RingCentral Inc
Form 10-Q
November 08, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018

OR

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

Commission File Number: 001-36089

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 No.)

20 Davis Drive

Belmont, California 94002

(Address of principal executive offices)

(650) 472-4100

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

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

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

As of November 2, 2018, there were 68,578,598 shares of Class A Common Stock issued and outstanding and 11,754,332 shares of Class B Common Stock issued and outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements that are based on our management's beliefs and assumptions and on information currently available to our management. The forward-looking statements are contained principally in, but not limited to, the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations". 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 expressions and the negative 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 condensed 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 Quarterly Report on Form 10-Q. 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 Quarterly Report on Form 10-Q. You should read this Quarterly Report on Form 10-Q 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.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

RINGCENTRAL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands)

	September 30, 2018	December 31, 2017 *As Adjusted
Assets		
Current assets		
Cash and cash equivalents	$ 577,283	$ 181,192
Accounts receivable, net	74,183	46,690
Deferred sales commission costs	20,869	15,424
Prepaid expenses and other current assets	29,823	21,512
Total current assets	702,158	264,818
Property and equipment, net	60,200	43,298
Deferred sales commission costs, noncurrent	50,263	37,871
Goodwill	9,393	9,393
Acquired intangibles, net	8,366	1,462
Other assets	11,463	2,972
Total assets	$ 841,843	$ 359,814
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 6,017	$ 7,322
Accrued liabilities	85,714	54,977
Current portion of capital lease obligation	943	—
Deferred revenue	80,024	62,917
Total current liabilities	172,698	125,216
Convertible senior notes, net	361,637	—
Capital lease obligation	2,829	—
Other long-term liabilities	5,232	6,252
Total liabilities	542,396	131,468
Commitments and contingencies (Note 8)		
Stockholders' equity		
Common stock	8	8
Additional paid-in capital	526,891	434,840

Accumulated other comprehensive income	2,573	2,998
Accumulated deficit	(230,025)	(209,500)
Total stockholders' equity	299,447	228,346
Total liabilities and stockholders' equity	$ 841,843	$ 359,814

* See Note 2 for a summary of adjustments.

See accompanying notes to condensed consolidated financial statements

RINGCENTRAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017 *As Adjusted	2018	2017 *As Adjusted
Revenues				
Software subscriptions	$158,068	$119,916	$440,987	$334,942
Other	15,757	10,363	44,013	27,490
Total revenues	173,825	130,279	485,000	362,432
Cost of revenues				
Software subscriptions	27,958	22,912	79,200	64,970
Other	11,316	7,872	33,814	22,681
Total cost of revenues	39,274	30,784	113,014	87,651
Gross profit	134,551	99,495	371,986	274,781
Operating expenses				
Research and development	26,347	19,082	73,812	54,786
Sales and marketing	86,279	61,605	237,222	172,231
General and administrative	28,952	19,073	73,984	52,885
Total operating expenses	141,578	99,760	385,018	279,902
Loss from operations	(7,027)	(265)	(13,032)	(5,121)
Other income (expense), net				
Interest expense	(4,916)	(6)	(11,163)	(94)
Other income, net	2,533	613	3,944	1,313
Other income (expense), net	(2,383)	607	(7,219)	1,219
(Loss) income before income taxes	(9,410)	342	(20,251)	(3,902)
Provision for income taxes	108	73	274	181
Net (loss) income	$(9,518)	$269	$(20,525)	$(4,083)
Net (loss) income per common share				
Basic	$(0.12)	$0.00	$(0.26)	$(0.05)
Diluted	$(0.12)	$0.00	$(0.26)	$(0.05)
Weighted-average number of shares used in computing net (loss) income per share				
Basic	79,903	76,915	79,116	75,815
Diluted	79,903	83,109	79,116	75,815

* See Note 2 for a summary of adjustments.

See accompanying notes to condensed consolidated financial statements

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RINGCENTRAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Unaudited, in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017 *As Adjusted	2018	2017 *As Adjusted
Net (loss) income	$(9,518)	$ 269	$(20,525)	$ (4,083)
Other comprehensive loss				
Foreign currency translation adjustments	(222)	88	(425)	166
Comprehensive (loss) income	$(9,740)	$ 357	$(20,950)	$ (3,917)

* See Note 2 for a summary of adjustments.

See accompanying notes to condensed consolidated financial statements

RINGCENTRAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Nine Months Ended September 30,	
	2018	2017 *As Adjusted
Cash flows from operating activities		
Net loss	$(20,525)	$(4,083)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	17,194	11,929
Share-based compensation	49,379	30,504
Amortization of deferred sales commission costs	13,956	8,874
Amortization of debt discount and issuance costs	11,003	—
Foreign currency remeasurement (gain) loss	657	(700)
Provision for bad debt	2,390	1,508
Deferred income taxes	15	(18)
Other	458	123
Changes in assets and liabilities:		
Accounts receivable	(29,883)	(11,188)
Deferred sales commission costs	(31,793)	(23,402)
Prepaid expenses and other current assets	(6,256)	(6,872)
Other assets	(406)	1,419
Accounts payable	(1,128)	2,168
Accrued liabilities	27,954	9,426
Deferred revenue	17,107	11,288
Other liabilities	(1,020)	(100)
Net cash provided by operating activities	49,102	30,876
Cash flows from investing activities		
Purchases of property and equipment	(17,852)	(15,886)
Capitalized internal-use software	(8,117)	(5,432)
Cash paid for acquisition of intangible assets	(18,470)	—
Restricted investment	—	530
Net cash used in investing activities	(44,439)	(20,788)
Cash flows from financing activities		
Proceeds from issuance of convertible senior notes, net of issuance costs	449,457	—
Payments for capped call transactions and costs	(49,910)	—
Repurchase of common stock	(15,000)	—
Proceeds from issuance of stock in connection with stock plans	13,632	19,685
Taxes paid related to net share settlement of equity awards	(5,457)	(2,125)
Repayment of debt	—	(14,840)
Repayment of capital lease obligations	(741)	(181)
Net cash provided by financing activities	391,981	2,539
Effect of exchange rate changes	(553)	(676)
Net increase in cash, cash equivalents and restricted cash	396,091	11,951

Cash, cash equivalents and restricted cash		
Beginning of period	181,192	160,355
End of period	$577,283	$172,306
Supplemental disclosure of cash flow data		
Cash paid for interest	$40	$116
Cash paid for income taxes, net of refunds	$331	$188
Non-cash investing and financing activities		
Reclassification from intangible assets to prepaid and other assets	$8,223	$—
Equipment acquired under capital lease	$4,513	$—
Liability for potential future payments	$2,001	$—
Equipment and capitalized internal-use software purchased and unpaid at period end	$2,293	$1,204
Issuance of common stock for achievement of Glip related matters	$—	$3,260

* See Note 2 for a summary of adjustments.

