RingCentral Inc
Form 10-K
February 26, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For transition period from to

Commission File Number: 001-36089

RingCentral, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	94-3322844
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

20 Davis Drive

Belmont, California 94002

(Address of principal executive offices)

(650) 472-4100

(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Class A Common Stock, par value $0.0001	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act:

None

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

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

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
Emerging growth company		

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

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

The aggregate market value of voting stock held by non-affiliates of the Registrant on June 30, 2017, based on the closing price of $36.55 for shares of the Registrant’s common stock as reported by the New York Stock Exchange, was approximately $2.4 billion. Shares of common stock held by each executive officer, director, and their affiliated holders have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 22, 2018, there were 66,472,586 shares of Class A common stock and 12,199,332 shares of Class B common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Information required in response to Part III of Form 10-K (Items 10, 11, 12, 13 and 14) is hereby incorporated by reference to portions of the Registrant’s Proxy Statement for the Annual Meeting of Stockholders to be held in 2018. Such Proxy Statement will be filed by the Registrant with the Securities and Exchange Commission no later than 120 days after the end of the Registrant’s fiscal year ended December 31, 2017.

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PART I.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements that are based on our management’s beliefs and assumptions and on information currently available to our management. Forward-looking statements include all statements that are not historical facts and can be identified by terms such as “anticipates”, “believes”, “could”, “seeks”, “estimates”, “expects”, “intends”, “may”, “plans”, “potential”, “predicts”, “projects”, “should”, “will”, “would” or similar expr negatives of those terms. Forward-looking statements include, but are not limited to, statements about:

- our progress against short term and long term goals;
- our future financial performance;
- our anticipated growth, growth strategies, and our ability to effectively manage that growth and effect these strategies;
- our success in the enterprise market;
- anticipated trends, developments, and challenges in our business and in the markets in which we operate, as well as general macroeconomic conditions;
- our ability to scale to our desired goals, particularly the implementation of new processes and systems and the addition to our workforce;
- the impact of competition in our industry and innovation by our competitors;
- our ability to anticipate and adapt to future changes in our industry;
- our ability to predict software subscriptions revenues, formulate accurate financial projections, and make strategic business decisions based on our analysis of market trends;
- our ability to anticipate market needs and develop new and enhanced products and subscriptions to meet those needs, and our ability to successfully monetize them;
- maintaining and expanding our customer base;
- maintaining, expanding, and responding to changes in our relationships with other companies;
- maintaining and expanding our distribution channels, including our network of sales agents and resellers;
- our success with our carrier partners;
- our ability to sell, market, and support our products and services;
- our ability to expand our business to medium-sized and larger customers as well as expanding domestically and internationally;
- our ability to realize increased purchasing leverage and economies of scale as we expand;
- the impact of seasonality on our business;
- the impact of any failure of our solutions or solution innovations;
- our reliance on our third-party product and service providers;
- the potential effect on our business of litigation to which we may become a party;
- our liquidity and working capital requirements;
- the impact of changes in the regulatory environment;
- our ability to protect our intellectual property and rely on open source licenses;
- our expectations regarding the growth and reliability of the internet infrastructure;
- the timing of acquisitions of, or making and exiting investments in, other entities, businesses, or technologies;
- our ability to successfully and timely integrate, and realize the benefits of any significant acquisition we may make;
- our capital expenditure projections;
- the estimates and estimate methodologies used in preparing our consolidated financial statements;

- the political environment and stability in the regions in which we or our subcontractors operate;
- the impact of economic downturns on us and our customers;
- our ability to defend our systems and our customer information from fraud and cyber attack;
- our ability to prevent the use of fraudulent payment methods for our products;
- our ability to retain key employees and to attract qualified personnel; and
- the impact of foreign currencies on our non-U.S. business as we expand our business internationally.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be significantly different from any future results, performance or achievements expressed or implied by the forward-looking statements. We discuss these risks in greater detail in the section entitled “Risk Factors” and elsewhere in this Annual Report on Form 10-K. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our management’s beliefs and assumptions only as of the date of this Annual Report on Form 10-K. You should read this Annual Report on Form 10-K completely and with the understanding that our actual future results may be significantly different from what we expect.

Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ significantly from those anticipated in these forward looking statements, even if new information becomes available in the future.

ITEM 1. BUSINESS

Overview

We are a leading provider of software-as-a-service ("SaaS") solutions for the way employees communicate and collaborate in business. We believe that our innovative, cloud-based approach disrupts the large market for business communications and collaboration by providing flexible and cost-effective solutions that support distributed workforces, mobile employees and the proliferation of smart phones and tablets. We enable convenient and effective communications for our customers, across all their locations, all their employees, all the time, thus enabling them to be more productive and more responsive to their customers.

The world of business communications has changed dramatically with the introduction of smartphones and tablets. Traditionally, business communications have been comprised of a series of inflexible, expensive, and disparate systems: on-premise hardware based private branch exchanges ("PBX systems") which primarily support only voice on desktop phones. The rapid growth of mobile communications changed the way businesses interact. Employees connect from anywhere with any device. They use multiple modes of communications including voice, video, text, and messaging. These forms of flexible communications enable employees to be productive in ways on-premise systems do not support. In addition, software applications delivery has evolved into cloud based SaaS solutions. Being location and device independent, cloud based delivery is better suited to address the needs of modern mobile and global enterprise workforces that are hard, if not impossible, for legacy on-premise systems to match.

We believe RingCentral benefits from both the shift to mobile and distributed workforces and the migration of hardware on-premise based communication systems to cloud based software solutions. RingCentral's software cloud communications platform is designed from the ground-up, specifically for today's mobile and distributed workforce. We offer a leading collaborative communications suite that unifies the way employees communicate through mobile and desktop devices using audio, video, text messaging, web conferencing, and contact center. In addition, our differentiated open platform Application Programming Interfaces ("APIs") enable seamless integration with standard and customer software applications, examples of which are available at apps.ringcentral.com. These integrations improve business workflows resulting in higher employee productivity. Our global delivery capabilities support the needs of multi-national enterprises in multiple countries.

We primarily generate revenues from the sale of software subscriptions for our cloud-based services. We focus on acquiring and retaining our customers and increasing their spending with us through adding additional users, upselling current customers to premium subscription editions, and providing additional features and functionality. We market and sell our subscriptions to customers through our direct sales force, indirectly through channel partners and carriers and through both our website and inside sales teams. Our indirect channel partners include regional and global master agents such as Intelisys Communications, Inc. (acquired by ScanSource, Inc.), Ingram Micro Inc. (acquired by HNA Group), Sandler Partners, and AVANT, Inc.; national partners such as CDW Corporation, Carousel Industries, and SHI International Corp.; strategic partners such as Alphabet Inc. (the parent company of Google Inc.); and carrier partners including TELUS Communications Company ("TELUS") and BT Group plc ("BT"), which we refer to collectively as resellers. Our network of resellers includes master agents who manage other sales agents and resellers, resulting in an even larger reseller network.

"RingCentral" and other of our trademarks appearing in this report are our property. This report also contains trade names and trademarks of other companies. We do not intend our use or display of other companies' trade names or trademarks to imply an endorsement or sponsorship of us by such companies, or any relationship with any of these companies.

Our Solutions

Our cloud-based business communications and collaboration solutions provide a single user identity across multiple locations and devices, including smartphones, tablets, PCs and desk phones, and allow for communication across multiple modes, including high-definition (“HD”) voice, video, SMS, messaging and collaboration, conferencing, online meetings, and fax. Our proprietary solutions enable a more productive and dynamic workforce, and are architected using industry standards to meet modern business communications and collaboration requirements, including workforce mobility, “bring-your-own” communications device environments and multiple communications methods.

Our solutions are delivered using a highly available, and rapidly and easily scalable infrastructure, allowing our customers to add new users regardless of where they are located. Our solutions are generally affordable, requiring little to no upfront infrastructure hardware costs or ongoing maintenance and upgrade costs commonly associated with on-premise systems and can be integrated with other existing communication systems. RingCentral Office, our flagship offering, is a multi-tenant, multi-location, enterprise-grade communications and collaboration solution. We also offer RingCentral Professional, primarily an inbound call routing subscription with additional text and fax capabilities targeting smaller deployments; RingCentral Fax, an Internet fax subscription that permits sending and receiving faxes over the Internet; RingCentral Contact Center, an integrated and automated communications solution that improves communications between a business and its customers; RingCentral Glip, a team messaging and collaboration tool that allows teams to share tasks, files, and more; Rooms and Rooms Connector, to bring a cloud video conferencing solution to meeting rooms; RingCentral Webinar, a tool capable of hosting up to 10,000 attendees and 200 presenters; and RingCentral Live Reports, a solution that enables RingCentral Office customers to monitor in real time the service quality delivered to their customers.

We believe that our solutions go beyond the core functionality of existing on-premise communications solutions by providing additional key benefits that address the changing requirements of business to allow business communications using voice, SMS, team messaging, collaboration, fax, and HD video web conferencing. The key benefits of our solutions include:

- Location Independence. Our cloud-based solutions are designed to be location independent. We seamlessly connect distributed and mobile users, enabling employees to communicate with a single identity whether working from a central location, a branch office, on the road, or at home.
- Global. Our RingCentral Global Office capabilities support multinational enterprise workforces. RingCentral Global Office connects multinational workforces globally, while reducing the complexity and high costs of maintaining multiple, legacy on-premise PBX systems with a single global cloud solution.
- Device Independence. Our solutions are designed to work with a broad range of devices, including smartphones, tablets, PCs, and desk phones, enabling businesses to successfully implement a "bring-your-own" communications device strategy.
- Instant Activation and Easy Account Management. Our solutions are designed for rapid deployment and ease of management. Our intuitive graphical user interfaces allow administrators and users to set up and manage their business communications system with little or no IT expertise, training, or dedicated staffing.
- Scalability. Our cloud-based solutions scale easily and efficiently with the growth of our customers. Customers can add users, regardless of their location, without having to purchase additional infrastructure hardware or software upgrades.
- Lower Cost of Ownership. We believe that our customers experience significantly lower cost of ownership compared to legacy on-premise systems. Using our cloud-based solutions, our customers can avoid the significant upfront costs of infrastructure hardware, software, ongoing maintenance and upgrade costs, and the need for dedicated and trained IT personnel to support these systems.
- Seamless and Intuitive Integration with Other Applications. Applications are proliferating within businesses of all sizes. Integration of these business applications with legacy on-premise systems is typically complex and expensive, which limits the ability of businesses to leverage cloud-based applications. Our platform provides seamless and intuitive integration with multiple popular cloud-based business applications such as Office365, Google GSuite, Salesforce CRM, Oracle, Okta, Zendesk, and Box, as well as customer lines-of business applications.

Our Products

Our product portfolio includes the following: RingCentral Office, RingCentral Professional, RingCentral Fax, RingCentral Contact Center, and RingCentral Glip.

RingCentral Office. RingCentral Office, our flagship product, is a multi-location, multi-user, enterprise-grade communications solution that enables employees to communicate via different channels and on multiple devices. This subscription is designed primarily for businesses that require a communications solution, regardless of location, type of device, expertise, size, or budget. Businesses are able to seamlessly connect users working in multiple office locations on smartphones, tablets, PCs and desk phones. We sell RingCentral Office in four editions: Essentials, Standard, Premium, and Ultimate. Our Essentials Edition is designed for small organizations and includes high definition voice, call management, mobile applications, business SMS and MMS, team messaging and collaboration, audio/video/web conferencing capabilities, and out-of-the-box integrations with other cloud-based business applications such as Box, Dropbox, Google for Work, Office365, and Outlook. Our Standard Edition includes

Essentials functionality, together with auto-attendant, fax, and business analytics and reporting. Our Premium and Ultimate Editions include the Standard Edition functionality, together with additional software integrations with business applications such as Salesforce CRM, Zendesk, and Desk.com, the ability to create, develop, and deploy custom applications using our APIs, more advanced call routing for our larger customers with multiple business units, and automatic call recording. All editions also vary in the number of included toll-free minutes and number of concurrent video and web conference meeting attendees. RingCentral Office customers also have available to them RingCentral Global Office.

Key features of RingCentral Office include:

- Cloud-Based Business Communications Solutions. We offer multi-user, multi-extension, cloud-based business communications solutions that do not require installation, configuration, management, or maintenance of on-premise hardware and software. Our solutions are instantly activated, and deliver a rich set of functionalities across multiple locations and devices.
- Mobile-Centric Approach. Our solution includes smartphone and tablet mobile applications that customers can use to set up and manage company, department, and user settings from anywhere. Our applications turn iOS and Android smartphones and tablets into business communication devices. Users can change their personal settings instantly and communicate via voice, text, team messaging and collaboration, HD video and web conferencing, and fax. Personal mobile devices are fully integrated into the customer's cloud-based communication solution, using the company's numbers, and displaying one of the company's caller ID for calls made through our mobile applications.
- Easy Set-Up and Control. Our user interfaces have a familiar smartphone touch-screen "look and feel" and provide a consistent user experience across smartphones, tablets, PCs, and desk phones, making it intuitive and easy for our customers to quickly discover and use our solution across devices. Among other capabilities, administrators can specify and modify company, department, user settings, auto-receptionist settings, call-handling, and routing rules, and add, change, and customize users and departments.
- Flexible Call Routing. Our solution includes an auto-attendant to easily customize call routing for the entire company, departments, groups, or individual employees. It includes a robust suite of communication management options, including time of day, caller ID, call queuing, and sophisticated routing rules for complex call handling for the company, departments, groups, and individual employees.
- Integrated Voice, Text, HD Video and Web Conferencing, and Fax Communications with One Business Number. By eliminating the need for multiple business numbers, users are able to easily control how, when, and where they conduct their business communications through routing logic with one number. Employees can stay connected, thus increasing efficiency, productivity, and responsiveness to their customers. Having one business number also enables users to keep personal mobile numbers private. We introduced Rooms and Rooms Connector to bring a cloud web conferencing solution to meeting rooms, support for large meetings up to 500 attendees, and Webinars up to 10,000 attendees for a monthly per license add-on fee.
- Cloud-based Business Application Integrations. Our solution seamlessly integrates with other cloud-based business applications such as Salesforce CRM, Google Cloud, Box, Dropbox, Office365, Oracle, Okta, Desk.com, Zendesk, Jira, Asana, and others. For example, our integration with Salesforce CRM brings up customer records immediately based on inbound caller IDs, resulting in increased productivity and efficiency. Additionally, users can easily fax documents directly from their cloud-based storage accounts. We also offer RingCentral Connect Platform, which is an open platform supported by APIs and SDKs that allows developers to integrate our solution with leading business applications or to customize within their own business workflows.
- RingCentral Global Office. Our solution includes RingCentral Global Office, a single global Unified Communications as a Service ("UCaaS") solution designed for multinational enterprises that allows these companies to support distributed offices and employees globally with a single cloud solution. With RingCentral Global Office, multinational enterprises can operate in other countries while also acting as one integrated business, with capabilities including local phone numbers, local caller ID, worldwide extension-to-extension dialing, and included minute bundles for international calling.
- RingCentral CloudConnect. RingCentral CloudConnect is a service that allows enterprises to leverage their dedicated and private connections to exchange data directly with the RingCentral cloud. Customers use their preferred network service provider to connect to the RingCentral cloud through a private data exchange enabling lower latency, greater network reliability and availability, and added security.

RingCentral Professional. Our RingCentral Professional solution provides a subset of our RingCentral Office solution capabilities designed primarily for smaller businesses. RingCentral Professional is principally used as an inbound call routing subscription with text and fax capabilities.

RingCentral Fax. Our RingCentral Fax solution provides Internet fax capabilities that allow businesses to send and receive fax documents without the need for a fax machine.

RingCentral Contact Center. Our RingCentral Contact Center solution provides a cloud based contact center solution that delivers omni-channel capabilities so businesses can allow customers to engage in the manner they prefer. The solution leverages technology from NICE inContact, Inc., and has a comprehensive feature set that integrates with RingCentral Office. This enables businesses to build customer loyalty and increase productivity by resolving customer issues faster and more effectively.

RingCentral Glip. Our RingCentral Glip team messaging and collaboration solution allows diverse teams to stay connected through multiple modes of communication through an integration with RingCentral Office. In addition to using RingCentral Glip for team messaging and communications, teams can share tasks, notes, group calendars, and files. RingCentral Glip is designed for distributed and mobile teams and offers out-of-the-box integrations with a number of leading cloud business applications such as Asana, Dropbox, Evernote, Jira, Github, Google, and others.

Our Customers

We have a diverse and growing customer base across a wide range of industries, including financial services, healthcare, legal services, real estate, retail, technology, insurance, construction, hospitality, and state and local government, among others. For the years ended December 31, 2017, 2016, and 2015, AT&T, one of our resellers, accounted for 11%, 14%, and 13% of our total revenues and 12%, 13%, and 12% of our software subscription revenues, respectively. In January 2018, we acquired from AT&T, Inc. ("AT&T") the existing customer base of the RingCentral Office@Hand solution sold by AT&T. The transitioning of these customers to RingCentral Office has commenced and is expected to be completed over the next twelve months. AT&T no longer sells new subscriptions for our solutions.

Prior to 2014, we focused our principal efforts on the market for small- and medium-sized businesses, defined by IDC as less than 1,000 employees, in the U.S., Canada, and the United Kingdom (the "U.K."). In 2014, we began targeting larger customers through our product development and marketing, and sales and support teams, and in 2015, we began selling to enterprise customers. We continuously expand our product offering globally and believe that there are additional growth opportunities in international markets.

Marketing, Sales and Support

We use a variety of marketing, sales, and support activities to generate and cultivate ongoing customer demand for our subscriptions, acquire new customers, and engage with our existing customers. We sell through both direct and indirect channels. We provide on-boarding implementation support to help our customers set up and configure their newly purchased communications system, as well as ongoing self-service, phone support, online chat support, and training. We also closely track and monitor customer acquisition costs to assess how we are deploying our marketing, sales, and customer support spending.

- Marketing. Our marketing efforts include search engine marketing, search engine optimization, affiliates, list buys, shared leads, content leads, appointment setting, radio advertising, online display advertising, billboard advertising, tradeshows and events, and other forms of demand generation. We track and measure our marketing costs closely across all channels so that we can acquire customers in a cost-efficient manner.
- Direct Sales. We primarily sell our products and software subscriptions through direct inbound and outbound sales efforts. We have direct sales representatives located in the U.S. and internationally.
- Indirect Sales. Our indirect sales channel consists of a network of sales agents and channel partners who are active in selling our solutions and with whom we have direct relationships, including our carrier partners TELUS and BT, which help broaden the adoption of our subscriptions without the need for a large direct field sales force. Our network of resellers includes master agents who manage other sales agents and resellers, resulting in an even larger reseller network.
- Customer Support. While our intuitive and easy-to-use user interface serves to reduce our customers' need for support, we provide online chat and phone customer support, as well as post-sale implementation support, as an option to help customers configure and use our solution. We track and measure our customer satisfaction and our support costs closely across all channels to provide a high level of customer service in a cost-efficient manner.

Research and Development

We believe that continued investment in research and development is critical to expanding our leadership position within the cloud-based business communications solutions market. We devote the majority of our research and development resources to software development. Our engineering team has significant experience in various disciplines related to our platform, such as voice, text, team messaging and collaboration, video and fax processing, mobile application development, IP networking and infrastructure, user experience, security, and robust multi-tenant cloud-based system architecture.

Our development methodology, in combination with our SaaS delivery model, allows us to provide new and enhanced capabilities on a regular basis. Based on feedback from our customers and prospects and our review of the broader business communications and SaaS markets, we continuously develop new functionality while maintaining and enhancing our existing solution. We typically have multiple releases per year, where we constantly improve our product and introduce new capabilities and features to make our customers' workforce more productive and to build out the feature set required by larger and global enterprises.

Our research and development expenses were $75.1 million, $65.5 million, and $52.9 million in fiscal years 2017, 2016, and 2015, respectively.

Technology and Operations

Our platform is built on a highly scalable and flexible infrastructure comprised of commercially available hardware and software components. We believe that both hardware and software components of our platform can be replaced, upgraded or added with minimal or no interruption in service. The system is designed to have no single point-of-failure.

We host our products and serve our customers from 17 data centers. In North America we have two third-party U.S. based data center facilities in San Jose, California and Vienna, Virginia, and we host our products and serve our customers in the U.K. and other European countries from two third-party data center hosting facilities in Amsterdam, the Netherlands, and Zurich, Switzerland. Our collaboration solution, RingCentral Glip, is hosted by Amazon Web Services, Inc. We also maintain seven additional U.S. based data center facilities for media processing public switched telephone networks ("PSTN") interconnect. Additionally, we use third-party co-location facilities in the U.K., Singapore, Australia, Canada, Brazil, and Japan to facilitate local media processing in these regions. Our data centers are designed to host mission-critical computer and communications systems with redundant, fault-tolerant subsystems, and compartmentalized security zones. We maintain a security program designed to ensure the security and integrity of customer data, protect against security threats or data breaches, and prevent unauthorized access to our customers' data. We limit access to on-demand servers and networks at our production and remote backup facilities.

We serve North American customers out of two Points of Presence, known as POPs, one in San Jose, California and the other in Vienna, Virginia. RingCentral subscribers are divided into Parts of Data ("PODs") each comprised of two symmetrical, synchronized units. POPs and PODs are redundant with switchover and failover capabilities between POPs. In addition to the symmetric PODs and POPs, we have also deployed POPs in the U.K., Singapore, Australia, Brazil, Canada, and Japan, which serve as an extension of our architecture to help facilitate local media processing for global customers while maintaining core services and data in our POPs in North America and Europe. This architecture enables us to deliver our subscriptions in a scalable and reliable manner. We can manage our customer growth by adding additional PODs and POPs into our delivery infrastructure as required. We leverage third-party network service providers, including CenturyLink, Inc., Bandwidth.com, Inc., and AT&T, for network connectivity. We also obtain connectivity and network services in certain regions from our subsidiary, RCLEC, Inc. ("RCLEC").

Intellectual Property

We rely on a combination of patent, copyright, and trade secret laws in the U.S. and other jurisdictions, as well as license agreements and other contractual protections, to protect our proprietary technology. We also rely on a number of registered and unregistered trademarks to protect our brand. In addition, we seek to protect our intellectual property rights by implementing a policy that requires our employees and independent contractors involved in the development of intellectual property on our behalf to enter into agreements acknowledging that all works or other intellectual property generated or conceived by them on our behalf are our property, and assigning to us any rights, including intellectual property rights, that they may claim or otherwise have in those works or property, to the extent allowable under applicable law.

Our intellectual property portfolio includes 135 issued U.S. utility patents, which expire between 2026 and 2037. We also have 39 patent applications pending examination in the U.S. and 15 patent applications pending examination in foreign jurisdictions, all of which are related to U.S. applications. In general, our patents and patent applications apply to certain aspects of our SaaS and mobile applications and underlying communications infrastructure. We are also a party to various license agreements with third parties that typically grant us the right to use certain third-party technology in conjunction with our products and software subscriptions.

Competition

The market for business communications solutions is very large, rapidly evolving, complex, fragmented and defined by changing technology, and customer needs. We expect competition to continue to increase in the future. We believe that the principal competitive factors in our market include:

- subscription features and capabilities;
- system reliability, availability, and performance;
- speed and ease of activation, setup, and configuration;
- ownership and control of the underlying technology;
- integration with mobile devices;

- brand awareness and recognition;
- simplicity of the pricing model; and
- total cost of ownership.

We believe that we generally compete favorably on the basis of the factors listed above.

We face competition from a broad range of providers of business communications solutions. Some of these competitors include:

- traditional on-premise, hardware business communications providers such as Alcatel-Lucent Enterprise, Avaya Inc., Cisco Systems, Inc., Mitel Networks Corporation, and Siemens Enterprise Networks, LLC, any of which may now or in the future also host their solutions through the cloud;
- software providers such as Microsoft Corporation (Microsoft Teams (formerly Skype for Business)) and BroadSoft, Inc. (which recently announced an agreement to be acquired by Cisco Systems, Inc.) that generally license their software and may now or in the future also host their solutions through the cloud, and their resellers including major carriers and cable companies;
- established communications providers that resell on-premise hardware, software, and hosted solutions, such as AT&T, Verizon Communications Inc., and Comcast Corporation in the United States, TELUS and others in Canada, and BT, Vodafone, and others in the U.K., all of whom have significantly greater resources than us and do now or may in the future also develop and/or host their own or other solutions through the cloud;
- other cloud companies such as 8x8, Inc., Amazon.com, Inc., DialPad, Inc., Fuze (formerly Thinking Phone Networks), StarBlue (merger of Star2Star and BlueFace), Intermedia.net, Inc., J2 Global, Inc., Jive Communications, Inc. (which recently announced an agreement to be acquired by LogMeIn, Inc.), Microsoft Corporation (Microsoft Teams (formerly Skype for Business)), Nextiva, Inc., Slack Technologies, Inc., Vonage Holdings Corp., and West Corporation;
- other large internet companies such as Alphabet Inc., Facebook, Inc., Oracle Corporation, and Salesforce.com, Inc., any of which might launch its own cloud-based business communication services or acquire other cloud-based business communications companies in the future; and
- established contact center providers such as Amazon.com, Inc., Aspect Software, Inc., Avaya Inc., Five9, Inc., Genesys Telecommunications Laboratories, Inc., Interactive Intelligence, Inc. (acquired by Genesys Telecommunications Laboratories, Inc.), and NewVoiceMedia.

Employees and Contractors

As of December 31, 2017, we had 1,352 full-time employees, including 317 in research and development, 644 in sales and marketing, 195 in operations, and 196 in general and administrative. As of such date, we had 1,081 employees located in the U.S. and 271 internationally, including 195 in China. None of our employees are covered by collective bargaining agreements. We believe that our employee relations are good and we have never experienced any work stoppages.

We also contract with third-party contractors whose employees or subcontractors' employees perform services for us. We refer to our third-party contractors' employees and subcontractors' employees as our contractors. As of December 31, 2017, we had 1,946 of these contractors, including 538 in research and development, 545 in sales and marketing, 630 in operations, and 233 in general and administrative. As of such date, we had 56 contractors located in the U.S. and 1,890 internationally, including 1,200 in the Philippines and 690 in Russia and Ukraine.

Regulatory

As a provider of Internet communications services, we are subject to regulation in the U.S. by the FCC. Some of these regulatory obligations include contributing to the Federal Universal Service Fund, Telecommunications Relay Service Fund, and federal programs related to phone number administration; providing access to E-911 services; protecting customer information; and porting phone numbers upon a valid customer request. We are also required to pay state and local 911 fees and contribute to state universal service funds in those states that assess Internet voice communications services. In addition, we have certified a wholly owned subsidiary as a competitive local exchange carrier in thirty-four states and currently intend to obtain certificates for our subsidiary in additional states. This subsidiary, RCLEC, is subject to the same FCC regulations applicable to telecommunications companies, as well as regulation by the public utility commissions in states where the subsidiary provides services. Specific regulations vary on a state-by-state basis, but generally include the requirement for our subsidiary to register or seek certification to provide its services, to file and update tariffs setting forth the terms, conditions and prices for our intrastate services and to comply with various reporting, record-keeping, surcharge collection, and consumer protection requirements.

As we expand internationally, we will be subject to laws and regulations in the countries in which we offer our subscriptions. Regulatory treatment of Internet communications services outside the U.S. varies from country to country, is often unclear, and may be more onerous than imposed on our subscriptions in the U.S. In the United Kingdom, for example, our subscriptions are regulated by Ofcom, which, among other things, requires electronic communications providers such as our company to provide all users access to both 112 (EU-mandated) and 999 (U.K.-mandated) emergency service numbers at no charge. Similarly in Canada, our subscriptions are regulated by the CRTC, which, among other things, imposes requirements similar to the U.S. related to the provision of E-911 services in all areas of Canada where the wireline incumbent carrier offers such 911 services. Our regulatory obligations in foreign jurisdictions could have a material adverse effect on the use of our subscriptions in international locations. See the section entitled “Risk Factors” for more information.

Geographic Information

For a description of our revenue by geographic location, see Note 13 of the Notes to Consolidated Financial Statements under Item 8 of this Annual Report on Form 10-K.

Available Information

Our principal executive offices are located at 20 Davis Drive, Belmont, CA 94002. The telephone number of our principal executive offices is (888) 528-7464, and our main corporate website is www.ringcentral.com. Information contained on, or that can be accessed through, our website, does not constitute part of this Annual Report on Form 10-K and inclusion of our website address in this Annual Report on Form 10-K is an inactive textual reference only.

We make available our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, free of charge on our website, ir.ringcentral.com as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission, or the “SEC”. Additionally, copies of materials filed by us with the SEC may be accessed at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 or at the SEC’s website, www.sec.gov. For information about the SEC’s Public Reference Room, contact 1-800-SEC-0330.

The Company announces material information to the public about the Company, its products and services and other matters through a variety of means, including the Company’s website (www.ringcentral.com), the investor relations section of its website (ir.ringcentral.com), press releases, filings with the SEC, and public conference calls, in order to achieve broad, non-exclusionary distribution of information to the public. The Company encourages investors and others to review the information it makes public in these locations, as such information could be deemed to be material information. Please note that this list may be updated from time to time.

ITEM 1A. RISK FACTORS

This Report contains forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, the risk factors set forth below. The risks and uncertainties described in this Report are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently believe are immaterial may also affect our business. If any of these known or unknown risks or uncertainties actually occurs and have a material adverse effect on us, our business, financial condition, and results of operations could be seriously harmed.

Risks Related to Our Business and Our Industry

We have incurred significant losses and negative cash flows in the past and anticipate continuing to incur losses for at least the foreseeable future, and we may therefore not be able to achieve or sustain profitability in the future.

We have incurred substantial net losses since our inception, including net losses of $26.1 million for fiscal 2017, $29.3 million for fiscal 2016, and $32.1 million for fiscal 2015, and had an accumulated deficit of $265.6 million as of December 31, 2017. Over the past few years, we have spent considerable amounts of time and money to develop new business communications solutions and enhanced versions of our existing business communications solutions to position us for future growth. Additionally, we have incurred substantial losses and expended significant resources upfront to market, promote and sell our solutions and expect to continue to do so in the future. We also expect to continue to invest for future growth, including for advertising, customer acquisition, technology infrastructure, storage capacity, services development and international expansion. In addition, as a public company, we incur significant accounting, legal, and other expenses.

Although our net losses have decreased in recent years, we expect to continue to incur losses for at least the foreseeable future and will have to generate and sustain increased revenues to achieve future profitability. Achieving profitability will require us to increase revenues, manage our cost structure, and avoid significant liabilities. Revenue growth may slow, revenues may decline, or we may incur significant losses in the future for a number of possible reasons, including general macroeconomic conditions, increasing competition (including competitive pricing pressures), a decrease in the growth of the markets in which we compete, in particular the SaaS market, or if we fail for any reason to continue to capitalize on growth opportunities. Additionally, we may encounter unforeseen operating expenses, difficulties, complications, delays, service delivery, and quality problems and other unknown factors that may result in losses in future periods. If these losses exceed our expectations or our revenue growth expectations are not met in future periods, our financial performance will be harmed and our stock price could be volatile or decline.

Our relatively limited operating history makes it difficult to evaluate our current business and future prospects, which may increase the risk of investing in our stock.

Although we were incorporated in 1999, we did not formally introduce RingCentral Office, our current flagship product, until 2009. We have encountered and expect to continue to encounter risks and uncertainties frequently experienced by growing companies in rapidly changing markets. If our assumptions regarding these uncertainties are incorrect or change in reaction to changes in our markets, or if we do not manage or address these risks successfully, our results of operations could differ materially from our expectations, and our business could suffer. Any success that we may experience in the future will depend, in large part, on our ability to, among other things:

- retain and expand our customer base;
- increase revenues from existing customers as they add users and, in the future, purchase additional functionalities and premium editions;
- successfully expand our business to larger customers;
- successfully expand our business internationally;
- successfully acquire customers on a cost-effective basis;
- improve the performance and capabilities of our services, products and applications through research and development and third-party service providers;
- successfully compete in our markets;
- continue to innovate and expand our offerings;
- continue our relationship with carriers and our other resellers;
- successfully protect our intellectual property and defend against intellectual property infringement claims;
- generate leads and convert potential customers into paying customers;
- maintain and enhance our third-party data center hosting facilities to minimize interruptions in the use of our subscriptions; and
- hire, integrate, and retain professional and technical talent.

Our quarterly and annual results of operations have fluctuated in the past and may continue to do so in the future. As a result, we may fail to meet or to exceed the expectations of research analysts or investors, which could cause our stock price to fluctuate.

Our quarterly and annual results of operations have varied historically from period to period, and we expect that they will continue to fluctuate due to a variety of factors, many of which are outside of our control, including:

- our ability to retain existing customers and resellers, expand our existing customers' user base, and attract new customers;
- our ability to introduce new solutions;
- the actions of our competitors, including pricing changes or the introduction of new solutions;
- our ability to effectively manage our growth;

- our ability to successfully penetrate the market for larger businesses;
- the mix of annual and multi-year subscriptions at any given time;
- the timing, cost, and effectiveness of our advertising and marketing efforts;

- the timing, operating cost, and capital expenditures related to the operation, maintenance and expansion of our business;
- service outages or information security breaches and any related impact on our reputation;
- our ability to accurately forecast revenues and appropriately plan our expenses;
- our ability to realize our deferred tax assets;
- costs associated with defending and resolving intellectual property infringement and other claims;
- changes in tax laws, regulations, or accounting rules;
- the timing and cost of developing or acquiring technologies, services or businesses, and our ability to successfully manage any such acquisitions;
- the impact of foreign currencies on our business as we continue to expand our business internationally; and
- the impact of worldwide economic, political, industry, and market conditions.

Any one of the factors above, or the cumulative effect of some or all of the factors referred to above, may result in significant fluctuations in our quarterly and annual results of operations. This variability and unpredictability could result in our failure to meet our publicly announced guidance or the expectations of securities analysts or investors for any period, which could cause our stock price to decline. In addition, a significant percentage of our operating expenses is fixed in nature and is based on forecasted revenues trends. Accordingly, in the event of revenue shortfalls, we may not be able to mitigate the negative impact on net income (loss) and margins in the short term. If we fail to meet or exceed the expectations of research analysts or investors, the market price of our shares could fall substantially, and we could face costly lawsuits, including securities class-action suits.

We face intense competition in our markets and may lack sufficient financial or other resources to compete successfully.

The cloud-based business communications and collaboration solutions industry is competitive, and we expect competition to increase in the future. We face intense competition from other providers of business communications and collaboration systems and solutions. Our competitors include traditional on-premise, hardware business communications providers such as Alcatel-Lucent Enterprise, Avaya Inc., Cisco Systems, Inc., Mitel Networks Corporation, Siemens Enterprise Networks, LLC, their resellers, and others; as well as companies such as BroadSoft, Inc. (which recently announced an agreement to be acquired by Cisco Systems, Inc.) and their resellers that license their software. In addition, certain of our resellers are also our competitors. BT and TELUS, for example, each serve as resellers to us but they are also competitors for business communications. These companies have significantly greater resources than us and currently, or may in the future, develop and/or host their own or other solutions through the cloud. Such competitors may cease reselling our solutions to their customers and ultimately be able to transition some or all of those customers onto their competing solutions, which could materially and adversely affect our revenues and growth. In this regard, in August 2016, AT&T announced its launch of a competing hosted business communications solution, and in 2017, new subscriptions for our solution sold by AT&T declined to an immaterial level. In January 2018, we closed a transaction with AT&T to allow us to transition the existing customer base for RingCentral Office@Hand solution sold by AT&T directly to RingCentral. We are in the early stages of transitioning these AT&T customers to us. If a significant number of these AT&T customers choose to terminate their service rather than transition to us or terminate their service after transitioning to us, our revenues and growth could be significantly and adversely affected. We also face competition from other cloud companies such as 8x8, Inc., Amazon.com, Inc., Dialpad, Inc., Fuze, StarBlue, Intermedia.net, Inc., j2 Global, Inc., Jive Communications, Inc., Microsoft Corporation (Microsoft Teams (Skype for Business)), Nextiva, Inc., Slack Technologies, Inc., Vonage Holdings Corp., and West Corporation as well as from established communications providers, such as AT&T, Verizon Communications Inc., and Comcast Corporation in the United States, TELUS and others in Canada, and BT, Vodafone Group plc, and others in the U.K., that resell on-premise hardware, software, and hosted solutions, and they may develop and/or host their own solutions. We may also face competition from other large Internet companies, such as Alphabet Inc., Facebook, Inc., and Oracle Corporation, any of which might launch its own cloud-based business communications services or acquire other cloud-based business communications companies in the future. In addition, in 2016 we began selling a contact center solution. We face competition with respect to this solution from contact center providers such as Amazon.com, Inc., Aspect Software, Inc., Avaya Inc., Five9, Inc., Genesys Telecommunications Laboratories, Inc., Interactive Intelligence, Inc., and NewVoiceMedia.

