Company recognized \$2.1 million in intangibles and \$1.9 million in goodwill following the

acquisition of Voxter in March 2018. See Note 11: Business Acquisitions below. There was no change to goodwill subsequent to this acquisition.

	As of October 31, 2018			As of January 31, 2018		
	Gross Value	Accumulated Amortization	Carrying Value	Gross Value	Accumulated Amortization	Carrying Value
Developed technology	2,560	(989)	\$ 1,571	\$1,568	\$ (630)	\$ 938
Customer relationships	902	(112)	790	—	—	—
Trade name	451	(144)	307	262	(81)	181
Patents and licenses	714	(703)	11	714	(698)	16
User relationships	458	(458)	—	458	(458)	—
Total amortizable assets	5,085	(2,406)	2,679	3,002	(1,867)	1,135
In-process R&D	157	—	157	157	—	157
Total intangible assets	\$5,242	\$ (2,406)	\$ 2,836	\$3,159	\$ (1,867)	\$ 1,292

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Notes to Condensed Consolidated Financial Statements (Unaudited)

At October 31, 2018, the estimated future amortization expense for intangible assets was as follows (in thousands):

Fiscal Years Ending January 31,	Total
2019 remainder	\$ 197
2020	651
2021	603
2022	599
2023 and thereafter	629
Total	\$2,679

Accrued Expenses

	As of	
	October 31,	January 31,
	2018	2018
Payroll and related expenses	\$6,174	\$5,423
Regulatory fees and taxes	6,039	5,239
Acquisition-related consideration	1,180	353
Other	4,078	3,762
Total accrued expenses	\$17,471	\$14,777

#### Note 5: Commitments and Contingencies

##### Leases and Purchase Commitments

The Company's principal commitments consist of obligations under enforceable and legally binding lease agreements for office space and data center facilities. Rent expense was \$0.6 million and \$0.4 million for the three months ended October 31, 2018 and 2017, respectively, and \$1.9 million and \$1.2 million for the nine months ended October 31, 2018 and 2017, respectively. As of October 31, 2018 and January 31, 2018, future minimum rental commitments under non-cancelable operating leases were \$3.5 million and \$4.3 million, respectively.

As of October 31, 2018 and January 31, 2018, non-cancelable purchase commitments with the Company's contract manufacturers were \$6.4 million and \$3.3 million, respectively.

##### Legal Proceedings

In addition to the litigation matters described below, from time to time, the Company may be involved in a variety of other claims, lawsuits, investigations, and proceedings relating to contractual disputes, intellectual property rights, employment matters, regulatory compliance matters, and other litigation matters relating to various claims that arise in the normal course of business. Defending such proceedings is costly and can impose a significant burden on management and employees, the Company may receive unfavorable preliminary or interim rulings in the course of litigation, and there can be no assurances that favorable final outcomes will be obtained.

The Company determines whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. The Company assesses its potential liability by analyzing specific litigation and regulatory matters using reasonably available information. The Company develops its views on estimated losses in consultation with inside and outside counsel, which involves a subjective analysis of potential results and outcomes, assuming various combinations of appropriate litigation and settlement strategies. Legal fees are expensed in the period in which they are incurred.

As of October 31, 2018, the Company does not have any accrued liabilities recorded for loss contingencies in its consolidated financial statements.

#### Berks County Litigation

On January 21, 2016, the County of Berks, Pennsylvania filed a lawsuit in the Berks County Court of Common Pleas naming the Company and 113 other telephone service providers as defendants (the “Berks County Litigation”), alleging breach of fiduciary duty, fraud, and negligent misrepresentation in connection with alleged violations of the Pennsylvania 911 Emergency Communication Services Act (“PA 911 Act”) for failure to collect from subscribers and remit certain fees pursuant to the PA 911 Act. The plaintiff seeks a declaratory judgment that the Company must comply with the PA 911

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Notes to Condensed Consolidated Financial Statements (Unaudited)

Act, compensatory and punitive damages and such other relief as the court may deem proper. The Company believes that the plaintiff's claims are without merit since the Company has no employees, property or other indicia of a "substantial nexus" with the State of Pennsylvania. The Company intends to continue vigorously defending against this lawsuit. However, litigation is unpredictable and there can be no assurances that the Company will obtain a favorable final outcome or that it will be able to avoid unfavorable preliminary or interim rulings in the course of litigation that may significantly add to the expense of its defense and could result in substantial costs and diversion of resources.