See accompanying notes to condensed consolidated financial statements

RINGCENTRAL, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

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 that enables businesses to communicate, collaborate and connect. The Company was incorporated in California in 1999 and was reincorporated in Delaware on September 26, 2013.

Basis of Presentation and Consolidation

The unaudited condensed consolidated financial statements and accompanying notes of the Company reflect all adjustments (all of which are normal, recurring in nature and those discussed in these notes) that are, in the opinion of management, necessary for a fair presentation of the interim periods presented. All intercompany balances and transactions have been eliminated in consolidation. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for any subsequent quarter or for the entire year ending December 31, 2018. Certain information and note disclosures normally included in annual consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") have been condensed or omitted under the rules and regulations of the Securities and Exchange Commission ("SEC").

Effective January 1, 2018, the Company adopted the requirements of Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), issued by the Financial Accounting Standards Board ("FASB"), as discussed in Note 2. Topic 606 also includes Subtopic 340-40, Other Assets and Deferred Costs - Contracts with Customers, which requires the deferral of incremental costs of obtaining a contract with a customer. Collectively, the Company refers to Topic 606 and Subtopic 340-40 as "Topic 606" or the "new standard." All amounts and disclosures set forth in this Quarterly Report on Form 10-Q have been adjusted to comply with the new standard.

The unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on February 26, 2018.

Use of Estimates

The preparation of condensed consolidated 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 condensed consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The significant estimates made by management affect revenues, allowance for doubtful accounts, deferred sales commission costs, 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.

Changes in Significant Accounting Policies

Except for the accounting policies for revenue recognition and deferred commissions that were updated as a result of adopting Topic 606, there have been no changes to our significant accounting policies described in the Annual Report on Form 10-K for the year ended December 31, 2017, that have had a material impact on the Company's condensed consolidated financial statements and related notes.

Revenue Recognition

The Company derives its revenues primarily from software subscriptions, sale of products, and professional services. Revenues are recognized when control of these services is transferred to the customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services.

The Company determines revenue recognition through the following steps:

- identification of the contract, or contracts, with a customer;
- identification of the performance obligations in the contract;

RINGCENTRAL, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, the Company satisfies a performance obligation.

The Company recognizes revenues as follows:

Software subscriptions revenue

Software subscriptions revenue is generated from the sale of subscriptions to the Company's software applications and related services. These arrangements have contractual terms typically ranging from one month to five years, and include recurring fixed plan subscription fees and variable usage-based fees for usage in excess of plan limits.

Arrangements with customers do not provide the customer with the right to take possession of the Company's software at any time. Instead, customers are granted continuous access to the services over the contractual period. The Company transfers control evenly over the contractual period by providing stand-ready service. Accordingly, the fixed consideration related to subscription is generally recognized over time on a straight-line basis over the contract term beginning on the date the Company's service is made available to the customer. The Company may offer its customer services for no consideration during the initial months. Such discounts are recognized ratably over the term of the contract.

Fees for additional minutes of usage in excess of plan limits are deemed to be variable consideration that meet the allocation exception for variable consideration as they are specific to the month that the usage occurs.

The Company's subscription contracts typically allow the customers to terminate their services within the first 30 or 60 days and receive a refund for any amounts paid. After the termination period ends, the contract is non-cancellable and the customer is obligated to pay for the remaining term of the contract. Accordingly, the Company considers the non-cancellable term of the contract to begin after the expiration of the termination period.

The Company has service-level agreements with customers warranting defined levels of uptime reliability and performance and these customers can get credits or refunds if the Company fails to meet those levels. If the services do not meet certain criteria, fees are subject to adjustment or refund representing a form of variable consideration.

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 the Company's historical experience, current trends and the Company's expectations regarding future experience. The Company monitors the accuracy of its sales reserve estimates by reviewing actual returns and credits and adjusts them for its future expectations to determine the adequacy of its current and future reserve needs. If actual future returns and credits differ from past experience, additional reserves may be required.

Other revenue

Other revenue is generated from product revenues from sales of phones and professional implementation services.

Product revenue is recognized when the products have been delivered to the customer. The amount of revenue recognized for products is adjusted for expected returns, which are estimated based on historical data.

The Company offers professional services that support implementation and deployment of its subscription services. Professional services do not result in significant customization of the product and are generally short-term in duration. The majority of our professional services contracts are on a fixed price basis and revenue is recognized over time as services are performed.

Deferred sales commission costs

The Company capitalizes sales commission expenses and associated payroll taxes paid to internal sales personnel and resellers, who sell our solutions. The resellers are selling agents for the Company and earn sales commissions which are directly tied to the value of the contracts that the Company enters with the end-user customers. These sales commissions are incremental costs the Company incurs to obtain contracts with its end-user customers. The Company pays sales commissions on initial contracts and contracts for increased purchases with existing customers (expansion contracts). The Company does not pay sales commissions for contract renewals.

RINGCENTRAL, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

These sales commission costs are deferred and then amortized over the expected period of benefit, which is estimated to be five years. The Company has determined the period of benefit taking into consideration the expected subscription term and expected renewal periods of its customer contracts, the duration of its relationships with its customers considering historical and expected customer retention, technology and other factors. Amortization expense is included in sales and marketing expenses in the accompanying condensed consolidated statement of operations.

Disaggregation of revenue

The following table provides information about disaggregated revenue by primary geographical markets:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Primary geographical markets				
North America	96.1 %	96.3 %	96.0 %	96.6 %
Others	3.9	3.7	4.0	3.4
Total revenues	100.0%	100.0%	100.0%	100.0%

The Company derived approximately 88% of subscription revenues from RingCentral Office product for both the three and nine months ended September 30, 2018; and 84% for the three and nine months ended September 30, 2017.

Deferred revenue

During the three and nine months ended September 30, 2018, the Company recognized revenue of $8.8 million and $56.6 million, respectively, that was included in the corresponding deferred revenue balance at the beginning of the year.

Remaining performance obligations

The typical subscription term ranges from one month to five years. Contract revenue as of September 30, 2018 that has not yet been recognized was $558.0 million. This excludes contracts with an original expected length of less than one year. The Company expects to recognize revenue of $333.3 million over the next 12 months and $224.7 million thereafter.

Share-Based Compensation

Share-based compensation expense resulting from options, restricted stock units (“RSUs”), performance-based awards, 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, ESPP rights, and performance-based awards 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. For awards with performance-based and service-based conditions, compensation cost is recognized over the requisite service period if it is probable that the

performance condition will be satisfied. The expense for performance-based awards is evaluated each quarter based on the achievement of the performance conditions. The effect of a change in the estimated number of performance-based awards expected to be earned is recognized in the period those estimates are revised. 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.