Many of our current and potential competitors have longer operating histories, significantly greater resources and name recognition, more diversified product offerings, and larger customer bases than we have. As a result, these competitors may have greater credibility with our existing and potential customers and may be better able to withstand an extended period of downward pricing pressure. In addition, certain of our competitors have partnered with, or been acquired by, and may in the future partner with or acquire, other competitors to offer services, leveraging their collective competitive positions, which makes it more difficult to compete with them and could significantly and adversely affect our results of operations. They also may be able to adopt more aggressive pricing policies and devote greater resources to the development, promotion and sale of their services than we can to ours. Some of these service providers have in the past and may choose in the future to sacrifice revenues in order to gain market share by offering their services at lower prices or for free. Our competitors may also offer bundled service arrangements offering a more complete service offering, despite the technical merits or advantages of our subscriptions. Competition could force us to decrease our prices, slow our growth, increase our customer turnover, reduce our sales, or decrease our market share. The adverse impact of a shortfall in our revenues may be magnified if we are unable to adjust spending adequately to compensate for such shortfall.

To deliver our subscriptions, we rely on third parties for our network connectivity and co-location facilities, and for certain of the features in our subscriptions.

We currently use the infrastructure of third-party network service providers including CenturyLink, Inc. and Bandwidth.com, Inc. in North America, Colt Technology Services and British Telecommunications plc in Europe, and several others throughout the world, to deliver our subscriptions over their networks. Our third-party network service providers provide access to their Internet protocol (“IP”) networks, and public switched telephone networks (“PSTN”) and provide call termination and origination services, including 911 emergency calling in the U.S. and equivalent services in Canada, the U.K., Asia, Europe, Latin America, and the Middle East, and local number portability for our customers. We expect that we will continue to rely heavily on third-party network service providers to provide these subscriptions for the foreseeable future. We also obtain certain connectivity and network services from our wholly owned subsidiary, RCLEC, in certain geographic markets; however RCLEC also uses the infrastructure of third-party network service providers to deliver its services. Historically, our reliance on third-party networks has reduced our operating flexibility and ability to make timely service changes and control quality of service, and we expect that this will continue for the foreseeable future. If any of these network service providers stop providing us with access to their infrastructure, fail to provide these services to us on a cost-effective basis, cease operations, or otherwise terminate these services, the delay caused by qualifying and switching to another third-party network service provider, if one is available, could have a material adverse effect on our business and results of operations.

In addition, we currently use and may in the future use third-party service providers to deliver certain features of our subscriptions. For example, we rely on Free Conference Call Global, LLC for some conference calling features, Zoom Video Communications for our HD video and web conferencing and screen sharing features, Bandwidth.com for our texting capabilities, and NICE inContact, Inc. for our contact center capabilities. We do not, and may not in the future, have long-term contracts with certain of these third-party providers, including Zoom Video Communications and Bandwidth.com. If any of these service providers elects to stop providing us with access to their services, fails to provide these services to us on a cost-effective basis, ceases operations, or otherwise terminates these services, the delay caused by qualifying and switching to another third-party service provider, if one is available, or building a proprietary replacement solution could have a material adverse effect on our business and results of operations.

Finally, if problems occur with any of these third-party network or service providers, it may cause errors or poor call quality in our subscriptions, and we could encounter difficulty identifying the source of the problem. The occurrence of errors or poor call quality in our subscriptions, whether caused by our systems or a third-party network or service provider, may result in the loss of our existing customers, delay or loss of market acceptance of our subscriptions, termination of our relationships and agreements with our resellers or liability for failure to meet service level agreements, and may seriously harm our business and results of operations.

Interruptions or delays in service from our third-party data center hosting facilities and co-location facilities could impair the delivery of our subscriptions, require us to issue credits or pay penalties and harm our business.

We currently serve our North American customers from two data center hosting facilities located in northern California and northern Virginia, where we lease space from Equinix, Inc. We serve our customers in the U.K. and other European countries from two third-party data center hosting facilities in Amsterdam, the Netherlands, and

Zurich, Switzerland. We also use third-party co-location facilities in Canada, the U.K., Australia, Switzerland, Singapore, Brazil, and Japan to serve our customers in these regions. Our collaboration solution, RingCentral Glip, is hosted by Amazon Web Services, Inc. In addition, RCLEC uses third-party co-location facilities to provide us with network services at several locations. Damage to, or failure of, these facilities, the communications network providers with whom we or they contract, or with the systems by which our communications providers allocate capacity among their customers, including us, or software errors, have in the past and could in the future result in interruptions in our services. Additionally, in connection with the expansion or consolidation of our existing data center facilities, we may move or transfer our data and our customers' data to other data centers. Despite precautions that we take during this process, any unsuccessful data transfers may impair or cause disruptions in the delivery of our subscriptions. Interruptions in our subscriptions may reduce our revenues, may require us to issue credits or pay penalties, subject us to claims and litigation, cause customers to terminate their subscriptions and adversely affect our renewal rates and our ability to attract new customers. Our ability to attract and retain customers depends on our ability to provide customers with a highly reliable subscription and even minor interruptions in our subscriptions could harm our brand and reputation and have a material adverse effect on our business.

As part of our current disaster recovery arrangements, our North American infrastructure and all of our North American customers' data is currently replicated in near real-time at our two data center facilities in the U.S., and our European production environment and all of our U.K. and other European customers' data is also currently replicated in near real-time at our two European data center facilities. We do not control the operation of these facilities or of our other data center facilities or RCLEC's co-location facilities, and they are vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunications failures, and similar events. They may also be subject to human error or to break-ins, sabotage, acts of vandalism, and similar misconduct. Despite precautions taken at these facilities, the occurrence of a natural disaster, human error, or an act of terrorism or other unanticipated problems at these facilities could result in lengthy interruptions in our subscriptions. Even with the disaster recovery arrangements in place, our subscriptions could be interrupted.

We may also be required to transfer our servers to new data center facilities in the event that we are unable to renew our leases on acceptable terms, if at all, or the owners of the facilities decide to close their facilities, and we may incur significant costs and possible subscription interruption in connection with doing so. In addition, any financial difficulties, such as bankruptcy or foreclosure, faced by our third-party data center operators, or any of the service providers with which we or they contract may have negative effects on our business, the nature and extent of which are difficult to predict. Additionally, if our data centers are unable to keep up with our increasing needs for capacity, our ability to grow our business could be materially and adversely impacted.

Failures in Internet infrastructure or interference with broadband access could cause current or potential users to believe that our systems are unreliable, possibly leading our customers to switch to our competitors or to avoid using our subscriptions.

Unlike traditional communications services, our subscriptions depend on our customers' high-speed broadband access to the Internet, usually provided through a cable or digital subscriber line ("DSL") connection. Increasing numbers of users and increasing bandwidth requirements may degrade the performance of our subscriptions and applications due to capacity constraints and other Internet infrastructure limitations. As our customer base grows and their usage of communications capacity increases, we will be required to make additional investments in network capacity to maintain adequate data transmission speeds, the availability of which may be limited, or the cost of which may be on terms unacceptable to us. If adequate capacity is not available to us as our customers' usage increases, our network may be unable to achieve or maintain sufficiently high data transmission capacity, reliability or performance. In addition, if Internet service providers and other third parties providing Internet services have outages or deteriorations in their quality of service, our customers will not have access to our subscriptions or may experience a decrease in the quality of our subscriptions. Furthermore, as the rate of adoption of new technologies increases, the networks on which our subscriptions and applications rely may not be able to sufficiently adapt to the increased demand for these services, including ours. Frequent or persistent interruptions could cause current or potential users to believe that our systems or subscriptions are unreliable, leading them to switch to our competitors or to avoid our subscriptions, and could permanently harm our reputation and brands.

In addition, users who access our subscriptions and applications through mobile devices, such as smartphones and tablets, must have a high-speed connection, such as Wi-Fi, 3G, 4G, or LTE, to use our subscriptions and applications. Currently, this access is provided by companies that have significant and increasing market power in the broadband and Internet access marketplace, including incumbent phone companies, cable companies, and wireless companies. Some of these providers offer products and subscriptions that directly compete with our own offerings, which can potentially give them a competitive advantage. Also, these providers could take measures that degrade, disrupt or increase the cost of user access to third-party services, including our subscriptions, by restricting or prohibiting the use of their infrastructure to support or facilitate third-party services or by charging increased fees to third parties or the users of third-party services, any of which would make our subscriptions less attractive to users, and reduce our revenues.

On January 4, 2018, the FCC released an order reclassifying broadband Internet access as an information service, subject to certain provisions of Title I of the Communications Act. The order eliminates rules adopted in 2015 that prohibited broadband providers from blocking, impairing, or degrading access to legal content, applications, services, or non-harmful devices, or engaging in the practice of paid prioritization, e.g., the favoring of some lawful Internet traffic over other traffic in exchange for higher payments. The order does require broadband providers to disclose publicly accurate information regarding network management practices, performance characteristics, and commercial terms of their broadband Internet access services sufficient to enable consumers to make informed choices regarding the purchase and use of such services and entrepreneurs and other small businesses to develop, market, and maintain Internet offerings. The rules require that such disclosure be made via a publicly available, easily accessible website or through transmittal to the FCC. The order also shifts regulatory oversight of broadband providers to the Federal Trade Commission, under its authority to prevent unfair or deceptive acts or practices. The new rules will go into effect after the Office of Management and Budget approves certain information collection requirements under the Paperwork Reduction Act, and notice of such approval is published in the Federal Register. A number of opponents of the FCC order have filed notices of appeal with federal appellate courts. In addition, Congress may take action to curtail or modify the FCC's new broadband rules. We cannot predict whether the order will be modified, overturned, or vacated by legal action of the court, federal legislation, or the FCC. Under the new rules, broadband internet access providers may be able to charge web-based services such as ours for priority access to customers, which could result in increased costs and a loss of existing users, impair our ability to attract new users, and materially and adversely affect our business and opportunities for growth.

Most of our customers may terminate their subscriptions for our service at any time without penalty, and increased customer turnover, or costs we incur to retain our customers and encourage them to add users and, in the future, to purchase additional functionalities and premium subscription editions, could materially and adversely affect our financial performance.

Although we have recently begun to enter into long-term contracts with larger customers, our customers generally do not have long-term contracts with us and these customers may terminate their subscriptions at any time without penalty or early termination charges. We cannot accurately predict the rate of customer terminations or average monthly subscription cancellations or failures to renew, which we refer to as turnover. Our customers with subscription agreements have no obligation to renew their subscriptions for our service after the expiration of their initial subscription period, which is typically between one and three years. In the event that these customers do renew their subscriptions, they may choose to renew for fewer users, shorter contract lengths, or for a less expensive subscription plan or edition. We cannot predict the renewal rates for customers that have entered into subscription contracts with us.

Customer turnover, as well as reductions in the number of users for which a customer subscribes, each could have a significant impact on our results of operations, as does the cost we incur in our efforts to retain our customers and encourage them to upgrade their subscriptions and increase their number of users. Our turnover rate could increase in the future if customers are not satisfied with our subscriptions, the value proposition of our subscriptions or our ability to otherwise meet their needs and expectations. Turnover and reductions in the number of users for whom a customer subscribes may also increase due to factors beyond our control, including the failure or unwillingness of customers to pay their monthly subscription fees due to financial constraints and the impact of a slowing economy. Due to turnover and reductions in the number of users for whom a customer subscribes, we have to acquire new customers, or acquire new users within our existing customer base, on an ongoing basis simply to maintain our existing level of customers and revenues. If a significant number of customers terminate, reduce, or fail to renew their subscriptions, we may be required to incur significantly higher marketing expenditures than we currently anticipate in order to increase the number of new customers or to upsell existing customers, and such additional marketing expenditures could harm our business and results of operations.

Our future success also depends in part on our ability to sell additional subscriptions and additional functionalities to our current customers. This may require increasingly sophisticated and more costly sales efforts and a longer sales cycle. Any increase in the costs necessary to upgrade, expand and retain existing customers could materially and adversely affect our financial performance. If our efforts to convince customers to add users and, in the future, to purchase additional functionalities are not successful, our business may suffer. In addition, such increased costs could cause us to increase our subscription rates, which could increase our turnover rate.

If we are unable to attract new customers to our subscriptions or upsell to those customers on a cost-effective basis, our business will be materially and adversely affected.

In order to grow our business, we must continue to attract new customers and expand the number of users in, and services provided to, our existing customer base on a cost-effective basis. We use and periodically adjust the mix of advertising and marketing programs to promote our subscriptions. Significant increases in the pricing of one or more of our advertising channels would increase our advertising costs or may cause us to choose less expensive and perhaps less effective channels to promote our subscriptions. As we add to or change the mix of our advertising and marketing strategies, we may need to expand into channels with significantly higher costs than our current programs, which could materially and adversely affect our results of operations. We will incur advertising and marketing expenses in advance of when we anticipate recognizing any revenues generated by such expenses, and we may fail to otherwise experience an increase in revenues or brand awareness as a result of such expenditures. We have made in the past, and may make in the future, significant expenditures and investments in new advertising campaigns, and we cannot assure you that any such investments will lead to the cost-effective acquisition of additional customers. If we are unable to maintain effective advertising programs, our ability to attract new customers could be materially and adversely affected, our advertising and marketing expenses could increase substantially, and our results of operations may suffer.

Some of our potential customers learn about us through leading search engines, such as Google, Yahoo!, and Bing. While we employ search engine optimization and search engine marketing strategies, our ability to maintain and increase the number of visitors directed to our website is not entirely within our control. If search engine companies modify their search algorithms in a manner that reduces the prominence of our listing, or if our competitors' search engine optimization efforts are more successful than ours, or if search engine companies restrict or prohibit us from using their services, fewer potential customers may click through to our website. In addition, the cost of purchased listings has increased in the past and may increase in the future. A decrease in website traffic or an increase in search costs could materially and adversely affect our customer acquisition efforts and our results of operations.

Most of our revenues today come from small and medium-sized businesses, which may have fewer financial resources to weather an economic downturn.

Most of our revenues today come from small and medium-sized businesses. These customers may be materially and adversely affected by economic downturns to a greater extent than larger, more established businesses. These businesses typically have more limited financial resources, including capital-borrowing capacity, than larger entities. As the majority of our customers pay for our subscriptions through credit and debit cards, weakness in certain segments of the credit markets and in the U.S. and global economies has resulted in and may in the future result in increased numbers of rejected credit and debit card payments, which could materially affect our business by increasing customer cancellations and impacting our ability to engage new small and medium-sized customers. If small and medium-sized businesses experience financial hardship as a result of a weak economy, industry consolidation or for any other reason, the overall demand for our subscriptions could be materially and adversely affected.

We face significant risks in our strategy to target medium-sized and larger businesses for sales of our subscriptions and, if we do not manage these efforts effectively, our business and results of operations could be materially and adversely affected.

Sales to medium-sized and larger businesses continue to grow in both absolute dollars and as a percentage of our total sales. As we continue to target more of our sales efforts to medium-sized and larger businesses, we expect to incur higher costs and longer sales cycles and we may be less effective at predicting when we will complete these sales. In these market segments, the decision to purchase our subscriptions generally requires the approval of more technical personnel and management levels within a potential customer's organization, and therefore, these types of sales require us to invest more time educating these potential customers about the benefits of our subscriptions. In addition, larger customers may demand more features, integration services, and customization. Our investment in marketing our subscriptions to these potential customers may not be successful, which could significantly and adversely affect our results of operations and our overall ability to grow our customer base. We also have only limited experience in developing and managing sales channels and distribution arrangements for larger businesses. Furthermore, many medium-sized and larger businesses that we target for sales may already purchase business communications and solutions from our larger competitors. As a result of these factors, these sales opportunities may require us to devote greater research and development resources and sales, support to individual customers, resulting in increased costs and could likely lengthen our typical sales cycle, which could strain our limited sales and support resources. Moreover, these larger transactions may require us to delay recognizing the associated revenues we derive from these customers until any technical or implementation requirements have been met. Furthermore, as we have limited experience selling to larger businesses, our investment in marketing our subscriptions to these potential customers may not be successful, which could materially and adversely affect our results of operations and our overall ability to grow our customer base.

We rely significantly on a network of resellers to sell our subscriptions; our failure to effectively develop, manage, and maintain our indirect sales channels could materially and adversely affect our revenues.

Our future success depends on our continued ability to establish and maintain a network of channel relationships, and we expect that we will need to expand our network in order to support and expand our historical base of smaller enterprises as well as attract and support larger customers and expand into international markets. An increasing portion of our revenues are derived from our network of sales agents and resellers, which we refer to collectively as resellers, many of which sell or may in the future decide to sell their own services or services from other business communications providers. We generally do not have long-term contracts with these resellers, and the loss of or reduction in sales through these third parties could materially reduce our revenues. Our competitors may in some cases be effective in causing our current or potential resellers to favor their services or prevent or reduce sales of our subscriptions. Furthermore, while AT&T, BT, and TELUS serve as resellers to us, they are also competitors for business communications. These companies have significantly greater resources than us and currently, or may in the future, develop and/or host their own or other solutions through the cloud. Such competitors may cease reselling our solutions to their customers and ultimately be able to transition some or all of those customers onto their competing solutions, which could materially and adversely affect our revenues and growth. In this regard, in August 2016, AT&T announced its launch of a competing hosted business communications solution and in 2017, new subscriptions for our solution sold by AT&T declined to an immaterial level. In January 2018, we closed a transaction with AT&T to allow us to transition the existing customer base for RingCentral Office@Hand solution sold by AT&T directly to RingCentral. We are in the early stages of transitioning these AT&T customers to us. If a significant number of these AT&T customers choose to terminate their service rather than transition to us or terminate their service after transitioning to us, our revenues and growth could be significantly and adversely affected. If we fail to maintain relationships with our resellers, fail to develop relationships with new resellers in new markets or expand the number of resellers in our network in existing markets, or fail to manage, train, or provide appropriate incentives to our existing resellers, or if our resellers are not successful in their sales efforts, sales of our subscriptions may decrease and our operating results would suffer. If we are unable to maintain our relationships with BT or TELUS, or if these resellers reduce resources committed to reselling the service, our results of operations may suffer.

Recruiting and retaining qualified resellers in our network and training them in our technology and subscription offerings requires significant time and resources. To develop and expand our indirect sales channels, we must continue to scale and improve our processes and procedures to support these channels, including investment in systems and training. Many resellers may not be willing to invest the time and resources required to train their staff to effectively market our subscriptions.

Support for smartphones and tablets are an integral part of our solutions. If we are unable to develop robust mobile applications that operate on mobile platforms that our customers use, our business and results of operations could be materially and adversely affected.

Our solutions allow our customers to use and manage our cloud-based business communications solution on smart devices. As new smart devices and operating systems are released, we may encounter difficulties supporting these devices and services, and we may need to devote significant resources to the creation, support, and maintenance of our mobile applications. In addition, if we experience difficulties in the future integrating our mobile applications into smart devices or if problems arise with our relationships with providers of mobile operating systems, such as those of Apple Inc. or Alphabet Inc. (the parent company of Google Inc.), our future growth and our results of operations could suffer.

If we are unable to develop, license, or acquire new services or applications on a timely and cost-effective basis, our business, financial condition, and results of operations may be materially and adversely affected.

The cloud-based business communications industry is an emerging market that is characterized by rapid changes in customer requirements, frequent introductions of new and enhanced services, and continuing and rapid technological advancement. We cannot predict the effect of technological changes on our business. To compete successfully in this emerging market, we must anticipate and adapt to technological changes and evolving industry standards, and continue to design, develop, manufacture, and sell new and enhanced services that provide increasingly higher levels of performance and reliability at lower cost. Currently, we derive a majority of our revenues from subscriptions to RingCentral Office, and we expect this will continue for the foreseeable future. However, our future success will also depend on our ability to introduce and sell new services, features, and functionality that enhance or are beyond the voice, video, team messaging, collaboration, conferencing, contact center, and fax subscriptions we currently offer, as well as to improve usability and support and increase customer satisfaction. Our failure to develop solutions that satisfy customer preferences in a timely and cost-effective manner may harm our ability to renew our subscriptions with existing customers and create or increase demand for our subscriptions, and may materially and adversely impact our results of operations.

The introduction of new services by competitors or the development of entirely new technologies to replace existing offerings could make our solutions obsolete or adversely affect our business and results of operations. Announcements of future releases and new services and technologies by our competitors or us could cause customers to defer purchases of our existing subscriptions, which also could have a material adverse effect on our business, financial condition or results of operations. We may experience difficulties with software development, operations, design, or marketing that could delay or prevent our development, introduction, or implementation of new or enhanced services and applications. We have in the past experienced delays in the planned release dates of new features and upgrades, and have discovered defects in new services and applications after their introduction. We cannot assure you that new features or upgrades will be released according to schedule, or that, when released, they will not contain defects. Either of these situations could result in adverse publicity, loss of revenues, delay in market acceptance, or claims by customers brought against us, all of which could harm our reputation, business, results of operations, and financial condition. Moreover, the development of new or enhanced services or applications may require substantial investment, and we must continue to invest a significant amount of resources in our research and development efforts to develop these services and applications to remain competitive. We do not know whether these investments will be successful. If customers do not widely adopt any new or enhanced services and applications, we may not be able to realize a return on our investment. If we are unable to develop, license, or acquire new or enhanced services and applications on a timely and cost-effective basis, or if such new or enhanced services and applications do not achieve market acceptance, our business, financial condition, and results of operations may be materially and adversely affected.

A cyber attack, information security breach or denial of service could delay or interrupt service to our customers, harm our reputation, or subject us to significant liability.

Our operations depend on our ability to protect our production services from interruption or damage from unauthorized entry, computer viruses or other events beyond our control. We have from time to time been subject to communications fraud and cyber-attacks by malicious actors, and denial of service (“DoS/DDoS”) and we may be subject to similar attacks in the future. We cannot assure you that our backup systems, regular data backups, security protocols and other procedures currently in place, or that may be in place in the future, will be adequate to prevent significant damage, system failure, service outages, or data loss. Also, our subscriptions are web-based. The amount of data we store for our users on our servers has been increasing as our business has grown. We now host services, which includes hosting customer data, both in co-located data centers and public cloud services such as Amazon Web Services, and our RingCentral Glip product allows users to store files, tasks, calendar events, and conversations indefinitely on our service. We also maintain sensitive data related to our employees, strategic partners, and customers including intellectual property, proprietary business information and personally identifiable information on our own systems and also in multiple vendors’ cloud services. As a result of maintaining larger volumes of data and user files and/or as a result of our continued move up market and acquisition of larger and more recognized customers, we may become more of a target for hackers and other malicious actors. In addition, we use third-party vendors which in some cases have access to our data and our customers' data. We employ layered security measures, but despite the implementation of security measures by us or our vendors, our computing devices, infrastructure or networks, or our vendors' computing devices, infrastructure or networks may be vulnerable to hackers, computer viruses, worms, other malicious software programs or similar disruptive problems that are caused by or through a security vulnerability in our or our vendors' infrastructure or network, or our or our vendors', customers, employees, business partners, consultants or other Internet users who attempt to invade our or our vendors' public and private computers, tablets, mobile devices, software, data networks, or voice networks. If there is a security vulnerability in our or our vendors' infrastructure or networks that is successfully targeted, we could face increased costs, liability claims, reduced revenue, or harm to our reputation or competitive position. In addition, even if not targeted, in remediating security vulnerabilities we could incur increased costs and capital expenditures and utilize employee resources to replace or upgrade vulnerable hardware, such as hardware with chips that are susceptible to the recently announced Meltdown and Spectre vulnerabilities.

Further, in some cases we do not have in place disaster recovery facilities for certain ancillary services, such as email delivery of messages. We rely on encryption and authentication technology to ensure secure transmission of and access to confidential information, including customer credit card numbers, debit card numbers, direct debit information, customer communications, and files uploaded by our customers. Advances in computer capabilities, new discoveries in the field of cryptography, discovery of software bugs or vulnerabilities, discovery of hardware bugs or vulnerabilities, social engineering activities, or other developments may result in a compromise or breach of the technology we use to protect our data and our customer data, or of the data itself.

Additionally, third parties have attempted in the past, and may attempt in the future, to fraudulently induce domestic and international employees, consultants, or customers into disclosing sensitive information, such as user names, provisioning data, customer proprietary network information ("CPNI") or other information in order to gain access to our customers' user accounts or data, or to our data. CPNI includes information such as the phone numbers called by a consumer, the frequency, duration, and timing of such calls, and any services purchased by the consumer, such as call waiting, call forwarding, and caller ID, in addition to other information that may appear on a consumer's bill. Third parties may also attempt to induce employees, consultants, or customers into disclosing sensitive information regarding our intellectual property and other confidential business information, our customers or customer information, or our information technology systems. In addition, the techniques used to obtain unauthorized access, to perform hacking, phishing and social engineering, or to sabotage systems, change and evolve frequently and may not be recognized until launched against a target. We may be unable to anticipate these techniques or to implement adequate preventative measures. Any system failure or security breach that causes interruptions or data loss in our operations or in the computer systems of our customers or leads to the misappropriation of our or our customers' confidential or personal information could result in significant liability to us, cause our subscriptions to be perceived as not being secure, cause considerable harm to us and our reputation (including requiring notification to customers, regulators or the media), and deter current and potential customers from using our subscriptions. Any of these events could have a material adverse effect on our business, results of operations, and financial condition.

It is critical to our business that our employees', strategic partners', and customers' sensitive information remains secure and that our customers perceive that this information is secure. An information security incident could result in unauthorized access to, loss of, or unauthorized disclosure of such information. A cybersecurity breach could expose us to litigation, indemnity obligations, government investigations and other possible liabilities. Additionally, a cyber attack or other information security incident, whether actual or perceived, could result in negative publicity which could harm our reputation and reduce our customers' confidence in the effectiveness of our solutions, which could materially and adversely affect our business and operating results. A breach of our security systems could also expose us to increased costs including remediation costs, disruption of operations, or increased cybersecurity protection costs that may have a material adverse effect on our business. In addition, a cybersecurity breach of our customers' systems can also result in exposure of their authentication credentials, unauthorized access to their accounts, exposure of their account information (including CPNI), and fraudulent calls on their accounts, which can subsequently have similar actual or perceived impacts to us as described above.

Laws, regulations, and enforcement actions relating to security and privacy information continue to evolve. It is possible that, in order to support changes to applicable laws and to support our expansion of sales into new geographic areas or into new industry segments, we will need to increase or change our cyber security systems and expenditures. Further, it is possible that changes to laws and regulations relating to security and privacy may make it more expensive to operate in certain jurisdictions and may increase the risk of our not being in compliance with such changing laws and regulations.

We rely on third parties, including third parties outside the U.S., for some of our software development, quality assurance, operations, and customer support.

We currently depend on various third parties for some of our software development efforts, quality assurance, operations, and customer support services. Specifically, we outsource some of our software development and design, quality assurance, and operations activities to third-party contractors that have employees and consultants located in St. Petersburg, Russia, Odessa, Ukraine, and

Manila, the Philippines. In addition, we outsource a portion of our customer support, inside sales and network operation control functions to third-party contractors located in Manila, the Philippines. Our dependence on third-party contractors creates a number of risks, in particular, the risk that we may not maintain service quality, control or effective management with respect to these business operations. In addition, the political and military events in the Ukraine over the last few years, including political demonstrations, the annexation of the Crimea region of Ukraine by Russia, the hostile relations between Russia and the Ukraine, and disruptions caused by pro-Russian separatists in the Ukraine, could have an adverse impact on our third-party software development and quality assurance operations in Odessa, Ukraine. Further, the deteriorating relations between the U.S. and Russia and sanctions by the U.S. and the European Union ("EU") against Russia could adversely impact our third-party software development and quality assurance operations in St. Petersburg, Russia.

Our agreements with these third-party contractors are either not terminable by them (other than at the end of the term or upon an uncured breach by us) or require at least 60 days' prior written notice of termination. If we experience problems with our third-party contractors, the costs charged by our third-party contractors increase or our agreements with our third-party contractors are terminated, we may not be able to develop new solutions, enhance or operate existing solutions, or provide customer support in an alternate manner that is equally or more efficient and cost-effective.

We anticipate that we will continue to depend on these and other third-party relationships in order to grow our business for the foreseeable future. If we are unsuccessful in maintaining existing and, if needed, establishing new relationships with third parties, our ability to efficiently operate existing services or develop new services and provide adequate customer support could be impaired, and, as a result, our competitive position or our results of operations could suffer.

Growth may place significant demands on our management and our infrastructure.

We have recently experienced substantial growth in our business. This growth has placed and may continue to place significant demands on our management and our operational and financial infrastructure. As our operations grow in size, scope, and complexity, we will need to increase our sales and marketing efforts and add additional sales and marketing personnel in various regions worldwide, and improve and upgrade our systems and infrastructure to attract, service, and retain an increasing number of customers. For example, we expect the volume of simultaneous calls to increase significantly as our customer base grows. Our network hardware and software may not be able to accommodate this additional simultaneous call volume. The expansion of our systems and infrastructure will require us to commit substantial financial, operational, and technical resources in advance of an increase in the volume of business, with no assurance that the volume of business will increase. Any such additional capital investments will increase our cost base. Continued growth could also strain our ability to maintain reliable service levels for our customers and resellers, develop and improve our operational, financial and management controls, enhance our billing and reporting systems and procedures and recruit, train and retain highly skilled personnel. If we fail to achieve the necessary level of efficiency in our organization as we grow, our business, results of operations and financial condition could be materially and adversely affected.

Accusations of infringement of third-party intellectual property rights could materially and adversely affect our business.

There has been substantial litigation in the areas in which we operate regarding intellectual property rights. For instance, we have recently and in the past been sued by third parties claiming infringement of their intellectual property rights and we may be sued for infringement from time to time in the future. In the past, we have settled infringement litigation brought against us; however, we cannot assure you that we will be able to settle any future claims or, if we are able to settle any such claims, that the settlement will be on terms favorable to us. Our broad range of technology may increase the likelihood that third parties will claim that we infringe their intellectual property rights.

We have in the past received, and may in the future receive, notices of claims of infringement, misappropriation or misuse of other parties' proprietary rights. Furthermore, regardless of their merits, accusations and lawsuits like these may require significant time and expense to defend, may negatively affect customer relationships, may divert management's attention away from other aspects of our operations and, upon resolution, may have a material adverse effect on our business, results of operations, financial condition, and cash flows.

Certain technology necessary for us to provide our subscriptions may, in fact, be patented by other parties either now or in the future. If such technology were validly patented by another person, we would have to negotiate a license for the use of that technology. We may not be able to negotiate such a license at a price that is acceptable to us or at all. The existence of such a patent, or our inability to negotiate a license for any such technology on acceptable terms, could force us to cease using the technology and cease offering subscriptions incorporating the technology, which could materially and adversely affect our business and results of operations.

If we were found to be infringing on the intellectual property rights of any third-party, we could be subject to liability for such infringement, which could be material. We could also be prohibited from using or selling certain subscriptions, prohibited from using certain processes, or required to redesign certain subscriptions, each of which could have a material adverse effect on our business and results of operations.

These and other outcomes may:

- result in the loss of a substantial number of existing customers or prohibit the acquisition of new customers;
- cause us to pay license fees for intellectual property we are deemed to have infringed;
- cause us to incur costs and devote valuable technical resources to redesigning our subscriptions;
- cause our cost of revenues to increase;
- cause us to accelerate expenditures to preserve existing revenues;
- cause existing or new vendors to require prepayments or letters of credit;
- materially and adversely affect our brand in the marketplace and cause a substantial loss of goodwill;
- cause us to change our business methods or subscriptions;
- require us to cease certain business operations or offering certain subscriptions or features; and
- lead to our bankruptcy or liquidation.

Our limited ability to protect our intellectual property rights could materially and adversely affect our business.

We rely, in part, on patent, trademark, copyright, and trade secret law to protect our intellectual property in the U.S. and abroad. We seek to protect our technology, software, documentation and other information under trade secret and copyright law, which afford only limited protection. For example, we typically enter into confidentiality agreements with our employees, consultants, third-party contractors, customers, and vendors in an effort to control access to use and distribution of our technology, software, documentation, and other information. These agreements may not effectively prevent unauthorized use or disclosure of confidential information and may not provide an adequate remedy in the event of such unauthorized use or disclosure, and it may be possible for a third-party to legally reverse engineer, copy or otherwise obtain and use our technology without authorization. In addition, improper disclosure of trade secret information by our current or former employees, consultants, third-party contractors, customers, or vendors to the public or others who could make use of the trade secret information would likely preclude that information from being protected as a trade secret.

We also rely, in part, on patent law to protect our intellectual property in the U.S. and internationally. Our intellectual property portfolio includes 135 issued U.S. utility patents, which expire between 2026 and 2037. We also have 39 patent applications pending examination in the U.S. and 15 patent applications pending examination in foreign jurisdictions, all of which are related to U.S. applications. We cannot predict whether such pending patent applications will result in issued patents or whether any issued patents will effectively protect our intellectual property. Even if a pending patent application results in an issued patent, the patent may be circumvented or its validity may be challenged in various proceedings in United States District Court or before the U.S. Patent and Trademark Office, such as Post Grant Review or Inter Partes Review, which may require legal representation and involve substantial costs and diversion of management time and resources. In addition, we cannot assure you that every significant feature of our solutions is protected by our patents, or that we will mark our products with any or all patents they embody. As a result, we may be prevented from seeking injunctive relief or damages, in whole or in part for infringement of our patents.

The unlicensed use of our brand, including domain names, by third parties could harm our reputation, cause confusion among our customers and impair our ability to market our products and subscriptions. To that end, we have registered numerous trademarks and service marks and have applied for registration of additional trademarks and service marks and have acquired a large number of domain names in and outside the U.S. to establish and protect our brand names as part of our intellectual property strategy. If our applications receive objections or are successfully opposed by third parties, it will be difficult for us to prevent third parties from using our brand without our permission. Moreover, successful opposition to our applications might encourage third parties to make additional oppositions or commence trademark infringement proceedings against us, which could be costly and time consuming to defend against. If we are not successful in protecting our trademarks, our trademark rights may be diluted and subject to challenge or invalidation, which could materially and adversely affect our brand.

Despite our efforts to implement our intellectual property strategy, we may not be able to protect or enforce our proprietary rights in the U.S. or internationally (where effective intellectual property protection may be unavailable or limited). For example, we have entered into agreements containing confidentiality and invention assignment provisions in connection with the outsourcing of certain software development and quality assurance activities to third-party contractors located in St. Petersburg, Russia and Odessa, Ukraine. We have also entered into an agreement containing a confidentiality provision with a third-party contractor located in

Manila, the Philippines, where we have outsourced a significant portion of our customer support function. We cannot assure you that agreements with these third-party contractors or their agreements with their employees and contractors will adequately protect our proprietary rights in the applicable jurisdictions and foreign countries, as their respective laws may not protect proprietary rights to the same extent as the laws of the U.S. In addition, our competitors may independently develop technologies that are similar or superior to our technology, duplicate our technology in a manner that does not infringe our intellectual property rights or design around any of our patents. Furthermore, detecting and policing unauthorized use of our intellectual property is difficult and resource-intensive. Moreover, litigation may be necessary in the future to enforce our intellectual property rights, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Such litigation, whether successful or not, could result in substantial costs and diversion of management time and resources and could have a material adverse effect on our business, financial condition, and results of operations.