Based on the Company's current knowledge, the Company has determined that the amount of any material loss or range of any losses that is reasonably possible to result from the Berks County Litigation is not estimable.

#### Deep Green Wireless Litigation

On June 8, 2016, plaintiff Deep Green Wireless LLC filed a complaint in the U.S. District Court for the Eastern District of Texas against Ooma, Inc., alleging infringement of U.S. Patent No. RE42,714 (the "Deep Green Wireless Patent", and such litigation, the "Deep Green Wireless Litigation"). The complaint seeks unspecified monetary damages, costs, attorneys' fees and other appropriate relief. In February 2017, the Court granted the Company's motion to transfer the case to the Northern District of California, which proceeding has been stayed pending the outcome of an inter partes review of the Deep Green Wireless Patent by the United States Patent Trial and Appeal Board ("PTAB"). The PTAB has granted the Company's motion for inter partes review of the Deep Green Wireless Patent, and on August 13, 2018 the PTAB heard oral arguments from each party. Given the institution date, the Company expects the PTAB to issue a ruling sometime in December 2018. Based upon the Company's investigation, the Company does not believe that its products infringe any valid or enforceable claim of the aforementioned patent, and the Company plans to continue vigorously defending against the plaintiff's claim. However, litigation is unpredictable and there can be no assurances that the Company will obtain a favorable final outcome or that it will be able to avoid unfavorable preliminary or interim rulings in the course of litigation that may significantly add to the expense of its defense and could result in substantial costs and diversion of resources.

Based on the Company's current knowledge, the Company has determined that the amount of any material loss or range of any losses that is reasonably possible to result from the Deep Green Wireless Litigation is not estimable.

#### Oregon Tax Litigation

On August 30, 2016, the Oregon Department of Revenue (the "DOR") issued tax assessments against the Company for the Oregon Emergency Communications Tax (the "Tax"), which the DOR alleges Ooma should have collected from its subscribers in Oregon and remitted to the DOR during the period starting on January 1, 2013 and ending on March 31, 2016 (collectively, the "Assessments"). On November 28, 2016, the Company filed a complaint in the Oregon Tax Court, asserting that the Assessments against the Company is in violation of applicable Oregon law and are barred by the United States Constitution, and asking the Oregon Tax Court to abate the Assessments in full (the "Complaint", and such dispute, the "Oregon Tax Litigation"). On February 10, 2017, the DOR filed an answer to the Complaint, and during April 2017, the Company voluntarily participated in an informal discovery process by providing certain information and documents to the DOR. The Company filed a motion for summary judgment on September 29, 2017, and on December 13, 2017 the Court heard oral arguments from the parties regarding such motion.

On March 27, 2018, the Magistrate Division of the Oregon Tax Court issued its decision denying the Company's motion, and granting the DOR's motion for summary judgment. Notwithstanding such decision, the Company

believes that the Commerce Clause of the United States Constitution bars the application of the Tax and the Assessments to the Company, since the Company has no employees, property or other indicia of a “substantial nexus” with the State of Oregon. On June 12, 2018, the Company filed an appeal of the Magistrate Divisions decision and on October 12, 2018, the Company filed its motion for summary judgment with the Regular Division of the Oregon Tax Court. The DOR filed its motion for summary judgment on November 16, 2018. A hearing has been set in January 2019, and the Company will continue to vigorously litigate the Complaint in pursuit of the full abatement of the Assessments. However, litigation is unpredictable and there can be no assurances that the Company will obtain a favorable final outcome or that it will be able to avoid further unfavorable interim rulings in the course of litigation that may significantly add to the expense of its defense and could result in substantial costs and diversion of resources.