Recent Accounting Pronouncements Not Yet Adopted

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. In 2018, the FASB issued ASU 2018-10 and 2018-11, providing, among other things, codification improvements and the optional transition method. The Company will adopt the standard in the first quarter of 2019, utilizing the optional transition method for adoption of Topic 842, which allows entities to continue to apply the legacy guidance in ASC 840, Leases, including disclosure requirements, in the comparative periods presented in the year of adoption. The Company is currently evaluating the impact that the standard will have on its consolidated financial statements and related disclosures

RINGCENTRAL, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

and expects to take advantage of the transition package of practical expedients permitted within the new standard, which among other things, allows the Company to carryforward its historical lease classifications. The Company expects the impact of adoption of the new standard on the Company's consolidated 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 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 June 2018, the FASB issued ASU 2018-07, Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting, which expands the scope of Topic 718 to include and simplify financial reporting for share-based payments issued to nonemployees. This amendment is applicable to all public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. The Company is in the process of evaluating the impact of implementing this amendment on its financial statements or disclosures.

In July 2018, the FASB issued ASU 2018-09, Codification Improvements, which is intended to change or to clarify the codification or correct unintended application of guidance that is not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. Since this applies to various codifications, its implementation and impact on financial statements would be commensurate with the codification itself, for example - it clarifies when companies should recognize excess tax benefits for share-based compensation awards; removes inconsistent guidance about income tax accounting for business combinations; clarifies derivatives measurement of a liability with an identical instrument held as an asset, and allows companies to use the portfolio approach to valuation of financial instruments; etc. The adoption of this amendment is not expected to have a material impact on the Company's consolidated financial statements or disclosures.

In June 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurements, which expands the disclosure requirements for Level 3 fair value measurements and expands disclosures for entities that calculate net assets value. This amendment is applicable to all public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The Company expects to adopt this update effective fiscal first quarter of 2020. The adoption of this amendment is not expected to have a material impact on the Company's consolidated financial statements or disclosures.

In June 2018, the FASB issued ASU 2018-15, Intangibles- Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This amendment is applicable to all public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The

Company is in the process of evaluating the impact of implementing this amendment on its financial statements or disclosures.

In August 2018, the SEC issued a final rule that amends certain disclosure requirements that were redundant, duplicative, overlapping or superseded. The final rule requires registrants, among other things, to disclose in interim periods changes to stockholders' equity for current and comparative year-to-date periods with subtotals for each interim period, and dividends per share for each class of shares. The final rule is effective for all filings made on or after November 5, 2018. On September 25, 2018, the SEC released guidance advising it will not object to a registrant adopting the requirement to include changes in stockholders' equity in the Form 10-Q for the first quarter beginning after the effective date of the rule. The Company expects to adopt the new rule in the first fiscal quarter of 2019. The adoption of this amendment is not expected to have a material impact on the Company's consolidated financial statements or disclosures.

RINGCENTRAL, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 2. Impact of Recent Accounting Pronouncements

On January 1, 2018, the Company adopted Topic 606 utilizing the full retrospective method of transition. The Company adjusted its condensed consolidated financial statements from amounts previously reported due to the adoption of Topic 606.

Select condensed consolidated balance sheet line items, which reflect the adoption of the new ASU are as follows (in thousands):

	December 31, 2017		
	As Reported	Adoption of Topic 606	As Adjusted
Assets			
Accounts receivable, net	$45,339	$1,351	$46,690
Deferred sales commission costs	—	15,424	15,424
Deferred sales commission costs, noncurrent	—	37,871	37,871
Liabilities			
Deferred revenue	64,415	(1,498)	62,917
Stockholders' equity	$172,202	$56,144	$228,346

The following table reflects the effect of adoption of Topic 606 on the Company’s condensed consolidated statement of operations for the three and nine months ended September 30, 2017 (in thousands):

	Three Months Ended September 30, 2017			Nine Months Ended September 30, 2017		
	As Reported	Adoption of Topic 606	As Adjusted	As Reported	Adoption of Topic 606	As Adjusted
Revenues						
Software subscriptions	$119,401	$515	$119,916	$333,501	$1,441	$334,942
Other	10,363	—	10,363	27,490	—	27,490
Total revenues	129,764	515	130,279	360,991	1,441	362,432
Gross profit	98,980	515	99,495	273,340	1,441	274,781
Operating expenses						
Sales and marketing	67,071	(5,466)	61,605	186,759	(14,528)	172,231
Operating loss	(6,246)	5,981	(265)	(21,090)	15,969	(5,121)
Net (loss) income	$(5,712)	$5,981	$269	$(20,052)	$15,969	$(4,083)
Basic net (loss) income per common share	$(0.07)	$0.07	$0.00	$(0.26)	$0.21	$(0.05)
Diluted net (loss) income per common share	$(0.07)	$0.07	$0.00	$(0.26)	$0.21	$(0.05)
Weighted-average number of shares used in computing net (loss) income per share						

Basic	76,915	—	76,915	75,815	—	75,815
Diluted	76,915	6,194	83,109	75,815	—	75,815

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RINGCENTRAL, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

The following table reflects the effect of adoption of Topic 606 on the Company's condensed consolidated statement of cash flows for the nine months ended September 30, 2017 (in thousands):

	Nine Months Ended September 30, 2017		
	As Reported	Adoption of Topic 606	As Adjusted
Cash flows from operating activities			
Net loss	$(20,052)	$15,969	$(4,083)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Amortization of deferred sales commission costs	—	8,874	8,874
Changes in operating assets and liabilities:			
Accounts receivable	(10,996)	(192)	(11,188)
Deferred sales commission costs	—	(23,402)	(23,402)
Deferred revenue	12,537	(1,249)	11,288
Net cash provided by operating activities	30,876	—	30,876

Note 3. Other Revenue 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 three and nine months ended September 30, 2018 and 2017, the majority of other revenues consisted of product revenues from sales of phones. Product revenues were $9.0 million and $6.9 million for the three months ended September 30, 2018 and 2017, respectively, and $25.8 million and $19.1 million for the nine months ended September 30, 2018 and 2017, respectively. Product cost of revenues were $7.1 million and $6.2 million for the three months ended September 30, 2018 and 2017, respectively, and $22.5 million and $18.2 million for the nine months ended September 30, 2018 and 2017, respectively.

Note 4. Financial Statement Components

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

	September 30, 2018	December 31, 2017

Cash	$ 62,009	$ 70,893
Money market funds	515,274	110,299
Total cash and cash equivalents	$ 577,283	$ 181,192

The Company has an immaterial restricted cash balance as of September 30, 2018 and December 31, 2017, included in the cash balance above.