Our success depends on the public acceptance of our products and applications.

Our future success depends on our ability to significantly increase revenues generated from our cloud-based business communications solutions. The market for cloud-based business communications is evolving rapidly and is characterized by rapid development of and changes in the technology and solutions offered. As is typical of a new and rapidly evolving industry, the demand for, and market acceptance of, these solutions is uncertain. If the market for cloud-based business communications fails to develop, develops more slowly than we anticipate, or develops in a manner different than we expect, our products could fail to achieve market acceptance, which in turn could materially and adversely affect our business.

Our growth depends on the continued use of voice communications by businesses, as compared to email and other data-based methods. A decline in the overall rate of voice communications by businesses would harm our business. Furthermore, our continued growth depends on future demand for and adoption of Internet voice communications systems and services. Although the number of broadband subscribers worldwide has grown significantly in recent years, a small percentage of businesses have adopted Internet voice communications services to date. For demand and adoption of Internet voice communications services by businesses to increase, Internet voice communications networks must improve the quality of their service for real-time communications by managing the effects of and reducing packet loss, packet delay and packet jitter, as well as unreliable bandwidth, so that toll-quality service can be consistently provided. Additionally, the cost and feature benefits of Internet voice communications must be sufficient to cause customers to switch from traditional phone service providers. We must devote substantial resources to educate customers and their end users about the benefits of Internet voice communications solutions, in general, and our subscriptions in particular. If any or all of these factors fail to occur, our business may be materially and adversely affected.

Interruptions in our services caused by undetected errors, failures or bugs in our subscriptions could harm our reputation, result in significant costs to us, and impair our ability to sell our subscriptions.

Due to the fact our subscriptions are complex and we have incorporated a variety of new computer hardware, as well as software that is developed in-house or licensed or acquired from third-party vendors, our subscriptions may have errors or defects that customers identify after they begin using them that could result in unanticipated interruptions of service. Internet-based services frequently contain undetected errors and bugs when first introduced or when new versions or enhancements are released. While the substantial majority of our customers are small and medium-sized businesses, the use of our subscriptions in complicated, large-scale network environments may increase our exposure to undetected errors, failures, or bugs in our subscriptions. Although we test our subscriptions to detect and correct errors and defects before their general release, we have from time to time experienced significant interruptions in our subscriptions as a result of such errors or defects and may experience future interruptions of service if we fail to detect and correct these errors and defects. The costs incurred in correcting such defects or errors may be substantial and could harm our results of operations. In addition, we rely on hardware purchased or leased and software licensed from third parties to offer our subscriptions.

Any defects in, or unavailability of, our or third-party software or hardware that cause interruptions of our subscriptions could, among other things:

- cause a reduction in revenues or delay in market acceptance of our subscriptions;
- require us to pay penalties or issue credits or refunds to our customers or resellers, or expose us to claims for damages;
- cause us to lose existing customers and make it more difficult to attract new customers;
- divert our development resources or require us to make extensive changes to our software, which would increase our expenses and slow innovation;
- increase our technical support costs; and
- harm our reputation and brand.

If we fail to continue to develop our brand or our reputation is harmed, our business may suffer.

We believe that continuing to strengthen our current brand will be critical to achieving widespread acceptance of our subscriptions and will require continued focus on active marketing efforts. The demand for and cost of online and traditional advertising have been increasing and may continue to increase. Accordingly, we may need to increase our investment in, and devote greater resources to, advertising, marketing, and other efforts to create and maintain brand loyalty among users. Brand promotion activities may not yield increased revenues, and even if they do, any increased revenues may not offset the expenses incurred in building our brand. If we fail to promote and maintain our brand, or if we incur substantial expense in an unsuccessful attempt to promote and maintain our brands, our business could be materially and adversely affected.

Our services, as well as those of our competitors, are regularly reviewed and commented upon by online and social media sources, as well as computer and other business publications. Negative reviews, or reviews in which our competitors' products and services are rated more highly than our software solutions, could negatively affect our brand and reputation. From time to time, our customers have expressed dissatisfaction with our services, including dissatisfaction with our customer support, our billing policies and the way our subscriptions operate. If we do not handle customer complaints effectively, our brand and reputation may suffer, we may lose our customers' confidence, and they may choose to terminate, reduce or not to renew their subscriptions. In addition, many of our customers participate in social media and online blogs about Internet-based software solutions, including our subscriptions, and our success depends in part on our ability to minimize negative and generate positive customer feedback through such online channels where existing and potential customers seek and share information. If actions we take or changes we make to our subscriptions upset these customers, their blogging could negatively affect our brand and reputation. Complaints or negative publicity about our subscriptions or customer service could materially and adversely impact our ability to attract and retain customers and our business, financial condition and results of operations.

If we experience excessive fraudulent activity or cannot meet evolving credit card association merchant standards, we could incur substantial costs and lose the right to accept credit cards for payment, which could cause our customer base to decline significantly.

Most of our customers authorize us to bill their credit card accounts directly for service fees that we charge. If people pay for our subscriptions with stolen credit cards, we could incur substantial third-party vendor costs for which we may not be reimbursed. Further, our customers provide us with credit card billing information online or over the phone, and we do not review the physical credit cards used in these transactions, which increases our risk of exposure to fraudulent activity. We also incur charges, which we refer to as chargebacks, from the credit card companies from claims that the customer did not authorize the credit card transaction to purchase our subscription. If the number of chargebacks becomes excessive, we could be assessed substantial fines or be charged higher transaction fees, and we could lose the right to accept credit cards for payment. In addition, credit card issuers may change merchant standards, including data protection and documentation standards, required to utilize their services from time to time. We are compliant with the Payment Card Industry Data Security Standard, or PCI DSS, in the United States, Canada, and the U.K. If we fail to maintain compliance with current merchant standards, such as PCI DSS, or fail to meet new standards, the credit card associations could fine us or terminate their agreements with us, and we would be unable to accept credit cards as payment for our subscriptions. If such a failure to comply with relevant standards occurs, we may also face legal liability if we are found to not comply with applicable laws that incorporate, by reference or by adoption of substantially similar provisions, merchant standards, including PCI DSS. Our subscriptions may also be subject to fraudulent usage, including but not limited to revenue share fraud, domestic traffic pumping, subscription fraud, premium text message scams, and other fraudulent schemes. Although our customers are required to set passwords and personal identification numbers ("PINs") to protect their accounts and may configure in which destinations international calling is enabled from their extensions, third parties have in the past and may in the future be able to access and use their accounts through fraudulent means. This usage can result in, among other things, substantial bills from our vendors, for which we would be responsible, for terminating fraudulent call traffic. In addition, third parties may have attempted in the past, and may attempt in the future, to fraudulently induce domestic and international employees or consultants into disclosing customer credentials and other account information. Communications fraud can result in unauthorized access to customer accounts and customer data, unauthorized use of customers' services, charges to customers for fraudulent usage and expense that we must pay to carriers. We may be required to pay for these charges and expenses with no reimbursement from the customer, and our reputation may be harmed if our subscriptions are subject to fraudulent usage. Although we implement multiple fraud prevention and detection controls, we cannot assure you that these controls will be adequate to protect against fraud. Substantial losses due to fraud or our inability to accept credit card payments, which could cause our paid customer base to significantly decrease, could have a material adverse effect on our results of operations, financial condition, and ability to grow our business.

Potential problems with our information systems could interfere with our business and operations.

We rely on our information systems and those of third parties for processing customer orders, distribution of our subscriptions, billing our customers, processing credit card transactions, customer relationship management, supporting financial planning and analysis, accounting functions and financial statement preparation and otherwise running our business. Information systems may experience interruptions, including interruptions of related services from third-party providers, which may be beyond our control. Such business interruptions could cause us to fail to meet customer requirements. All information systems, both internal and external, are potentially vulnerable to damage or interruption from a variety of sources, including without limitation, computer viruses, security breaches, energy blackouts, natural disasters, terrorism, war and telecommunication failures, employee or other theft, and third-party provider failures. In addition, since telecommunications billing is inherently complex and requires highly sophisticated information systems to administer, our billing system may experience errors or we may improperly operate the system, which could result in the system incorrectly calculating the fees owed by our customers for our subscriptions or related taxes and administrative fees. Any such errors in our customer billing could harm our reputation and cause us to violate truth in billing laws and regulations. Any errors or disruption in our information systems and those of the third parties upon which we rely could have a significant impact on our business.

In the future, we intend to implement a billing system or internally develop an enhanced billing system, to replace and upgrade our current internally developed billing system and enable automation of certain manual billing processes. Our current internally developed billing system requires us to process an increasing number of invoices manually, which could result in billing errors. We may also implement further and enhanced information systems in the future to meet the demands resulting from our growth and to provide additional capabilities and functionality. The implementation of new systems and enhancements is frequently disruptive to the underlying business of an enterprise, and can be time-consuming and expensive, increase management responsibilities, and divert management attention. Any disruptions relating to our systems enhancements or any problems with the implementation, particularly any disruptions impacting our operations or our ability to accurately report our financial performance on a timely basis during the implementation period, could materially and adversely affect our business. Even if we do not encounter these material and adverse effects, the implementation of these enhancements may be much more costly than we anticipated. If we are unable to successfully implement the information systems enhancements as planned, our financial position, results of operations and cash flows could be negatively impacted.

Our use of open source technology could impose limitations on our ability to commercialize our subscriptions.

We use open source software in our platform on which our subscriptions operate. There is a risk that the owners of the copyrights in such software may claim that such licenses impose unanticipated conditions or restrictions on our ability to market or provide our subscriptions. If such owners prevail in such claim, we could be required to make the source code for our proprietary software (which contains our valuable trade secrets) generally available to third parties, including competitors, at no cost, to seek licenses from third parties in order to continue offering our subscriptions, to re-engineer our technology, or to discontinue offering our subscriptions in the event re-engineering cannot be accomplished on a timely basis or at all, any of which could cause us to discontinue our subscriptions, harm our reputation, result in customer losses or claims, increase our costs or otherwise materially and adversely affect our business and results of operations.

We are in the process of expanding our international operations, which exposes us to significant risks.

To date, we have not generated significant revenues from outside of the U.S., Canada, and the U.K. However, we already have significant operations outside these countries, including software development and information technology operations in Russia and China, software development and quality assurance operations in Ukraine, and sales and marketing operations in the Philippines. We have also recently begun selling our solutions to customers in other countries in the EU and we expect to grow our international presence in the future, including through the expansion of our Global Office solution and sales of our solutions to customers internationally. The future success of our business will depend, in part, on our ability to expand our operations and customer base worldwide. Operating in international markets requires significant resources and management attention and will subject us to regulatory, economic, and political risks that are different from those in the U.S. Due to our limited experience with international operations and developing and managing sales and distribution channels in international markets, our international expansion efforts may not be successful. In addition, we will face risks in doing business internationally that could materially and adversely affect our business, including:

- our ability to comply with differing and evolving technical and environmental standards, data protection and telecommunications regulations, and certification requirements outside the U.S.;
- difficulties and costs associated with staffing and managing foreign operations;
- potentially greater difficulty collecting accounts receivable and longer payment cycles;
- the need to adapt and localize our subscriptions for specific countries;
- the need to offer customer care in various native languages;
- reliance on third parties over which we have limited control, including TELUS, BT, and other international resellers, for marketing and reselling our subscriptions;
- availability of reliable broadband connectivity and wide area networks in targeted areas for expansion;
- lower levels of adoption of credit or debit card usage for Internet related purchases by foreign customers and compliance with various foreign regulations related to credit or debit card processing and data protection requirements;
- difficulties in understanding and complying with local laws, regulations, and customs in foreign jurisdictions;
- export controls and economic sanctions administered by the Department of Commerce Bureau of Industry and Security and the Treasury Department's Office of Foreign Assets Control;
- tariffs and other non-tariff barriers, such as quotas and local content rules;
- our ability to comply with the European General Data Protection Regulation (the "GDPR") and other data privacy rules and regulations;
- compliance with various anti-bribery and anti-corruption laws such as the Foreign Corrupt Practices Act and U.K. Bribery Act of 2010;
- more limited protection for intellectual property rights in some countries;
- adverse tax consequences;
- fluctuations in currency exchange rates, particularly in light of the Brexit vote and other recent political developments, which could increase the price of our subscriptions outside of the U.S. when denominated in USD, increase the expenses of our international operations, including expenses related to foreign contractors, and expose us to foreign currency exchange rate risk;
- fluctuations in currency exchange rates, particularly in light of the referendum in favor of the U.K. leaving the EU (commonly referred to as "Brexit") and other recent political developments, which could reduce the amount of revenues we generate outside of the U.S. related to customer contracts that are denominated in local currencies of the countries we operate in, currently predominantly Canada and the U.K., or which could reduce the expenses incurred in our operations or through our contractors outside the U.S. that are denominated in local currencies, currently the U.K., Russia, China, the Philippines, and Ukraine;
- exchange control regulations, which might restrict or prohibit our conversion of other currencies into U.S. Dollars;
- restrictions on the transfer of funds;
- our ability to effectively price our subscriptions in competitive international markets;
- new and different sources of competition;
- deterioration of political relations between the U.S. and other countries, particularly Russia, Ukraine, China, and the Philippines; and including the possibility of a breakdown in diplomatic relations between the U.S., the U.K., or the EU and Russia or sanctions implemented by the U.S., the U.K., or the EU against Russia or vice versa, which could have a material adverse effect on our third-party software development operations in Russia; and
- political or social unrest, economic instability, conflict or war in a specific country or region, such as the events over the last few years in the Ukraine, including political demonstrations, the annexation of the Crimea region of Ukraine by Russia, the hostile relations between Russia and the Ukraine, and disruptions caused by pro-Russian separatists in the Ukraine, which could have an adverse impact on our third-party software development and quality assurance operations there.

Our failure to manage any of these risks successfully could harm our future international operations and our overall business.

Exposure to U.K. political developments, including the outcome of the U.K. referendum on membership in the EU, could have a material adverse effect on us.

On June 23, 2016, a referendum was held on the U.K.'s membership in the EU the outcome of which was a vote in favor of leaving the EU, commonly referred to as Brexit. The Brexit vote creates an uncertain political, economic, and regulatory environment in the U.K. and potentially across other EU member states, which may last for a number of months or years.

Article 50 of the Treaty of the EU ("Article 50") allows a member state to decide to withdraw from the EU in accordance with its own constitutional requirements. On March 29, 2017, the U.K. government delivered the Article 50 notice to the European Council. This has started a period of up to two years of negotiations for the U.K. to exit from the EU, although this period can be extended with the unanimous agreement of the European Council (requiring unanimity among all other EU Member States). Without any such extension (and assuming that neither the terms of withdrawal nor any transitional arrangements have already been agreed), the U.K.'s membership in the EU would end automatically on the expiration of that two-year period.

The delivery of the Article 50 notice means that the long-term nature of the U.K.'s relationship with the EU is unclear and that there is considerable uncertainty as to when any such relationship will be agreed and implemented. In the interim, there is a risk of instability for both the U.K. and the EU, which could adversely affect our results, financial condition and prospects.

The U.K. government has commenced negotiations in connection with the U.K.'s exit from the EU. There is, however, considerable uncertainty as to whether the arrangements for the U.K. to leave the EU will be agreed upon within the two-year period and, if not, whether an extension of that time period would be agreed upon. There is also a risk of the U.K.'s exit from the EU being affected without mutually acceptable terms being agreed and that any terms of such exit could adversely affect our operating results, financial condition and prospects.

The political and economic instability created by the Brexit vote has caused and may continue to cause significant volatility in global financial markets and the value of the Pound Sterling currency or other currencies, including the Euro. Depending on the terms reached regarding the U.K.'s exit from the EU, it is possible that there may be adverse practical and/or operational implications on our business.

Brexit has also created uncertainty with regard to the regulation of data protection in the U.K. In the immediate term, the U.K. will remain bound by the European General Data Protection Regulation (the "GDPR") following its exit from the EU since the U.K. government has announced its intention to enact a 'Repeal Bill' which enshrines all existing EU law into domestic U.K. legislation together with a Data Protection Bill that provides for the implementation of the GDPR. While the U.K. Information Commissioner's Office has announced that there are no plans to dilute U.K. data protection laws, it is less certain how data protection laws or regulations will develop in the medium to longer term, and how data transfers to and from the U.K. will be regulated. The EU Commission has announced that the U.K. will become a 'third country' once it has exited the EU, notwithstanding the U.K.'s stated intention to transpose all existing EU law into its domestic law.

Consequently, no assurance can be given as to the overall impact of the Brexit vote and, in particular, no assurance can be given that our operating results, financial condition and prospects would not be adversely impacted by the result.

Our business could be negatively impacted by changes in the United States political environment.

The 2016 presidential and congressional elections in the United States have resulted in significant uncertainty with respect to, and could result in changes in, legislation, regulation, and government policy at the federal level, as well as the state and local levels. Any such changes could significantly impact our business as well as the markets in which we compete. Specific legislative and regulatory proposals discussed during election campaigns and more recently that might materially impact us include, but are not limited to, changes to existing telecommunications laws and regulations, trade agreements, immigration policy, import and export regulations, tariffs and customs duties, income tax regulations and the federal tax code, public company reporting requirements, and antitrust enforcement. To the extent changes in the political environment have a negative impact on us or on our markets, our business, results of operation and financial condition could be materially and adversely impacted in the future.

Our subscriptions are subject to regulation, and future legislative or regulatory actions could adversely affect our business and expose us to liability in the U.S. and internationally.

Federal Regulation

Our business is regulated by the FCC. As a communications services provider, we are subject to existing or potential FCC regulations relating to privacy, disability access, porting of numbers, Federal Universal Service Fund (“USF”) contributions, E-911, outage reporting, and other requirements. FCC classification of our Internet voice communications services as telecommunications services could result in additional federal and state regulatory obligations. If we do not comply with FCC rules and regulations, we could be subject to FCC enforcement actions, fines, loss of licenses, and possibly restrictions on our ability to operate or offer certain of our subscriptions. Any enforcement action by the FCC, which may be a public process, would hurt our reputation in the industry, possibly impair our ability to sell our subscriptions to customers and could have a materially adverse impact on our revenues.

Through RCLEC, we also provide competitive local exchange carrier services, or CLEC services, which are regulated by the FCC as traditional telecommunications services. Our CLEC services depend on certain provisions of the Telecommunications Act of 1996 that require incumbent local exchange carriers (“ILECs”) to provide us facilities and services that are necessary to provide our services. Over the past several years, the FCC has reduced or eliminated a number of regulations governing ILECs’ wholesale offerings. If ILECs were no longer required by law to provide such services to us, or ceased to provide these services at reasonable rates, terms and conditions, our business could be adversely affected and our cost of providing CLEC services could increase. This could have a materially adverse impact on our results of operations and cash flows.

In addition, the TCPA and FCC rules implementing the TCPA, as amended by the Junk Fax Prevention Act of 2005, prohibit sending unsolicited facsimile advertisements, subject to certain exceptions. The FCC may take enforcement action against persons or entities that send “junk faxes,” and individuals also may have a private cause of action. Although the FCC’s rules prohibiting unsolicited fax advertisements apply to those who “send” the advertisements, fax transmitters or other service providers that have a high degree of involvement in, or actual notice of, unlawful sending of junk faxes and have failed to take steps to prevent such transmissions also face liability under the FCC’s rules. We take significant steps designed to prevent our systems from being used to send unsolicited faxes on a large scale, and we do not believe that we have a high degree of involvement in, or notice of, the use of our systems to broadcast junk faxes. However, because fax transmitters and related service providers do not enjoy an absolute exemption from liability under the TCPA and related FCC rules, we could face FCC inquiry and enforcement or civil litigation, or private causes of action, if someone uses our system for such purposes. If any of these were to occur, we could be required to incur significant costs and management’s attention could be diverted. Further, if we were to be held liable for the use of our service to send unsolicited faxes or to settle any action or proceeding, any judgment, settlement or penalties could cause a material adverse effect on our operations. We have recently been named as defendants to a class action litigation involving alleged violations of the TCPA brought by SPS. For more information about this lawsuit, see Part I, Item 3 of this Annual Report on Form 10-K entitled “Legal Proceedings.”

Our subscriptions are also subject to a number of other FCC regulations. Among others, we must comply (in whole or in part) with:

- the Communications Assistance for Law Enforcement Act (“CALEA”), which requires covered entities to assist law enforcement in undertaking electronic surveillance;
- requirements to provide E-911 to our customers;
- contributions to the USF which requires that we pay a percentage of our interstate and international revenues to support certain federal programs;
- payment of annual FCC regulatory fees based on our interstate and international revenues;
- rules pertaining to access to our subscriptions by people with disabilities and contributions to the Telecommunications Relay Services fund;
- rules regarding certain customer proprietary information, which require that we not use such information without customer approval, subject to certain exceptions;
- rules requiring the reporting of certain services outages; and
- rules requiring the monitoring and reporting of call quality and call completion rates to rural areas of the United States.

If we do not comply with any current or future rules or regulations that apply to our business, we could be subject to substantial fines and penalties, we may have to restructure our service offerings, exit certain markets or raise the price of our subscriptions, any of which could ultimately harm our business and results of operations.

State Regulation

States currently do not regulate our Internet voice communications subscriptions, which are considered to be nomadic because they can be used from any broadband connection. However, a small number of states have ruled that non-nomadic Internet voice communications services may or do fall within the definition of “telecommunications services” and therefore those states assert that they have jurisdiction to regulate the service. No states currently require certification for nomadic Internet voice communications service providers. Even if a state does not require Internet voice communications service providers to be certified, a number of states require us to register as a VoIP provider, contribute to state USF, contribute to E-911, and pay other surcharges and annual fees that fund various utility commission programs, while others are actively considering extending their public policy programs to include the subscriptions we provide. We pass USF, E-911 fees and other surcharges through to our customers, which may result in our subscriptions becoming more expensive or require that we absorb these costs. We expect that state public utility commissions will continue their attempts to apply state telecommunications regulations to Internet voice communications subscriptions like ours.

Our CLEC subsidiary's services are subject to regulation by the public utility regulatory agency in those states where we provide local telecommunications services. This regulation includes the requirement to obtain a certificate of public convenience and necessity or other similar licenses prior to offering our CLEC services. We may also be required to file tariffs that describe our CLEC's services and provide rates for those services. We are also required to comply with state regulations that vary from state to state concerning service quality, disconnection and billing requirements. State commissions also have authority to review and approve interconnection agreements between incumbent phone carriers and CLECs such as our subsidiary, and to conduct arbitration of disputes arising in the negotiation of such agreements.

Both we and our CLEC subsidiary are also subject to state consumer protection laws, as well as U.S. state or municipal sales, use, excise, gross receipts, utility user and ad valorem taxes, fees or surcharges.

International Regulation

As we expand internationally, we may be subject to telecommunications, consumer protection, data protection and other laws and regulations in the foreign countries where we offer our subscriptions. Internationally, we currently offer our subscriptions in Canada, the U.K., and several European countries. We also offer our Global Office solution, enabling our multinational customers in the U.S., U.K., Canada, and other locations where we sell our solutions, to establish local phone solutions in various countries internationally. We may be subject to telecommunications, consumer protection, data protection, and other laws and regulations in additional countries as we continue to expand our Global Office solution internationally.

We are a provider of Internet voice telecommunications subscriptions in Canada. As a provider of Internet voice communications subscriptions, we, directly and through our Canadian subsidiary, are subject to regulation in Canada by the Canadian Radio-television and Telecommunications Commission ("CRTC"). We are registered with the CRTC as a reseller of telecommunications services and have been issued a basic international telecommunications services ("BITS") license by the CRTC. As an Internet voice communications provider, we are subject to obligations imposed by the CRTC, including providing access to emergency calling services, providing access to operator assistance, directory information services, number portability, providing minimum customer information, charging customers certain regulatory charges and paying contribution charges. As a holder of a BITS license, we also must comply with various annual reporting requirements. We are also subject to Canadian federal privacy and anti-spam laws and provincial consumer protection legislation.

As a provider of electronic communications services in the U.K., we, through our subsidiary, are subject to regulation in the U.K. by the Office of Communications, or Ofcom. Some of these regulatory obligations include providing access to emergency call services ("E999/112") without charge; providing access to operator assistance, directories and directory enquiry services, offering contracts with minimum terms, providing and publishing certain information transparently, providing itemized billing, protecting customer information (including personal data); porting phone numbers upon a valid customer request and implementing a code of practice. We are required to comply with laws and matters relating to, among other things, competition law, distance selling, telecommunications, e-commerce, and consumer protection. We must also comply with various reporting and recordkeeping requirements. The requirement to comply with such laws and any future legal or regulatory changes could adversely affect our business and expose us to liability.

In addition, our international operations are potentially subject to country-specific governmental regulation and related actions that may increase our costs or impact our product and service offerings or prevent us from offering or providing our products and subscriptions in certain countries. Certain of our subscriptions may be used by customers located in countries where VoIP and other forms of IP communications may be illegal or require special licensing or in countries on a U.S. embargo list. Even where our products are reportedly illegal or become illegal or where users are located in an embargoed country, users in those countries may be able to continue to use our products and subscriptions in those countries notwithstanding the illegality or embargo. We may be subject to penalties or governmental action if customers continue to use our products and subscriptions in countries where it is illegal to do so, and any such penalties or governmental action may be costly and may harm our business and damage our brand and reputation. We may be required to incur additional expenses to meet applicable international regulatory requirements or be required to discontinue those subscriptions if required by law or if we cannot or will not meet those requirements.

We process, store, and use personal information and other data, which subjects us and our customers to a variety of evolving international statutes, governmental regulation, industry standards and self-regulatory schemes, contractual obligations, and other legal obligations related to privacy and data protection, which may increase our costs, decrease adoption and use of our products and subscriptions and expose us to liability.

There are a number of federal, state, local, and foreign laws and regulations, as well as contractual obligations and industry standards, that provide for certain obligations and restrictions with respect to data privacy and security, and the collection, storage, retention, protection, use, processing, transmission, sharing, disclosure, and protection of personal information and other customer data. We expect that with the implementation of our Global Office solution, we may become subject to additional data privacy regulations in other countries throughout the world. The scope of these obligations and restrictions is changing, subject to differing interpretations, and may be inconsistent among countries or conflict with other rules, and their status remains uncertain.

Within the EU, strict laws already apply in connection with the collection, storage, retention, use, processing, transmission, sharing, disclosure and protection of personal information, and other customer data. The EU model has been replicated substantially or in part in various jurisdictions outside the U.S., including in certain Asia-Pacific Economic Cooperation countries. Data protection regulators within the EU and other jurisdictions have the power to fine non-compliant organizations significant amounts and seek injunctive relief, including the cessation of certain data processing activities.

Additionally, the GDPR has been implemented and is set to enter into full force in May 2018. The GDPR strengthens the existing data protection regulations in the EU and its provisions include increasing the maximum level of fines that EU regulators may impose for the most serious of breaches to the greater of €20 million or 4% of worldwide annual turnover. Such fines would be in addition to (i) the rights of individuals to sue for damages in respect of any data privacy breach which causes them to suffer harm and (ii) the right of individual member states to impose additional sanctions over and above the administrative fines specified in the GDPR.

In preparation for the GDPR, we are taking necessary administrative, contractual, and other measures designed to achieve compliance with the GDPR, but we cannot guarantee that these measures will be sufficient or complete when the GDPR goes into effect in May 2018. If we do not achieve compliance by May 2018, we may be at risk of the penalties described above. However, the measures we are taking include providing adequate protection for personal data transferred from the European Economic Area ("EEA") and Switzerland to the U.S. by virtue of our certification under the EU-US and Swiss-US Privacy Shield frameworks, agreed between the United States Department of Commerce, the European Commission, and the Swiss government, respectively. Further, we also use other measures, including EU Standard Contractual Clauses (also called "Model Clauses") data export agreements, for our transfers of EU personal data to other non-EEA countries, where necessary.

At present, the EU-US Privacy Shield framework and the use of Model Clauses to protect data exports between the EEA and U.S. are both subject to ongoing legal challenges. A case brought by an Irish digital rights group to have the EU-US Privacy Shield declared invalid by the Court of Justice of the EU was dismissed in December 2017, although that dismissal may be subject to a future appeal. A ruling in a similar legal challenge to the EU-US Privacy Shield, brought by a French digital rights group, is still pending. The Model Clauses are also the subject of court proceedings between the Irish Data Protection Commissioner and a private individual, and this case has been referred to the Court of Justice of the European Union.

Any or all of these court proceedings may result in a ruling that the industry-standard measures we, and other companies, have taken are no longer sufficient. Additionally, it is possible that the Privacy Shield may need to be updated by the European Commission and Department of Commerce to take into account the GDPR. Should any of these prove to be the case, we will need to take any necessary and additional measures to ensure compliance with EU law with respect to our transfers of personal data from the EEA to the U.S. and other non-EEA countries. If we are unable to take such measures, then we may be at risk of experiencing reluctance or refusal of European or multi-national customers to use our solutions and incurring regulatory penalties, which may have an adverse effect on our business.

Following the Brexit vote, the U.K. government invoked Article 50 of the Treaty of Lisbon, thereby triggering the two-year negotiation period for exiting the EU. The U.K. will likely leave the EU on March 29, 2019 and transitional provisions may or may not be put in place to ease the process. While it is impossible to tell exactly how Brexit will impact the regulatory landscape at this point, it may ultimately impact our U.K. business. There is some uncertainty regarding the future of data protection legislation in the U.K. following Brexit. The U.K. Government has recently introduced draft legislation intended to implement the GDPR in the U.K. This will commit the U.K. to preserving EU standards of data protection in the U.K. on an ongoing basis after Brexit. For that reason, even after the U.K. has exited the EU, our applicable entities and operations likely will be bound to comply with the requirements of the GDPR post-Brexit. Nevertheless, when the U.K. ceases to be a Member State of the EU, it may no longer be possible to freely transfer personal data between the EU and the U.K. As such, it may become necessary for us to implement additional data export solution, like the Model Clauses, to enable the continued flow of personal data between our U.K. operations and our EU customers and affiliates. Implementing these solutions may take time and, if not achieved promptly before or immediately following Brexit, may result in disruption to our business and expose us to potential regulatory fines and civil claims.

One anticipated consequence of the GDPR coming into force is that the Model Clause agreements that have been approved by the European Commission will need to be updated to reflect the GDPR's requirements. This means that where we rely on these agreements we may need to revise our existing arrangements to ensure that personal data transfers from the EEA to non-EEA territories remain compliant, and we may incur additional compliance costs.

The European Commission has also proposed new legislation to enhance privacy protections for users of communications services and to enhance protection for individuals against online tracking technologies. The proposed legislation, the Regulation on Privacy and Electronic Communications ("e-Privacy Regulation"), is currently undergoing legislative scrutiny, and the European Commission intends to achieve its adoption and implementation by May 25, 2018. It is not yet clear if this timeline is achievable, but, when introduced, the e-Privacy Regulation is expected to impose greater potential liabilities upon communications service providers, including potential fines for the most serious of breaches of the greater of €20 million or 4% of worldwide annual turnover. New rules introduced by the e-Privacy Regulation are likely to include enhanced consent requirements for communications service providers in order to use communications content and communications metadata to deliver value added services, and these may affect our future business growth in the EU.

As Internet commerce and communication technologies continue to evolve, thereby increasing online service providers' and network users' capacity to collect, store, retain, protect, use, process, and transmit large volumes of personal information, increasingly restrictive regulation by federal, state or foreign agencies becomes more likely. For example, a variety of regulations that would increase restrictions on online service providers in the area of data privacy are currently being proposed, both in the U.S. and in other jurisdictions, and we believe that the adoption of increasingly restrictive regulation in the field of data privacy and security is likely, possibly as restrictive as the EU model. Canadian, anti-spam legislation, or CASL, prescribes certain rules regarding the use of electronic messages for commercial purposes and imposes certain restrictions on a service provider's ability to electronically automatically update or change software used in a customer's service without the customer's consent. Penalties for non-compliance with CASL are considerable, including administrative monetary penalties of up to $10 million, and the CRTC has begun actively enforcing the law and penalization non-compliant organizations. Obligations and restrictions imposed by current and future applicable laws, regulations, contracts, and industry standards may affect our ability to provide all the current features of our products and subscriptions and our customers' ability to use our products and subscriptions, and could require us to modify the features and functionality of our products and subscriptions. In 2015, Canada's privacy legislation was amended to implement mandatory data breach notification requirements and fines of up to $100,000 per occurrence for organizations that fail to keep a log of breaches or notify the Office of the Privacy Commissioner or affected individuals. Such obligations and restrictions, once in force, may limit our ability to collect, store, process, use, transmit, and share data with our customers, and to allow our customer to collect, store, retain, protect, use, process, transmit, share, and disclose data with others through our products and subscriptions. The amendments will not become in force until such time as related regulations are implemented. Draft regulations to implement the mandatory data breach notification requirements were published for comment by the Government of Canada in September 2017 and the comment period has now expired. No set date as yet has been established by the Government of Canada regarding when the regulations will be final and approved, however, this date is not expected to be earlier than mid-2018. In June 2017, the Government of Canada announced the suspension of the private right of action under CASL that was originally scheduled to come into force on July 1, 2017. During 2017, a committee of the Parliament of Canada completed a public process to review the scope, substance and enforcement of the CASL. Following the review, several recommendations were made to provide for further clarification of certain terms under CASL and for the Government of Canada to reconsider implementing the private of action that was suspended earlier in 2017. No decision has yet been made by the Government of Canada regarding any changes to CASL or the implementation of the private right of action. Compliance with, and other burdens imposed by, current obligations and restrictions as well as those occasioned by future changes could increase the cost of our operations. Failure to comply with obligations and restrictions related to data privacy and security could subject us to lawsuits, fines, criminal penalties, statutory damages, consent decrees, injunctions, adverse publicity, and other losses that could harm our business.

Our customers can use our subscriptions to store contact and other personal or identifying information, and to process, transmit, receive, store, and retrieve a variety of communications and messages, including information about their own customers and other contacts. Customers are able, and may be authorized under certain circumstances, to use our subscriptions to transmit, receive, and/or store personal information.

There are numerous federal and state laws governing the privacy and security of personal information. In particular, the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") establishes privacy and security standards that limit the use and disclosure of individually identifiable health information and requires the implementation of administrative, physical and technical safeguards to protect the privacy of protected health information and ensure the confidentiality, integrity and availability of electronic protected health information. We act as a "Business Associate" through our relationships with our customers and is thus directly subject to certain provisions of HIPAA. In addition, if we are unable to protect the privacy and security of protected health information, we could be found to have breached our contracts with customers with whom we have a Business Associate relationship.

Noncompliance with laws and regulations relating to privacy and security of personal information, including HIPAA, or with contractual obligations under any Business Associate Agreement may lead to significant fines, civil and criminal penalties, or liabilities. The U.S. Department of Health and Human Services ("HHS") audits the compliance of Business Associates and enforces HIPAA privacy and security standards. HHS enforcement activity has become more significant over the last few years and HHS has signaled its intent to continue this trend. In addition to HHS, state attorneys general are authorized to bring civil actions seeking either injunctions or damages to the extent violation implicate the privacy of state residents.

We have implemented policies and procedures to assist us to comply with applicable privacy-related laws and regulations and our contractual obligations, but we cannot provide assurance regarding how these regulations will be interpreted as they apply to our operations. Regulation of personal information is evolving and new laws could further impact how we handle personal information or could require us to incur additional compliance costs, either of which could have an adverse impact on our operations.

Further, our actual compliance, our customers’ perception of our compliance, costs of compliance with such regulations and obligations and customer concerns regarding their own compliance obligations (whether factual or in error) may limit the use and adoption of our subscriptions and reduce overall demand. Privacy-related concerns, including the inability or impracticality of providing advance notice to customers of privacy issues related to the use of our subscriptions, may cause our customers’ customers to resist providing the personal data necessary to allow our customers to use our subscriptions effectively. Even the perception of privacy-related concerns, whether or not valid, may inhibit market adoption of our subscriptions in certain industries.