For the nine months ended October 31, 2018, the Company paid \$0.6 million to the State of Oregon in connection with the Oregon Tax Litigation, of which \$0.3 million was charged to the condensed consolidated statement of operations as the amount of loss deemed probable and reasonably estimable, and \$0.3 million was recorded as a receivable in other current assets on the condensed consolidated balance sheet for interest and penalties that the Company expects will be refunded.

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

### Secure Cam Litigation

On May 2, 2018, plaintiff Secure Cam, LLC filed a complaint in the U.S. District Court for the Northern District of California against the Company's wholly-owned subsidiary, Butterfleye, Inc., alleging infringement of four United States patents (No. 8,531,555, No. 8,350,928, No. 8,836,819 and No. 9,363,408) (the "Secure Cam Litigation"). On September 28, 2018, the Company and Secure Cam, LLC settled the complaint for an immaterial amount and the complaint was voluntarily dismissed with prejudice.

### Securities Litigation

On January 14, 2016, Michael Barnett filed a purported stockholder class action in the San Mateo County Superior Court of the State of California (Case No. CIV536959) against the Company, certain of its officers and directors, and certain of the underwriters of the Company's IPO on July 17, 2015. Since that time two additional purported class actions making substantially the same allegations against the same defendants were filed, and on May 18, 2016, all three complaints were combined into a "consolidated complaint" filed in the same court (the "Securities Litigation"). The consolidated complaint purports to be brought on behalf of all persons who purchased shares of common stock in the Company's IPO in reliance upon the Registration Statement and Prospectus the Company filed with the SEC. The consolidated complaint alleges that the Company and the other defendants violated the Securities Act of 1933, as amended (the "Securities Act") by issuing the Registration Statement and Prospectus, which the plaintiffs allege contained material misstatements and omissions in violation of Sections 11, 12(a)(2) and 15 of the Securities Act. The plaintiffs seek class certification, compensatory damages, attorneys' fees and costs, rescission or a rescissory measure of damages, equitable and/or injunctive relief, and such other relief as the court may deem proper.

On November 29, 2017, the Superior Court dismissed the claims that were based on Sections 12(a)(2) and 15 of the Securities Act with prejudice, but denied the Company's motion to stay the case pending the United States Supreme Court's decision in *Cyan v. Beaver Cnty. Emp. Ret. Fund*. On March 20, 2018, the United States Supreme Court published its decision in the *Cyan* case, holding that state courts have subject matter jurisdiction to hear claims brought under the Securities Act, such as the claims alleging violations of Section 11 of the Securities Act (the only remaining claims in the Securities Litigation) brought against the Company in the Superior Court. The parties are now engaged in the discovery phase of the litigation.

The Company believes the plaintiffs' claims are without merit and the Company is vigorously defending against the Securities Litigation and will continue to do so. However, litigation is unpredictable and there can be no assurances that the Company will obtain a favorable final outcome or that it will be able to avoid unfavorable preliminary or interim rulings in the course of litigation that may significantly add to the expense of its defense and could result in substantial costs and diversion of resources.

Based on the Company's current knowledge, the Company has determined that the amount of any material loss or range of any losses that is reasonably possible to result from the Securities Litigation is not estimable.

### Dolemba Litigation

On September 4, 2018, plaintiff Scott Dolemba filed a putative class action complaint against the Company in the U.S. District Court for the Northern District of Illinois, Eastern Division, alleging violations of the Telephone Consumer Protection Act and the Illinois Consumer Fraud Act. The complaint seeks unspecified monetary damages,

costs, attorneys' fees and other appropriate relief. Based on the Company's current knowledge, the Company has determined that the amount of any estimated loss resulting from the Dolemba Litigation is not material.