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

	September 30, 2018	December 31, 2017 *As Adjusted
Accounts receivable	$ 65,885	$ 42,243
Unbilled accounts receivable	10,456	5,159
Allowance for doubtful accounts	(2,158)	(712)
Accounts receivable, net	$ 74,183	$ 46,690

* See Note 2 for a summary of adjustments.

RINGCENTRAL, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

	September 30, 2018	December 31, 2017
Prepaid expenses	$ 18,113	$ 13,690
Inventory	168	198
Other current assets	11,542	7,624
Total prepaid expenses and other current assets	$ 29,823	$ 21,512

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

	September 30, 2018	December 31, 2017
Computer hardware and software	$ 93,223	$ 74,555
Internal-use software development costs	26,406	18,217
Furniture and fixtures	5,586	6,293
Leasehold improvements	6,400	4,311
Total property and equipment	131,615	103,376
Less: accumulated depreciation and amortization	(71,415)	(60,078)
Property and equipment, net	$ 60,200	$ 43,298

Depreciation and amortization expense was $4.8 million and $13.9 million for the three and nine months ended September 30, 2018, respectively, and was $4.0 million and $11.3 million for the three and nine months ended September 30, 2017, respectively.

Accrued liabilities consisted of the following (in thousands):

	September 30, 2018	December 31, 2017
Accrued compensation and benefits	$ 19,285	$ 18,578
Accrued sales, use and telecom related taxes	16,961	11,828

Accrued marketing	11,928	7,020
Other accrued expenses	37,540	17,551
Total accrued liabilities	$ 85,714	$ 54,977

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

		September 30, 2018			December 31, 2017		
	Estimated Lives	Cost	Accumulated Amortization	Acquired Intangibles, Net	Cost	Accumulated Amortization	Acquired Intangibles, Net
Customer relationships [1]	2 to 5 years	$11,087	$ 3,731	$ 7,356	$840	$ 840	$ -
Developed technology	5 years	3,010	2,000	1,010	3,010	1,548	1,462
Total acquired intangible assets		$14,097	$ 5,731	$ 8,366	$3,850	$ 2,388	$ 1,462

(1) Refer to Note 6 for details.

Amortization expense from acquired intangible assets for the three months ended September 30, 2018 and 2017 was $1.0 million and $0.2 million, respectively, and was $3.3 million and $0.6 million for the nine months ended September 30, 2018 and 2017, respectively.

RINGCENTRAL, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Amortization of developed technology is included in cost of revenues and amortization of customer relationships is included in sales and marketing expenses in the condensed consolidated statements of operations. At September 30, 2018, the weighted average amortization period for customer relationships and developed technology was approximately 3.6 years and 1.7 years, respectively.

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

2018 (remaining)	$579
2019	2,316
2020	1,972
2021	1,714
2022 onwards	1,785
Total estimated amortization expense	$8,366

Deferred Sales Commission Costs

Deferred sales commission costs, which relate to sales commission costs capitalized for incremental cost of obtaining customer contracts, were $71.1 million and $53.3 million as of September 30, 2018 and December 31, 2017, respectively. Amortization expense for the deferred sales commission costs for the three months ended September 30, 2018 and 2017 were $5.3 million and $3.4 million, respectively, and was $14.0 million and $8.9 million for the nine months ended September 30, 2018 and 2017, respectively. There was no impairment loss in relation to the costs capitalized for the periods presented.

Note 5. Fair Value of Financial Instruments

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: Observable inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities.
Level 2: Other 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: 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.

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

	Balance at September 30, 2018	(Level 1)	(Level 2)	(Level 3)
Cash equivalents:				
Money market funds	$ 515,274	$515,274	$ —	$ —

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

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.

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Notes to Condensed Consolidated Financial Statements (Unaudited)

As of September 30, 2018, the fair value of the 0% convertible senior notes due 2023 (the "Notes") (described in Note 7 below) was approximately $577.1 million. The fair value was determined based on the quoted price for the Notes in an inactive market on the last trading day of the reporting period and is considered as Level 2 in the fair value hierarchy.

Note 6. Acquired Customer Base

On January 16, 2018, the Company acquired from AT&T the existing customer base of the RingCentral Office@Hand solution, which was previously sold by AT&T, for a total purchase consideration of up to $26.0 million. The purchase price consisted of a $20.0 million cash payment upon closing of the transaction and up to $6.0 million in earn-out payments based on achievement of certain milestones. The transition of the customer base was expected to be completed over a period of one year from the close of the transaction. The Company had entered into a Transition Services Agreement ("TSA") for a one-year period. The total purchase consideration was estimated to be approximately $24.0 million upon the close of the transaction, consisting of approximately $20.0 million cash payments, including transaction costs, and approximately $4.0 million earn-out consideration. The transaction was accounted for as an asset acquisition. The value of the total consideration was allocated between the customer relationship intangible asset of $22.0 million, to be amortized over the expected useful life of five years, and the TSA services of $2.0 million, to be amortized over the expected one year of service, based on their relative fair value. Under the terms of the agreement, a portion of the customers transitioned to the Company. The value of the customer base that transitioned to the Company is reflected as a customer relationship asset of approximately $10.0 million, to be amortized over the expected useful life of five years.

Subsequently on August 31, 2018, the Company and AT&T entered into a revised agreement through June 30, 2024, under which AT&T will resume reselling RingCentral solutions to its customers and obtain control over the non-transitioned customer base. The agreement also includes potential future payments, estimated to be approximately $2.0 million. In addition, under the agreement, AT&T retained the $20.0 million previously paid to them. Of these amounts, the value attributed to the non-transitioned customer base was approximately $12.0 million, which is treated as prepaid services for ongoing customer support for existing and new customers and will be amortized over the expected term of the agreement.

Note 7. Convertible Senior Notes

In March 2018, the Company issued $400.0 million aggregate principal amount of 0% convertible senior notes due 2023 in a private placement and an additional $60.0 million aggregate principal amount of such notes pursuant to the exercise in full of the over-allotment options of the initial purchasers. The Notes do not bear regular interest, and the principal amount of the Notes does not accrete. The Notes may bear special interest under specified circumstances relating to the Company's failure to comply with its reporting obligations under the indenture relating to the issuance of Notes (the "Indenture") or if the Notes are not freely tradeable as required by the indenture. The Notes will mature on March 15, 2023, unless earlier repurchased or redeemed by the Company or converted pursuant to their terms. The total net proceeds from the debt offering, after deducting initial purchase discounts and debt issuance costs, were approximately $449.5 million.