In addition to government activity, privacy advocacy groups and industry groups have adopted and are considering the adoption of various self-regulatory standards and codes of conduct that, if applied to our or our customers’ businesses may place additional burdens on us and our customers, which may further reduce demand for our subscriptions and harm our business.

While we try to comply with all applicable data protection laws, regulations, standards, and codes of conduct, as well as our own posted privacy policies and contractual commitments to the extent possible, any failure by us to protect our users’ privacy and data, including as a result of our systems being compromised by hacking or other malicious or surreptitious activity, could result in a loss of user confidence in our subscriptions and ultimately in a loss of users, which could materially and adversely affect our business.

Our customers may also accidentally disclose their passwords or store them on a mobile device that is lost or stolen, creating the perception that our systems are not secure against third-party access. Additionally, our third-party contractors in the Philippines, Russia, Ukraine, India, and Poland may have access to customer data. If these or other third-party vendors violate applicable laws or our policies, such violations may also put our customers’ information at risk and could in turn have a material and adverse effect on our business.

Use or delivery of our subscriptions may become subject to new or increased regulatory requirements, taxes, or fees.

The increasing growth and popularity of Internet voice communications heighten the risk that governments will regulate or impose new or increased fees or taxes on Internet voice communications services. To the extent that the use of our subscriptions continues to grow, regulators may be more likely to seek to regulate or impose new or additional taxes, surcharges or fees on our subscriptions. Similarly, advances in technology, such as improvements in locating the geographic origin of Internet voice communications, could cause our subscriptions to become subject to additional regulations, fees or taxes, or could require us to invest in or develop new technologies, which may be costly. In addition, as we continue to expand our user base and offer more subscriptions, we may become subject to new regulations, taxes, surcharges, or fees. Increased regulatory requirements, taxes, surcharges or fees on Internet voice communications services, which could be assessed by governments retroactively or prospectively, would substantially increase our costs, and, as a result, our business would suffer. In addition, the tax status of our subscriptions could subject us to conflicting taxation requirements and complexity with regard to the collection and remittance of applicable taxes. Any such additional taxes could harm our results of operations.

Our emergency and E-911 calling services may expose us to significant liability.

The FCC requires Internet voice communications providers, such as our company, to provide E-911 service in all geographic areas covered by the traditional wire-line E-911 network. Under the FCC’s rules, Internet voice communications providers must transmit the caller’s phone number and registered location information to the appropriate public safety answering point (“PSAP”) for the caller’s registered location. Our CLEC services are also required by the FCC and state regulators to provide E-911 service to the extent that they provide services to end users.

In Canada, the Canadian Radio-television and Telecommunications Commission (the "CRTC") has imposed similar requirements related to the provision of E-911 services in all areas of Canada where the wireline incumbent carrier offers such 911 services. The CRTC also mandates certain customer notification requirements pursuant to which new customers are required to be notified of 911 service limitations and to consent to the same before their service with us commences and we are required to provide annual update notifications to our customers of the 911 limitations of our service.

Additionally, as a provider of electronic communications services in the U.K., we are subject to regulation in the U.K. by Ofcom. Similar to the requirements in the U.S., Ofcom requires electronic communications providers, such as our company, to provide all users access to both 112 (EU-mandated) and 999 (U.K.-mandated) emergency service numbers at no charge. Ofcom also requires us to clearly and transparently inform our users of any emergency service limitations on their device including by way of labels and network announcements.

We provide E-911/999/112 service in compliance with the Ofcom, the CRTC and the FCC's rules, as applicable, to substantially all of our customers' interconnected VoIP lines. In some circumstances, 911/999/112 calls may be routed to a national emergency call center that routes the call to the appropriate PSAP. In addition, certain of our Internet voice communications services that work with mobile devices and are accessed through Wi-Fi networks may not be able to complete 911/999/112 calls. The FCC is considering requiring providers of Internet voice communications services on mobile devices and softphones to provide E-911 service, if such service may be used to make calls to the public telephone network. In Canada, the CRTC requires providers of Internet voice communications services on mobile devices and softphones to provide E-911 service, if such service may be used to make calls to the public telephone network. The adoption of such a requirement in the U.S. could increase our costs and make our service more expensive, which could adversely affect our results of operations. The CRTC in 2017 mandated that all telecommunications service providers, including Internet voice communications providers, are to be in a position to support next generation NG9-1-1 services by June 30, 2020 following changes to be made to the networks of incumbent telephone companies necessary to deliver the NG9-1-1 services. The implementation of the changes necessary to offer NG9-1-1 services may be costly and may make our service less competitive.

In connection with the regulatory requirements that we provide E-911/999/112 to all of our interconnected VoIP customers, we must obtain from each customer, prior to the initiation of or changes to service, the physical locations at which the service will first be used for each VoIP line. For subscriptions that can be utilized from more than one physical location, we must provide customers one or more methods of updating their physical location. Because we are not able to confirm that the service is used at the physical addresses provided by our customers, and because customers may provide an incorrect location or use the subscriptions in locations that differ from the registered location without providing us with the updated information, it is possible that E-911/999/112 calls may get routed to the wrong PSAP. If E-911/999/112 calls are not routed to the correct PSAP, and if the delay results in serious injury or death, we could be sued and the damages substantial. We are evaluating measures to attempt to verify and update the addresses for locations where our subscriptions are used. It is possible that in the future the FCC may require interconnected VoIP providers to automatically update subscriber location information, for purposes of routing 911 calls.

We could be subject to enforcement action by the FCC, the CRTC or Ofcom for our customer lines that cannot provide E-911/999/112 service in accordance with regulatory requirements. This enforcement action could result in significant monetary penalties and restrictions on our ability to offer non-compliant subscriptions.

Customers may in the future attempt to hold us responsible for any loss, damage, personal injury, or death suffered as a result of delayed, misrouted, or uncompleted emergency service calls or text messages. The New and Emerging Technologies 911 Improvement Act of 2008 provides that Internet voice communications providers and interconnected text messaging providers have the same protections from liability for the operation of 911 services as traditional wire-line and wireless providers. Limitations on liability for the provision of 911 service are normally governed by state law, but these limitations typically are not absolute. In the U.K., by law we cannot limit our liability for any death or injury arising out of our negligence, including as a result of emergency service calls that are delayed, misrouted or uncompleted due to our negligence. In Canada, the CRTC does not permit any limitation of liability related to the provision of E-911 services that is due to our gross negligence or where negligence on the part of a service provider results in physical injury, death, or damage to the customer's property or premises. In addition, Canadian provincial consumer protection laws may constrain our ability to limit liability to our non-business customers for any liability caused due to the 911 shortfalls inherent in Internet voice communications services.

We rely on third parties to provide the majority of our customer service and support representatives and to fulfill various aspects of our E-911 service. If these third parties do not provide our customers with reliable, high-quality service, our reputation will be harmed, and we may lose customers.

We offer customer support through both our online account management website and our toll-free customer support number. Our customer support is currently provided via a third-party provider located in the Philippines, as well as our employees in the U.S. We currently offer support in English, French, German, and Spanish. Our third-party providers generally provide customer service and support to our customers without identifying themselves as independent parties. The ability to support our customers may be disrupted by natural disasters, inclement weather conditions, civil unrest, strikes, and other adverse events in the Philippines. Furthermore, as we expand our operations internationally, we may need to make significant expenditures and investments in our customer service and support to adequately address the complex needs of international customers, such as support in multiple foreign languages.

We also contract with third parties to provide emergency services calls in the United States, Canada, the U.K., and other jurisdictions in which we provide access to emergency services dialing, including assistance in routing emergency calls and terminating emergency services calls. Our domestic providers operate a national call center that is available 24 hours a day, seven days a week, to receive certain emergency calls and maintain PSAP databases for the purpose of deploying and operating E-911 services. We rely on providers for similar functions in other jurisdictions in which we provide access to emergency services dialing. On mobile devices, we rely on the underlying cellular or wireless carrier to provide emergency services dialing. Interruptions in service from our vendors could cause failures in our customers’ access to E-911/999/112 services and expose us to liability and damage our reputation.

If any of these third parties do not provide reliable, high-quality service, our reputation and our business will be harmed. In addition, industry consolidation among providers of services to us may impact our ability to obtain these services or increase our costs for these services.

We depend largely on the continued services of our senior management and other key employees, the loss of any of whom could adversely affect our business, results of operations and financial condition.

Our future performance depends on the continued services and contributions of our senior management and other key employees to execute on our business plan, and to identify and pursue opportunities and services innovations. The loss of services of senior management or other key employees could significantly delay or prevent the achievement of our development and strategic objectives. In particular, we depend to a considerable degree on the vision, skills, experience, and effort of our co-founder, Chairman and Chief Executive Officer, Vladimir Shmunis. None of our executive officers or other senior management personnel is bound by a written employment agreement and any of them may therefore terminate employment with us at any time with no advance notice. The replacement of any of these senior management personnel would likely involve significant time and costs, and such loss could significantly delay or prevent the achievement of our business objectives. The loss of the services of our senior management or other key employees for any reason could adversely affect our business, financial condition, or results of operations.

If we are unable to hire, retain, and motivate qualified personnel, our business will suffer.

Our future success depends, in part, on our ability to continue to attract and retain highly skilled personnel. We believe that there is, and will continue to be, intense competition for highly skilled technical and other personnel with experience in our industry in the San Francisco Bay Area, where our headquarters is located, in Denver, Colorado, where our U.S. sales and customer support office and our network operations center is located, and in other locations, such as Charlotte, North Carolina; Boca Raton, Florida; London, England, and Xiamen, China, where we maintain offices. In addition, changes to U.S. immigration policies, particularly to H-1B and other visa programs, could restrain the flow of technical and professional talent into the U.S. and may inhibit our ability to hire qualified personnel. We must provide competitive compensation packages and a high-quality work environment to hire, retain, and motivate employees. If we are unable to retain and motivate our existing employees and attract qualified personnel to fill key positions, we may be unable to manage our business effectively, including the development, marketing, and sale of existing and new subscriptions, which could have a material adverse effect on our business, financial condition, and results of operations. To the extent we hire personnel from competitors, we may be subject to allegations that they have been improperly solicited or divulged proprietary or other confidential information.

Volatility in, or lack of performance of, our stock price may also affect our ability to attract and retain key personnel. Many of our key personnel are, or will soon be, vested in a substantial amount of shares of common stock, stock options, or restricted stock units. Employees may be more likely to terminate their employment with us if the shares they own or the shares underlying their vested options have significantly appreciated in value relative to the original purchase prices of the shares or the exercise prices of the options, or if the exercise prices of the options that they hold are significantly above the market price of our Class A common stock. If we are unable to retain our employees, our business, results of operations, and financial condition will be harmed.

We may expand through acquisitions of, or investments in, other companies, each of which may divert our management's attention, result in additional dilution to our stockholders, increase expenses, disrupt our operations, and harm our results of operations.

Our business strategy may, from time to time, include acquiring or investing in complementary services, technologies or businesses, such as our acquisition of Glip, Inc. ("Glip") in 2015. We cannot assure you that we will successfully identify suitable acquisition candidates, integrate or manage disparate technologies, lines of business, personnel and corporate cultures, realize our business strategy or the expected return on our investment, or manage a geographically dispersed company. Any such acquisition or investment could materially and adversely affect our results of operations. The acquisition and integration process is complex, expensive and time-consuming, and may cause an interruption of, or loss of momentum in, product development and sales activities and operations of both companies, and we may incur substantial cost and expense, as well as divert the attention of management. We may issue equity securities which could dilute current stockholders' ownership, incur debt, assume contingent or other liabilities and expend cash in acquisitions, which could negatively impact our financial position, stockholder equity, and stock price.

Acquisitions and other strategic investments involve significant risks and uncertainties, including:

- the potential failure to achieve the expected benefits of the combination or acquisition;
- unanticipated costs and liabilities;
- difficulties in integrating new products and subscriptions, software, businesses, operations, and technology infrastructure in an efficient and effective manner;
- difficulties in maintaining customer relations;
- the potential loss of key employees of the acquired businesses;
- the diversion of the attention of our senior management from the operation of our daily business;
- the potential adverse effect on our cash position to the extent that we use cash for the purchase price;
- the potential significant increase of our interest expense, leverage, and debt service requirements if we incur additional debt to pay for an acquisition;
- the potential issuance of securities that would dilute our stockholders' percentage ownership;
- the potential to incur large and immediate write-offs and restructuring and other related expenses; and
- the inability to maintain uniform standards, controls, policies, and procedures.

Any acquisition or investment could expose us to unknown liabilities. Moreover, we cannot assure you that we will realize the anticipated benefits of any acquisition or investment. In addition, our inability to successfully operate and integrate newly acquired businesses appropriately, effectively, and in a timely manner could impair our ability to take advantage of future growth opportunities and other advances in technology, as well as on our revenues, gross margins, and expenses.

We may be subject to liabilities on past sales for taxes, surcharges, and fees.

We believe we collect state and local sales tax and use, excise, utility user, and ad valorem taxes, fees, or surcharges in all relevant jurisdictions in which we generate sales, based on our understanding of the applicable laws in those jurisdictions. Such tax, fees and surcharge laws and rates vary greatly by jurisdiction. There is uncertainty as to what constitutes sufficient "in state presence" for a state to levy taxes, fees, and surcharges for sales made over the Internet. Therefore, taxing authorities may challenge our position and may decide to audit our business and operations with respect to such taxes, which could result in increased tax liabilities for us or our customers that could materially and adversely affect our results of operations and our relationships with our customers.

The application of other indirect taxes (such as sales and use tax, value added tax, goods and services tax, business tax, and gross receipt tax) to e-commerce businesses, such as ours, is a complex and evolving area. In February 2016, the U.S. federal government enacted legislation permanently extending the moratorium on states and other local authorities imposing access or discriminatory taxes on the Internet. The application of existing, new, or future laws relating to indirect taxes on e-commerce businesses, whether in the U.S. or internationally, could have adverse effects on our business, prospects, and results of operations. There have been, and will continue to be, substantial ongoing costs associated with complying with the various indirect tax requirements in the numerous markets in which we conduct or will conduct business.

Changes in effective tax rates, or adverse outcomes resulting from examination of our income or other tax returns, could adversely affect our results of operations and financial condition.

Our future effective tax rates could be subject to volatility or adversely affected by a number of factors, including:

- changes in the valuation of our deferred tax assets and liabilities;
- expiration of, or lapses in, the research and development tax credit laws;
- expiration or non-utilization of net operating loss carryforwards;
- tax effects of share-based compensation;

- expansion into new jurisdictions;
- potential challenges to and costs related to implementation and ongoing operation of our intercompany arrangements;
- changes in tax laws and regulations and accounting principles, or interpretations or applications thereof; and
- certain non-deductible expenses as a result of acquisitions.

Any changes in our effective tax rate could adversely affect our results of operations.

Changes in U.S. tax laws could have a material adverse effect on our business, cash flow, results of operations or financial conditions.

We are subject to tax legislation in several countries; changes in tax laws or challenges to our tax positions could adversely affect our business, results of operations and financial condition. As such, we are subject to tax laws, regulations and policies of the U.S. federal, state and local governments and of comparable taxing authorities in other country jurisdictions. Changes in tax laws, including the recently enacted U.S. federal tax legislation commonly referred to as the Tax Cuts and Jobs Act of 2017 (Tax Act), as well as other factors, could cause us to experience fluctuations in our tax obligations and effective tax rates in 2018 and thereafter and otherwise adversely affect our tax positions and/or our tax liabilities. We are currently evaluating the Tax Act. The full impact of the Tax Act on us cannot be predicted at this time and may change significantly as regulations, interpretations and rulings relating to the Tax Act are issued and additional changes in U.S. federal and state tax laws may be made in the future. There can be no assurance that our effective tax rates, tax payments, tax credits or incentives will not be adversely affected by these or other initiatives.

We may be unable to use some or all of our net operating loss carryforwards, which could materially and adversely affect our reported financial condition and results of operations.

As of December 31, 2017, we had federal and state net operating loss carryforwards (“NOLs”) of $276 million and $231 million, respectively, available to offset future taxable income, due to prior period losses, which, if not utilized, will begin to expire in 2023 for federal purposes and will begin to expire in 2021 for state purposes. We also have federal research tax credit carryforwards that will begin to expire in 2028. Realization of these net operating loss and research tax credit carryforwards depends on future income, and there is a risk that our existing carryforwards could expire unused and be unavailable to offset future income tax liabilities, which could materially and adversely affect our results of operations.

In addition, under Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”) our ability to utilize net operating loss carryforwards or other tax attributes, such as research tax credits, in any taxable year may be limited if we experience an “ownership change.” A Section 382 “ownership change” generally occurs if one or more stockholders or groups of stockholders, who each own at least 5% of our stock, increase their collective ownership by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. Similar rules may apply under state tax laws.

Except for an insignificant amount of deferred tax assets recognized in connection with NOLs in the Netherlands and China, no deferred tax assets have been recognized on our consolidated balance sheets related to these NOLs, as they are fully offset by a valuation allowance. If we have previously had, or have in the future, one or more Section 382 “ownership changes,” including in connection with our initial public offering or another offering, or if we do not generate sufficient taxable income, we may not be able to utilize a material portion of our NOLs, even if we achieve profitability. If we are limited in our ability to use our NOLs in future years in which we have taxable income, we will pay more taxes than if we were able to fully utilize our NOLs. This could materially and adversely affect our results of operations.

If our internal control over financial reporting is not effective, it may adversely affect investor confidence in our company.

Pursuant to Section 404 of the Sarbanes-Oxley Act, our independent registered public accounting firm, KPMG LLP, is required to and has issued an attestation report as of December 31, 2017. While management concluded internal control over financial reporting was effective as of December 31, 2017, there can be no assurance that material weaknesses will not be identified in the future. A “material weakness” is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal controls are effective. As a result, we may need to undertake various actions, such as implementing new internal controls and procedures and hiring accounting or internal audit staff. Our remediation efforts may not enable us to avoid a material weakness in the future.

If our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal controls, we could lose investor confidence in the accuracy and completeness of our financial reports, which could cause the price of our Class A common stock to decline, and we may be subject to investigation or sanctions by the Securities and Exchange Commission (the “SEC”).

We may not be successful in continuing to obtain local access services through our CLEC subsidiary.

Through our competitive local exchange carrier subsidiary, RCLEC, we have been able to purchase network services directly from ILECs and from other CLECs in certain geographic markets, at lower prices than we pay for such services through third-party network service providers, such as CenturyLink, Inc. and Bandwidth.com, Inc. Using the services of our CLEC subsidiary has also helped us improve our quality of service. However, the ILECs may favor themselves and their affiliates and may not provide network services to us at lower prices than we could obtain through CenturyLink, Inc., Bandwidth.com, Inc., other third-party CLECs, or at all. If we are unable to continue to reduce our pricing as a result of obtaining network services through our subsidiary, we may be forced to rely on other third-party network service providers and be unable to effectively lower our cost of service. In addition, if ILECs or other CLECs do not provide us with any access, we will not be able to use our RCLEC subsidiary as intended to improve the quality of our subscriptions or lower the cost of our subscriptions.

If we are unable to effectively process local number and toll-free number portability provisioning in a timely manner, our growth may be negatively affected.

We support local number and toll-free number portability, which allows our customers to transfer to us and thereby retain their existing phone numbers when subscribing to our services. Transferring numbers is a manual process that can take up to 15 business days or longer to complete. A new customer of our subscriptions must maintain both our subscription and the customer’s existing phone service during the number transferring process. Any delay that we experience in transferring these numbers typically results from the fact that we depend on third-party carriers to transfer these numbers, a process that we do not control, and these third-party carriers may refuse or substantially delay the transfer of these numbers to us. Local number portability is considered an important feature by many potential customers, and if we fail to reduce any related delays, we may experience increased difficulty in acquiring new customers. Moreover, the FCC requires Internet voice communications providers, which are companies like us that provide subscriptions similar to traditional phone companies, including the ability to make calls to and receive calls from the public phone network, to comply with specified number porting timeframes when customers leave our subscription for the services of another provider. In Canada, the CRTC has imposed a similar number portability requirement on subscription providers like us. Similarly in the U.K., Ofcom requires providers of electronic communications services, like us, to provide number portability as soon as practicable and on reasonable terms. If we, or our third-party carriers, are unable to process number portability requests within the requisite timeframes, we could be subject to fines and penalties, including, in the U.K., compensation payable to our customers. Additionally, in the U.S., both customers and carriers may seek relief from the relevant state public utility commission, the FCC, or in state or federal court for violation of local number portability requirements.

Our business could suffer if we cannot obtain or retain direct inward dialing numbers (“DIDs”) are prohibited from obtaining local or toll-free numbers, or are limited to distributing local or toll-free numbers to only certain customers.

Our future success depends on our ability to procure large quantities of local and toll-free DIDs in the U.S. and foreign countries in desirable locations at a reasonable cost and without restrictions. Our ability to procure and distribute DIDs depends on factors outside of our control, such as applicable regulations, the practices of the communications carriers that provide DIDs, the cost of these DIDs, and the level of demand for new DIDs. Due to their limited availability, there are certain popular area code prefixes that we generally cannot obtain. Our inability to acquire DIDs for our operations would make our subscriptions less attractive to potential customers in the affected local geographic areas. In addition, future growth in our customer base, together with growth in the customer bases of other providers of cloud-based business communications, has increased, which increases our dependence on needing sufficiently large quantities of DIDs.

We rely on third-party hardware and software that may be difficult to replace or which could cause errors or failures of our subscriptions.

We rely on purchased or leased hardware and software licensed from third parties in order to offer our subscriptions. In some cases, we integrate third-party licensed software components into our platform. This hardware and software may not continue to be available at reasonable prices or on commercially reasonable terms, or at all. Any loss of the right to use any of this hardware or software could significantly increase our expenses and otherwise result in delays in the provisioning of our subscriptions until equivalent technology is either developed by us, or, if available, is identified, obtained, and integrated. Any errors or defects in third-party hardware or software could result in errors or a failure of our subscriptions which could harm our business.

We may not be able to manage our inventory levels effectively, which may lead to inventory obsolescence that would force us to incur inventory write-downs.

Our vendor-supplied phones have lead times of up to 10 to 13 weeks for delivery and are built to forecasts that are necessarily imprecise. It is likely that from time to time we will have either excess or insufficient product inventory. In addition, because we rely on third-party vendors for the supply of our vendor-supplied phones, our inventory levels are subject to the conditions regarding the timing of purchase orders and delivery dates that are not within our control. Excess inventory levels would subject us to the risk of inventory obsolescence, while insufficient levels of inventory may negatively affect relations with customers. For instance, our customers rely upon our ability to meet committed delivery dates, and any disruption in the supply of our subscriptions could result in loss of customers or harm to our ability to attract new customers. Any reduction or interruption in the ability of our vendors to supply our customers with vendor-supplied phones could cause us to lose revenue, damage our customer relationships and harm our reputation in the marketplace. Any of these factors could have a material adverse effect on our business, financial condition or results of operations.

We currently depend on three suppliers and one fulfillment agent to configure and deliver the phones that we sell and any delay or interruption in manufacturing, configuring and delivering by these third parties would result in delayed or reduced shipments to our customers and may harm our business.

We rely on Cisco Systems, Inc., Polycom, Inc., and Yealink Network Technology Co., Ltd. to provide phones that we offer for sale to our customers that use our subscriptions, and we rely on Westcon to configure and deliver the phones that we sell to our customers. Accordingly, we could be adversely affected if our suppliers or Westcon fail to maintain competitive phones or configuration services, or fail to continue to make them available on attractive terms, or at all.

If Westcon is unable to deliver phones of acceptable quality, or if there is a reduction or interruption in Westcon's ability to supply the phones in a timely manner, our ability to bring services to market, the reliability of our subscriptions and our relationships with customers or our overall reputation in the marketplace could suffer, which could cause us to lose revenue. We expect that it could take several months to effectively transition to new third-party manufacturers or fulfillment agents.

If our vendor-supplied phones are not able to interoperate effectively with our own back-end servers and systems, our customers may not be able to use our subscriptions, which could harm our business, financial condition and results of operations.

Phones must interoperate with our back-end servers and systems, which contain complex specifications and utilize multiple protocol standards and software applications. Currently, the phones used by our customers are manufactured by only three third-party providers: Cisco Systems, Inc., Polycom, Inc., and Yealink Network Technology Co, Ltd. If any of these providers changes the operation of their phones, we will be required to undertake development and testing efforts to ensure that the new phones interoperate with our system. These efforts may require significant capital and employee resources, and we may not accomplish these development efforts quickly or cost-effectively, if at all. If our vendor-supplied phones do not interoperate effectively with our system, our customers' ability to use our subscriptions could be delayed or orders for our subscriptions could be cancelled, which would harm our business, financial condition, and results of operations.

We may require additional capital to pursue our business objectives and to respond to business opportunities, challenges or unforeseen circumstances. If capital is not available to us, our business, results of operations, and financial condition may be adversely affected.

We intend to continue to make expenditures and investments to support the growth of our business and may require additional capital to pursue our business objectives and respond to business opportunities, challenges, or unforeseen circumstances, including the need to develop new solutions or enhance our existing solutions, enhance our operating infrastructure, and acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. However, additional funds may not be available when we need them on terms that are acceptable to us, or at all. Any debt financing that we secure in the future could involve restrictive covenants, which may make it more difficult for us to obtain additional capital and to pursue business opportunities. In addition, the restrictive covenants in credit facilities we may secure in the future may restrict us from being able to conduct our operations in a manner required for our business and may restrict our growth, which could have an adverse effect on our business, financial condition, or results of operations.

We cannot assure you that we will be able to comply with any such restrictive covenants. In the event that we are unable to comply with these covenants in the future, we would seek an amendment or waiver of the covenants. We cannot assure you that any such waiver or amendment would be granted. In such event, we may be required to repay any or all of our existing borrowings, and we cannot assure you that we will be able to borrow under our existing credit agreements, or obtain alternative funding arrangements on commercially reasonable terms, or at all.

In addition, volatility in the credit markets may have an adverse effect on our ability to obtain debt financing. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences, and privileges superior to those of holders of our Class A common stock. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to pursue our business objectives and to respond to business opportunities, challenges, or unforeseen circumstances could be significantly limited, and our business, results of operations, financial condition and prospects could be materially and adversely affected.

The market price of our Class A common stock is likely to be volatile and could decline.

The stock market in general, and the market for SaaS and other technology-related stocks in particular, has been highly volatile. As a result, the market price and trading volume for our Class A common stock has been and may continue to be highly volatile, and investors in our Class A common stock may experience a decrease in the value of their shares, including decreases unrelated to our operating performance or prospects. Factors that could cause the market price of our Class A common stock to fluctuate significantly include:

- our operating and financial performance and prospects and the performance of other similar companies;
- our quarterly or annual earnings or those of other companies in our industry;
- conditions that impact demand for our subscriptions;
- the public's reaction to our press releases, financial guidance, and other public announcements, and filings with the SEC;
- changes in earnings estimates or recommendations by securities or research analysts who track our Class A common stock;
- market and industry perception of our success, or lack thereof, in pursuing our growth strategy;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- changes in government and other regulations;
- changes in accounting standards, policies, guidance, interpretations, or principles;
- arrival and departure of key personnel;
- sales of common stock by us, our investors, or members of our management team; and
- changes in general market, economic, and political conditions in the U.S. and global economies or financial markets, including those resulting from natural disasters, telecommunications failure, cyber attack, civil unrest in various parts of the world, acts of war, terrorist attacks, or other catastrophic events.

Any of these factors may result in large and sudden changes in the trading volume and market price of our Class A common stock and may prevent investors from being able to sell their shares at or above the price they paid for their shares of our Class A common stock. Following periods of volatility in the market price of a company's securities, stockholders often file securities class-action lawsuits against such company. Our involvement in a class-action lawsuit could divert our senior management's attention and, if adversely determined, could have a material and adverse effect on our business, financial condition, and results of operations.

Our corporate headquarters, one of our data centers and co-location facilities, our third-party customer service and support facilities, and a research and development facility are located near known earthquake fault zones, and the occurrence of an earthquake, tsunami, or other catastrophic disaster could damage our facilities or the facilities of our contractors, which could cause us to curtail our operations.

Our corporate headquarters, one of our data centers and one of our subsidiary's co-location facilities are located in California, a number of co-location facilities are located in Asia and Australia, our third-party customer service call centers operated by our contractors are located in the Philippines, and one of our research and development facilities is located on the coast of China. All of these locations are on the Pacific Rim near known earthquake fault zones and, therefore, are vulnerable to damage from earthquakes and tsunamis. Additionally, our China facility, our third-party customer service and support facilities in the Philippines, and our CLEC subsidiary's co-location facility in Florida are located in areas subject to hurricanes. We and our contractors are also vulnerable to other types of disasters, such as power loss, fire, floods, pandemics, cyber attack, war, political unrest, and terrorist attacks and similar events that are beyond our control. If any disasters were to occur, our ability to operate our business could be seriously impaired, and we may endure system interruptions, reputational harm, loss of intellectual property, delays in our subscriptions development, lengthy interruptions in our services, breaches of data security, and loss of critical data, all of which could harm our future results of operations. In addition, we do not carry earthquake insurance and we may not have adequate insurance to cover our losses resulting from other disasters or other similar significant business interruptions. Any significant losses that are not recoverable under our insurance policies could seriously impair our business and financial condition.

The nature of our business requires the application of complex revenue and expense recognition rules and the current legislative and regulatory environment affecting generally accepted accounting principles is uncertain. Significant changes in current principles could affect our financial statements going forward and changes in financial accounting standards or practices may cause adverse, unexpected financial reporting fluctuations and harm our operating results.

The accounting rules and regulations that we must comply with are complex and subject to interpretation by the Financial Accounting Standards Board (the “FASB”), the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. Recent actions and public comments from the FASB and the SEC have focused on the integrity of financial reporting and internal controls. In addition, many companies’ accounting policies are being subject to heightened scrutiny by regulators and the public. Further, the accounting rules and regulations are continually changing in ways that could materially impact our financial statements. For example, in May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606), as amended, which will supersede nearly all existing revenue recognition guidance. Although the new standard permits early adoption as early as January 1, 2017, the effective date of the new revenue standard is January 1, 2018. The new standard permits adoption either by using (i) a full retrospective approach for all periods presented in the period of adoption or (ii) a modified retrospective approach with the cumulative effect of initially applying the new standard recognized at the date of initial application and providing certain additional disclosures. We will adopt the new revenue guidance in the first quarter of 2018, using the full retrospective transition method. Under the new standard, we expect to capitalize certain sales commission costs and in some cases recognize revenue earlier for subscription plans with free periods and products sold at discounts. The impact of adopting the new standard on our total revenues is not expected to be material. However, we anticipate the most significant impact of adopting the new standard primarily relates to the deferral of sales commissions, which previously were expensed as incurred and to the incremental disclosure requirements. Adoption of this standard will also require changes to our business processes, systems and controls to support the new revenue recognition guidance.

We cannot predict the impact of future changes to accounting principles or our accounting policies on our financial statements going forward, which could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of the change. In addition, if we were to change our critical accounting estimates, including those related to the recognition of subscription revenue and other revenue sources, our operating results could be significantly affected.

Risks Related to Our Class A Common Stock and Our Charter Provisions

The dual class structure of our common stock as contained in our charter documents has the effect of concentrating voting control with a limited number of stockholders that held our stock prior to our initial public offering, including our founders and our executive officers, employees and directors and their affiliates, and venture capital investors, and limiting other stockholders’ ability to influence corporate matters.

Our Class B common stock has 10 votes per share, and our Class A common stock has one vote per share. Stockholders who hold shares of Class B common stock, including our founders, previous investors and our executive officers, employees and directors and their affiliates, together hold approximately 65% of the voting power of our outstanding capital stock, and our founders, including our CEO and Chairman, together hold a majority of such voting power. As a result, for the foreseeable future, our stockholders who acquired their shares prior to the completion of our initial public offering will continue to have significant influence over the management and affairs of our company and over the outcome of all matters submitted to our stockholders for approval, including the election of directors and significant corporate transactions, such as a merger, consolidation or sale of substantially all of our assets.

In addition, the holders of Class B common stock collectively will continue to control all matters submitted to our stockholders for approval even if their stock holdings represent less than 50% of the outstanding shares of our common stock. Because of the ten-to-one voting ratio between our Class B and Class A common stock, the holders of our Class B common stock collectively will continue to control a majority of the combined voting power of our common stock so long as the shares of Class B common stock represent at least 10% of all outstanding shares of our Class A and Class B common stock. This concentrated control will limit your ability to influence corporate matters for the foreseeable future, and, as a result, the market price of our Class A common stock could be adversely affected.

Future transfers by holders of Class B common stock will generally result in those shares converting to Class A common stock, which will have the effect, over time, of increasing the relative voting power of those holders of Class B common stock who retain their shares in the long term. If, for example, Mr. Shmunis retains a significant portion of his holdings of Class B common stock for an extended period of time, he could, in the future, control a majority of the combined voting power of our Class A and Class B common stock. As a board member, Mr. Shmunis owes a fiduciary duty to our stockholders and must act in good faith in a manner he reasonably believes to be in the best interests of our stockholders. As a stockholder, even a controlling stockholder, Mr. Shmunis is entitled to vote his shares in his own interests, which may not always be in the interests of our stockholders generally.

We have never paid cash dividends and do not anticipate paying any cash dividends on our common stock.

We currently do not plan to declare dividends on shares of our common stock in the foreseeable future and plan to, instead, retain any earnings to finance our operations and growth. Because we have never paid cash dividends and do not anticipate paying any cash dividends on our common stock in the foreseeable future, the only opportunity to achieve a return on an investor's investment in our company will be if the market price of our Class A common stock appreciates and the investor sells its shares at a profit. There is no guarantee that the price of our Class A common stock that will prevail in the market will ever exceed the price that an investor pays.

If research analysts do not publish research or reports about our business, or if they issue unfavorable commentary or downgrade our Class A common stock, our stock price and trading volume may decline.

The trading market for our Class A common stock will depend in part on the research and reports that research analysts publish about us and our business. If we do not maintain adequate research coverage or if one or more analysts who covers us downgrades our stock or publishes inaccurate or unfavorable research about our business, the price of our Class A common stock may decline. If one or more of the research analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our Class A common stock may decrease, which could cause our stock price or trading volume to decline.

Anti-takeover provisions in our restated certificate of incorporation and bylaws and under Delaware corporate law could make an acquisition of us more difficult, limit attempts by our stockholders to replace or remove our current management, and limit the market price of our Class A common stock.

Provisions in our certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our management. Our certificate of incorporation and bylaws include provisions that:

- authorize our board of directors to issue, without further action by the stockholders, up to 100,000,000 shares of undesignated preferred stock;
- require that, once our outstanding shares of Class B common stock represent less than a majority of the combined voting power of our common stock, any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent; specify that special meetings of our stockholders can be called only by our board of directors, the Chair of our board of directors, or our Chief Executive Officer;
- establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for election to our board of directors;
- prohibit cumulative voting in the election of directors;
- provide that our directors may be removed only for cause, subject to such amendment as provided in our current proxy statement;
- provide that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum;
- require the approval of our board of directors or the holders of a supermajority of our outstanding shares of capital stock to amend our bylaws and certain provisions of our certificate of incorporation; and
- reflect two classes of common stock, as discussed above.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any “interested” stockholder for a period of three years following the date on which the stockholder became an “interested” stockholder.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters is located in Belmont, California, and consists of approximately 100,000 square feet of office space, under a lease that expires in July 2021.

We also lease offices in Denver, Colorado; Charlotte, North Carolina; Boca Raton, Florida; London, England; Xiamen, China; and Kwun Tong, Hong Kong. In addition, we lease space from third-party datacenter hosting facilities under co-location agreements that support our cloud infrastructure, the most significant locations being Vienna, Virginia; San Jose, California; Amsterdam, the Netherlands; Zurich, Switzerland; Sydney, Australia; and Singapore. We expect to further expand our facilities and datacenter capacity internationally during the year ending December 31, 2018. We believe that we will be able to obtain additional space at other locations at commercially reasonable terms to support our continuing expansion.