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Notes to Condensed Consolidated Financial Statements (Unaudited)

### Indemnification

The Company enters into standard indemnification arrangements in the ordinary course of business. Pursuant to these arrangements, the Company indemnifies, holds harmless and agrees to reimburse the indemnified parties for losses suffered or incurred by the indemnified party, in connection with any trade secret, copyright, patent or other intellectual property infringement claim by any third party with respect to the Company's technology. The term of these indemnification agreements is generally perpetual. The maximum potential amount of future payments the Company could be required to make under these agreements is not determinable because it involves claims that may be made against the Company in the future, but have not yet been made.

The Company has entered into indemnification agreements with its directors and officers that may require the Company to indemnify its directors and officers against liabilities that may arise by reason of their status or service as directors or officers, other than liabilities arising from willful misconduct of the individual. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has director and officer insurance coverage that reduces the Company's exposure and enables the Company to recover a portion of any future amounts paid.

To date the Company has not incurred costs to defend lawsuits or settle claims related to these indemnification agreements. No liability associated with such indemnifications has been recorded to date.

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Notes to Condensed Consolidated Financial Statements (Unaudited)

## Note 6: Stockholders' Equity

Changes in stockholders' equity for the nine months ended October 31, 2018 and 2017 were as follows (in thousands):

	Nine Months Ended October 31, 2018			
	Common stock and APIC <sup>(1)</sup>	AOCI <sup>(2)</sup>	Accumulated Deficit	Stockholders' Equity
BALANCE - January 31, 2018	\$ 128,083	\$ (84 )	\$ (90,931 )	\$ 37,068
Issuance of common stock under equity based plans	1,205	—	—	1,205
Shares repurchased for tax withholdings on RSU <sup>(3)</sup> vesting	(759 )	—	—	(759 )
Issuance of common stock for business acquisition	390	—	—	390
Stock-based compensation	2,314	—	—	2,314
Other comprehensive loss	—	(1 )	—	(1 )
Cumulative adjustment upon adoption of Topic 606	—	—	(292 )	(292 )
Net loss	—	—	(3,685 )	(3,685 )
BALANCE - April 30, 2018	131,233	(85 )	(94,908 )	36,240
Issuance of common stock under equity based plans	488	—	—	488
Shares repurchased for tax withholdings on RSU vesting	(441 )	—	—	(441 )
Stock-based compensation	2,762	—	—	2,762
Other comprehensive loss	—	36	—	36
Net loss	—	—	(3,904 )	(3,904 )
BALANCE - July 31, 2018	134,042	(49 )	(98,812 )	35,181
Issuance of common stock under equity based plans	1,118	—	—	1,118
Shares repurchased for tax withholdings on RSU vesting	(1,097 )	—	—	(1,097 )
Stock-based compensation	2,658	—	—	2,658
Other comprehensive loss	—	15	—	15
Net loss	—	—	(3,494 )	(3,494 )
BALANCE - October 31, 2018	\$ 136,721	\$ (34 )	\$ (102,306 )	\$ 34,381
	Nine Months Ended October 31, 2017			
	Common stock and APIC <sup>(1)</sup>	AOCI <sup>(2)</sup>	Accumulated Deficit	Stockholders' Equity
BALANCE - January 31, 2017	\$ 117,641	\$ (11 )	\$ (77,810 )	\$ 39,820
Issuance of common stock under equity based plans	875	—	—	875
Shares repurchased for tax withholdings on RSU vesting	(300 )	—	—	(300 )
Stock-based compensation	2,971	—	—	2,971
Other comprehensive loss	—	(12 )	—	(12 )
Net loss	—	—	(3,392 )	(3,392 )
BALANCE - April 30, 2017	121,187	(23 )	(81,202 )	39,962

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Issuance of common stock under equity based plans	38	—	—	38
Shares repurchased for tax withholdings on RSU vesting	(203 )	—	—	(203 )
Stock-based compensation	3,120	—	—	3,120
Other comprehensive loss	—	3	—	3
Net loss	—	—	(3,623 )	(3,623 )
BALANCE - July 31, 2017	124,142	(20 )	(84,825 )	39,297
Issuance of common stock under equity based plans	991	—	—	991
Shares repurchased for tax withholdings on RSU vesting	(1,470 )	—	—	(1,470 )
Stock-based compensation	2,635	—	—	2,635
Other comprehensive loss	—	(16 )	—	(16 )
Net loss	—	—	(3,179 )	(3,179 )
BALANCE - October 31, 2017	\$ 126,298	\$ (36 )	\$ (88,004 )	\$ 38,258