Each $1,000 principal amount of the Notes is initially convertible into 12.2782 shares of the Company's Class A common stock par value $0.0001 ("Class A Common Stock"), which is equivalent to an initial conversion price of approximately $81.45 per share. The conversion rate is subject to adjustment upon the occurrence of certain specified events but will not be adjusted for any accrued and unpaid special interest. In addition, upon the occurrence of a make-whole fundamental change or a redemption period, each as defined in the Indenture, the Company will, in certain circumstances, increase the conversion rate by a number of additional shares for a holder that elects to convert its Notes in connection with such make-whole fundamental change or during the relevant redemption period.

Prior to the close of business on the business day immediately preceding December 15, 2022, the Notes will be convertible only under the following circumstances:

(1) during any calendar quarter commencing after June 30, 2018, and only during such calendar quarter, if the last reported sale price of the Class A Common Stock for at least 20 trading days (whether or not consecutive) in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is more than 130% of the conversion price on each applicable trading day;

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(2) during the five business days period after any five consecutive trading days period in which, for each trading day of that period, the trading price per $1,000 principal amount of Notes for such trading day was less than 98% of the product of the last reported sale price of the Class A Common Stock and the conversion rate on each such trading day;

(3) upon the Company's notice that it is redeeming any or all of the Notes, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date; or

(4) upon the occurrence of specified corporate events.

On or after December 15, 2022, until the close of business on the scheduled trading day immediately preceding the maturity date, holders of the Notes may convert all or a portion of their Notes regardless of the foregoing conditions.

Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of Class A Common Stock, or a combination of cash and shares of Class A Common Stock, at the Company's election. It is the Company's current intent to settle the principal amount of the Notes with cash.

During the three and nine months ended September 30, 2018, the conditions allowing holders of the Notes to convert were not met.

The Company may redeem the Notes, at its option, on or after September 20, 2020, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid special interest to, but excluding the redemption date, if the last reported sale price of the Class A Common Stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period ending within not more than three trading days preceding the date on which the Company provides written notice of redemption. No sinking fund is provided for the Notes. Upon the occurrence of a fundamental change (as defined in the Indenture) prior to the maturity date, holders may require the Company to repurchase all or a portion of the Notes for cash at a price equal to 100% of the principal amount of the Notes to be repurchased, plus any accrued and unpaid special interest to, but excluding, the fundamental change repurchase date.

The Notes are senior unsecured obligations and will rank senior in right of payment to any of the Company's indebtedness that is expressly subordinated in right of payment to the Notes; equal in right of payment with the Company's existing and future liabilities that are not so subordinated; effectively junior in right of payment to any of the Company's secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities (including trade payables) of current or future subsidiaries of the Company.

In accounting for the issuance of the Notes, the Company separated the Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar debt instrument that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was $101.1 million and was determined by deducting the fair value of the liability component from the par value of the Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. The excess of the principal amount of the liability component over its carrying amount ("debt discount") is amortized to interest expense at an effective interest rate over the contractual terms of the Notes.

In accounting for the transaction costs related to the Notes, the Company allocated the total amount incurred to the liability and equity components of the Notes based on the proportion of the proceeds allocated to the debt and equity components. Issuance costs attributable to the liability component were $8.2 million were recorded as additional debt discount to be amortized to interest expense using the effective interest method over the contractual terms of the Notes. Issuance costs attributable to the equity component were netted with the equity component in stockholders' equity.

The net carrying amount of the liability component of the Notes was as follows (in thousands):

	September 30, 2018
Principal	$ 460,000
Unamortized discount	(90,856)
Unamortized issuance cost	(7,507)
Net carrying amount	$ 361,637

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The net carrying amount of the equity component of the Notes was as follows (in thousands):

Proceeds allocated to the conversion option (debt discount)	$101,141
Issuance cost	(2,318)
Net carrying amount	$98,823

The following table sets forth the interest expense recognized related to the Notes (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Contractual interest expense	$ —	$ —	$ —	$ —
Amortization of debt discount	4,530	—	10,286	—
Amortization of debt issuance costs	319	—	717	—
Total interest expense related to the Notes	$ 4,849	$ —	$ 11,003	$ —

In connection with the offering of the Notes, the Company entered into privately-negotiated capped call transactions with certain counterparties (the “Capped Calls”). The Capped Calls each have an initial strike price of approximately $81.45 per share, subject to certain adjustments, which corresponds to the initial conversion price of the Notes. The Capped Calls have initial cap prices of $119.035 per share, subject to certain adjustments. The Capped Calls cover, subject to anti-dilution adjustments, approximately 5.6 million shares of Class A Common Stock. The Capped Calls are generally intended to reduce or offset the potential dilution to the Class A Common Stock upon any conversion of the Notes with such reduction or offset, as the case may be, subject to a cap based on the cap price. The Capped Calls settle in components commencing January 13, 2023 with the last component expiring on March 13, 2023. The Capped Calls are subject to either adjustment or termination upon the occurrence of specified extraordinary events affecting the Company, including a merger event; a tender offer; and a nationalization, insolvency or delisting involving the Company. In addition, the Capped Calls are subject to certain specified additional disruption events that may give rise to a termination of the Capped Calls, including changes in law; insolvency filings; and hedging disruptions. The Capped Call transactions are recorded in stockholders’ equity and are not accounted for as derivatives. The net cost of $49.9 million incurred to purchase the Capped Call transactions was recorded as a reduction to additional paid-in capital on the consolidated balance sheet.

Concurrently with the issuance of the Notes, the Company’s board of directors approved the repurchase of an aggregate of 239,425, or $15.0 million of, shares of the Company’s outstanding Class A Common Stock in privately negotiated transactions at a price of $62.65 per share, which was equal to the closing price per share of the Company’s Class A Common Stock on March 1, 2018, the date of the pricing of the offering of the Notes. The share repurchase was recorded as a reduction of additional paid-in capital on the consolidated balance sheet.

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. The Company leases space for its corporate headquarters in Belmont, California through July 2021.

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 September 30, 2018 and December 31, 2017, the Company recorded a long-term sales tax liability of $1.5 million and $2.6 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 condensed 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.

The Company recorded a current sales tax liability for non-contingent amounts expected to be remitted in the next twelve months of $12.2 million and $9.0 million as of September 30, 2018 and December 31, 2017, respectively, which is included in accrued liabilities in the condensed 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. Actual claims could settle or be adjudicated against the Company in the future for materially different amounts than the Company has accrued due to the inherently unpredictable nature of litigation. 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 the Company's system ("SPS 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 SPS Lawsuit ("Petition"). The Petition remains pending. On July 8, 2016, the Company filed a motion to dismiss the SPS Lawsuit in its entirety, along with a collateral motion to dismiss or stay the SPS Lawsuit pending a ruling by the FCC on the Company's 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 filed on December 20, 2017; asking that the dismissal be reversed and the case be returned to the district court for the Lawsuit to be

processed. The Company's answering brief was filed on February 20, 2018; asking that the dismissal be affirmed. SPS filed its reply brief on April 12, 2018. Oral argument had been scheduled to be heard on November 16, 2018, but on October 23, 2018, the district court ordered that the case be submitted on the briefs and record without oral argument. There is no deadline for the Ninth Circuit Court of Appeals to then issue its decision. It is too early to predict the outcome of the SPS 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 condensed consolidated financial statements, it is not possible to provide an estimated amount of any such loss or range of loss that may occur.