ITEM 3. LEGAL PROCEEDINGS

We are subject to certain legal proceedings described below, and from time to time may be involved in a variety of 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, we 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.

We determine whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. We assess our potential liability by analyzing specific litigation and regulatory matters using reasonably available information. We develop our 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 December 31, 2017, we did not have any accrued liabilities recorded for such loss contingencies.

On April 21, 2016, Supply Pro Sorbents, LLC ("SPS") filed a putative class action against us in the United States District Court for the Northern District of California, alleging common law conversion and violations of the federal Telephone Consumer Protection Act ("TCPA") arising from fax cover sheets used by our customers when sending facsimile transmissions over our system ("Lawsuit"). SPS seeks statutory damages, costs, attorneys' fees and an injunction in connection with its TCPA claim, and unspecified damages and punitive damages in connection with its conversion claim. On July 6, 2016, we filed a Petition for Expedited Declaratory Ruling before the Federal Communications Commission ("FCC"), requesting that the FCC issue a ruling clarifying certain portions of its regulations promulgated under TCPA at issue in the Lawsuit ("Petition"). The Petition remains pending. On July 8, 2016, we filed a motion to dismiss the Lawsuit in its entirety, along with a collateral motion to dismiss or stay the Lawsuit pending a ruling by the FCC on our Petition. On October 7, 2016, the Court granted our motion to dismiss and gave SPS 20 days to amend its complaint. The Court concurrently dismissed our motion to dismiss or stay as moot. Plaintiff filed its amended complaint on October 27, 2016, alleging essentially the same theories and claims. On November 21, 2016, we filed a motion to dismiss the amended complaint, along with a renewed motion to dismiss or stay the case pending resolution of the FCC Petition. On July 17, 2017, the Court granted our motion to dismiss with prejudice and concurrently dismissed our motion to dismiss or stay as moot. SPS filed a notice of appeal to the Ninth Circuit Court of Appeals on July 28, 2017. SPS's opening brief on appeal was filed on December 20, 2017, and our opposition brief was filed on February 20, 2018. SPS's optional reply brief must be filed by April 12, 2018. It is too early to predict the outcome of this Lawsuit. Based on the information known by us as of the date of this filing and the rules and regulations applicable to the preparation of our consolidated financial statements, it is not possible to provide an estimated amount of any such loss or range of loss that may occur.

On November 17, 2017, Joann Hurley (“Hurley”), filed a second amended complaint in an ongoing putative class action lawsuit pending in the United States District Court for the Southern District of West Virginia, adding the Company as a named Defendant and alleging that we and other Defendants violated the TCPA and regulations promulgated thereunder by allegedly using an Automated Telephone Dialing System to deliver prerecorded political messages to Hurley, an incumbent running for reelection, and others. Hurley alternatively alleges that we are vicariously liable for the actions of its co-Defendants. Hurley seeks statutory, compensatory, consequential, incidental and punitive damages, costs, and attorneys’ fees in connection with her claims. We were served with the Second Amended Complaint on January 4, 2018, and its responsive pleading must be filed by March 23, 2018. It is too early to predict the outcome of this Lawsuit. Based on the information known by us as of the date of this filing and the rules and regulations applicable to the preparation of our consolidated financial statements, it is not possible to provide an estimated amount of any such loss or range of loss that may occur.

On April 25, 2017, Uniloc USA, Inc. and Uniloc Luxembourg, S.A. filed in the U.S. District Court for the Eastern District of Texas two actions against us alleging infringement of US Patent Nos. 7,804,948; 7,853,000; and 8,571,194 by RingCentral's Glip unified communications application. The plaintiffs seek a declaration that we have infringed the patents, damages according to proof, injunctive relief, as well as their costs, attorney's fees, expenses and interest. On October 9, 2017, we filed a motion to dismiss or transfer requesting that the case be transferred to the United States District Court for the Northern District of California. In response to the motion, plaintiffs filed a first amended complaint on October 24, 2017. We filed a renewed motion to dismiss or transfer on November 15, 2017. Although briefing on that motion has been completed, the motion has not yet been decided. On February 5, 2018, Uniloc moved to stay the litigation pending the resolution of certain third-party inter partes review proceedings ("IPRs") before the United States Patent and Trademark Office. On February 9, 2018, the court stayed the litigation pending resolution of the IPRs without prejudice to or waiver of our motion to dismiss or transfer. This litigation is still in its earliest stages. Based on the information known by us as of the date of this filing and the rules and regulations applicable to the preparation of our consolidated financial statements, it is not possible to provide an estimated amount of any such loss or range of loss that may occur. We intend to vigorously defend against this lawsuit.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information for Common Stock

Our Class A common stock has been listed on the New York Stock Exchange under the symbol "RNG" since September 27, 2013.

The following table sets forth for the indicated periods the high and low closing sales prices of our Class A common stock as reported by the New York Stock Exchange:

	High	Low
Year ended December 31, 2017:		
First quarter	$28.30	$21.25
Second quarter	$38.65	$27.30
Third quarter	$42.65	$34.55
Fourth quarter	$49.65	$40.95
Year ended December 31, 2016:		
First quarter	$23.36	$14.38
Second quarter	$20.85	$15.94
Third quarter	$24.14	$19.37
Fourth quarter	$24.15	$19.80

Our Class B common stock is not listed or traded on any stock exchange.

Dividend Policy

We have never declared or paid cash dividends on our capital stock. We currently intend to retain any future earnings for use in the operation of our business and do not intend to declare or pay any cash dividends in the foreseeable future. Any further determination to pay dividends on our capital stock will be at the discretion of our board of directors, subject to applicable laws, and will depend on our financial condition, results of operations, capital requirements, general business conditions, and other factors that our board of directors considers relevant.

Stockholders

As of February 22, 2018, there were 27 stockholders of record of our Class A common stock and Class B common stock. Because most of our shares of Class A common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of beneficial stockholders represented by these record holders.

Sales of Unregistered Equity Securities and Use of Proceeds

On July 10, 2017 and October 2, 2017, we issued 40,113 and 7,478 shares of our Class A common stock, respectively, to the former stockholders of Glip upon the satisfaction of certain milestones achieved in connection with our June 2015 acquisition of Glip. No underwriters were involved in the foregoing sales of securities. The issuance of such shares was deemed to be exempt from registration under the Securities Act, in reliance on Section 4(a)(2) of the Securities Act as transactions by an issuer not involving a public offering or Regulation S of the Securities Act.

Securities Authorized for Issuance under Equity Compensation Plans

Information regarding the securities authorized for issuance under our equity compensation plans can be found under Item 12 of this Annual Report on Form 10-K.

Stock Performance Graph

The following shall not be deemed “filed” for purposes of Section 18 of the Exchange Act, or incorporated by reference into any of our other filings under the Exchange Act or the Securities Act of 1933, as amended, except to the extent we specifically incorporate it by reference into such filing. The graph below compares the cumulative total return on our Class A common stock with that of the Russell 2000 Index and the Nasdaq Computer Index. The period shown commences on September 27, 2013, the first day our Class A common stock was listed on the New York Stock Exchange, and ends on December 31, 2017, the end of our last fiscal year. The graph assumes $100 was invested at the close of market on September 27, 2013 in the Class A common stock of RingCentral, Inc., or on September 30, 2013 in the Russell 2000 Index and the Nasdaq Computer Index, and assumes the reinvestment of any dividends. The stock price performance on the following graph is not intended to forecast or be indicative of future stock price performance of our Class A common stock.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The consolidated statements of operations data and the consolidated balance sheets data are derived from our audited consolidated financial statements and should be read together with the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations", our consolidated financial statements and the related notes included elsewhere in this filing. Our historical results are not necessarily indicative of our results in any future period.

	Year ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands, except per share amounts)				
Consolidated Statements of Operations					
Revenues					
Software subscriptions	$463,163	$355,850	$271,245	$200,098	$145,995
Other	38,363	23,874	24,983	19,789	14,510
Total revenues	501,526	379,724	296,228	219,887	160,505
Cost of revenues					
Software subscriptions (1)	89,193	73,470	66,354	58,673	47,230
Other (1)	32,078	18,741	20,917	18,100	14,289
Total cost of revenues	121,271	92,211	87,271	76,773	61,519
Gross profit	380,255	287,513	208,957	143,114	98,986
Operating expenses					
Research and development (1)	75,148	65,514	52,924	44,582	33,399
Sales and marketing (1)	260,069	192,497	139,851	104,827	72,336
General and administrative (1)	72,313	55,454	47,114	38,910	34,284
Total operating expenses	407,530	313,465	239,889	188,319	140,019
Loss from operations	(27,275)	(25,952)	(30,932)	(45,205)	(41,033)
Other income (expense), net					
Interest expense	(99)	(746)	(1,123)	(2,007)	(5,384)
Other income (expense), net	1,491	(2,375)	(1,307)	(1,031)	274
Other income (expense), net	1,392	(3,121)	(2,430)	(3,038)	(5,110)
Loss before provision (benefit) for income taxes	(25,883)	(29,073)	(33,362)	(48,243)	(46,143)
Provision (benefit) for income taxes	258	236	(1,263)	97	(45)
Net loss	$(26,141)	$(29,309)	$(32,099)	$(48,340)	$(46,098)
Net loss per common share					
Basic and diluted	$(0.34)	$(0.40)	$(0.46)	$(0.72)	$(1.39)
Weighted-average number of shares used in computing net loss per share					
Basic and diluted	76,281	72,994	70,069	66,818	33,155

(1) Share-based compensation expense is included in our results of operations as follows (in thousands):

	Year ended December 31,				
	2017	2016	2015	2014	2013

Cost of revenues	$3,735	$3,165	$2,054	$1,294	$539
Research and development	9,550	7,296	5,387	3,343	1,495
Sales and marketing	16,015	10,902	7,200	5,260	1,313
General and administrative	12,760	9,477	7,447	5,619	4,193
Total share-based compensation expense	$42,060	$30,840	$22,088	$15,516	$7,540

	As of December 31,				
	2017	2016	2015	2014	2013
Consolidated Balance Sheet Data (in thousands)					
Cash and cash equivalents	$181,192	$160,355	$137,588	$113,182	$116,378
Short-term investments	$—	$—	$—	$28,479	$—
Working capital surplus	$121,329	$89,911	$90,472	$83,513	$75,005
Total assets	$305,168	$252,629	$214,813	$188,337	$145,185
Deferred revenue	$64,415	$45,159	$36,657	$25,586	$16,552
Debt and capital lease obligations	$—	$15,021	$19,040	$25,621	$34,821
Total stockholders' equity	$172,202	$130,041	$110,132	$96,505	$63,515

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and results of operations in conjunction with the consolidated financial statements and notes thereto included elsewhere in this report. As discussed in the section entitled "Special Note Regarding Forward-Looking Statements," the following discussion and analysis contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this report, particularly in the section entitled "Risk Factors."

Overview

We are a leading provider of SaaS solutions for the way employees communicate and collaborate in business. We believe that our innovative, cloud-based approach disrupts the large market for business communications and collaboration by providing flexible and cost-effective solutions that support distributed workforces, mobile employees, and the proliferation of smart phones and tablets. We enable convenient and effective communications for our customers, across all their locations, all their employees, all the time, thus enabling a more productive and dynamic workforce.

We primarily generate revenues by selling software subscriptions of our RingCentral Office, RingCentral Professional, RingCentral Fax, RingCentral Contact Center, and RingCentral Glip offerings. RingCentral Office, which offers an integrated communications and collaboration solution, is offered at monthly subscription rates, varying by the specific functionalities and services and the number of users. To support multinational enterprise customers, we introduced RingCentral Global Office ("Global Office") as an expansion of RingCentral Office. Global Office, offered on a monthly subscription, connects workforces across multiple countries, while reducing complexity and high costs of maintaining multiple, legacy on-premise PBX systems with a single cloud solution. RingCentral Professional is inbound call management for mobile professionals offered at monthly subscription rates that vary based on the desired amount of minutes usage and extensions allotted to the plan. RingCentral Fax, which provides Internet fax capabilities that allow businesses to send and receive fax documents without the need of a fax machine, is offered at monthly subscription rates that vary based on the desired number of pages and phone numbers allotted to the plan. RingCentral Contact Center is a omni-channel hosted contact center solution that integrates with RingCentral Office, offered at a monthly subscription based on four editions with varying features and capabilities. RingCentral Glip is a team messaging and collaboration tool that is made available as a feature to all RingCentral Office customers, and as a freemium offering to non-RingCentral users. Seamlessly integrated with RingCentral Office, RingCentral Glip enables a collaborative communication experience, which delivers increased work productivity and better team efficiency. RingCentral CloudConnect is a service that allows enterprises to leverage their dedicated and private connections to exchange data directly with the RingCentral cloud. Customers use their preferred network service provider to connect to the RingCentral cloud through a private data exchange enabling lower latency, greater network reliability and availability, and added security. Rooms and Rooms Connector bring a cloud web conferencing solution to meeting rooms for a monthly per license add-on fee. Business Multimedia Messaging Service (“MMS”) capabilities enable customers to send and receive images and multimedia files from their RingCentral business numbers, RingCentral Webinar, which is capable of hosting up to 10,000 attendees and 200 presenters, and RingCentral Live Reports, which enables RingCentral Office customers to monitor in real time the service quality delivered to their customers, both for a monthly per license add-on fee. We also offer RingCentral Connect Platform, which is an open platform supported by APIs and SDKs that allows developers to integrate our solution with leading business applications or to customize within their own business workflows.

Our subscription plans have historically had monthly or annual contractual terms, although we also have subscription plans with multi-year contractual terms, generally with larger customers. We believe that this flexibility in contract duration is important to meet the different needs of our customers. Generally, most of our fees for subscription plans have been billed in advance via credit card or through commercial invoices with customary payment terms. We expect to bill more customers through commercial invoices, thus our level of accounts receivable may increase. As we increase our number of large customers, we expect our level of prepayments from customers with annual or multi-year contracts to increase and, accordingly, our level of deferred revenue may increase. For the years ended December 31, 2017, 2016, and 2015, software subscriptions revenues accounted for more than 90% of our total revenues. The remainder of our revenues has historically been primarily comprised of product revenues from the sale of pre-configured office phones and professional services. We do not develop, manufacture, or otherwise touch the delivery of physical phones and offer it as a convenience for a total solution to our customers in connection with subscriptions to our services. We rely on third-party providers to develop and manufacture these devices and fulfillment partners to successfully serve our customers.

In January 2016, we entered into a sales agency agreement with Westcon, a global distributor of communications devices, to provide the phones purchased by customers. Under this agreement, we were an agent and received a commission for our services, which primarily included referring sales to Westcon. Westcon provided phones directly to our customers instead of us purchasing phones from third-party vendors and reselling the phones to our customers. We recorded commission revenues for this arrangement because we were the agent for these sales. During the three months ended June 30, 2016, we completed our transition of direct phone sales to Westcon, which excluded our carriers' phone sales. In addition, we had sales in which we provided free or significantly discounted phones to our customers for promotional reasons. As our agency arrangement did not allow for these significant discounts, we were the seller to these customers and recognized the related revenues and costs from the sale. In addition, our carrier partners did not move to the agency model as they wanted to maintain the customer relationship. This resulted in a mixed hardware engagement model and administrative burden to manage the two models. In December 2016, we terminated the Westcon sales agency agreement and entered into a reseller (direct sale) agreement with Westcon. Effective January 1, 2017, we switched from the agency model to the direct phone sales model whereby we will no longer serve as an agent for referring phone sales to Westcon and will no longer receive commissions for our services. Under the direct phone sales model, we will purchase phones directly from Westcon for resale to our customers. Under this model, we will recognize revenues and costs for phone sales as we are the primary obligor for order fulfillment, have latitude in determining pricing, and assume general inventory risk. The shift to the direct phone sales model resulted in increases in our other revenues and the corresponding cost of other revenues, resulting in decreased gross margin.

We make significant upfront investments to acquire customers. Until 2010, we acquired most of our customer subscriptions through direct transactions on our website driven by online marketing channels. Beginning in 2010, in connection with our introduction of RingCentral Office, we established a direct inside sales force. Since then, we have continued investing in our direct inside sales force while also developing indirect sales channels to market our brand and our subscription offerings. Our indirect sales channel consists of a network of sales agents and resellers who are active in selling our solutions and with whom we have direct relationships, including regional and global master agents such as Intelysis Communications, Inc. (acquired by ScanSource, Inc.), Ingram Micro Inc. (acquired by HNA Group), Sandler Partners and AVANT, Inc., National partners such as CDW Corporation, Carousel Industries, and SHI International Corp., strategic partners such as Google, as well as carrier partners including TELUS and BT, which we refer to collectively as resellers. Our network of resellers includes master agents who manage other sales agents and resellers, resulting in an even larger reseller network. We intend to continue to foster this network and expand our network with other resellers. We also participate in more traditional forms of media advertising, such as radio, and billboard advertising. In January 2018, we closed a transaction with AT&T to allow us to transition the existing customer base for RingCentral Office@Hand solution sold by AT&T directly to us and AT&T is no longer selling new subscriptions for our solution. The transition of the customer base is expected to be completed by January 2019.

Since its launch, our revenue growth has primarily been driven by our flagship RingCentral Office product offering, which has resulted in an increased number of customers, increased average software subscription revenue per customer, and increased retention of our existing customer and user base. We define a “customer” as one individual billing relationship for the subscription to our services, which generally correlates to one company account per customer. In the case of our carrier partners, who resell our product to multiple companies, we consider each reseller to be a single customer. We define a user as one person within a customer who has been granted a subscription license to use our services, such that the number of end-users per customer generally correlates to the number of employees within a customer account. As of December 31, 2017, we had customers from a range of industries, including financial services, healthcare, legal services, real estate, retail, technology, insurance, construction, hospitality, and state and local government, among others. For the years ended December 31, 2017, 2016, and 2015, the vast majority of our total revenues were generated in the U.S. and Canada, although we expect the percentage of our total revenues derived outside of the U.S. and Canada to grow as we expand internationally.

The growth of our business and our future success depend on many factors, including our ability to expand our customer base to medium-sized and larger customers, continue to innovate, grow revenues from our existing customer base, expand our distribution channels, and scale internationally.

While these areas represent significant opportunities for us, they also pose risks and challenges that we must address in order to sustain the growth of our business and improve our operating results. We have experienced significant growth in recent periods, with total revenues of $501.5 million, $379.7 million, and $296.2 million in the years ended December 31, 2017, 2016, and 2015, respectively, generating year-over-year increases of 32% and 28%, respectively. We have continued to make significant expenditures and investments, including those in sales and marketing, research and development, infrastructure and operations and incurred net losses of $26.1 million, $29.3 million, and $32.1 million in the years ended December 31, 2017, 2016, and 2015, respectively.

Key Business Metrics

In addition to generally accepted accounting principles ("U.S. GAAP") financial measures such as total revenues, gross margin, and cash flows from operations, we regularly review a number of key business metrics to evaluate growth trends, measure our performance, and make strategic decisions. We discuss revenues and gross margin under "Results of Operations" and cash flow from operations under "Liquidity and Capital Resources." Other key business metrics are discussed below.

Annualized Exit Monthly Recurring Subscriptions

We believe that our Annualized Exit Monthly Recurring Subscriptions ("ARR") is a leading indicator of our anticipated subscriptions revenues. We believe that trends in revenue are important to understanding the overall health of our business, and we use these trends in order to formulate financial projections and make strategic business decisions. Our ARR equals our Monthly Recurring Subscriptions multiplied by 12. Our Monthly Recurring Subscriptions equals the monthly value of all customer subscriptions in effect at the end of a given month. For example, our Monthly Recurring Subscriptions at December 31, 2017 were $45.5 million. As such, our ARR at December 31, 2017 were $546.4 million compared to $414.4 million at December 31, 2016.

RingCentral Office Annualized Exit Monthly Recurring Subscriptions

We calculate our RingCentral Office Annualized Exit Monthly Recurring Subscriptions ("Office ARR") in the same manner as we calculate our ARR, except that only customer subscriptions from RingCentral Office customers are included when determining Monthly Recurring Subscriptions for the purposes of calculating this key business metric. RingCentral Office is our flagship product offering. We believe that trends in revenue with respect to RingCentral Office are also important to understanding the overall health of our business, and we use these trends in order to formulate financial projections and make strategic business decisions. Our Office ARR at December 31, 2017 were $466.2 million compared to $341.5 million at December 31, 2016.

Net Monthly Subscription Dollar Retention Rate

We believe that our Net Monthly Subscription Dollar Retention Rate provides insight into our ability to retain and grow software subscriptions revenue, as well as our customers' potential long-term value to us. We believe that our ability to retain our customers and expand their use of our solutions over time is a leading indicator of the stability of our revenue base and we use these trends in order to formulate financial projections and make strategic business decisions. We define our Net Monthly Subscription Dollar Retention Rate as (i) one plus (ii) the quotient of Dollar Net Change divided by Average Dollar Monthly Recurring Subscriptions.

We define Dollar Net Change as the quotient of (i) the difference of our Monthly Recurring Subscriptions at the end of a period minus our Monthly Recurring Subscriptions at the beginning of a period minus our Monthly Recurring Subscriptions at the end of the period from new customers we added during the period, (ii) all divided by the number of months in the period. We define our Average Monthly Recurring Subscriptions as the average of the Monthly

Recurring Subscriptions at the beginning and end of the measurement period.

For example, if our Monthly Recurring Subscriptions were $118 at the end of a quarterly period and $100 at the beginning of period, and $20 at the end of the period from new customers we added during the period, then the Dollar Net Change would be equal to ($0.67), or the amount equal to the difference of $118 minus $100 minus $20, all divided by three months. Our Average Monthly Recurring Subscriptions would equal $109, or the sum of $100 plus $118, divided by two. Our Net Monthly Subscription Dollar Retention Rate would then equal 99.4%, or approximately 99%, or one plus the quotient of the Dollar Net Change divided by the Average Monthly Recurring Subscriptions.

Our key business metrics for the five quarterly periods ended December 31, 2017 were as follows (dollars in millions):

	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016
Net Monthly Subscription Dollar Retention Rate	>99%	>99%	>99%	>99%	>99%
Annualized Exit Monthly Recurring Subscriptions	$ 546.4	$ 513.7	$ 478.0	$ 450.8	$ 414.4
RingCentral Office Annualized Exit Monthly Recurring Subscriptions	$ 466.2	$ 433.7	$ 398.9	$ 373.0	$ 341.5

Components of Results of Operations

Revenues

Our revenues for the years presented, consisted of software subscriptions and other revenues. Our software subscriptions revenue includes all fees billed in connection with subscriptions to our RingCentral Office, RingCentral Professional, RingCentral Fax, RingCentral Contact Center, and RingCentral Glip. These fees include recurring fixed plan subscription fees, variable usage-based fees for usage in excess of plan limits, recurring administrative cost recovery fees, one-time fees, and other recurring fees related to our subscriptions. We provide our subscriptions to our customers pursuant to contractual arrangements that range in duration typically from one month to three years. We provide our subscriptions to our customers pursuant to either "click through" online agreements for service terms up to one year or written agreements when the arrangement is expected to be one year or longer. We offer our subscriptions based on the functionalities and services selected by a customer, and generally our subscription arrangements automatically renew for additional periods at the end of the initial subscription term. We believe that this flexibility in contract duration is important to meet the different needs of our customers.

We generally bill our software subscription fees in advance. We recognize software subscription revenue over the term of the agreement. Amounts billed in excess of revenue recognized for the period are reported as deferred revenue on our consolidated balance sheet.

In January 2016, we entered into a sales agency agreement with Westcon to provide the phones purchased by customers. Under this agreement, we were an agent of Westcon and received a commission for our services, which primarily included referring phone sales to Westcon. Westcon provided phones directly to our customers instead of us purchasing phones from third-party vendors and reselling the phones to customers. We recognized commission revenues for this arrangement as we were the agent of these sales. Sales of phones that were provided free or significantly discounted to customers were excluded from the agency model. We recognized revenues and costs from these sales as we were the primary obligor and had latitude in determining pricing. In December 2016, we terminated the Westcon sales agency agreement and entered into a reseller (direct sale) agreement with Westcon. Effective January 1, 2017, we switched from the agency model to the direct phone sales model whereby we no longer serve as an agent for referring phone sales to Westcon and we no longer receive commissions for our services. Under the direct phone sales model, we recognize revenues and costs for phone sales as we are the primary obligor for order fulfillment, have latitude in establishing pricing, and assume general inventory risk.

We also generate software subscriptions and product revenues through sales of our subscriptions and products by resellers. When we assume a majority of the business risks associated with the performance of the contractual obligations, we record the revenues on a gross basis and amounts retained by our resellers are recorded as sales and marketing expenses. Our assumption of such business risks is evidenced when, among other things, we take responsibility for delivery of the service or products, establish pricing of the arrangement, assume credit and inventory risk, and are the primary obligor in the arrangement. When a reseller assumes the majority of the business risks associated with the performance of the contractual obligations, we record the associated revenue at the net amount remitted to us by the reseller. Revenue from resellers has predominately been recorded on a gross basis for all periods presented.

“Other revenues” includes phone sales to carrier partners, phone rentals, and professional implementation services. Product revenue is billed at the time the order is received and recognized when the product has been delivered to the customer.

Cost of Revenues and Gross Margin

Our cost of software subscriptions revenue primarily consists of fees paid to third-party telecommunications providers, network operations, costs to build out and maintain data centers, including co-location fees for the right to place our servers in data centers owned by third parties, depreciation of servers and equipment, along with related utilities and maintenance costs, personnel costs associated with customer care and support of the functionality of our platform and data center operations, including share-based compensation expenses, and allocated costs of facilities and information technology.

We define software subscriptions gross margins as software subscriptions revenue minus the cost of software subscriptions revenue expressed as a percentage of software subscriptions revenue.

Cost of other revenue is comprised primarily of the cost associated with the purchase of phones, cost of professional services, and allocated costs of facilities and information technology related to the procurement, management, and shipment of phones.

Operating Expenses

We classify our operating expenses as research and development, sales and marketing, and general and administrative expenses.

Our research and development efforts are focused on developing new and expanded features for our products, integrations with distributors and other software platforms, and improvements to our backend architecture. Research and development expenses consist primarily of personnel costs for employees and contractors, including share-based compensation expenses, and allocated costs of facilities and information technology, software tools, and product certification. We expense research and development costs as incurred, except for certain internal-use software development costs that we capitalize. We believe that continued investment in our products is important for our future growth, and we expect our research and development expenses to continue to increase in absolute dollars for the foreseeable future, although these expenses may fluctuate as a percentage of our total revenues from period to period depending on the timing of these expenses.

Sales and marketing expenses are the largest component of our operating expenses and consist primarily of personnel costs for employees and contractors directly associated with our sales and marketing activities, including share-based compensation expenses, internet advertising fees, radio and billboard advertising, public relations, commissions paid to employees, resellers and other third parties, trade shows, travel expenses, credit card fees, marketing and promotional activities, amortization of acquired customer relationship intangibles, and allocated costs of facilities and information technology. We expect our sales and marketing expenses to continue to increase in absolute dollars for the foreseeable future as we expand our sales and marketing efforts domestically and internationally and continue to build our brand, although these expenses may fluctuate as a percentage of our total revenues from period to period depending on the timing of these expenses.

General and administrative expenses consist primarily of personnel costs, including share-based compensation expenses, for employees and contractors engaged in infrastructure and administrative activities to support the day-to-day operations of our business. Other significant components of general and administrative expenses include professional service fees, allocated costs of facilities and information technology, cost of compliance with certain government imposed taxes, and the costs of legal matters, business acquisition costs, and loss contingencies. We incur additional expenses as a result of operating as a public company, including costs to comply with the rules and regulations applicable to companies listed on a national securities exchange, costs related to compliance and reporting obligations pursuant to the rules and regulations of the SEC, and increased expenses for insurance, investor relations, and professional services. We expect our general and administrative expenses to continue to increase in absolute dollars for the foreseeable future, although these expenses may fluctuate as a percentage of our total revenues from period to period, depending on the timing of these expenses.

Quarterly Revenue Trends

Our software subscriptions revenue is primarily driven by recurring subscription services. Historically, we have acquired more new customers in the first and third quarters of a fiscal year. However, we have seen this trend becoming increasingly less pronounced as our business has grown, sales of RingCentral Office have accounted for a higher percentage of our total revenues, and as we move up market to target and acquire larger customers.

Quarterly Operating Expenses Trends

Operating expenses are primarily driven by employee-related expenses and by sales and marketing programs, and have been relatively consistent as a percentage of revenues. We expect this trend to continue as we acquire larger customers and expand globally.

Results of Operations

The following tables set forth selected consolidated statements of operations data and such data as a percentage of total revenues. The historical results presented below are not necessarily indicative of the results that may be expected for any future period (in thousands):

	Year ended December 31,		
	2017	2016	2015
Revenues			
Software subscriptions	$463,163	$355,850	$271,245
Other	38,363	23,874	24,983
Total revenues	501,526	379,724	296,228
Cost of revenues			
Software subscriptions	89,193	73,470	66,354
Other	32,078	18,741	20,917
Total cost of revenues	121,271	92,211	87,271
Gross profit	380,255	287,513	208,957
Operating expenses			
Research and development	75,148	65,514	52,924
Sales and marketing	260,069	192,497	139,851
General and administrative	72,313	55,454	47,114
Total operating expenses	407,530	313,465	239,889
Loss from operations	(27,275)	(25,952)	(30,932)
Other income (expense), net			
Interest expense	(99)	(746)	(1,123)
Other income (expense), net	1,491	(2,375)	(1,307)
Other income (expense), net	1,392	(3,121)	(2,430)
Loss before provision (benefit) for income taxes	(25,883)	(29,073)	(33,362)
Provision (benefit) for income taxes	258	236	(1,263)
Net loss	$(26,141)	$(29,309)	$(32,099)

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Percentage of Total Revenues

	Year ended December 31, 2017	2016	2015
Revenues			
Software subscriptions	92 %	94 %	92 %
Other	8	6	8
Total revenues	100	100	100
Cost of revenues			
Software subscriptions	18	19	22
Other	6	5	7
Total cost of revenues	24	24	29
Gross profit	76	76	71
Operating expenses			
Research and development	15	17	18
Sales and marketing	52	51	47
General and administrative	14	15	16
Total operating expenses	81	83	81
Loss from operations	(5)	(7)	(10)
Other income (expense), net			
Interest expense	(0)	(0)	(0)
Other income (expense), net	0	(1)	(0)
Other income (expense), net	0	(1)	(0)
Loss before provision (benefit) for income taxes	(5)	(8)	(10)
Provision (benefit) for income taxes	0	(0)	(0)
Net loss	(5 %)	(8 %)	(10 %)

Comparison of Fiscal Years Ended December 31, 2017, 2016, and 2015:

Revenues

(in thousands, except percentages)	Year Ended December 31, 2017	2016	$ Change	% Change	Year Ended December 31, 2016	2015	$ Change	% Change
Revenues								
Software subscriptions	$463,163	$355,850	$107,313	30 %	$355,850	$271,245	$84,605	31 %
Other	38,363	23,874	14,489	61 %	23,874	24,983	(1,109)	(4 %)
Total revenues	$501,526	$379,724	$121,802	32 %	$379,724	$296,228	$83,496	28 %
Percentage of revenues								
	92 %	94 %			94 %	92 %		

Software subscriptions								
Other	8		6		6		8	
Total	100	%	100	%	100	%	100	%

Software subscriptions revenue. Software subscriptions revenue increased by $107.3 million and $84.6 million, or 30% and 31%, from fiscal years 2016 to 2017 and from fiscal years 2015 to 2016, respectively. These year over year increases were primarily due to the acquisition of new customers, upsells of additional offerings to our existing customer base, an increase in sales to our mid-market and enterprise customers as we continue to move up market, and sales through our channel partners. In addition, our software subscriptions revenues mix contained a higher proportion of RingCentral Office customers for the year ended December 31, 2017 as compared to the prior year, which generally carry a higher monthly subscription rate versus our other product offerings. Our core subscription revenues, excluding subscription revenue from AT&T, was $409.7 million, $308.1 million, and $237.6 million for the years ended December 31, 2017, 2016, and 2015, respectively, or a 33% and 30% increase period over period. Since new subscriptions for the RingCentral Office@Hand solution sold by AT&T have declined throughout 2017 to an immaterial level, we believe this core subscription revenues information provides a useful indicator of our business performance. While the acquisition of new customers and upsells of additional offerings to our existing customer base were the primary reasons for the increase, the short-term trends for user and customer acquisition have varied from period to period as some customers made a small initial user subscription followed by a larger additional user subscription, while other customers purchased a large initial user subscription followed by a smaller additional user subscription. In addition, the period of time between a customer's initial subscription and the purchase of additional subscriptions varies significantly, ranging from one month to a few years. The overall growth in our customer base was primarily driven by increased brand awareness of our products, driven by increases in our sales and marketing expenditures of 35% in 2017 as compared to 2016 and 38% in 2016 as compared to 2015, which include advertising and sales personnel expenditures that we believe helped to facilitate increased customer acceptance of our products.

Other revenues. Other revenues are primarily comprised of product revenue from the sale of pre-configured phones, phone rentals, and professional services.

Other revenues increased by $14.5 million, or 61%, from fiscal year 2016 to 2017 primarily due to the shift to the direct phone sales model during 2017 from an agency model and increase in professional services revenue. Other revenues decreased by $1.1 million or 4% from fiscal years 2015 to 2016 primarily due to the shift to the agency model during 2016 and the elimination of the majority of our revenues from the sale of phones, offset by an increase in professional services revenue.

Total revenues increased by $121.8 million and $83.5 million, or 32% and 28%, from fiscal years 2016 to 2017 and from fiscal years 2015 to 2016, respectively. Adjusting for the direct phone sales model, on a comparable basis, total revenues would have increased by 29% from fiscal year 2016 to 2017.

Cost of Revenues and Gross Margin

	Year Ended December 31,				Year Ended December 31,			
(in thousands, except percentages)	2017	2016	$ Change	% Change	2016	2015	$ Change	% Change
Cost of revenues								
Software subscriptions	$89,193	$73,470	$15,723	21 %	$73,470	$66,354	$7,116	11 %
Other	32,078	18,741	13,337	71 %	18,741	20,917	(2,176)	(10 %)
Total cost of revenues	$121,271	$92,211	$29,060	32 %	$92,211	$87,271	$4,940	6 %
Percentage of revenues								
Software subscriptions	18 %	19 %			19 %	22 %		
Other	6 %	5 %			5 %	7 %		
Gross margins								
Software subscriptions	81 %	79 %			79 %	76 %		
Other	16 %	22 %			22 %	16 %		
Total gross margin %	76 %	76 %			76 %	71 %		

Cost of software subscriptions revenues. Cost of software subscriptions revenues increased by $15.7 million, or 21%, from fiscal year 2016 to 2017 primarily due to increases in personnel costs of $4.6 million, third-party costs to support our products of $4.4 million, overhead costs to support our products of $4.2 million, service and professional fees of $1.5 million, and co-location fees of $1.0 million. The increase in personnel costs was driven by an increase of 15% in average headcount and higher share-based compensation expense of $0.5 million.

Cost of software subscriptions revenues increased by $7.1 million, or 11%, from fiscal years 2015 to 2016 primarily due to increases in personnel costs of $3.3 million, service and professional fees of $1.6 million, and third-party costs to support our new products launched in late 2015 of $1.9 million. The increase in personnel costs was driven by an increase of 25% in average headcount and higher share-based compensation expense of $1.0 million.

The increases in headcount and other expense categories described herein were driven primarily by investments in our infrastructure and capacity to improve the availability of our subscription offerings, while also supporting the growth in new customers and increased usage of our subscriptions by our existing customer base.