(1) Additional paid-in capital; (2) Accumulated other comprehensive loss; (3) Restricted stock unit

Ooma, Inc.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

Equity Incentive Plan. The 2015 Equity Incentive Plan provides for the grant of incentive stock options to its employees and any of its subsidiary corporations' employees, and for the grant of restricted stock units ("RSUs"), non-statutory stock options, stock appreciation rights, restricted stock, performance units and performance shares to its employees, directors and consultants and its subsidiary corporations' employees and consultants.

Stock option activity for the nine months ended October 31, 2018 was as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Balance as of January 31, 2018	1,801,232	\$ 6.09	6.2	\$ 8,270
Granted	100,000	\$ 11.75		
Exercised	(169,962 )	\$ 5.87		
Canceled	(24,425 )	\$ 9.48		
Balance as of October 31, 2018	1,706,845	\$ 6.40	5.7	\$ 14,750
Vested and exercisable as of October 31, 2018	1,503,097	\$ 5.76	5.3	\$ 13,948

The aggregate intrinsic value of vested options exercised during the nine months ended October 31, 2018 and 2017 was \$1.2 million and \$0.3 million, respectively. The weighted average grant date fair value of options granted during the nine months ended October 31, 2018 and 2017 was \$5.28 and \$4.81, respectively.

RSU activity for the nine months ended October 31, 2018 was as follows:

	Number of Shares	Weighted Average Grant-Date Fair Value Per Share
Balance as of January 31, 2018	1,966,895	\$ 8.85
Granted	1,132,647	\$ 11.87
Vested	(708,636 )	\$ 8.99
Canceled	(271,461 )	\$ 9.52
Balance as of October 31, 2018	2,119,445	\$ 10.34

Employee Stock Purchase Plan. The 2015 Employee Stock Purchase Plan ("ESPP") allows eligible employees to purchase shares of common stock at a discount through payroll deductions of up to 15% of their eligible compensation (subject to plan limitations). The ESPP provides for a 24-month offering period comprised of four purchase periods of six months. Employees are able to purchase shares at 85% of the lower of the fair market value of the Company's common stock as of the first date or the ending date of each six-month offering period. The offering periods are scheduled to start on the first trading day on or after March 15 and September 15 of each year.

During the nine months ended October 31, 2018 and 2017, employees purchased approximately 0.3 million and 0.3 million shares, respectively, at a weighted average purchase price of \$6.82 and \$5.48 per share, respectively.

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

## Note 7. Stock-Based Compensation

Total stock-based compensation recognized for stock-based awards in the condensed consolidated statements of operations was as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	October 31,	October 31,	October 31,	October 31,
	2018	2017	2018	2017
Cost of revenue	\$243	\$251	\$677	\$909
Sales and marketing	350	390	1,065	1,406
Research and development	970	1,005	2,803	3,221
General and administrative	1,095	989	3,189	3,190
Total stock-based compensation expense	\$2,658	\$2,635	\$7,734	\$8,726

As of October 31, 2018, there was \$22.5 million of unrecognized stock-based compensation expense related to unvested RSUs, stock options and ESPP that will be recognized on a straight-line basis over the remaining weighted-average vesting period of approximately 2.5 years.