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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. On March 23, 2018, the Company filed a motion to dismiss the complaint for lack of standing and failure to sufficiently state a claim on which relief may be granted. Hurley filed her opposition brief on April 6, 2018, and the Company filed its reply brief on April 13, 2018. On October 4, 2018, the district court issued its memorandum and opinion order granting in part and denying in part the Company's motion to dismiss. The district court dismissed Hurley's vicarious liability claim but allowed Hurley's TCPA claim to proceed. The Company filed its answer and affirmatives defenses to the second amended complaint on October 18, 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 condensed 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. (together, "Uniloc") 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, 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 condensed 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.

Employment Matter

On August 13, 2018, the Company was sued by a former employee, Darren Stemple, in the United States District Court for the Northern District of California in a putative class and collective action alleging certain violations of federal and Colorado laws concerning overtime pay. The Stemple lawsuit is in its earliest stages, and it is too early to predict the outcome of this litigation. 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 condensed consolidated financial statements, the Company intends to contest the allegations but has accrued for an estimated loss that may occur.

Note 9. Share-Based Compensation

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Cost of revenues	$1,315	$1,026	$3,626	$2,821
Research and development	4,069	2,598	11,069	6,799
Sales and marketing	7,449	4,105	19,679	11,556
General and administrative	5,682	3,213	15,005	9,328
Total share-based compensation expense	$18,515	$10,942	$49,379	$30,504

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Options	$762	$1,489	$2,726	$5,632
Employee stock purchase plan rights	771	494	2,253	1,473
Restricted stock units	16,982	8,959	44,400	23,399
Total share-based compensation expense	$18,515	$10,942	$49,379	$30,504

Equity Incentive Plans

As of September 30, 2018, a total of 13,157,108 shares remained available for grant under the 2013 Equity Incentive Plan ("2013 Plan"). A summary of option activity under all of the Company's equity incentive plans at September 30, 2018 and changes during the period 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, 2017	5,286	$ 10.30	4.2	$ 201,480
Granted	—	—		
Exercised	(911)	8.47		
Canceled/Forfeited	(8)	23.72		
Outstanding at September 30, 2018	4,367	$ 10.66	3.5	$ 360,016
Vested and expected to vest as of September 30, 2018	4,347	$ 10.63	3.5	$ 358,289
Exercisable as of September 30, 2018	4,076	$ 10.23	3.5	$ 337,555

No options were granted for the three and nine months ended September 30, 2018. The weighted average grant date fair value of options granted and the total intrinsic value of options exercised were as follows (in thousands, except weighted average grant date fair value):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Weighted average grant date fair value per share	$—	$—	$—	$9.08
Total intrinsic value of options exercised	$18,842	$9,489	$58,063	$32,752

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.

The weighted-average assumptions used in the option pricing model in the periods presented were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Expected term for employees (in years)	—	—	—	4.4
Expected term for non-employees (in years)	3.0	4.8	3.2	5.0
Risk-free interest rate	2.9 %	1.9 %	2.6 %	1.8 %
Expected volatility	41.1 %	42.4 %	41.5 %	43.7 %
Expected dividend yield	0 %	0 %	0 %	0 %

RINGCENTRAL, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

As of September 30, 2018, there was approximately $1.7 million of unrecognized share-based compensation expense, net of estimated forfeitures, related to non-vested stock option grants, which will be recognized on a straight-line basis over the remaining weighted-average vesting period of approximately 0.9 years.

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 13th and November 13th 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 Class A 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.

As of September 30, 2018, there was a total of $0.4 million of unrecognized share-based compensation expense, net of estimated forfeitures, related to ESPP, which will be recognized on a straight-line basis over the remaining weighted-average vesting period of approximately 0.1 years. At September 30, 2018, a total of 3,370,444 shares were available for issuance under the ESPP.

Restricted Stock Units

The 2013 Plan provides for the issuance of restricted stock units ("RSUs") to employees, directors, and consultants. RSUs issued under the 2013 Plan generally vest over four years. A summary of activity of RSUs under the 2013 Plan at September 30, 2018, and changes during the period 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, 2017	4,281	$ 25.51	$ 207,197
Granted	1,529	66.06	
Released	(1,492)	29.57	
Canceled/Forfeited	(382)	35.02	
Outstanding at September 30, 2018	3,936	$ 38.79	$ 366,216

As of September 30, 2018, there was a total of $112.5 million of unrecognized share-based compensation expense, net of estimated forfeitures, related to restricted stock units, which will be recognized on a straight-line basis over the

remaining weighted-average vesting period of approximately 2.5 years.

Bonus Plan

In December 2017, the Board adopted the Selective 2018 Key Employee Equity Bonus Plan ("KEEB Plan"), which became effective on January 1, 2018. The KEEB Plan allows the recipients to earn fully vested shares of the Company's common stock upon the achievement of quarterly service and performance conditions. During the quarter ended September 30, 2018, 38,147 RSUs were issued under the KEEB Plan. The Company recognized an estimated $2.6 million and $6.5 million of expense on a straight-line basis during the three and nine months ended September 30, 2018, respectively, based on a total requisite service period of approximately 0.4 years.

The unrecognized share-based compensation expense was approximately $0.9 million, which will be recognized over the remaining service period of 0.1 year. The shares issued under this plan will be issued from the Company's 2013 Plan shares available for issuance.

RINGCENTRAL, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 10. Segment Reporting

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.

Concentrations

Revenue by geographic location is based on the billing address of the customer. More than 90% of the Company's revenues were derived from the U.S. for each of the three and nine months ended September 30, 2018

Generally over 65% of the Company's total billings are collected through credit card payments. The Company's accounts receivable balance of $74.2 million as of September 30, 2018 primarily consists of receivables due from larger customers and carriers who are billed on invoices at customary payment terms. As the Company moves up-market and acquires larger customers, the Company expects the accounts receivable balance to increase. At September 30, 2018 and December 31, 2017, one of the Company's carriers accounted for 8% and 17% of the Company's total accounts receivable, respectively.