Cost of other revenues. Cost of other revenues increased by $13.3 million, or 71%, from fiscal year 2016 to 2017. This was primarily due to the increase in the cost of product sales of $9.4 million, which was driven primarily by the shift to the direct phone sales model during 2017, cost of professional services of $3.1 million, and personnel costs of $0.6 million. The increase in the cost of professional services was due to an increase in revenues for implementation services.

Cost of other revenues decreased by $2.2 million, or 10%, from fiscal years 2015 to 2016. This was primarily due to a decrease in the cost of product sales of $4.2 million, which was driven primarily by the shift to the agency model, partially offset by an increase in the cost of professional services of $1.9 million. The increase in the cost of professional services was due to an increase in revenues for implementation services.

Gross margin. Our gross margin was 76%, 76%, and 71% for fiscal years 2017, 2016, and 2015, respectively. We expect gross margin to remain fairly consistent in the future.

Software subscription revenues gross margin has been flat or improved in all presented periods primarily due to economies of scale obtained in our infrastructure, which includes transport costs and customer support expenses.

The gross margin for other revenues decreased from 22% in fiscal year 2016 to 16% in fiscal year 2017. The decrease in gross margin for other revenues was due primarily to the transition from the agency model to direct phone sales model for phones. Adjusting for the direct phone sales model, on a comparable basis, gross margin would have been 1.7% higher year over year. Gross margin for other revenues was 22% in fiscal year 2016 and 16% in fiscal year 2015. The increase in gross margin was driven primarily by the shift to the agency model for the majority of our phone sales.

Research and Development

	Year Ended December 31,				Year Ended December 31,			
(in thousands, except percentages)	2017	2016	$ Change	% Change	2016	2015	$ Change	% Change
Research and development	$75,148	$65,514	$ 9,634	15 %	$65,514	$52,924	$ 12,590	24 %
Percentage of total revenues	15 %	17 %			17 %	18 %		

Research and development expenses increased by $9.6 million, or 15%, from fiscal year 2016 to 2017 primarily due to increases in personnel costs of $6.9 million, overhead costs to support our research and development efforts of $2.2 million, and professional fees of $0.4 million. The increase in personnel costs was primarily due to an increase in average headcount of 24% and higher share-based compensation expense of $2.3 million.

Research and development expenses increased by $12.6 million, or 24%, from fiscal year 2015 to 2016 primarily due to increases in personnel costs of $12.4 million and professional fees of $1.3 million, which were partially offset by a cost recovery of $0.9 million. The increase in personnel costs was primarily due to an increase in average headcount of 18% and higher share-based compensation expense of $1.9 million.

The increases in research and development headcount and other expense categories were driven by continued investment in current and future software development projects for our cloud-based and mobile applications. We expect research and development expenses to continue to increase in absolute dollars as we continue to invest in such development.

Sales and Marketing

	Year Ended December 31,	Year Ended December 31,

(in thousands, except percentages)	2017	2016	$ Change	% Change	2016	2015	$ Change	% Change
Sales and marketing	$ 260,069	$ 192,497	$ 67,572	35 %	$ 192,497	$ 139,851	$ 52,646	38 %
Percentage of total revenues	52 %	51 %			51 %	47 %		

Sales and marketing expenses increased by $67.6 million, or 35%, from fiscal year 2016 to 2017 primarily due to increases in personnel costs of $40.0 million, indirect channel commissions of $14.0 million, overhead costs to support our marketing efforts of $5.8 million, advertising and marketing costs of $3.8 million, training and travel costs of $2.8 million, and professional fees of $1.3 million. The increase in personnel costs was primarily due to an increase in average headcount of 33% and higher share-based compensation expense of $5.1 million.

Sales and marketing expenses increased by $52.6 million, or 38%, from fiscal year 2015 to 2016 primarily due to increases in personnel costs of $28.3 million, indirect channel commissions of $8.8 million, advertising and marketing costs of $8.6 million, travel costs of $3.3 million, professional fees of $1.1 million, and overhead costs to support our marketing efforts of $2.5 million. The increase in personnel costs was primarily due to an increase in average headcount of 27% and higher share-based compensation expense of $3.7 million.

The increases in sales and marketing headcount and other expense categories were necessary to support our growth strategy to acquire new customers with a focus on larger customers, and establish brand recognition to achieve greater penetration into the North American and European markets. Additionally, we expect sales and marketing expenses to continue to increase in absolute dollars as we continue to expand our presence in North America, Europe, and other markets.

General and Administrative

(in thousands, except percentages)	Year Ended December 31, 2017	2016	$ Change	% Change	Year Ended December 31, 2016	2015	$ Change	% Change
General and administrative	$72,313	$55,454	$16,859	30 %	$55,454	$47,114	$8,340	18 %
Percentage of total revenues	14 %	15 %			15 %	16 %		

General and administrative expenses increased by $16.9 million, or 30%, from fiscal year 2016 to 2017 primarily due to increases in personnel costs of $13.1 million, travel and overhead costs of $1.5 million, and professional fees of $1.4 million. The increase in personnel costs was primarily due to an increase in average headcount of 34% and higher share-based compensation expense of $3.3 million.

General and administrative expenses increased by $8.3 million, or 18%, from fiscal year 2015 to 2016 primarily due to increases in personnel costs of $5.7 million and professional fees of $2.2 million. The increase in personnel costs was primarily due to an increase in average headcount of 9% and higher share-based compensation expense of $2.0 million.

We expect general and administrative expenses to continue to increase in absolute dollars as we continue to make additional investments in processes, systems, and personnel to support our anticipated revenue growth.

Other Income (expense), net

(in thousands, except percentages)	Year Ended December 31, 2017	2016	$ Change	% Change	Year Ended December 31, 2016	2015	$ Change	% Change
Interest expense	$(99)	$(746)	$647	87 %	$(746)	$(1,123)	$377	34 %
Other income (expense), net	1,491	(2,375)	3,866	163 %	(2,375)	(1,307)	(1,068)	(82 %)
Other income (expense), net	$1,392	$(3,121)	$4,513	145 %	$(3,121)	$(2,430)	$(691)	(28 %)

Other income (expense), net increased by $4.5 million, or 145%, from fiscal year 2016 to 2017 primarily due to foreign currency gains driven by the significant increase in the Canadian dollar relative to the U.S. dollar and lower interest expense of $0.6 million due to the repayment of our debt in February 2017.

Other expense increased by $0.7 million, or 28%, from fiscal year 2015 to 2016 primarily due to foreign exchange losses driven by the significant decline in the British pound relative to the US dollar.

Liquidity and Capital Resources

As of December 31, 2017 and 2016, we had $181.2 million and $160.4 million, respectively, of cash and cash equivalents. Since our initial public offering in 2013 and our follow-on offering in early 2014, we have financed our operations primarily through sales to our customers, proceeds from issuance of stock under our stock plans, and proceeds from issuance of debt. We believe that our operations along with existing liquidity sources will satisfy our cash requirements for at least the next 12 months.

Generally, 71% of our total billings are collected through credit card payments received at the beginning of each subscription period, which is monthly for the majority of our customers. As we continue to move up market, the number and size of customers with annual or multi-year contracts is increasing and those who opt for annual invoicing is also increasing. For these customers, we generally invoice only one annual period in advance and all invoicing occurs at the start of the respective subscription period. Therefore, a source of our cash provided by operating activities is our deferred revenue, which is included within our consolidated balance sheet as a liability. Deferred revenue consists of the unearned portion of invoiced fees for our software subscriptions, which we recognize as revenue ratably over the term of agreement. As of December 31, 2017 and 2016, we had deferred revenue of $64.4 million and $45.2 million, respectively.

We had no outstanding debt as of December 31, 2017. As of December 31, 2016, the carrying value of our debt totaled $14.8 million, which was paid in full in February 2017 as discussed in Note 7 of the Notes to the Consolidated Financial Statements and Supplementary Data included in Part II, Item 8 of this Annual Report on Form 10-K.

Our future capital requirements will depend on many factors, including revenue growth and costs incurred to support customer growth, international expansion, research and development, litigation, increased general and administrative expenses to support the anticipated growth in our operations, and capital equipment required to support our growing headcount and in support of our co-location data center facilities. Our capital expenditures in future periods are expected to grow in line with our business. To the extent that existing cash and cash equivalents are not sufficient to fund our future operations, we may need to raise additional funds through public or private equity offerings or through additional debt financing. We may in the future make investments in or acquisitions of businesses or technologies, which could also require us to seek additional equity or debt financing. Additional financing sources may not be available on terms favorable to us or at all.

The table below, for the periods indicated, provides selected cash flow information (in thousands):

	Year ended December 31,		
	2017	2016	2015
Net cash provided by operating activities	$41,165	$29,708	$5,086
Net cash (used in) provided by investing activities	(26,387)	(16,398)	6,366
Net cash provided by financing activities	6,783	9,330	12,637
Effect of exchange rate changes	(724)	127	317
Net increase in cash and cash equivalents	$20,837	$22,767	$24,406

Net Cash Provided by Operating Activities

Cash provided by operating activities is influenced by the amount of cash we invest in personnel, marketing, and infrastructure costs to support the anticipated growth of our business, the increase in the number of customers using our cloud-based software, the amount and timing of customer collections, as well as the amount and timing of disbursements to our vendors. As we continue to invest in personnel and infrastructure to support the anticipated growth of our business, we expect to continue to use cash in our operating activities.

Net cash provided by operating activities was $41.2 million for the year ended December 31, 2017. Net cash provided by operating activities resulted from source of cash from working capital of $7.9 million, which was primarily driven by cash receipts and prepayments from our customers and carriers, offset by the timing of cash payments to vendors. Additionally, net cash provided by operating activities was driven by non-cash adjustments of $59.4 million, primarily consisting of $42.1 million in share-based compensation, $16.2 million in depreciation and amortization, and $1.7 million of bad debt expense, partially offset by net loss of $26.1 million and $0.7 million in foreign currency remeasurement gain recognized on certain assets and liabilities denominated in currencies other than the functional currency.

Net cash provided by operating activities was $29.7 million for the year ended December 31, 2016, primarily resulting from source of cash from working capital of $9.7 million, and non-cash adjustments of $49.3 million, primarily consisted of $30.8 million in share-based compensation, $14.7 million in depreciation and amortization, $2.6 million in foreign currency remeasurement loss recognized on certain receivables denominated in currencies other than the functional currency, and $0.6 million in bad debt expense, partially offset by net loss of $29.3 million.

Net cash provided by operating activities for the year ended December 31, 2017, increased by $11.5 million as compared to the year ended December 31, 2016 due to a reduction in our net loss of $3.2 million, an increase in non-cash adjustments of $10.1 million, partially offset by a decrease in working capital of $1.8 million. The decrease in cash resulting from changes in operating assets and liabilities was primarily due to timing of cash payments to vendors and cash receipts and prepayments from customers and carriers.

Net Cash (Used in) Provided by Investing Activities

Our primary investing activities have consisted of capital expenditures, including costs incurred related to internal-use software, that are necessary to support our increasing customer base and headcount levels in all functions of our business. As our business grows, we expect our capital expenditures to continue to increase.

Net cash used in investing activities was $26.4 million for the year ended December 31, 2017, primarily due to $19.5 million in purchases of property and equipment and $7.4 million of personnel-related costs associated with the development of internal-use software, partially offset by $0.5 million of proceeds received from the release of restricted investments.

Net cash used in investing activities was $16.4 million for the year ended December 31, 2016, primarily due to $14.2 million in purchases of property and equipment and $2.2 million of personnel-related costs associated with the development of internal-use software.

Net cash used in investing activities for the year ended December 31, 2017 increased by $10.0 million as compared to the year ended December 31, 2016, primarily due to the increase of $5.3 million in purchases of property and equipment and $5.2 million in personnel-related costs associated with the development of internal-use software, partially offset by $0.5 million of proceeds received from the release of restricted investments.

Net Cash Provided by Financing Activities

Our primary financing activities have consisted of raising proceeds through the issuance of stock under our stock plans and borrowings under the SVB Agreement.

Net cash provided by financing activities was $6.8 million for the year ended December 31, 2017, primarily due to $25.5 million in proceeds from the issuance of shares in connection with our stock plans, including the issuance of shares under our ESPP, partially offset by the repayment of $14.8 million for debt, tax payments of $3.7 million related to net share settlement of equity awards, and capital lease payments of $0.2 million.

Net cash provided by financing activities was $9.3 million for the year ended December 31, 2016, primarily due to $15.1 million in proceeds from the issuance of shares in connection with our stock plans, including the issuance of shares under our ESPP, partially offset by the repayment of $4.0 million for debt, including capital lease payments of $0.3 million, and the holdback payment of $1.5 million related to the Glip acquisition.

Net cash provided by financing activities for the year ended December 31, 2017, decreased by $2.5 million as compared to the year ended December 31, 2016, primarily due to the repayment of our debt by $11.1 million, which was partially offset by an increase of $10.4 million in proceeds from the issuance of shares in connection with our stock plans.

Backlog

We have generally signed new customers to contracts that vary in length, from month-to-month to multi-year terms for our subscriptions. The timing of invoicing to our customers is a negotiated term and thus varies among our subscription contracts. Payment terms are generally billed either monthly or on an annual basis. At any point in the contract term, there can be amounts that we have not yet been contractually able to invoice, which constitute backlog. Until such time as these amounts are invoiced, we do not recognize them as revenues, unearned revenues or elsewhere in our consolidated financial statements. Given the variability in our contract length, we believe that fluctuations in backlog are not a reliable indicator of future revenues and we do not utilize backlog as a key management metric internally.

Deferred Revenue

Deferred revenue primarily consists of the unearned portion of invoiced fees for our software subscriptions, which we recognize as revenue in accordance with our revenue recognition policy. As we continue to move up market, the number of customers who opt for multi-year contracts are increasing along with their related contract values. For customers with multi-year contracts, however, we generally invoice only one annual subscription period in advance. Therefore, our deferred revenue balance does not capture the full contract value of such multi-year contracts. Accordingly, we believe that deferred revenue is not a reliable indicator of future revenues and we do not utilize deferred revenue as a key management metric internally.

Contractual Obligations

The following summarizes our contractual obligations as of December 31, 2017 (in thousands):

	Payments due by period				
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
Operating lease obligations	$11,003	$23,565	$6,324	$ —	$40,892
Purchase obligations	69,375	4,607	1,100	—	75,082
Total	$80,378	$28,172	$7,424	$ —	$115,974

As of December 31, 2017, we had no current or long-term debt. Our debt was repaid in full in February 2017.

Purchase obligations represent an estimate of all open purchase orders and contractual obligations in the normal course of business for which we have not received the goods or services as of December 31, 2017. Although open purchase orders are considered enforceable and legally binding, except for our purchase orders with our inventory suppliers, the terms generally allow us

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the option to cancel, reschedule, and adjust our requirements based on our business needs prior to the delivery of goods or performance of services. Our purchase orders with our inventory suppliers are non-cancellable. In addition, we have other obligations for goods and services that we enter into in the normal course of business. These obligations, however, are either not enforceable or legally binding, or are subject to change based on our business decisions. The aggregate of these items represents our estimate of purchase obligations.

Indemnification Obligations

Certain of our agreements with sales agents, resellers and customers include provisions for indemnification against liabilities if our products infringe a third-party's intellectual property rights. To date, we have not incurred any material costs as a result of such indemnification provisions and have not accrued any liabilities related to such obligations in the consolidated financial statements as of December 31, 2017.

Contingencies

Legal Proceedings

We are subject to certain legal proceedings described below, and from time to time may be involved in a variety of 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, we 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.

We determine whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. We assess our potential liability by analyzing specific litigation and regulatory matters using reasonably available information. We develop our 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 December 31, 2017, we did not have any accrued liabilities recorded for such loss contingencies.

On April 21, 2016, Supply Pro Sorbents, LLC ("SPS") filed a putative class action against us in the United States District Court for the Northern District of California, alleging common law conversion and violations of the federal Telephone Consumer Protection Act ("TCPA") arising from fax cover sheets used by our customers when sending facsimile transmissions over our system ("Lawsuit"). SPS seeks statutory damages, costs, attorneys' fees and an injunction in connection with its TCPA claim, and unspecified damages and punitive damages in connection with its conversion claim. On July 6, 2016, we filed a Petition for Expedited Declaratory Ruling before the Federal Communications Commission ("FCC"), requesting that the FCC issue a ruling clarifying certain portions of its regulations promulgated under TCPA at issue in the Lawsuit ("Petition"). The Petition remains pending. On July 8, 2016, we filed a motion to dismiss the Lawsuit in its entirety, along with a collateral motion to dismiss or stay the Lawsuit pending a ruling by the FCC on our Petition. On October 7, 2016, the Court granted our motion to dismiss and gave SPS 20 days to amend its complaint. The Court concurrently dismissed our motion to dismiss or stay as moot. Plaintiff filed its amended complaint on October 27, 2016, alleging essentially the same theories and claims. On November 21, 2016, we filed a motion to dismiss the amended complaint, along with a renewed motion to dismiss or stay the case pending resolution of the FCC Petition. On July 17, 2017, the Court granted our motion to dismiss with prejudice and concurrently dismissed our motion to dismiss or stay as moot. SPS filed a notice of appeal to the Ninth Circuit Court of Appeals on July 28, 2017. SPS's opening brief on appeal was filed on December 20, 2017, and our opposition brief was filed on February 20, 2018. SPS's optional reply brief must be filed by April 12,

2018. It is too early to predict the outcome of this Lawsuit. Based on the information known by us as of the date of this filing and the rules and regulations applicable to the preparation of our consolidated financial statements, it is not possible to provide an estimated amount of any such loss or range of loss that may occur.

On November 17, 2017, Joann Hurley (“Hurley”), filed a second amended complaint in an ongoing putative class action lawsuit pending in the United States District Court for the Southern District of West Virginia, adding the Company as a named Defendant and alleging that we and other Defendants violated the TCPA and regulations promulgated thereunder by allegedly using an Automated Telephone Dialing System to deliver prerecorded political messages to Hurley, an incumbent running for reelection, and others. Hurley alternatively alleges that we are vicariously liable for the actions of its co-Defendants. Hurley seeks statutory, compensatory, consequential, incidental and punitive damages, costs, and attorneys’ fees in connection with her claims. We were served with the Second Amended Complaint on January 4, 2018, and its responsive pleading must be filed by March 23, 2018. It is too early to predict the outcome of this Lawsuit. Based on the information known by us as of the date of this filing and the rules and regulations applicable to the preparation of our consolidated financial statements, it is not possible to provide an estimated amount of any such loss or range of loss that may occur.

On April 25, 2017, Uniloc USA, Inc. and Uniloc Luxembourg, S.A. filed in the U.S. District Court for the Eastern District of Texas two actions against us alleging infringement of U.S. Patent Nos. 7,804,948; 7,853,000; and 8,571,194 by RingCentral's Glip unified communications application. The plaintiffs seek a declaration that we have infringed the patents, damages according to proof, injunctive relief, as well as their costs, attorney's fees, expenses and interest. On October 9, 2017, we filed a motion to dismiss or transfer requesting that the case be transferred to the United States District Court for the Northern District of California. In response to the motion, plaintiffs filed a first amended complaint on October 24, 2017. We filed a renewed motion to dismiss or transfer on November 15, 2017. Although briefing on that motion has been completed, the motion has not yet been decided. On February 5, 2018, Uniloc moved to stay the litigation pending the resolution of certain third-party inter partes review proceedings ("IPRs") before the United States Patent and Trademark Office. On February 9, 2018, the court stayed the litigation pending resolution of the IPRs without prejudice to or waiver of our motion to dismiss or transfer. This litigation is still in its earliest stages. Based on the information known by us as of the date of this filing and the rules and regulations applicable to the preparation of our consolidated financial statements, it is not possible to provide an estimated amount of any such loss or range of loss that may occur. We intend to vigorously defend against this lawsuit.

Sales Tax Liability

We regularly increase our sales and marketing activities in various states within the U.S., which may create nexus in those states to collect sales taxes on sales to customers. Although we are diligent in collecting and remitting such taxes, there is uncertainty as to what constitutes sufficient in state presence for a state to levy taxes, fees, and surcharges for sales made over the Internet. As of December 31, 2017 and 2016, we recorded a long-term sales tax liability of $2.6 million, and $3.1 million, respectively, based on our best estimate of the probable liability for the loss contingency incurred as of those dates. Our estimate of a probable outcome under the loss contingency is based on analysis of our sales and marketing activities, revenues subject to sales tax, and applicable regulations in each state in each period. No significant adjustments to the long-term sales tax liability have been recognized in the accompanying consolidated financial statements for changes to the assumptions underlying the estimate. However, changes in management's assumptions may occur in the future as we obtain new information, which can result in adjustments to the recorded liability. Increases and decreases to the long-term sales tax liability are recorded as general and administrative expense.

Employee Agreements

We have signed various employment agreements with executives and key employees pursuant to which if we terminate their employment without cause or if the employee does so for good reason following a change of control of our company, the employees are entitled to receive certain benefits, including severance payments, accelerated vesting of stock options and restricted stock units ("RSUs") and continued COBRA coverage. As of December 31, 2017, no triggering events which would cause these provisions to become effective have occurred. Therefore, no liabilities have been recorded for these agreements in the consolidated financial statements.

Off-Balance Sheet Arrangements

Through December 31, 2017, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with generally accepted accounting principles in the U.S. or U.S. GAAP. In many cases, the accounting treatment of a particular transaction is specifically dictated by U.S. GAAP and does not require management's judgment in its application. In other cases, management's judgment is required in selecting among available alternative accounting standards that provide for different accounting treatment for similar transactions. The preparation of consolidated financial statements also requires us to make estimates and assumptions that affect the amounts we report as assets, liabilities, revenues, costs, and expenses, and affect the related disclosures. We base our estimates on historical experience and other assumptions that we believe are reasonable under the circumstances. In many instances, we could reasonably use different accounting estimates, and in some instances changes in the accounting estimates are reasonably likely to occur from period to period. Accordingly, our actual results could differ significantly from the estimates made by our management. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations, and cash flows will be affected. We believe that the accounting policies discussed below are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management's judgments and estimates.

Revenue Recognition

We derive our revenues from two sources:

- Software subscriptions revenue, which is generated from the sale of subscriptions to our software applications and related services, which have contractual terms typically ranging from one month to three years, and include recurring fixed plan subscription fees, variable usage-based fees for usage in excess of plan limits, recurring administrative cost recovery fees, one-time fees, and other recurring fees related to our subscriptions; and
- Other revenue, which is generated from product revenues from sales of phones, phone sales to carrier partners, phone rentals, and professional implementation services. In 2016, other revenue also included commissions earned as an agent of Westcon.

We recognize revenues when the following criteria are met:

- there is persuasive evidence of an arrangement;
- the subscription service is being provided to the customer or the product has been delivered;
- the amount of fees to be paid by the customer is fixed or determinable; and
- collection of the fees is reasonably assured.

Revenue under subscription plans are recognized as follows:

- fixed plan subscription and administrative cost recovery fees are recognized on a straight-line basis over their contractual subscription term;
- fees for additional minutes of usage in excess of plan limits are recognized over the estimated usage period in a manner that approximates actual usage; and
- one-time upfront fees are initially deferred and recognized on a straight-line basis over the estimated average customer life.

Product revenue is billed at the time the order is received and recognized when the phone has been delivered to the customer. Professional service revenue is generally recognized upon completion of performance.

We frequently enter into arrangements with multiple deliverables that generally include services to be provided under the subscription plan and the sale of products used in connection with our software subscriptions. We allocate the consideration to each deliverable in a multiple-element arrangement based upon its relative selling prices. We determine the selling price for each deliverable using vendor-specific objective evidence (“VSOE”) of selling price or third-party evidence (“TPE”) of selling price, if it exists. If neither VSOE nor TPE of selling price exists for a deliverable, we use our best estimated selling price (“BESP”) for that deliverable. Consideration allocated to each deliverable, limited to the amount not contingent on future performance, are then recognized as revenue when the basic revenue recognition criteria are met for the respective deliverable.

We determine VSOE of fair value based on historical standalone sales to customers. In determining VSOE, we require that a substantial majority of the selling prices for a product or software fall within a reasonably narrow pricing range of the median selling price. VSOE exists for all of our software subscription plans. We use BESP as the selling price for our product offerings as we are not able to determine VSOE of fair value or TPE from observable pricing data of standalone sales. We estimate BESP for a product by considering company-specific factors such as pricing strategies, direct product and other costs, bundling and discounting practices and contractually stated prices.

We also generate software subscriptions and product revenues through sales of our software subscriptions and products by resellers. When we assume a majority of the business risks associated with performance of the contractual obligations, we record the revenues on a gross basis and amounts retained by our resellers are recorded as sales and marketing expenses. Our assumption of such business risks is evidenced when, among other things, we take responsibility for delivery of the product or software subscription, establish pricing of the arrangement, assume credit and inventory risk, and are the primary obligor in the arrangement. When a reseller assumes the majority of the business risks associated with the performance of the contractual obligations, we record the associated revenues at the net amount received from the reseller. We recognize revenues from our resellers when the following criteria are met:

- persuasive evidence of an arrangement exists through a contract with the customer;
- the subscription is being provided to the customer or the product has been delivered;
- the amount of fees to be paid by the customer is fixed or determinable; and
- the collection of the fees is reasonably assured.

Our deliverables sold through our reseller agreements consist of our software subscriptions and products. We recognize software subscriptions sold through our resellers on a straight-line basis over the period the underlying subscriptions are provided to the end customer. Products sold through resellers are shipped directly to the end customer and are recognized when title transfers to the end customer. Revenue from resellers has predominantly been recorded on a gross basis for all periods presented.

We record reductions to revenue for estimated sales returns and customer credits at the time the related revenue is recognized. Sales returns and customer credits are estimated based on our historical experience, current trends and our expectations regarding future experience. We monitor the accuracy of our sales reserve estimates by reviewing actual returns and credits and adjust them for our future expectations to determine the adequacy of our current and future reserve needs. If actual future returns and credits differ from past experience, reserve adjustments may be required.

We recognize revenue, net of any applicable sales taxes.

Capitalized Internal-Use Software Development Costs

We use significant judgment in determining whether certain internal-use software development costs are capitalized or expensed and over what period the amounts capitalized should be amortized to expense. We capitalize internal-use software development costs related to our SaaS applications that are incurred during the application development stage provided that it is probable the project will be successfully completed and such costs will be recovered from future revenues. Costs related to preliminary project activities and post implementation activities are expensed as incurred. Internal-use software is amortized on a straight-line basis over its estimated useful life starting when the underlying project is ready for its intended use, generally three to four years. We evaluate the useful lives of these assets on an annual basis and test for impairment when events or changes in circumstances occur that could impact the recoverability of these assets. We capitalized $8.3 million and $2.5 million, net of impairment, of internal-use software development costs during the fiscal years ended December 31, 2017 and 2016, respectively. The increase year over year is mainly due to investments in our RingCentral product to provide a unified solution spanning communication and collaboration functionalities. The carrying value of internal-use software development costs, net of amortization, was $11.9 million and $4.4 million at December 31, 2017 and 2016, respectively.

The new standard related to revenue recognition will have a material impact on our consolidated financial statements. See Note 1 in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K for further discussion.

Recent Accounting Pronouncements

For a summary of recent accounting pronouncements and the anticipated effects on our consolidated financial statements, see Note 1 to the consolidated financial statements, which is incorporated herein by reference.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in foreign currency exchange rates and interest rates. We do not hold or issue financial instruments for trading purposes.

Foreign Currency Risk

Our functional currency of our foreign subsidiaries is generally the local currency. Most of our sales are denominated in U.S. dollars, and therefore our net revenue is not currently subject to significant foreign currency risk. As part of our European expansion, we begun to charge customers in Euro and expect to add additional currencies in the future. However, this impact has not been significant in 2017. Our operating expenses are generally denominated in the currencies of the countries in which our operations are located, which are primarily in the U.S., Canada, the Philippines, Russia, Ukraine, the U.K., Switzerland, the Netherlands, China, Ireland, Singapore, Australia, Italy, Japan, Spain, Brazil, and Hong Kong. Our consolidated results of operations and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates and may be adversely affected in the future due to changes in foreign exchange rates. To date, we have not entered into any hedging arrangements with respect to foreign currency risk or other derivative financial instruments. In 2016, we entered into long-term intercompany loan agreements with our U.K. subsidiary, resulting in the foreign currency transaction gains and losses generated on remeasurement of our intercompany balances with the U.K. subsidiary being reported in other comprehensive income rather than through net loss. During fiscal 2017, the effect of a hypothetical 10% change in foreign currency exchange rates applicable to our business would have had an impact of approximately $2.5 million on our consolidated financial statements.

Interest Rate Sensitivity

We had cash and cash equivalents of $181.2 million and $160.4 million as of December 31, 2017 and December 31, 2016, respectively. We hold our cash and cash equivalents for working capital purposes. Our cash and cash equivalents are held in cash and short-term money market funds. Due to the short-term nature of these instruments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates.

As of December 31, 2017, we had no current or long-term debt, as our debt was repaid in full in February 2017. As of December 31, 2016, we had approximately $14.8 million in current and long-term debt. A hypothetical 10% change in interest rates during any of the periods presented would not have had a material impact on our financial statements.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
RINGCENTRAL, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors

RingCentral, Inc.:

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of RingCentral, Inc. and subsidiaries (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission".

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Basis for Opinion

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ KPMG LLP

We have served as the Company's auditor since 2010

Santa Clara, California

February 26, 2018

RINGCENTRAL, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except par value per share)

	December 31, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	$181,192	$160,355
Accounts receivable, net	45,339	30,243
Prepaid expenses and other current assets	21,512	15,313
Total current assets	248,043	205,911
Property and equipment, net	43,298	31,994
Goodwill	9,393	9,393
Acquired intangibles, net	1,462	2,244
Other assets	2,972	3,087
Total assets	$305,168	$252,629
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$7,322	$7,810
Accrued liabilities	54,977	48,322
Current portion of capital lease obligation	—	181
Current portion of long-term debt	—	14,528
Deferred revenue	64,415	45,159
Total current liabilities	126,714	116,000
Long-term debt	—	312
Other long-term liabilities	6,252	6,276
Total liabilities	132,966	122,588
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Class A common stock, $0.0001 par value; 1,000,000 shares authorized at December 31, 2017 and 2016; 65,855 and 61,292 shares issued and outstanding at December 31, 2017 and 2016	7	6
Class B common stock, $0.0001 par value; 250,000 shares authorized at December 31, 2017 and 2016; 12,199 and 13,091 shares issued and outstanding at December 31, 2017 and 2016	1	1
Additional paid-in capital	434,840	366,800
Accumulated other comprehensive income	2,998	2,737

Accumulated deficit	(265,644)	(239,503)
Total stockholders' equity	172,202	130,041
Total liabilities and stockholders' equity	$305,168	$252,629

See accompanying notes to consolidated financial statements

RINGCENTRAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	Year ended December 31,		
	2017	2016	2015
Revenues			
Software subscriptions	$463,163	$355,850	$271,245
Other	38,363	23,874	24,983
Total revenues	501,526	379,724	296,228
Cost of revenues			
Software subscriptions	89,193	73,470	66,354
Other	32,078	18,741	20,917
Total cost of revenues	121,271	92,211	87,271
Gross profit	380,255	287,513	208,957
Operating expenses			
Research and development	75,148	65,514	52,924
Sales and marketing	260,069	192,497	139,851
General and administrative	72,313	55,454	47,114
Total operating expenses	407,530	313,465	239,889
Loss from operations	(27,275)	(25,952)	(30,932)
Other income (expense), net			
Interest expense	(99)	(746)	(1,123)
Other income (expense), net	1,491	(2,375)	(1,307)
Other income (expense), net	1,392	(3,121)	(2,430)
Loss before provision (benefit) for income taxes	(25,883)	(29,073)	(33,362)
Provision (benefit) for income taxes	258	236	(1,263)
Net loss	$(26,141)	$(29,309)	$(32,099)
Net loss per common share			
Basic and diluted	$(0.34)	$(0.40)	$(0.46)
Weighted-average number of shares used in computing net loss per share			
Basic and diluted	76,281	72,994	70,069

See accompanying notes to consolidated financial statements

RINGCENTRAL, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

	Year ended December 31,		
	2017	2016	2015
Net loss	$(26,141)	$(29,309)	$(32,099)
Other comprehensive income/(loss)			
Foreign currency translation adjustments, net	261	2,210	561
Unrealized gain on available-for-sale securities	—	—	217
Comprehensive loss	$(25,880)	$(27,099)	$(31,321)

See accompanying notes to consolidated financial statements

RINGCENTRAL, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)

	Common stock Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
Balance as of December 31, 2014	68,559	$ 7	$ 274,844	$ (251)	$ (178,095)	$ 96,505
Issuance of common stock in connection with Equity Incentive and Employee Stock Purchase plans	3,181	—	19,413	—	—	19,413
Issuance of shares for business acquisition	223	—	3,447	—	—	3,447
Share-based compensation	—	—	22,088	—	—	22,088
Changes in comprehensive loss	—	—	—	778	—	778
Net loss	—	—	—	—	(32,099)	(32,099)
Balance as of December 31, 2015	71,963	$ 7	$ 319,792	$ 527	$ (210,194)	$ 110,132
Issuance of common stock in connection with Equity Incentive and Employee Stock Purchase plans	2,374	—	14,849	—	—	14,849
Issuance of common stock for achievement of Glip related matters	46	—	1,080	—	—	1,080
Share-based compensation	—	—	31,079	—	—	31,079
Changes in comprehensive loss	—	—	—	2,210	—	2,210
Net loss	—	—	—	—	(29,309)	(29,309)
Balance as of December 31, 2016	74,383	$ 7	$ 366,800	$ 2,737	$ (239,503)	$ 130,041
Issuance of common stock in connection with Equity Incentive and Employee Stock Purchase plans	3,594	1	21,803	—	—	21,804
Issuance of common stock for achievement of Glip related matters	77	—	3,560	—	—	3,560
Share-based compensation	—	—	42,677	—	—	42,677
Changes in comprehensive loss	—	—	—	261	—	261
Net loss	—	—	—	—	(26,141)	(26,141)

Balance as of December 31, 2017	78,054	$ 8	$ 434,840	$ 2,998	$ (265,644)	$ 172,202

See accompanying notes to consolidated financial statements

RINGCENTRAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year ended December 31,		
	2017	2016	2015
Cash flows from operating activities			
Net loss	$(26,141)	$(29,309)	$(32,099)
Adjustments to reconcile net loss to net cash provided by operating activities			
Depreciation and amortization	16,214	14,663	13,467
Share-based compensation	42,060	30,840	22,088
Foreign currency remeasurement (gain) loss	(666)	2,615	843
Tax benefit from release of valuation allowance	—	—	(1,411)
Impairment of fixed assets	—	—	1,317
Non-cash interest and other expense related to debt	—	—	156
Net accretion of discount and amortization of premium on available-for-sale securities	—	—	616
Provision for bad debt	1,674	648	411
Deferred income tax	(47)	(36)	(8)
Others	181	583	416
Changes in assets and liabilities			
Accounts receivable	(16,770)	(11,728)	(11,923)
Prepaid expenses and other current assets	(6,199)	(1,018)	(4,242)
Other assets	1,533	76	(422)
Accounts payable	176	1,516	1,591
Accrued liabilities	9,918	15,165	2,354
Deferred revenue	19,256	8,502	11,071
Other liabilities	(24)	(2,809)	861
Net cash provided by operating activities	41,165	29,708	5,086
Cash flows from investing activities			
Purchases of property and equipment	(19,497)	(14,236)	(14,631)
Capitalized internal-use software	(7,420)	(2,162)	(2,513)
Cash paid for business combination, net of cash acquired	—	—	(4,670)
Restricted investments	530	—	100
Proceeds from the maturity of available-for-sale securities	—	—	28,080
Net cash (used in) provided by investing activities	(26,387)	(16,398)	6,366
Cash flows from financing activities			
Proceeds from issuance of stock in connection with stock plans	25,495	15,104	19,524
Payment of holdback from Glip acquisition	—	(1,500)	—
Repayment of debt	(14,840)	(3,750)	(6,142)
Repayment of capital lease obligations	(181)	(269)	(594)
Taxes paid related to net share settlement of equity awards	(3,691)	(255)	(151)
Net cash provided by financing activities	6,783	9,330	12,637
Effect of exchange rate changes on cash and cash equivalents	(724)	127	317
Net increase in cash and cash equivalents	20,837	22,767	24,406
Cash and cash equivalents			
Beginning of period	160,355	137,588	113,182

End of period	$181,192	$160,355	$137,588
Supplemental disclosure of cash flow data			
Cash paid for interest	$116	$711	$1,893
Cash paid for income taxes	$216	$229	$100
Non-cash investing and financing activities			
Issuance of common stock for business combination	$—	$—	$3,447
Change in liability for unvested exercised options	$—	$3	$38
Equipment and capitalized internal-use software purchased and unpaid at period end	$1,699	$2,152	$719
Issuance of common stock for achievement of Glip related matters	$3,560	$1,080	$—
Change in unrealized gain on available-for-sale securities	$—	$—	$217

See accompanying notes to consolidated financial statements

RINGCENTRAL, INC.