The fair value of employee stock options and ESPP was estimated using the Black–Scholes model with the following assumptions:

	Three and Nine Months Ended			
	October 31,		October 31,	
	2018	2017	2018	2017
<b>Stock Options:</b>				
Expected volatility	43%	47%		
Expected term (in years)	6.1	6.1		
Risk-free interest rate	2.7%	1.8%-2.1%		
Dividend yield	—%	—%		
	Three Months Ended		Nine Months Ended	
	October 31,		October 31,	
	2018	2017	2018	2017
<b>ESPP:</b>				
Expected volatility	39%-51%	35%-41%	39%-56%	35%-41%
Expected term (in years)	0.5-2.0	0.5-2.0	0.5-2.0	0.5-2.0
Risk-free interest rate	2.3%-2.8%	0.9%-1.4%	2.0%-2.8%	0.9%-1.4%

Dividend yield	—%	—%	—%	—%
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#### Note 8: Income Taxes

The Company recorded an income tax benefit of \$0.1 million and \$0.3 million during the three and nine months ended October 31, 2018, primarily associated with the Company's acquisition of Voxter, a corporation incorporated in British Columbia, Canada. See Note 11: Business Acquisition. The Company did not record a provision or benefit for income taxes during the nine months ended October 31, 2017. The Company has continued to maintain a full valuation allowance against its net deferred tax assets for the U.S. entity.

#### Uncertain Tax Positions

As of October 31, 2018, the Company had unrecognized tax benefits of \$3.5 million, none of which would currently affect the Company's effective tax rate if recognized due to the Company's deferred tax assets being fully offset by a valuation allowance. The Company does not anticipate that the amount of unrecognized tax benefits relating to tax positions existing at October 31, 2018 will significantly increase or decrease within the next twelve months. There was no interest expense or penalties related to unrecognized tax benefits recorded through October 31, 2018.

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

A number of years may elapse before an uncertain tax position is audited and finally resolved. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, the Company believes that its reserves for income taxes reflect the most likely outcome. The Company adjusts these reserves, as well as the related interest, in light of changing facts and circumstances. Settlement of any particular position could require the use of cash.

U.S. Tax Reform

On December 22, 2017, the United States enacted the Tax Cuts and Jobs Act (the “Tax Act”), which contained significant changes to U.S. tax law, including: a permanent reduction in the U.S. corporate tax rate from 35% to 21%, effective January 1, 2018; implementing a territorial tax system; and imposing a one-time tax on deemed repatriated earnings of foreign subsidiaries. As a result of the reduction in the corporate income tax rate, the Company revaluated its net deferred tax assets as of January 31, 2018. The revaluation resulted in no impact to the Company’s tax provision due to the Company’s deferred tax assets being fully offset by a valuation allowance.

While the Tax Act provides a territorial tax system, beginning in calendar year 2018, it also included two new U.S. tax base erosion provisions, the global intangible low-taxed income (GILTI) provision and the base-erosion and anti-abuse tax (BEAT) provision. The GILTI provision requires the Company to include in its U.S. income tax return foreign subsidiary earnings in excess of an allowable return on the foreign subsidiary’s tangible assets. The BEAT provision eliminates the deduction of certain base-erosion payments made to related foreign corporations and imposes a minimum tax if greater than regular tax. The Company does not expect the GILTI or BEAT provisions to result in significant additional U.S. taxes in fiscal 2019.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”) to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. The Company has recognized the provisional tax impact related to the revaluation of deferred tax assets and liabilities to the extent identified. The ultimate impact may differ materially from these provisional amounts due to, among other things, additional analysis, changes in interpretations and assumptions the Company has made, additional regulatory guidance that may be issued, and actions the Company may take as a result of the Tax Act.

Note 9: Basic and Diluted Net Loss Per Share

Basic and diluted net loss per share is calculated by dividing the net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per share of common stock is the same as basic net loss per share of common stock because the effects of potentially dilutive securities are antidilutive as the Company reported net losses for all periods presented.

The following table sets forth the computation of the Company’s basic and diluted net loss per share of common stock (in thousands, except share and per share data):

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	Three Months Ended		Nine Months Ended	
	October 31,	October 31,	October 31,	October 31,
	2018	2017	2018	2017
<b>Numerator</b>				
Net loss	\$(3,494 )	\$(3,179 )	\$(11,083 )	\$(10,194 )
<b>Denominator</b>				
Weighted-average common shares	19,962,735	18,725,286	19,655,727	18,407,817
Basic and diluted net loss per share	\$(0.18 )	\$(0.17 )	\$(0.56 )	\$(0.55 )

Potentially dilutive securities of approximately 4.1 million and 4.2 million were excluded from the computation of diluted net loss per share for the three and nine months ended October 31, 2018 and 2017, respectively, and included the Company's RSUs, stock options and shares to be purchased under the ESPP.