Long-lived assets by geographic location is based on the location of the legal entity that owns the asset. At September 30, 2018 and December 31, 2017, more than 90% and 85% of the Company's consolidated long-lived assets, respectively, were located in the U.S. with no single country outside of the U. S. representing more than 10% of the Company's consolidated long-lived assets.

Note 11. Income Taxes

The provision for income taxes for the three months ended September 30, 2018 and 2017, was $108,000 and $73,000, respectively, and was $274,000 and $181,000 for the nine months ended September 30, 2018 and 2017, respectively, consisted primarily of state minimum taxes and foreign income taxes. For the three and nine months ended September 30, 2018 and 2017, the provision for income taxes differed from the U.S federal statutory rate primarily due to state and foreign taxes currently payable. Additionally, the Company realized no benefit for current year losses due to a full valuation allowance against the U.S. and the foreign net deferred tax assets.

The realization of tax benefits of net deferred tax assets is dependent upon future levels of taxable income, of an appropriate character, in the periods the items are expected to be deductible or taxable. Based on the available objective evidence, the Company does not believe it is more likely than not that the net deferred tax assets will be realizable. Accordingly, the Company has provided a full valuation allowance against the entire domestic and the majority of the foreign net deferred tax assets as of September 30, 2018 and December 31, 2017. The Company intends to maintain the full valuation allowance on the U.S. net deferred tax assets until sufficient positive evidence exists to support a reversal of, or decrease in, the valuation allowance.

During the three and nine months ended September 30, 2018, there have been no significant changes to the total amount of unrecognized tax benefits.

Note 12. Basic and Diluted Net (Loss) Income Per Share

Basic net (loss) income per share is computed by dividing the net (loss) income by the weighted-average number of shares of common stock outstanding during the period, excluding 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) income 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 three and nine months ended September 30, 2018 and the nine months ended September 30, 2017, 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.

RINGCENTRAL, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017 *As Adjusted	2018	2017 *As Adjusted
Numerator				
Net (loss) income	$(9,518)	$ 269	$(20,525)	$(4,083)
Denominator:				
Weighted-average common shares outstanding for basic net (loss) income per share	79,903	76,915	79,116	75,815
Effect of dilutive securities:				
Employee stock awards	—	6,194	—	—
Weighted-average common shares outstanding for diluted net (loss) income per share	79,903	83,109	79,116	75,815
Basic net (loss) income per share	$(0.12)	$ 0.00	$(0.26)	$(0.05)
Diluted net (loss) income per share	$(0.12)	$ 0.00	$(0.26)	$(0.05)

* See Note 2 for a summary of adjustments.

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):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Shares of common stock issuable under equity incentive awards outstanding	8,789	4,236	9,198	11,108
Convertible senior notes	317	—	106	—
Potential common shares excluded from diluted net loss per share	9,106	4,236	9,304	11,108

Since the Company expects to settle the principal amount of its outstanding convertible senior notes in cash and any excess in shares of the Company's common stock, the Company uses the treasury stock method for calculating any

potential dilutive effect of the conversion spread on diluted net income per share, if applicable. The conversion spread will have a dilutive impact on diluted net income per share of common stock when the average market price of the Company's common stock for a given period exceeds the conversion price of $81.45 per share for the Notes.

Note 13. 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 September 30, 2018 and December 31, 2017 were $1.8 million and $1.1 million, respectively. Total expenses incurred from Google Inc. were $4.9 million and $14.4 million in the three and nine months ended September 30, 2018, respectively, and $3.9 million and $11.0 million for the three and nine months ended September 30, 2017, respectively.

RINGCENTRAL, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 14. Subsequent Events

On October 22, 2018, the Company acquired all the shares of capital stock of Dimelo SA ("Dimelo"), a cloud-based digital customer engagement platform provider, for total consideration, net of cash acquired, of approximately $37 million, including up to $10 million in contingent consideration. In addition, the Company will issue approximately $3 million of restricted stock units which will vest over a period of up to four years. This will be recognized as compensation expense over the vesting period. The acquisition will enable the Company's customers to manage all their digital customer interactions through a single platform. The acquisition will be accounted for as a business combination. Management is currently in the process of evaluating the impact of the business combination on its consolidated financial statements. The purchase price will be allocated to the tangible and intangible assets acquired and liabilities assumed based on their fair values at the acquisition date. The Company is currently performing procedures necessary to determine the purchase price allocation and will record the initial fair value estimates in the financial statements for the year ending December 31, 2018.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K filed with the SEC on February 26, 2018 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). 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 significantly from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below and elsewhere in this report, particularly in the section entitled "Risk Factors" included under Part II, Item 1A below.

Overview

We are a leading provider of software-as-a-service ("SaaS") solutions that enables businesses to communicate, collaborate, and connect. 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 organizations across all their locations and employees, enabling them to be more productive and more responsive to their customers.

Our cloud-based business communications and collaboration solutions are designed to be easy to use, providing a single user identity across multiple locations and devices, including smartphones, tablets, PCs and desk phones. Our solutions can be deployed rapidly, configured and managed easily. Through our platform, we enable third-party developers and customers to integrate our solution with leading business applications or customize our solution to suit their own business workflows.

RingCentral has a portfolio of cloud-based offerings that are subscription based, made available at different monthly rates, varying by the specific functionalities, services, and number of users. We primarily generate revenues from the sale of software subscriptions to our offerings, which include the following:

RingCentral Office. Our flagship solution, RingCentral Office, provides a unified experience for communication and collaboration across multiple modes, including high-definition ("HD") voice, video, SMS, messaging and collaboration, conferencing, online meetings, and fax. Offered globally, customers can extend RingCentral Office to support their multinational workforce in many countries around the world.

RingCentral Contact Center. RingCentral Contact Center is a collaborative contact center solution that is omni-channel and integrates with RingCentral Office and RingCentral Glip and is offered at a monthly subscription based on three editions with varying features and capabilities. It enables businesses to transform the way they engage their customers across all channels while effectively maximizing agent availability.

RingCentral Glip. RingCentral Glip is a team messaging and collaboration solution that is made available as a feature to all RingCentral Office customers, and as a freemium offering to non-RingCentral users. It combines cloud communications with collaboration to make it easier to get teamwork done.

RingCentral Meetings. RingCentral Meetings is a collaborative meetings solution that offers web meetings, video conferencing, and screen sharing integrated with team messaging. Available stand-alone, this solution can be upgraded to the full cloud communications capabilities of RingCentral Office.

RingCentral Rooms. RingCentral Rooms extends the capabilities of RingCentral Meetings by delivering a cloud video conferencing solution that works for any sized conference room, using off-the-shelf equipment.

RingCentral Webinar. RingCentral Webinar is for large-scale virtual meetings. It can host multiple attendees and presenters and makes it easy to deliver web-based events or training to any desktop, tablet or smartphone.