Notes to Consolidated Financial Statements

Note 1. Description of Business and Summary of Significant Accounting Policies

Description of Business

RingCentral, Inc. (the "Company") is a provider of software-as-a-service ("SaaS") solutions for business communications and collaboration. The Company was incorporated in California in 1999 and was reincorporated in Delaware on September 26, 2013.

Principles of Consolidation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") and include the consolidated accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The significant estimates made by management affect revenues, the allowance for doubtful accounts, goodwill, share-based compensation, capitalization of internally developed software, return reserves, provision for income taxes, uncertain tax positions, loss contingencies, sales tax liabilities and accrued liabilities. Management periodically evaluates these estimates and will make adjustments prospectively based upon the results of such periodic evaluations. Actual results could differ from these estimates.

Foreign Currency

The functional currency of the Company's foreign subsidiaries is generally the local currency. Adjustments resulting from translating foreign functional currency financial statements into U.S. dollars are recorded as part of a separate component of stockholders' equity and reported in the statements of comprehensive loss. Foreign currency transaction gains and losses are included in net loss for the period. All assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the exchange rate on the balance sheet date. Revenues and expenses are translated at the average exchange rate during the period. Equity transactions are translated using historical exchange rates.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are stated at fair value.

Allowance for Doubtful Accounts

For the years ended December 31, 2017 and 2016, a significant portion of revenues were realized from credit card transactions while the remaining revenues generated accounts receivable. The portion of revenues billed to customers through invoices with payment terms has increased year over year as we continue to move up market. The Company determines provisions based on historical loss patterns, the number of days that billings are past due, and an evaluation of the potential risk of loss associated with delinquent accounts.

Below is a summary of the changes in allowance for doubtful accounts for the years ended December 31, 2017, 2016 and 2015 (in thousands):

	Balance at beginning of year	Provision, net of recoveries	Write-offs	Balance at end of year
Year ended December 31, 2017				
Allowance for doubtful accounts	$ 434	$ 1,674	$ 1,396	$ 712
Year ended December 31, 2016				
Allowance for doubtful accounts	$ 377	$ 648	$ 591	$ 434
Year ended December 31, 2015				
Allowance for doubtful accounts	$ 125	$ 411	$ 159	$ 377

RINGCENTRAL, INC.

Notes to Consolidated Financial Statements

Inventory

The Company's inventory consists primarily of phones held at third parties. Inventory is stated at the lower of cost computed on a first-in, first-out basis, or market value. Inventory write-downs are recorded when the cost of inventory exceeds its net realizable value and establishes a new cost basis for the inventory. On a quarterly and annual basis, the Company analyzes inventory on a part by part basis in comparison to forecasted demand to identify potential excess and obsolescence issues, and adjusts carrying amounts to estimated net realizable value accordingly.

Internal-Use Software Development Costs

The Company capitalizes qualifying internal-use software development costs that are incurred during the application development stage, provided that management with the relevant authority authorizes and commits to the funding of the project, it is probable the project will be completed, and the software will be used to perform the function intended. Costs related to preliminary project activities and post implementation activities are expensed as incurred. Capitalized internal-use software development costs are included in property and equipment and are amortized on a straight-line basis over their estimated useful lives.

For the years ended December 31, 2017 and 2016, the Company capitalized $8.3 million and $2.5 million, net of impairment, of internal-use software development costs, respectively. The carrying value of internal-use software development costs was $11.9 million and $4.4 million at December 31, 2017 and 2016, respectively.

Property and Equipment, net

Property and equipment, net is stated at cost, less accumulated depreciation and amortization. Depreciation and amortization is calculated on a straight-line basis over the estimated useful lives of those assets as follows:

Computer hardware and software	3 to 5 years
Internal-use software development costs	3 to 4 years
Furniture and fixtures	1 to 5 years
Leasehold improvements	Shorter of the estimated lease term or useful life

The Company evaluates the recoverability of property and equipment for possible impairment whenever events or circumstances indicate that the carrying amount of such assets or asset groups may not be recoverable. Recoverability of these assets or asset groups is measured by comparing the carrying amounts of such assets or asset groups to the future undiscounted cash flows that such assets or asset groups are expected to generate. If this evaluation indicates that the carrying amount of the assets or asset groups is not recoverable, the carrying amount of such assets or asset groups is reduced to its estimated fair value.

Maintenance and repairs are charged to expense as incurred.

Concentrations of Credit Risk and Significant Customers

Financial instruments that subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. Although the Company deposits its cash with multiple financial institutions, its deposits, at times, may exceed federally insured limits. The Company’s accounts receivable are primarily derived from sales by resellers and to larger direct customers. The Company performs ongoing credit evaluations of its resellers and does not require collateral on accounts receivable. The Company maintains an allowance for doubtful accounts for estimated potential credit losses. At December 31, 2017 and 2016, AT&T, one of our resellers, accounted for 18% and 30% of the Company’s total accounts receivable, respectively. For the years ended December 31, 2017, 2016, and 2015, AT&T accounted for 11%, 14%, and 13% of the Company’s total revenues and 12%, 13%, and 12% of the Company’s software subscription revenues, respectively. In January 2018, the Company closed a transaction with AT&T to allow it to transition the existing customer base of RingCentral Office@Hand solution, for which AT&T acted as a reseller, directly to the Company, and AT&T is no longer selling new subscriptions for the Company’s service. Refer to Note 17 for further discussion.

During the years ended December 31, 2017, 2016 and 2015, the Company contracted a significant portion of its software development efforts from third-party vendors located in Russia and Ukraine. A cessation of services provided by these vendors could result in a disruption to the Company’s research and development efforts.

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Revenue Recognition

The Company's revenues consist primarily of software subscriptions and other revenues. The Company's software subscriptions revenue includes all fees billed in connection with subscriptions to the Company's RingCentral Office, RingCentral Professional, RingCentral Fax, RingCentral Contact Center, and RingCentral Glip products. These software subscription fees include recurring fixed plan subscription fees, variable usage-based fees for usage in excess of plan limits, recurring administrative cost recovery fees, one-time fees, and other recurring fees related to our subscriptions. The Company provides its subscriptions pursuant to contractual arrangements that typically range in duration from one month to three years. The Company's subscription fees are generally billed in advance directly to customer credit cards or via invoices issued to larger customers. The Company's other revenues consist of product revenues from sales of phones, phone sales to carrier partners, phone rentals, and professional implementation services, and commission revenues.

The Company recognizes revenue when the following criteria are met:

- there is persuasive evidence of an arrangement;
- the subscription is being provided to the customer or the product has been delivered;
- the amount of fees to be paid by the customer is fixed or determinable; and
- the collection of the fees is reasonably assured.

Revenue under subscription plans are recognized as follows:

- fixed plan subscription and administrative cost recovery fees are recognized on a straight-line basis over their respective contractual subscription terms;
- fees for additional minutes of usage in excess of plan limits are recognized over the estimated usage period in a manner that approximates actual usage; and
- one-time upfront fees are initially deferred and recognized on a straight-line basis over the estimated average customer life.

Product revenue is billed at the time the order is received and recognized when the phone has been delivered to the customer. Professional service revenue is generally recognized upon completion of performance.

The Company enters into arrangements with multiple-elements that generally include services to be provided under the subscription plan and the sale of products used in connection with the Company's subscriptions. The Company allocates the consideration to each deliverable in a multiple-deliverable arrangement based upon its relative selling prices. The Company determines the selling price using vendor-specific objective evidence ("VSOE") for its subscription plans and best estimated selling price ("BESP") for its product offerings. Consideration allocated to each deliverable, limited to the amount not contingent on future performance, is then recognized to revenue when the basic revenue recognition criteria are met for the respective deliverable.

The Company determines VSOE based on historical standalone sales to customers. In determining VSOE, the Company requires that a substantial majority of the selling prices fall within a reasonably narrow pricing range. VSOE exists for all of the Company's subscription plans. The Company uses BESP as the selling price for its product offerings as the Company is not able to determine VSOE of fair value from standalone sales or third-party evidence of selling price ("TPE"). The Company estimates BESP for a product by considering company-specific factors such as pricing objectives, direct product and other costs, bundling and discounting practices, and contractually stated prices.

A portion of the Company's software subscriptions and product revenues are generated through sales by resellers. When the Company assumes a majority of the business risks associated with performance of the contractual obligations, it records these revenues at the gross amount paid by the customer with amounts retained by the resellers recognized as sales and marketing expense. The Company's assumption of such business risks is evidenced when, among other things, it takes responsibility for delivery of the product or subscription, is involved in establishing pricing of the arrangement, assumes credit and inventory risk, and is the primary obligor in the arrangement. When a reseller assumes the majority of the business risks associated with the performance of the contractual obligations, the Company records the associated revenue at the net amount received from the reseller. The Company recognizes revenue from resellers when the following criteria are met:

- persuasive evidence of an arrangement exists through a contract with the customer;
- the subscription is being provided to the customer or the product has been delivered;

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- the amount of fees to be paid by the customer is fixed or determinable; and
- the collection of the fees is reasonably assured.

The Company's deliverables sold through its reseller agreements consist of the Company's software subscriptions and products. Subscriptions sold through resellers are recognized on a straight-line basis over the period the subscriptions are provided to the end customer. Phones sold through resellers are shipped directly to the end customer and are recognized when title transfers to the end customer. Revenue from resellers has predominantly been recorded on a gross basis for all periods presented.

The Company records reductions to revenue for estimated sales returns and customer credits at the time the related revenue is recognized. Sales returns and customer credits are estimated based on historical experience, current trends, and expectations regarding future experience.

Customer billings related to taxes imposed by and remitted to governmental authorities on revenue-producing transactions are reported on a net basis. When such remitted taxes exceed the amount billed to customers, the cost is included in general and administrative expenses.

Amounts billed in excess of revenue recognized for the period are reported as deferred revenue on the consolidated balance sheet. The Company's deferred revenue consists primarily of unearned revenue on annual and monthly subscription plans.

Cost of Revenues

Cost of software subscriptions revenue primarily consists of costs of network capacity purchased from third-party telecommunications providers, network operations, costs to build out and maintain data centers, including co-location fees for the right to place the Company's servers in data centers owned by third-parties, depreciation of the servers and equipment, along with related utilities and maintenance costs, personnel costs associated with customer care and support of the functionality of the Company's platform and data center operations, including share-based compensation expenses, and allocated costs of facilities and information technology. Cost of software subscriptions revenue is expensed as incurred.

Cost of other revenue is comprised primarily of the cost associated with purchased phones, shipping costs, costs of professional services, and allocated costs of facilities and information technology related to the procurement, management and shipment of phones. Cost of other revenue is expensed in the period product is delivered to the customer.

Share-Based Compensation

Share-based compensation expense resulting from options, restricted stock units ("RSUs"), and employee stock purchase plan ("ESPP") rights granted is measured as the grant date fair value of the award and is recognized using the straight-line attribution method over the requisite service period of the award, which is generally the vesting period. The Company estimates the fair value of stock options and ESPP rights using the Black-Scholes-Merton option-pricing model. The Company estimates the fair value of RSUs as the closing market value of its Class A Common Stock on the grant date. Compensation expense for stock options and RSUs granted to non-employees is revalued, or marked to market, as of each reporting date until the stock options and RSUs are vested. Compensation expense is recognized net of estimated forfeiture activity, which is based on historical forfeiture rates.

Research and Development

Research and development expenses consist primarily of third-party contractor costs, personnel costs, technology license expenses, and depreciation associated with research and development equipment. Research and development costs are expensed as incurred.

Advertising Costs

Advertising costs, which include various forms of e-commerce such as search engine marketing, search engine optimization and online display advertising, as well as more traditional forms of media advertising such as radio and billboards, are expensed as incurred and were $42.4 million, $41.6 million, and $34.3 million for the years ended December 31, 2017, 2016 and 2015, respectively.

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Commissions

Commissions consist of variable compensation earned by sales personnel and third-party resellers. Sales commissions associated with the acquisition of a new customer contract are recognized as sales and marketing expense at the time the customer has entered into a binding agreement.

Income Taxes

The Company accounts for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date. The Company records a valuation allowance to reduce its deferred tax assets to the amount of future tax benefit that is more likely than not to be realized. As of December 31, 2017, except for deferred tax assets associated with its subsidiaries in the Netherlands and China, the Company recorded a full valuation allowance against all other net deferred tax assets due to its history of operating losses. The Company classifies interest and penalties on unrecognized tax benefits as income tax expense.

Segment Information

The Company has determined the chief executive officer is the chief operating decision maker. The Company’s chief executive officer reviews financial information presented on a consolidated basis for purposes of assessing performance and making decisions on how to allocate resources. Accordingly, the Company has determined that it operates in a single reportable segment.

Indemnification

Certain of the Company’s agreements with resellers and customers include provisions for indemnification against liabilities if its subscriptions infringe upon a third-party’s intellectual property rights. At least quarterly, the Company assesses the status of any significant matters and its potential financial statement exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount or the range of loss can be estimated, the Company accrues a liability for the estimated loss. The Company has not incurred any material costs as a result of such indemnification provisions and the Company has not accrued any liabilities related to such obligations in the consolidated financial statements as of December 31, 2017 or 2016.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606), which will replace numerous requirements in U.S. GAAP and provide companies with a single revenue recognition model for recognizing revenue from contracts with customers. The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. In July 2015, the FASB approved the deferral of the new standard's effective date by one year. The new standard is effective for annual reporting periods beginning after December 15, 2017. The FASB permits companies to adopt the new standard early, but not before the original effective date of annual reporting periods beginning after December 15, 2016.

The Company evaluated the potential changes from the adoption of the new standard on its financial statements and disclosures, and is in the process of implementing appropriate changes to its business processes, systems and controls to support revenue recognition and disclosures under the new standard. Based on this evaluation, the Company will adopt the requirements of the new standard in the first quarter of 2018, using the full retrospective transition method.

Under the new standard, the Company expects in some cases to recognize revenue earlier for subscription plans when the customer receives services for no consideration during the initial months (i.e., initial period is discounted) as a result of elimination of contingent revenue guidance (i.e., under today's accounting, amounts allocated to delivered items are limited to amounts that are not contingent on the provision of future services) in the new standard. The impact of adopting the new standard on the Company's total revenues is not significant.

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The more significant impact of adoption the new standard primarily relates to the deferral of incremental commission costs of obtaining subscription contracts, which previously were expensed as incurred. Under the new standard, the Company will defer all incremental commission costs to obtain the contract and amortize them over the expected period of benefit, which is estimated to be five years. The amortization cost will be charged to sales and marketing costs on the consolidated statements of operations. The Company expects to add approximately $53.3 million and $33.4 million in deferred costs relating to the capitalized component of sales commission to the balance sheet as of December 31, 2017 and December 31, 2016.

There will not be any significant tax impact to the Company's consolidated statements of operations and consolidated balance sheet relating to the adoption of the new standard as there will be a full valuation allowance due to the Company's history of continued losses.

Select consolidated statements of operations line items, which reflect the adoption of the new standard are as follows (in thousands):

	Year ended December 31,	
	2017	2016
Revenues		
Software subscriptions	465,254	356,562
Other	38,363	23,874
Total revenues	503,617	380,436
Gross profit	382,346	288,225
Operating expenses		
Sales and marketing	240,223	180,125
Operating loss	(5,338)	(12,868)
Net loss	(4,204)	(16,225)
Weighted-average number of shares used in computing net loss per share	76,281	72,994
Basic and diluted	$(0.06)	$(0.22)

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which 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. Both capital and operating leases will need to be recognized on the balance sheet. The standard is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The standard must be adopted using a modified retrospective approach for all leases that existed or are entered into after the beginning of the earliest comparative period in the financial statements. The Company expects to adopt the standard in the first quarter of 2019. The Company is currently evaluating the impact that the standard will have on its consolidated financial statements and related disclosures. The Company expects the impact of adoption of the new standard on the Company's statements of operations not to be material. The Company anticipates the most significant impact of adopting the new standard will primarily be the establishment of a right-of-use asset and a corresponding lease liability in its consolidated balance sheets.

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting (Topic 718), which simplifies the accounting for stock-based compensation related to the accounting for forfeitures, employer tax withholding, excess tax benefits related to awards and cash flow presentations. The standard is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The Company adopted this standard in the first quarter of 2017. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments, which clarifies the presentation and classification in the statement of cash flows. The guidance addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice for certain cash receipts and cash payments. The standard is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The adoption of this amendment is not expected to have a material impact on the Company's consolidated financial statements or disclosures.

In October 2016, the FASB issued ASU 2016-16, Intra-Entity Transfers of Assets Other Than Inventory, which requires entities to recognize at the transaction date the income tax effects for intra-entity transfers of assets other than inventory. The standard is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The adoption of this amendment is not expected to have a material impact on the Company's consolidated financial statements or disclosures.

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In November 2016, the FASB issued ASU 2016-18, Restricted Cash, which clarifies the presentation of restricted cash and restricted cash equivalents in the statements of cash flows. The standard requires restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts presented on the statements of cash flows. The standard is effective for interim and annual reporting periods beginning after December 15, 2017 using a retrospective adoption method, with early adoption permitted. The adoption of this amendment is not expected to have a material impact on the Company's consolidated financial statements or disclosures.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which provides guidance to evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. If substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single asset or a group of similar assets, the assets acquired (or disposed of) are not considered a business. The guidance is effective for annual periods beginning after December 15, 2017, including interim period within those periods, with early adoption permitted in two scenarios as defined in the standard. The Company will adopt this guidance in the first quarter of 2018. The adoption of the standard is not expected to have a material impact on the Company's consolidated financial statements or disclosures.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment, which modifies the goodwill impairment test and requires an entity to write down the carrying value of goodwill up to the amount by which the carrying amount of a reporting unit exceeds its fair value. The standard is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The adoption of this amendment is not expected to have a material impact on the Company's consolidated financial statements or disclosures.

In May 2017, the FASB issued ASU 2017-09, Scope of Modification Accounting, which amends the scope of modification accounting for share-based payment arrangements. The amendments in the update provide guidance on the types of changes to the terms or conditions of share-based payment awards that would require application of modification accounting under ASC 718, Compensation-Stock Compensation. The standard is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted. The adoption of this amendment is not expected to have a material impact on the Company's consolidated financial statements or disclosures.

Reclassification

Certain immaterial items previously reported have been reclassified to conform to the current year's reporting presentation.

Note 2. Agency Agreement with Westcon Group

In January 2016, the Company entered into a sales agency agreement with Westcon Group, Inc. ("Westcon"), a global distributor of communications devices, to provide the phones purchased by customers. Under this agreement, the Company was an agent of Westcon and received a commission for its services, which primarily included referring phone sales to Westcon. Westcon provided phones directly to the Company's customers instead of the Company purchasing phones from third-party vendors and reselling the phones to the Company's customers. Commission revenues from the arrangement were recorded as the Company was the agent for these sales. The Company completed its transition of direct phone sales to Westcon during the three months ended June 30, 2016, which excluded carriers' phone sales. The Company did not transition the carrier partners to the agency model as the billing relationships to these customers are through the carriers.

The Company's sales of phones that are provided free or significantly discounted to customers were not part of the sales agency agreement with Westcon. The Company recognizes revenue and costs from these sales as the Company is the primary obligor and has latitude in determining pricing.

In December 2016, the Company terminated the Westcon sales agency agreement and entered into a reseller (direct sale) agreement with Westcon. Effective January 1, 2017, the Company switched from the agency model to the direct phone sales model whereby the Company will no longer serve as an agent for referring phone sales to Westcon and will no longer receive commissions for its services. Under the reseller agreement, the Company will purchase phones directly from Westcon for resale to its customers and will recognize revenues and costs for phone sales based on the following criteria:

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- The Company is the primary obligor in the arrangement and customer contracts for sales of phones are entered into with the Company;
- The Company has latitude in determining pricing with customers;
- The Company assumes the general inventory risk; and
- The Company has collection risk for phones sold to customers.

Note 3. Other Revenues and Cost of Revenue

Other revenues are primarily comprised of product revenue from the sale of pre-configured phones, phone rentals, and professional services. For the years ended December 31, 2017, 2016 and 2015, the majority of other revenues consisted of product revenues from sales of phones. Product revenues were $26.0 million, $13.3 million, and $23.3 million for the years ended December 31, 2017, 2016 and 2015, respectively. Product cost of revenues were $25.0 million, $15.8 million, and $20.3 million for the years ended December 31, 2017, 2016, and 2015, respectively.

Note 4. Financial Statement Components

Cash and cash equivalents consisted of the following (in thousands):

	December 31, 2017	December 31, 2016
Cash	$ 70,893	$ 40,908
Money market funds	110,299	119,447
Total cash and cash equivalents	$ 181,192	$ 160,355

Accounts receivable, net consisted of the following (in thousands):

	December 31, 2017	December 31, 2016
Accounts receivable	$ 42,243	$ 25,687
Unbilled accounts receivable	3,808	4,990
Allowance for doubtful accounts	(712)	(434)
Accounts receivable, net	$ 45,339	$ 30,243

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

	December 31, 2017	December 31, 2016
Prepaid expenses	$ 13,690	$ 9,780
Inventory	198	63
Other current assets	7,624	5,470
Total prepaid expenses and other current assets	$ 21,512	$ 15,313

Property and equipment, net consisted of the following (in thousands):

	December 31, 2017	December 31, 2016
Computer hardware and software	$ 74,555	$ 61,546
Internal-use software development costs	18,217	9,931
Furniture and fixtures	6,293	4,508
Leasehold improvements	4,311	2,596
Property and equipment, gross	103,376	78,581
Less: accumulated depreciation and amortization	(60,078)	(46,587)
Property and equipment, net	$ 43,298	$ 31,994

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Total depreciation and amortization expense related to property and equipment was $15.4 million, $13.6 million, and $12.9 million for the fiscal years ended December 31, 2017, 2016 and 2015, respectively.

Accrued liabilities consisted of the following (in thousands):

	December 31, 2017	December 31, 2016
Accrued compensation and benefits	$ 18,578	$ 14,041
Accrued sales, use, and telecom related taxes	11,828	7,220
Accrued marketing	7,020	5,082
Other accrued expenses	17,551	21,979
Total accrued liabilities	$ 54,977	$ 48,322

The carrying values of intangible assets are as follows (in thousands):

		December 31, 2017			December 31, 2016	
	Estimated Lives	Cost	Accumulated Amortization	Acquired Intangibles, Net	Accumulated Amortization	Acquired Intangibles, Net
Customer relationships	2 years	$840	$840	$ -	$660	$ 180
Developed technology	5 years	3,010	1,548	1,462	946	2,064
Total acquired intangible assets		$3,850	$2,388	$ 1,462	$1,606	$ 2,244

Amortization expense from acquired intangible assets for the years ended December 31, 2017 and 2016 was $0.8 million and $1.1 million, respectively. Amortization of developed technology is included in cost of revenues expenses and amortization of customer relationships is included in sales and marketing expenses in the consolidated statements of operations. As of December 31, 2017, the weighted-average amortization period for developed technology is approximately 2.4 years.

Estimated amortization expense for acquired intangible assets for the following five fiscal years and thereafter is as follows (in thousands):

2018	602

2019	602
2020	258
2021	—
Total estimated amortization expense	$1,462

Note 5. Fair Value of Financial Instruments

Fair value is based on the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company measures and reports certain cash equivalents, including money market funds and certificates of deposit, at fair value in accordance with the provisions of the authoritative accounting guidance that addresses fair value measurements. This guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is broken down into three levels based on the reliability of the inputs as follows:

Level 1: Valuations based on observable inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Valuations based on observable inputs other than Level 1 inputs, such as quoted prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3: Valuations based on unobservable inputs that are supported by little or no market activity and that are based on management’s assumptions, including fair value measurements determined by using pricing models, discounted cash flow methodologies or similar techniques.

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The financial assets carried at fair value were determined using the following inputs (in thousands):

	Balance at December 31, 2017	(Level 1)	(Level 2)	(Level 3)
Cash equivalents:				
Money market funds	$ 110,299	$110,299	$ —	$ —
Other assets:				
Certificates of deposit	$ —	$—	$ —	$ —

	Balance at December 31, 2016	(Level 1)	(Level 2)	(Level 3)
Cash equivalents:				
Money market funds	$ 119,447	$119,447	$—	$ —
Other assets:				
Certificates of deposit	$ 530	$—	$ 530	$ —

The Company’s other financial instruments, including accounts receivable, accounts payable and other current liabilities, are carried at cost, which approximates fair value due to the relatively short maturity of those instruments.

On February 10, 2017, the Company paid off its debt in full, which was held by Silicon Valley Bank.

At December 31, 2016, the Company estimated the fair value of its debt using an expected present value technique, which is based on observable market inputs using interest rates currently available to companies of similar credit standing for similar terms and remaining maturities, and considering its own credit risk. The estimated fair value of the Company’s current and non-current debt obligations was $14.9 million at December 31, 2016, compared to its carrying amount of $14.8 million at that date. If the debt was measured at fair value in the consolidated balance sheets, the Company’s current and non-current debt would be classified in Level 2 of the fair value hierarchy.

Note 6. Business Combinations

In June 2015, the Company acquired Glip, Inc. (“Glip”), a cloud messaging and collaboration company based in Boca Raton, Florida. Glip is a provider of team messaging services, integrated with project management, group calendars, notes, annotations, and file sharing. The objective of the acquisition was to extend the Company’s platform by adding team messaging and collaboration services such as calendar, project management, and document sharing. The consideration for the acquisition, net of cash acquired, which also included the fair value of contingent consideration payable upon achievement of certain earn out milestones and the fair value of common stock issuable to the sellers, was $11.9 million. Of the consideration, $1.5 million of cash was held back by the Company upon closing as security for certain indemnification obligations of such stockholders. In June 2016, the Company paid the $1.5 million in full.

The initial fair value of the milestone based earn out liability was determined to be $2.3 million using various estimates, including probabilities of success and discount rates. All the milestones were completed as of December 31, 2017, and during the year ended December 31, 2017, the Company issued 47,591 shares of the Company's Class A common stock to settle certain milestones achieved. At December 31, 2016, the estimated fair value of the milestone based earn out liability was $1.9 million and was classified as a current and non-current liability in the consolidated balance sheets.

Additionally, under the terms of the acquisition, the Company may also pay up to $2.0 million at the end of a two-year period to certain Glip employees, who continued to be employees of the Company. This was accounted for as a post-combination expense. The Company issued shares of the Company's Class A common stock to settle the $1.8 million payout during the year ended December 31, 2017. As of December 31, 2017, there was no outstanding contingent payment liability for bonus settlement. At December 31, 2016, the contingent payment liability was $1.4 million and was classified as a current liability in the consolidated balance sheets.

Note 7. Debt

As of December 31, 2016, the Company's debt was comprised of borrowings under the Third Amended and Restated Loan and Security Agreement dated March 30, 2015 ("SVB Agreement"), as amended, with Silicon Valley Bank ("SVB"). Under the SVB

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Agreement, the Company had one outstanding growth capital term loan ("2013 Term Loan") and a revolving line of credit. On February 10, 2017, the Company paid off its 2013 Term Loan and revolving line of credit balances of $14.8 million to SVB. Upon repayment, the SVB Agreement was terminated.

The Company had pledged substantially all of its assets, excluding intellectual property, as collateral to secure its obligations under the SVB Agreement. With the repayment of the debt, the lien on the assets has been removed.

Note 8. Commitments and Contingencies

Leases

The Company leases facilities for office space under non-cancelable operating leases for its U.S. and international locations and has entered into capital lease arrangements to obtain property and equipment for its operations. In addition, the Company leases space from third-party datacenter hosting facilities under co-location agreements to support its cloud infrastructure. As of December 31, 2017, non-cancelable leases expire on various dates between 2018 and 2023 and require the following future minimum lease payments by year (in thousands):

	Capital Leases	Operating Leases
Year ending December 31,		
2018	$ —	$ 11,003
2019	—	9,618
2020	—	8,388
2021	—	5,559
2022	—	3,437
2023	—	2,887
Total future minimum lease payments	$ —	$ 40,892
Less: amount representing interest	—	
Total capital lease obligation	$ —	

Property and equipment recorded under capital leases consisted of the following (in thousands):

	December 31, 2017	December 31, 2016
Property and equipment acquired under capital lease	$3,149	$3,149
Less: accumulated amortization	(2,988)	(2,600)
Property and equipment acquired under capital lease, net	$161	$549

Operating leases for certain office facilities include scheduled periods of abatement and escalation of rental payments. The Company recognizes rent expense on a straight-line basis for all operating lease arrangements with the difference between required lease payments and rent expense recorded as deferred rent. Total rent expense was $5.5 million, $4.5 million, and $4.0 million for the fiscal years ended December 31, 2017, 2016 and 2015, respectively.

Sales Tax Liability

The Company regularly increases its sales and marketing activities in various states within the U.S., which may create nexus in those states to collect sales taxes on sales to customers. Although the Company is diligent in collecting and remitting such taxes, there is uncertainty as to what constitutes sufficient in state presence for a state to levy taxes, fees, and surcharges for sales made over the Internet. As of December 31, 2017 and 2016, the Company recorded a long-term sales tax liability of $2.6 million and $3.1 million, respectively, which is included in other long-term liabilities, based on its best estimate of the probable liability for the loss contingency incurred as of those dates. The Company’s estimate of a probable outcome under the loss contingency is based on analysis of its sales and marketing activities, revenues subject to sales tax, and applicable regulations in each state in each period. No significant adjustments to the long-term sales tax liability have been recognized in the accompanying consolidated financial statements for changes to the assumptions underlying the estimate. However, changes in management’s assumptions may occur in the future as the Company obtains new information which can result in adjustments to the recorded liability. Increases and decreases to the long-term sales tax liability are recorded as general and administrative expense.

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The Company recorded a current sales tax liability for non-contingent amounts expected to be remitted in the next twelve months of $9.0 million and $6.0 million as of December 31, 2017 and 2016, respectively, which is included in accrued liabilities in the consolidated balance sheet.

Legal Matters

From time to time, the Company may be involved in a variety of 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.

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.

TCPA Matters

On April 21, 2016, Supply Pro Sorbents, LLC (“SPS”) filed a putative class action against the Company in the United States District Court for the Northern District of California, alleging common law conversion and violations of the federal Telephone Consumer Protection Act (“TCPA”) arising from fax cover sheets used by the Company’s customers when sending facsimile transmissions over our system (“Lawsuit”). SPS seeks statutory damages, costs, attorneys’ fees and an injunction in connection with its TCPA claim, and unspecified damages and punitive damages in connection with its conversion claim. On July 6, 2016, the Company filed a Petition for Expedited Declaratory Ruling before the Federal Communications Commission (“FCC”), requesting that the FCC issue a ruling clarifying certain portions of its regulations promulgated under TCPA at issue in the Lawsuit (“Petition”). The Petition remains pending. On July 8, 2016, the Company filed a motion to dismiss the Lawsuit in its entirety, along with a collateral motion to dismiss or stay the Lawsuit pending a ruling by the FCC on our Petition. On October 7, 2016, the Court granted the Company’s motion to dismiss and gave SPS 20 days to amend its complaint. The Court concurrently dismissed the Company’s motion to dismiss or stay as moot. Plaintiff filed its amended complaint on October 27, 2016, alleging essentially the same theories and claims. On November 21, 2016, the Company filed a motion to dismiss the amended complaint, along with a renewed motion to dismiss or stay the case pending resolution of the FCC Petition. On July 17, 2017, the Court granted the Company’s motion to dismiss with prejudice and concurrently dismissed the Company’s motion to dismiss or stay as moot. SPS filed a notice of appeal to the Ninth Circuit Court of Appeals on July 28, 2017. SPS’s opening brief on appeal was due on November 6, 2017; however, SPS filed a request for a 30 day extension which was granted by the Court. SPS’s opening brief on appeal was filed on December 20, 2017, and the Company’s opposition brief was filed on February 20, 2018. SPS’s optional reply brief must be filed by April 12, 2018. It is too early to predict the outcome of this Lawsuit. Based on the information known by the Company as of the date of this filing and the rules and regulations applicable to the preparation of the Company’s consolidated financial statements, it is not possible to provide an estimated amount of any such loss or range of loss that may occur.

On November 17, 2017, Joann Hurley (“Hurley”), filed a second amended complaint in an ongoing putative class action lawsuit pending in the United States District Court for the Southern District of West Virginia, adding the Company as a named Defendant and alleging that the Company and other Defendants violated the TCPA and regulations promulgated thereunder by allegedly using an Automated Telephone Dialing System to deliver prerecorded political messages to Hurley, an incumbent running for reelection, and others. Hurley alternatively alleges that the Company is vicariously liable for the actions of its co-Defendants. Hurley seeks statutory, compensatory, consequential, incidental and punitive damages, costs, and attorneys' fees in connection with her claims. The Company was served with the Second Amended Complaint on January 4, 2018, and its responsive pleading must be filed by March 23, 2018. It is too early to predict the outcome of this Lawsuit. Based on the information known by the Company as of the date of this filing and the rules and regulations applicable to the preparation of the Company's consolidated financial statements, it is not possible to provide an estimated amount of any such loss or range of loss that may occur.

Patent Infringement Matter

On April 25, 2017, Uniloc USA, Inc. and Uniloc Luxembourg, S.A. filed in the U.S. District Court for the Eastern District of Texas two actions against the Company alleging infringement of U.S. Patent Nos. 7,804,948; 7,853,000; and 8,571,194 by RingCentral's Glip unified communications application. The plaintiffs seek a declaration that the Company has infringed the patents, damages according to proof, injunctive relief, as well as their costs, attorney's fees, expenses and interest. On October 9, 2017, the Company filed a motion to dismiss or transfer requesting that the case be transferred to the United States District Court for the Northern District of California. In response to the motion, plaintiffs filed a first amended complaint on October 24, 2017. The Company filed a renewed motion to dismiss or transfer on November 15, 2017. Although briefing on that motion has been completed,

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the motion has not yet been decided. On February 5, 2018, Uniloc moved to stay the litigation pending the resolution of certain third-party inter partes review proceedings (“IPRs”) before the United States Patent and Trademark Office. On February 9, 2018, the court stayed the litigation pending resolution of the IPRs without prejudice to or waiver of the Company’s motion to dismiss or transfer. This litigation is still in its earliest stages. Based on the information known by the Company as of the date of this filing and the rules and regulations applicable to the preparation of the Company’s consolidated financial statements, it is not possible to provide an estimated amount of any such loss or range of loss that may occur. The Company intends to vigorously defend against this lawsuit.

Employee Agreements

The Company has signed various employment agreements with executives and key employees pursuant to which if the Company terminates their employment without cause or if the employee terminates his or her employment for good reason following a change of control of the Company, the employees are entitled to receive certain benefits, including severance payments, accelerated vesting of stock options and RSUs and continued COBRA coverage. As of December 31, 2017, no triggering events which would cause these provisions to become effective have occurred. Therefore, no liabilities have been recorded for these agreements in the consolidated financial statements.