Ooma, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

#### Note 10: Related Party Transactions

In October 2017, the Company entered into an office sublease agreement with Fiserv Solutions, LLC (“Fiserv”) to lease approximately 33,400 rentable square feet of an office building located in Sunnyvale, California, the Company’s corporate headquarters. One of the members of Ooma’s board of directors is also a current member of Fiserv’s board of directors. The Company incurred rent expense of approximately \$0.2 million and \$0.5 million, respectively, for the three and nine months ended October 31, 2018 under this agreement.

#### Note 11: Business Acquisition

On March 12, 2018, the Company completed its acquisition of Voxter, a privately-held provider of UCaaS offerings for mid-market and enterprise businesses.

The acquisition date fair value consideration transferred for Voxter was approximately \$3.9 million, which consisted of the following (in thousands):

	Fair Value
Cash paid at closing	\$2,510
Common stock issued at closing	390
Holdback payable <sup>(1)</sup>	780
Contingent consideration <sup>(2)</sup>	231
<b>Total</b>	<b>\$3,911</b>

<sup>(1)</sup> Amounts to be paid in cash after a one-year holdback period.

<sup>(2)</sup> Fair value of deferred earn-out payments (\$0.8 million gross) contingent upon the achievement of certain performance targets.

The final purchase price allocation included identifiable intangible assets of approximately \$2.1 million, net assets acquired of approximately \$0.4 million, deferred tax liabilities of approximately \$0.4 million and residual goodwill of approximately \$1.9 million, based on the best estimates of management. See Note 4: Balance Sheet Components above. Acquisition-related transaction costs charged to expense during the nine months ended October 31, 2018 was \$0.4 million. The goodwill recognized was attributable primarily to expected synergies in the acquired technologies that may be leveraged by the Company in future Ooma Business offerings. Goodwill is not expected to be deductible for U.S. or Canadian income tax purposes.

The operating results of the acquired company have been included in the Company's consolidated financial statements from the date of acquisition. Actual and pro forma results of operations for the Voxter acquisition have not been presented because it does not have a material impact on the Company's consolidated results of operations.



## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”)

The following discussion should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and with our audited financial statements included in our Annual Report on Form 10-K for the year ended January 31, 2018 filed with the SEC on April 2, 2018. In addition to historical financial information, the following discussion contains “forward-looking statements” within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and other legal authority. These forward-looking statements concern our operations, economic performance, financial condition, goals, beliefs, future growth strategies, objectives, plans and current expectations. The words “believe,” “will,” “may,” “estimate,” “continue,” “anticipate,” “intend,” “should,” “plan,” “expect,” “predict,” “could,” “potentially” and variations of such similar expressions are intended to identify such forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. Such statements are based on management’s expectations as of the date of this filing and involve many risks and uncertainties that could cause our actual results, events or circumstances to differ materially from those expressed or implied in our forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Item 2. MD&A, as well as the section titled “Risk Factors” included under Part II, Item 1A below. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.

### Executive Overview

Ooma creates powerful connected experiences for businesses and consumers. Our smart SaaS platform serves as a communications hub, which offers cloud-based telephony, smart security and other connected services. Our business and residential communications solutions deliver our proprietary PureVoice high-definition voice quality, advanced features and integration with mobile devices, at competitive pricing and value. Our platform helps create smart workplaces and homes by providing communications, monitoring, security, automation, productivity and networking infrastructure applications.

We drive the adoption of our platform by providing communications solutions to the large and growing markets for business, residential and mobile users, and then accelerate growth by offering new and innovative connected services to our user base. Our customers adopt our platform by making a one-time purchase of one of our on-premise appliances, connecting the appliance to the internet, and activating our subscription and services, for which they primarily pay on a recurring monthly basis. We believe we have achieved high levels of customer retention and loyalty by delivering exceptional quality and customer satisfaction.

We generate subscription and services revenue by selling subscriptions and other services for our communications solutions, as well as other connected services. We generate our product and other revenue from the sale of our on-premise appliances and our end-point devices, as well as from porting fees to enable customers to transfer their existing phone numbers to the Ooma service. We offer our solutions in the U.S. and Canadian markets and began expanding our operations outside of North America in the prior fiscal year.

On February 1, 2018, we adopted Topic 606, Revenue from Contracts with Customers, which resulted in timing and presentation changes affecting our consolidated balance sheet and statement of operations. Product revenue for sales made through our channel partners is recognized when we deliver product to our partners (sell-in basis) rather than deferring recognition until resale by the partners to the end customers (sell-through basis). We also capitalize a significant portion of our sales commission costs as an incremental cost of obtaining a customer contract and amortize

them to sales and marketing expense over an estimated customer life of five years. In prior years, all sales commissions were expensed as incurred. See Note 2: Revenue, Deferred Revenue and Commissions in the notes to the condensed consolidated financial statements.

In March 2018, we acquired Voxter, a provider of customizable UCaaS offerings for mid-market and enterprise businesses for upfront cash consideration of \$2.4 million, net of cash acquired of \$0.1 million. (See Note 11: Business Acquisition in the notes to the condensed consolidated financial statements). We believe Voxter's UCaaS offerings, which we refer to as Ooma Enterprise, will complement our Ooma Office solution and allow us to meet the needs of larger organizations. Although Ooma Enterprise was not material to our condensed consolidated financial statements for the three and nine months ended October 31, 2018, we expect it to be a strategic growth initiative for our business long-term.

Beginning with fiscal 2019, we refer to Ooma Office and Ooma Enterprise collectively as Ooma Business. Ooma Residential includes Ooma Telo basic and premier services as well as our Smart Security solutions.

Third Quarter Fiscal 2019 Financial Highlights

- Total revenue was \$32.6 million, up 14% year-over-year, reflecting a 6% increase in our core users, primarily driven by Ooma Business. Ooma Business contributed approximately 30% to our total revenue compared to 23% in the prior year quarter.

Subscription and services revenue from Ooma Business and Ooma Residential grew 52% and 9% year-over-year, respectively.

Total gross margin of 62% compared to 60% in the prior year quarter.

Net loss was \$3.5 million, compared to \$3.2 million the prior year period, reflecting continued investments in research and development, brand marketing and channel development.

Adjusted Earnings Before Interest Tax and Depreciation and Amortization and other non-GAAP measures (“Adjusted EBITDA”) was (\$0.2) million compared to \$0.0 million in the prior year period.

Cash used in operations was \$1.3 million compared to cash provided by operations of \$0.9 million in the prior year quarter. Cash usage reflects our investments in operating expenses to execute on our growth initiatives, especially Ooma Business.

As of October 31, 2018, we had total cash, cash equivalents and short-term investments of \$46.9 million, compared to \$51.8 million as of January 31, 2018.

Key Business Metrics

We review the key metrics below to evaluate our business, measure our performance, identify trends affecting our business, formulate financial projections and make strategic decisions. Key business metrics include combined data for our core offerings, namely Ooma Business and Ooma Residential.

The following table sets forth our key metrics (in thousands, except percentages):

	As of	
	October 31,	October 31,
	2018	2017
Core users	969	914
Annualized exit recurring revenue (AERR)	\$115,351	\$96,790
Net dollar subscription retention rate	102 %	99 %

Core Users increased 6% year-over-year, which was primarily driven by growth in business users. We believe that the number of our core users is an indicator of our market penetration, the growth of our business and our anticipated future subscription and services revenue. We define our core users as the total number of active residential user accounts and business user extensions.

Annualized Exit Recurring Revenue increased year-over-year due to an increase in the average revenue per core user, which was largely driven by