Note 9. Stockholders’ Equity

In connection with the Company’s initial public offering (“IPO”), the Company reincorporated in Delaware on September 26, 2013. The Delaware certificate of incorporation provides for two classes of common stock: Class A and Class B common stock, both with a par value of $0.0001 per share. In addition, the certificate of incorporation authorizes shares of undesignated preferred stock with a par value of $0.0001 per share. The terms of preferred stock are described below.

Preferred Stock

The board of directors may, without further action by the stockholders, fix the rights, preferences, privileges and restrictions of up to an aggregate of 100,000,000 shares of preferred stock in one or more series and authorizes their issuance. These rights, preferences, and privileges could include dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund terms and the number of shares constituting any series or the designation of such series, any or all of which may be greater than the rights of the Class A and Class B common stock. As of December 31, 2017 and 2016, there were 100,000,000 shares of preferred stock authorized and no shares issued or outstanding.

Class A and Class B Common Stock

The Company has authorized 1,000,000,000 and 250,000,000 shares of Class A common stock and Class B common stock for issuance. Holders of Class A common stock and Class B common stock have identical rights for matters submitted to a vote of the Company’s stockholders. Holders of Class A common stock are entitled to one vote per share of Class A common stock and holders of Class B common stock are entitled to 10 votes per share of Class B common stock. Holders of shares of Class A common stock and Class B common stock vote together as a single class on all matters (including the election of directors) except for specific circumstances that would adversely affect the powers, preferences, or rights of a particular class of common stock. Subject to preferences that may apply to any shares of preferred stock outstanding at the time, holders of Class A and Class B common stock share equally, identically and ratably, on a per share basis, with respect to any dividend or distribution of cash, property or shares of the Company's capital stock. Holders of Class A and Class B common stock also share equally, identically, and ratably in all assets remaining after the payment of any liabilities and liquidation preferences and any accrued or declared but unpaid dividends, if any, with respect to any outstanding preferred stock at the time. Each share of Class B common stock is convertible at any time at the option of the holder into one share of Class A common stock. In addition, each share of Class B common stock will convert automatically to Class A common stock upon: (i) the date specified by an affirmative vote or written consent of holders of at least 67% of the outstanding shares of Class B common stock, or (ii) the seven year anniversary of the closing date of the IPO (October 2, 2020).

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Shares of Class A common stock reserved for future issuance were as follows (in thousands):

	December 31, 2017
Preferred stock	100,000
Class B common stock	12,199
2013 Employee stock purchase plan	2,720
2013 Equity incentive plan:	
Outstanding options and restricted stock unit awards	9,567
Available for future grants	10,391
	134,877

Note 10. Share-Based Compensation

A summary of share-based compensation expense recognized in the Company's consolidated statements of operations is as follows (in thousands):

	Year Ended December, 31		
	2017	2016	2015
Cost of revenues	$3,735	$3,165	$2,054
Research and development	9,550	7,296	5,387
Sales and marketing	16,015	10,902	7,200
General and administrative	12,760	9,477	7,447
Total share-based compensation expense	$42,060	$30,840	$22,088

A summary of share-based compensation expense by award type is as follows (in thousands):

	Year Ended December, 31		
	2017	2016	2015
Options	$6,803	$9,626	$11,170
Employee stock purchase plan rights	2,177	1,737	1,365
Restricted stock units	33,080	19,477	9,553
Total share-based compensation expense	$42,060	$30,840	$22,088

Equity Incentive Plans

In September 2013, the Board adopted and the Company's stockholders approved the 2013 Equity Incentive Plan ("2013 Plan"), which became effective on September 26, 2013. In connection with the adoption of the 2013 Plan, the Company terminated the 2010 Equity Incentive Plan ("2010 Plan"), under which stock options had been granted prior to September 26, 2013. The 2010 Plan was established in September 2010, when the 2003 Equity Incentive Plan ("2003 Plan") was terminated. After the termination of the 2003 and 2010 Plans, no additional options were granted under these plans; however, options previously granted under these plans will continue to be governed by these plans, and will be exercisable into shares of Class B common stock. In addition, options authorized to be granted under the 2003 and 2010 Plans, including forfeitures of previously granted awards are authorized for grant under the 2013 Plan.

A total of 6,200,000 shares of Class A common stock have been reserved for issuance under the 2013 Plan. The 2013 Plan includes an annual increase on the first day of each fiscal year beginning in 2014, equal to the least of:
(i) 6,200,000 shares of Class A common stock; (ii) 5% of the outstanding shares of all classes of common stock as of the last day of the Company's immediately preceding fiscal year; or (iii) such other amount as the board of directors may determine. During the year ended December 31, 2017, a total of 3,719,091 shares of Class A common stock were added to the 2013 Plan in connection with the annual automatic increase provision. As of December 31, 2017, a total of 10,390,944 shares remain available for grant under the 2013 Plan.

The plans permit the grant of stock options and other share-based awards, such as restricted stock units, to employees, officers, directors, and consultants by the board of directors. Option awards are generally granted with an exercise price equal to the fair market value of the Company's Class A common stock at the date of grant. Option awards generally vest according to a graded vesting schedule based on four years of continuous service. On January 29, 2014, the board of directors approved an amendment to decrease

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the contractual term of all equity awards issued from the 2013 Plan from 10 years to 7 years for all awards granted after January 29, 2014. Certain option awards provide for accelerated vesting if there is a change in control (as defined in the option agreement) and early exercise of options prior to vesting (subject to the Company's repurchase right).

A summary of option activity under all of the plans at December 31, 2017 and changes during the periods then ended is presented in the following table:

	Number of Options Outstanding (in thousands)	Weighted-Average Exercise Price Per Share	Weighted-Average Contractual Term (in Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2014	9,158	$ 8.23	7.2	$ 61,367
Granted	1,881	16.35		
Exercised	(2,323)	6.82		
Canceled/Forfeited	(668)	11.42		
Outstanding at December 31, 2015	8,048	$ 10.27	6.2	$ 107,091
Granted	547	16.53		
Exercised	(962)	10.01		
Canceled/Forfeited	(249)	15.50		
Outstanding at December 31, 2016	7,384	$ 10.59	5.3	$ 74,065
Granted	25	23.99		
Exercised	(1,722)	10.39		
Canceled/Forfeited	(401)	16.04		
Outstanding at December 31, 2017	5,286	$ 10.30	4.2	$ 201,480
Vested and expected to vest as of December 31, 2017	5,210	$ 10.21	4.2	$ 199,000
Exercisable as of December 31, 2017	4,609	$ 9.41	4.1	$ 179,743

The total intrinsic values of options exercised during the years ended December 31, 2017, 2016, and 2015 were as follows (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Total intrinsic value of options exercised	$41,184	$10,718	$28,336

Valuation Assumptions

The Company estimated the fair values of each option awarded on the date of grant using the Black-Scholes-Merton option-pricing model, which requires inputs including the fair value of common stock, expected term, expected volatility, risk-free interest rate, and dividend yield.

Fair Value of Common Stock

The Company uses the daily adjusted closing stock price of its Class A common stock as reported by the New York Stock Exchange.

Expected Term

The expected term represents the period that option awards are expected to be outstanding. Prior to the fourth quarter of 2014, the Company did not have sufficient historical information to develop reasonable expectations about future exercise behavior. Therefore, the expected term for options issued to employees was calculated as the mean of the option vesting period and the contractual term (the “Simplified Method”) as these options were determined to be “plain-vanilla” as defined under current guidance. Beginning with the fourth quarter of 2014, the Company began incorporating its own historical data, assigning a 25% weighting to the Company’s historical data and a 75% weighting to the Simplified Method estimate. As time progressed and the Company generated additional historical data, the weighting of the Company’s historical data has increased while the weighting of the Simplified Method data has decreased. Accordingly, in the fourth quarters of 2016 and 2017, the Company’s historical data was weighted as 75% and

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100%, respectively, while the Simplified Method data was weighted as 25% and 0%, respectively. The expected term for options issued to non-employees is the remaining contractual term.

Expected Volatility

The expected stock price volatility of common stock was derived from the historical volatilities of a peer group of similar publicly traded companies over a period that approximates the expected term of the option. Beginning in the fourth quarter of 2014, the Company incorporated its own historical volatility assigning a 25% weighting to the Company's historical data and a 75% weighting to the historical volatilities of the peer group of similarly publicly traded companies. As time progressed and the Company generated additional historical data, the weighting of the Company's historical data has increased while the weighting of the peer group data has decreased. Accordingly, in the fourth quarters of 2016 and 2017, the Company's historical volatility was weighted as 75% and 100%, respectively, while the peer group data was weighted as 25% and 0%, respectively.

Risk-Free Interest Rate

The risk-free interest rate was based on the yield available on U.S. Treasury zero-coupon issues with a term that approximates the expected term of the option.

Expected Dividend Yield

The expected dividend yield was 0% as the Company has not declared, nor paid, and does not expect to pay cash dividends.

The weighted-average assumptions used in the option-pricing model and the resulting grant date fair value of stock options granted in the periods presented were as follows:

	Year ended December 31,		
	2017	2016	2015
Expected term for employees (in years)	4.4	4.7	4.8
Expected term for non-employees (in years)	4.6	5.9	7.1
Expected volatility	44 %	47 %	48 %
Risk-free interest rate	1.78 %	1.12 %	1.22 %
Expected dividend yield	0 %	0 %	0 %
Grant date fair value of employee options	$9.08	$6.72	$6.78

As of December 31, 2017 and 2016, there was approximately $3.8 million and $11.0 million of unrecognized share-based compensation expense, net of estimated forfeitures, related to stock option grants, which will be recognized on a straight-line basis over the remaining weighted-average vesting periods of approximately 1.4 years and 2.0 years, respectively.

Employee Stock Purchase Plan

The Employee Stock Purchase Plan (“ESPP”) allows eligible employees to purchase shares of the Company’s Class A common stock at a discounted price, through payroll deductions of up to the lesser of 15% of their eligible compensation or the IRS allowable limit per calendar year. A participant may purchase a maximum of 3,000 shares during an offering period. The offering periods are for a period of six months and generally start on the first trading day on or after May 11th and November 11th of each year. At the end of the offering period, the purchase price is set at the lower of: (i) 90% of the fair value of the Company’s common stock at the beginning of the six month offering period and (ii) 90% of the fair value of the Company’s Class A common stock at the end of the six month offering period.

The ESPP provides for annual increases in the number of shares available for issuance under the ESPP on the first day of each fiscal year beginning in fiscal 2014, equal to the least of: (i) 1% of the outstanding shares of all classes of common stock on the last day of the immediately preceding year; (ii) 1,250,000 shares; or (iii) such other amount as may be determined by the board of directors. During the year ended December 31, 2017, a total of 743,818 shares of Class A common stock were added to the ESPP Plan in connection with the annual increase provision. At December 31, 2017, a total of 2,719,701 shares were available for issuance under the ESPP.

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The weighted-average assumptions used to value ESPP rights under the Black-Scholes-Merton option-pricing model and the resulting offering grant date fair value of ESPP rights granted in the periods presented were as follows:

	Year ended December 31,		
	2017	2016	2015
Expected term (in years)	0.5	0.5	0.5
Expected volatility	34 %	41 %	42 %
Risk-free interest rate	1.20%	0.50%	0.25%
Expected dividend yield	0 %	0 %	0 %
Offering grant date fair value of ESPP rights	$9.52	$5.29	$5.05

As of December 31, 2017 and 2016, there was approximately $1.1 million and $0.7 million of unrecognized share-based compensation expense related to outstanding ESPP rights, which will be recognized on a straight-line basis over the remaining weighted average vesting periods of approximately 0.4 years, respectively.

Restricted Stock Units

The 2013 Plan provides for the issuance of RSUs to employees and consultants. RSUs issued under the 2013 Plan generally vest over four years. A summary of activity of RSUs under the 2013 Plan at December 31, 2017 and changes during the periods then ended is presented in the following table:

	Number of RSUs Outstanding (in thousands)	Weighted-Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2014	1,739	$ 14.87	$ 25,617
Granted	1,365	18.09	
Released	(571)	15.45	
Canceled/Forfeited	(245)	15.10	
Outstanding at December 31, 2015	2,288	$ 16.63	$ 53,972
Granted	2,798	18.65	
Released	(1,096)	16.77	
Canceled/Forfeited	(436)	17.92	
Outstanding at December 31, 2016	3,554	$ 18.01	$ 73,261
Granted	3,005	30.20	
Released	(1,680)	19.54	
Canceled/Forfeited	(598)	20.91	
Outstanding at December 31, 2017	4,281	$ 25.51	$ 207,197

As of December 31, 2017 and 2016, there was a total of $79.1 million and $46.9 million of unrecognized share-based compensation expense, net of estimated forfeitures, related to RSUs, which will be recognized on a straight-line basis over the remaining weighted-average vesting periods of approximately 2.7 years and 2.8 years, respectively.

Note 11. Income Taxes

Net loss before provision (benefit) for income taxes consisted of the following (in thousands):

	Year ended December 31,		
	2017	2016	2015
United States	$(27,820)	$(27,908)	$(28,870)
International	1,937	(1,165)	(4,492)
Total net loss before provision (benefit) for income taxes	$(25,883)	$(29,073)	$(33,362)

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The provision (benefit) for income taxes consisted of the following (in thousands):

	Year ended December 31,		
	2017	2016	2015
Current			
Federal	$—	$—	$—
State	49	63	71
Foreign	256	209	85
Total current	305	272	156
Deferred			
Federal	$—	$—	$(1,312)
State	—	—	(99)
Foreign	(47)	(36)	(8)
Total deferred	(47)	(36)	(1,419)
Total income tax provision (benefit)	$258	$236	$(1,263)

The provision (benefit) for income tax differed from the amounts computed by applying the U.S. federal income tax rate to pretax loss as a result of the following (in thousands):

	Year ended December 31,		
	2017	2016	2015
Federal tax benefit at statutory rate	$(8,800)	$(9,885)	$(11,343)
State tax, net of federal provision (benefit)	32	28	(34)
Research and development credits	(707)	(745)	(667)
Share-based compensation	(18,154)	960	1,086
Other permanent differences	814	600	325
Change in US federal Tax Rate	40,377	—	—
Foreign tax rate differential	(445)	(225)	(80)
Net operating (gains) losses not recognized	(12,859)	9,503	10,762
Release of valuation allowance associated with acquisitions	—	—	(1,312)
Total income tax provision (benefit)	$258	$236	$(1,263)

The benefit for income taxes for 2015 relates primarily to the release of a valuation allowance of $1.4 million associated with nondeductible intangible assets recorded as part of the Glip acquisition, partially offset by state minimum income tax and income tax on our earnings in foreign jurisdictions. In connection with the acquisition of Glip, a deferred tax liability was established for the book-to-tax basis differences related to the non-goodwill intangible assets. The net deferred tax liability from this acquisition created an additional source of income to realize deferred tax assets. As the Company continues to maintain a full valuation allowance against its deferred tax assets, this additional source of income resulted in the release of the Company's previously recorded valuation allowance against deferred assets. Consistent with the applicable guidance, the release of the valuation allowance resulting from the acquisition was recorded in the consolidated financial statements outside of acquisition accounting (i.e., recorded as a tax benefit to the consolidated statements of operations).

In general, it is our practice and intention to reinvest the earnings of our non-U.S. subsidiaries in those operations. Undistributed earnings of foreign subsidiaries are immaterial for all periods presented.

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The types of temporary differences that give rise to significant portions of the Company's deferred tax assets and liabilities are as follows (in thousands):

	Year ended December 31,		
	2017	2016	2015
Deferred tax assets			
Net operating loss and credit carry-forwards	$73,016	$59,863	$54,858
Research and development credits	8,027	6,094	4,712
Sales tax liability	627	1,131	1,337
Share-based compensation	4,955	7,281	6,694
Accrued liabilities	4,881	6,525	6,090
Gross deferred tax assets	91,506	80,894	73,691
Valuation allowance	(89,235)	(79,319)	(71,514)
Total deferred tax assets	2,271	1,575	2,177
Deferred tax liabilities - Acquired intangibles	(344)	(803)	(1,164)
Deferred tax liabilities - Property and equipment	(1,714)	(606)	(883)
Net deferred tax assets	$213	$166	$130

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017.

The Company has calculated its best estimate of the impact of the Act in its year end income tax provision in accordance with its understanding of the Act and guidance available as of the date of this filing. The provisional amount related to the remeasurement of certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future was approximately $38 million with a corresponding and fully offsetting adjustment to our valuation allowance for the year ended December 31, 2017. The Company does not expect a material impact related to the one-time transition tax on the mandatory deemed repatriation of foreign earnings.

On December 22, 2017, Staff Accounting Bulletin No. 118 ("SAB 118") was issued 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 Act. Because the Company is still in the process of analyzing certain provisions of the Act, in accordance with SAB 118, the Company has determined that the adjustment to its deferred taxes was a provisional amount and a reasonable estimate at December 31, 2017. The Tax Act creates a new requirement that certain income (i.e., "GILTI") earned by controlled foreign corporations ("CFCs") must be included currently in the gross income of the CFCs' U.S. shareholder. The Company's selection of an accounting policy with respect to the new GILTI tax rules will depend, in part, on analyzing its global income to determine whether it expects to have future U.S. inclusions in taxable income related to GILTI and, if so, what the impact is expected to be. Because whether the Company expects to have future U.S. inclusions in taxable income related to GILTI depends on not only its current structure and estimated future results of global operations but also its intent and ability to modify its structure and/or its business, the Company is not yet able to reasonably estimate the effect of this provision of the Tax Act. Therefore, the Company has not made any adjustments related to potential GILTI tax in its financial statements and have not made a policy decision regarding whether to record deferred taxes on GILTI.

On January 1, 2017, the Company adopted ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, statutory tax withholding requirements and classification in the statement of cash flows. The adoption of that standard did not have an impact on the Company's consolidated balance sheet, results of operations, cash flows or statement of stockholders' equity because the Company has a full valuation allowance on our deferred tax assets. Upon adoption, the Company recognized the previously unrecognized excess tax benefits using the modified retrospective transition method. The previously unrecognized excess tax effects were recorded as a deferred tax asset, which was fully offset by a valuation allowance. Without the valuation allowance, the Company's deferred tax assets would have increased by $18.0 million.

At December 31, 2017, the Company had net operating loss carry-forwards for federal and state income tax purposes of approximately $276.3 million and $230.8 million, respectively, available to reduce future income subject to income taxes. The federal

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net operating loss carry-forward will begin to expire in 2023 while the state net operating loss carry-forwards will begin to expire in 2021. The Company also has research credit carry-forwards for federal and California tax purposes of approximately $5.6 million and $6.4 million, respectively, available to reduce future income subject to income taxes. The federal research credit carry-forwards will begin to expire in 2028 and the California research credits carry forward indefinitely. As of December 31, 2016, the Company had federal and state net operating loss carry-forwards of $197.6 million and $137.6 million, respectively, and federal and state research and development tax credit carry-forwards in the amount of $4.7 million and $5.2 million, respectively. The Internal Revenue Code of 1986, as amended, imposes restrictions on the utilization of net operating losses in the event of an "ownership change" of a corporation. Accordingly, a company's ability to use net operating losses may be limited as prescribed under Internal Revenue Code Section 382 ("IRC Section 382"). Events which may cause limitations in the amount of the net operating losses that the Company may use in any one year include, but are not limited to, a cumulative ownership change of more than 50% over a three-year period. Utilization of the federal and state net operating losses may be subject to substantial annual limitation due to the ownership change limitations provided by the IRC Section 382 and similar state provisions.

The Company believes that, based on a number of factors, it is more likely than not, that all or some portion of the deferred tax assets will not be realized; and accordingly, for the year ended December 31, 2017, the Company has provided a valuation allowance against the Company's U.S. and U.K. net deferred tax assets. The net change in the valuation allowance for the years ended December 31, 2017, 2016 and 2015 was an increase of $9.9 million, $7.8 million and $11.1 million, respectively.

In general, it is our practice and intention to reinvest the earnings of our non-U.S. subsidiaries in those operations. Undistributed earnings of foreign subsidiaries are immaterial for all periods presented.

The Company has adopted the accounting policy that interest and penalties recognized are classified as part of its income taxes. The following shows the changes in the gross amount of unrecognized tax benefits as of December 31, 2017 (in thousands):

Balance as of December 31, 2014	$2,615
Gross amount of increases in unrecognized tax benefits for tax positions taken in current year	499
Gross amount of decreases in unrecognized tax benefits for tax positions taken in prior year	(1,217)
Balance as of December 31, 2015	$1,897
Gross amount of increases in unrecognized tax benefits for tax positions taken in current year	538
Gross amount of increases in unrecognized tax benefits for tax positions taken in prior year	25
Balance as of December 31, 2016	$2,460
Gross amount of increases in unrecognized tax benefits for tax positions taken in current year	547
Gross amount of decreases in unrecognized tax benefits for tax positions taken in prior years	(3)
Balance as of December 31, 2017	$3,004

The Company does not anticipate that its total unrecognized tax benefits will significantly change due to settlement of examination or the expiration of statute of limitations during the next 12 months.

The Company files U.S. and foreign income tax returns with varying statutes of limitations. Due to the Company's net carry-over of unused operating losses, all years from 2003 forward remain subject to future examination by tax authorities.

RINGCENTRAL, INC.

Notes to Consolidated Financial Statements

Note 12. Basic and Diluted Net Loss Per Share

Basic net loss per share is computed by dividing the net loss by the weighted-average number of shares of common stock outstanding during the period, less the weighted-average unvested common stock subject to repurchase or forfeiture as they are not deemed to be issued for accounting purposes. Diluted net loss per share is computed by giving effect to all potential shares of common stock, stock options, restricted stock units, and ESPP, to the extent dilutive. For the periods presented, all such common stock equivalents have been excluded from diluted net loss per share as the effect to net loss per share would be anti-dilutive.

The following table sets forth the computation of the Company's basic and diluted net loss per share during the years ended December 31, 2017, 2016 and 2015 (in thousands, except per share data):

	Year Ended December 31,		
	2017	2016	2015
Numerator			
Net loss	$(26,141)	$(29,309)	$(32,099)
Denominator			
Weighted-average common shares for basic and diluted net loss per share	76,281	72,994	70,069
Basic and diluted net loss per share	$(0.34)	$(0.40)	$(0.46)

The following table summarizes the potentially dilutive common shares that were excluded from diluted weighted-average common shares outstanding because including them would have had an anti-dilutive effect (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Shares of common stock subject to repurchase	—	—	2
Shares of common stock issuable under equity incentive plans outstanding	10,806	11,726	11,475
Potential common shares excluded from diluted net loss per share	10,806	11,726	11,477

Note 13. Geographic Concentrations

Revenues by geographic location are based on the billing address of the customer. More than 90% of the Company's revenues are from the U.S. for fiscal years ended December 31, 2017, 2016 and 2015. No other individual country exceeded 10% of total revenues for fiscal years ended December 31, 2017, 2016 and 2015. Long-lived assets by geographic location is based on the location of the legal entity that owns the asset. At December 31, 2017 and 2016, more than 85% and 87% of the Company's long-lived assets were located in the U.S., respectively, with no single country outside of the U.S. representing 10% or more of the Company's consolidated long-lived assets.

Note 14. 401(k) Plan

The Company has a qualified defined contribution plan under Section 401(k) of the Internal Revenue Code covering eligible employees. Substantially all of the U.S. employees are eligible to make contributions to the 401(k) plan. On July 1, 2017, the Company implemented a 401(k) employer match, based on the amount of the employees' contributions subject to certain limitations. Employer contributions were $1.1 million in 2017. There were no employer contributions to this plan for the years ended December 31, 2016 and 2015.

RINGCENTRAL, INC.

Notes to Consolidated Financial Statements

Note 15. Selected Quarterly Financial Data (unaudited)

The following tables set forth selected unaudited quarterly consolidated statements of operations data for each of the eight quarters in the years ended December 31, 2017 and 2016 (in thousands except per share data):

	Quarter ended							
	Dec 31, 2017	Sept 30, 2017	June 30, 2017	Mar 31, 2017	Dec 31, 2016	Sept 30, 2016	June 30, 2016	Mar 31, 2016
Consolidated Statements of Operations Data								
Revenues	$ 140,535	$ 129,764	$ 119,436	$ 111,791	$ 104,503	$ 96,839	$ 91,844	$ 86,538
Gross profit	106,915	98,980	89,875	84,485	79,851	73,384	69,480	64,798
Operating loss	(6,185)	(6,246)	(7,543)	(7,301)	(6,606)	(7,061)	(6,304)	(5,981)
Net loss	(6,089)	(5,712)	(7,031)	(7,309)	(6,946)	(7,979)	(7,771)	(6,613)
Net loss per share, basic and diluted	$ (0.08)	$ (0.07)	$ (0.09)	$ (0.10)	$ (0.09)	$ (0.11)	$ (0.11)	$ (0.09)

Note 16. Related-Party Transactions

In the ordinary course of business, the Company made purchases from Google Inc., at which one of the Company’s directors serves as President, Americas. Total payables to Google Inc. at December 31, 2017 and 2016 were $1.1 million and $1.0 million, respectively. Total expenses incurred from Google Inc. in 2017, 2016, and 2015 were $15.4 million, $14.2 million, and $11.9 million, respectively.

Note 17. Subsequent Event

On January 16, 2018, the Company closed a transaction with AT&T to allow the Company to transition the existing customer base for RingCentral Office@Hand solution, for which AT&T acted as a reseller, directly to the Company, for a total purchase consideration of up to $26 million. The transition of the customer base is expected to be completed over a period of one year from the close of the transaction. The Company has also entered into a transition services agreement for a period of one year to transition these customers. The transaction will be accounted for as an asset acquisition and the Company expects to allocate majority of the purchase consideration to customer relationship intangible asset.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this Annual Report on Form 10-K.

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

Based on management's evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are designed to, and are effective to, provide assurance at a reasonable level that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosures.

Management's Annual Report on Internal Controls Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2017 based on the guidelines established in the Internal Control—Integrated Framework (2013 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Our internal control over financial reporting includes policies and procedures that provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

Based on the results of our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2017. We reviewed the results of management's assessment with our Audit Committee.

The effectiveness of our internal control over financial reporting as of December 31, 2017 has been audited by KPMG LLP LLP, an independent registered public accounting firm, as stated in its report which is included in Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the quarter ended December 31, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our chief executive officer and chief financial officer, do not expect that our disclosure controls or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information concerning our directors, compliance with Section 16(a) of the Exchange Act, our Audit Committee and any changes to the process by which stockholders may recommend nominees to the Board required by this Item are incorporated herein by reference to information contained in the Proxy Statement to be filed with the SEC pursuant to Regulation 14A not later than 120 days after the fiscal year to which this report relates.

The information concerning our executive officers required by this Item is incorporated herein by reference to information contained in the Proxy Statement to be filed pursuant to Regulation 14A.

We have adopted a code of ethics, our Code of Conduct, which applies to all employees, including our principal executive officers, our principal financial officer, and all other executive officers. The Code of Conduct is available on our Web site at www.ringcentral.com within the investor relations section. A copy may also be obtained without charge by contacting Investor Relations, RingCentral, Inc., 20 Davis Drive, Belmont, California 94002 or by calling (650) 472-4100.

We plan to post on our Web site at the address described above any future amendments or waivers of our Code of Conduct.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to information contained in the Proxy Statement to be filed pursuant to Regulation 14A.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item with respect to security ownership of certain beneficial owners and management is incorporated herein by reference to information contained in the Proxy Statement to be filed pursuant to Regulation 14A.

The following chart sets forth certain information as of December 31, 2017, with respect to our equity compensation plans, specifically our 2003 Equity Incentive Plan (the “2003 Plan”), 2010 Equity Incentive Plan (the “2010 Plan”), 2013 Equity Incentive Plan (the “2013 Plan”), and our 2013 Employee Stock Purchase Plan (the “ESPP”). Each of the 2003 Plan, the 2010 Plan, the 2013 Plan and the ESPP has been approved by our stockholders.

Equity Compensation Plan Information

Plan Category	Number of securities to	Weighted average	Number of securities

	be issued upon exercise of outstanding options, warrants and rights	exercise price of outstanding options, warrants and rights	remaining available for future issuance under equity compensation plans (1)
Equity compensation plans approved by security holders	9,698,079	$ 17.43	13,110,645

Equity Compensation Plan Information

(1) Includes shares reserved for issuance under the 2013 Plan and the ESPP. The number of shares reserved for issuance under the 2013 Plan automatically increases on January 1st of each year by the lesser of (i) 6,200,000 shares, or (ii) five percent (5%) of the number of shares of our common stock outstanding on the last day of the immediately preceding fiscal year. During the year ended December 31, 2017, a total of 3,719,091 shares of Class A common stock were added to the 2013 Plan in connection with the annual automatic increase provision. In addition, the number of shares reserved for issuance under the 2013 Plan is increased from time to time in an amount equal to the number of shares subject to outstanding options under the 2003 and 2010 Plans that are subsequently forfeited or terminate for any other reason before being exercised and unvested shares that are forfeited pursuant to the 2003 and 2010 Plans. The number of shares reserved for issuance under the ESPP automatically increases on January 1st of each year by the lesser of (i) 1,250,000 shares, or (ii) once percent (1%) of the number of shares of our common stock outstanding on the last trading day of the immediately preceding fiscal year. During the year ended December 31, 2017, a total of 743,818 shares of Class A common stock were added to the 2013 ESPP Plan in connection with the annual increase provision.

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated herein by reference to information contained in the Proxy Statement to be filed pursuant to Regulation 14A.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated herein by reference to information contained in the Proxy Statement to be filed pursuant to Regulation 14A.

PART IV.

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits. The following exhibits are included herein or incorporated herein by reference:

Exhibit Number	Description
3.1	Second Amended and Restated Certificate of Incorporation of the Registrant (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on June 3, 2015, and incorporated herein by reference).
3.2	Bylaws of the Company (filed as Exhibit 3.4 to the Registrant's Registration Statement on Form S-1, File No. 333-190815, and incorporated herein by reference).
4.1	Fourth Amended Investor Rights Agreement, dated November 23, 2012, by and among the Company and the investors listed on Exhibit A thereto (filed as Exhibit 4.3 to the Registrant's Registration Statement on Form S-1, File No. 333-190815, and incorporated herein by reference).
10.1+	2003 Equity Incentive Plan, as amended, and forms of stock option agreements thereunder (filed as Exhibit 10.1 to the Registrant's Registration Statement on Form S-1, File No. 333-190815, and incorporated herein by reference).
10.2+	2010 Equity Incentive Plan, as amended, and forms of stock option agreements thereunder (filed as Exhibit 10.2 to the Registrant's Registration Statement on Form S-1, File No. 333-190815, and incorporated herein by reference).
10.3+	2013 Equity Incentive Plan and forms of stock option agreements thereunder (filed as Exhibit 10.3 to the Registrant's Registration Statement on Form S-1, File No. 333-190815, and incorporated herein by reference).
10.4+	2013 Employee Stock Purchase Plan (filed as Exhibit 10.18 to the Registrant's Registration Statement on Form S-1, File No. 333-190815, and incorporated herein by reference).
10.5+	Equity Acceleration Policy (filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, filed on November 9, 2017, and incorporated herein by reference).
10.6+	Form of Director and Executive Officer Indemnification Agreement (filed as Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, filed on August 7, 2017, and incorporated herein by reference).
10.7+	Employment Letter by and between the Company and Vladimir Shmunis, dated September 13, 2013 (filed as Exhibit 10.19 to the Registrant's Registration Statement on Form S-1, File No. 333-190815, and incorporated herein by reference).
10.8+	Offer Letter by and between the Company and David Sipes, dated June 10, 2008 (filed as Exhibit 10.13 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015, filed on February 29, 2016, and incorporated herein by reference).

10.9+	Supplemental Offer Letter by and between the Company and David Sipes, dated as of August 12, 2016 (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, filed on November 7, 2016, and incorporated herein by reference).
10.10+	Offer Letter by and between the Company and Mitesh Dhruv, dated March 1, 2012 (filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, filed on August 7, 2017, and incorporated herein by reference).
10.11+	Offer Letter by and between the Company and Mitesh Dhruv, dated July 28, 2017 (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, filed on November 9, 2017, and incorporated herein by reference).
10.12+	Offer Letter by and between the Company and Praful Shah, dated March 31, 2008 (filed as Exhibit 10.6 to the Registrant's Registration Statement on Form S-1, File No. 333-190815, and incorporated herein by reference).
10.13+	Revised Employment Offer Letter by and between the Company and John Marlow, dated September 13, 2013 (filed as Exhibit 10.7 to the Registrant's Registration Statement on Form S-1, File No. 333-190815, and incorporated herein by reference).
10.14+	Offer Letter by and between the Company and Clyde Hosein, dated August 7, 2013 (filed as Exhibit 10.9 to the Registrant's Registration Statement on Form S-1, File No. 333-190815, and incorporated herein by reference).

Exhibit Number	Description
10.14A+	Amendment to Offer Letter by and between the Company and Clyde Hosein, dated July 24, 2015 (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q, filed on August 5, 2015, and incorporated herein by reference).
10.15+	2016 Bonus Plan, Appendix A 2016 Q1, Appendix A 2016 Q2, Appendix A 2016 Q3, and Appendix A 2016 Q4 (filed as Exhibit 10.9 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2016, filed on February 28, 2017, and incorporated herein by reference).
10.16+	2017 Bonus Plan, Appendix A 2017 H1, Appendix B 2017 H2.
10.17	Office Lease, dated September 25, 2014, by and between the Company and Helen M. Raiser, Trustee of the JHR Marital Trust under Trust Agreement dated October 2, 1969, as amended, Helen M. Raiser, Trustee of the JHR Bypass Trust under Trust Agreement dated October 2, 1969, as amended, Harvey E. Chapman, Jr., Trustee of the Harvey E. Chapman, Jr. Living Trust under Trust Agreement dated July 17, 2006, and Colleen C. Badell, Trustee of the Colleen C. Badell Living Trust under Trust Agreement dated July 17, 2006, as tenants in common (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, filed on November 3, 2014, and incorporated herein by reference).
10.18	Commercial Lease Agreement, dated May 17, 2017, by and between the Company and TG Brothers, LLC. (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, filed on August 7, 2017, and incorporated herein by reference).
21.1	List of subsidiaries of the Registrant.
23.1	Consent of KPMG LLP, independent registered public accounting firm.
24.1	Power of Attorney (included in signature page).
31.1	Certification of Periodic Report by Principal Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Periodic Report by Principal Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

101.LAB XBRL Taxonomy Extension Label Linkbase Document.

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

+ Indicates a management or compensatory plan

(b) Financial Statements. Our consolidated financial statements are included under Part II, Item 8 of this Annual Report on Form 10-K.

(c) Financial Statement Schedules. All financial statement schedules are omitted because they are not applicable or the information is included in the Registrant's consolidated financial statements or related notes.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Belmont, State of California, on this 26th day of February, 2018.

RINGCENTRAL, INC.

/s/ Vladimir Shmunis
Vladimir Shmunis
Chairman and Chief Executive Officer
(Principal Executive Officer)

/s/ Mitesh Dhruv
Mitesh Dhruv
Chief Financial Officer
(Principal Financial and Accounting Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Vladimir Shmunis and Mitesh Dhruv, and each of them, his true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that each of said attorneys-in-fact and agents, or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Vladimir Shmunis Vladimir Shmunis	Chairman and Chief Executive Officer (Principal Executive Officer)	February 26, 2018
/s/ Mitesh Dhruv Mitesh Dhruv	Chief Financial Officer (Principal Financial and Accounting Officer)	February 26, 2018
/s/ Michelle McKenna Michelle McKenna	Director	February 26, 2018
/s/ Robert Theis Robert Theis	Director	February 26, 2018
/s/ Allan Thygesen Allan Thygesen	Director	February 26, 2018
/s/ R. Neil Williams R. Neil Williams	Director	February 26, 2018
/s/ Kenneth A. Goldman Kenneth A. Goldman	Director	February 26, 2018