RingCentral Live Reports. RingCentral Live Reports is an add-on for RingCentral Office customers to gather real-time information needed to maximize the performance with dashboards that contain information on agent utilization and overall customer experience.

RingCentral Professional. RingCentral Professional is a cloud based virtual telephone service offering designed for professionals who are on the go. It provides inbound call answering and management services, and includes inbound local, long-distance, and toll-free minutes.

RingCentral Fax. RingCentral Fax provides online fax capabilities that allow businesses to send and receive fax documents without the need for a fax machine. RingCentral Fax is made available to all RingCentral Office customers or as a stand-alone offering at monthly subscription rates that vary based on the desired number of pages and phone numbers allotted to the plan.

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, our level of prepayments from customers with annual or multi-year contracts may increase and, accordingly, our level of deferred revenue may increase. For each of the three and nine months ended September 30, 2018 and 2017, 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.

We make significant upfront investments to acquire customers. We continue to invest 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 resellers who sell our solutions, 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.; and national partners such as CDW Corporation, Carousel Industries, and SHI International Corp. We also sell our solutions through carriers including AT&T, Inc. (“AT&T”), TELUS Communications Company (“TELUS”) and BT Group plc (“BT”). 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.

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. As of September 30, 2018, 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 three and nine months ended September 30, 2018 and 2017, 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 continue to 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.

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. Subsequently, in August 2018, we entered into a revised service agreement with AT&T under which AT&T will resume reselling our solutions.

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 $503.6 million and $380.4 million in the years ended December 31, 2017 and 2016, respectively, generating year-over-year increase of 32%. For the nine months ended September 30, 2018 and 2017, our total revenues were $485.0 million and $362.4 million, respectively, representing year-over-year increase of 33.8%. 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 $4.2 million and $16.2 million in the years ended December 31, 2017 and 2016, respectively. Our net loss was $20.5 million and $4.1 million for the nine months ended September 30, 2018 and 2017, respectively.

Effective January 1, 2018, we adopted the requirements of Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606), using the full retrospective method as discussed in Note 2 of Part I, Item 1 of this Quarterly Report on Form 10-Q. All amounts and disclosures set forth in this Quarterly Report on Form 10-Q reflect these changes.

Key Business Metrics

In addition to United States generally accepted accounting principles ("U.S. GAAP") and 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" below. 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 software 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 recurring charges contracted at the end of a given month. For example, our Monthly Recurring Subscriptions at September 30, 2018 was $56.1 million. As such, our ARR at September 30, 2018 was $673.6 million.

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 September 30, 2018 was $591.7 million.

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 the 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 September 30, 2018 were as follows (dollars in millions):

	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
Net Monthly Subscription Dollar Retention Rate	>99%	>99%	>99%	>99%	>99%
Annualized Exit Monthly Recurring Subscriptions	$ 673.6	$629.6	$589.0	$ 546.4	$ 513.7
RingCentral Office Annualized Exit Monthly Recurring Subscriptions	$ 591.7	$548.0	$509.2	$ 466.2	$ 433.7

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 condensed 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):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017 *As Adjusted	2018	2017 *As Adjusted
Revenues				
Software subscriptions	$158,068	$119,916	$440,987	$334,942
Other	15,757	10,363	44,013	27,490
Total revenues	173,825	130,279	485,000	362,432
Cost of revenues				
Software subscriptions	27,958	22,912	79,200	64,970
Other	11,316	7,872	33,814	22,681
Total cost of revenues	39,274	30,784	113,014	87,651
Gross profit	134,551	99,495	371,986	274,781
Operating expenses				
Research and development	26,347	19,082	73,812	54,786
Sales and marketing	86,279	61,605	237,222	172,231
General and administrative	28,952	19,073	73,984	52,885
Total operating expenses	141,578	99,760	385,018	279,902
Loss from operations	(7,027)	(265)	(13,032)	(5,121)
Other income (expense), net				
Interest expense	(4,916)	(6)	(11,163)	(94)
Other income, net	2,533	613	3,944	1,313
Other (expense) income, net	(2,383)	607	(7,219)	1,219
(Loss) income before income taxes	(9,410)	342	(20,251)	(3,902)
Provision for income taxes	108	73	274	181

Net (loss) income	$(9,518)	$269	$(20,525)	$(4,083)

* Adjusted for the adoption of Topic 606.

Percentage of Total Revenues

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017 *As Adjusted	2018	2017 *As Adjusted
Revenues				
Software subscriptions	91 %	92 %	91 %	92 %
Other	9	8	9	8
Total revenues	100	100	100	100
Cost of revenues				
Software subscriptions	16	18	16	18
Other	7	6	7	6
Total cost of revenues	23	24	23	24
Gross profit	77	76	77	76
Operating expenses				
Research and development	15	15	15	15
Sales and marketing	49	47	49	47
General and administrative	17	14	16	15
Total operating expenses	81	76	80	77
Loss from operations	(4)	—	(3)	(1)
Other income (expense), net				
Interest expense	(3)	—	(2)	—
Other income, net	1	—	1	—
Other (expense) income, net	(1)	—	(1)	—
(Loss) income before income taxes	(5)	—	(4)	(1)
Provision for income taxes	—	—	—	—
Net (loss) income	(5)%	(—)%	(4)%	(1)%

Comparison of the three and nine months ended September 30, 2018 and 2017

Revenues

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in thousands, except percentages)	2018	2017 *As Adjusted	$ Change	% Change	2018	2017 *As Adjusted	$ Change	% Change
Revenues								
Software subscriptions	$158,068	$119,916	$38,152	32%	$440,987	$334,942	$106,045	32%
Other	15,757	10,363	5,394	52%	44,013	27,490	16,523	60%

Total revenues	$173,825	$130,279	$43,546	33%	$485,000	$362,432	$122,568	34%		
Percentage of revenues										
Software subscriptions	91	%	92	%		91	%	92	%	
Other	9		8			9		8		
Total	100	%	100	%		100	%	100	%	

Software subscriptions revenue. Software subscriptions revenue increased by $38.2 million, or 32%, and $106.0 million, or 32%, for the three and nine months ended September 30, 2018, respectively, as compared to the respective periods of the prior year, primarily due to the acquisition of new customers and upsells of additional offerings to our existing customer base. Our revenue growth during the three and nine months ended September 30, 2018, was also driven by 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 three and nine months ended September 30, 2018 as compared to the respective periods of the prior year, which generally carry a higher monthly subscription rate versus our other product offerings.

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 increasing by 40% and 38% for the three and nine months ended September 30, 2018, respectively, as compared to the respective periods of the prior year, which include advertising and sales personnel expenditures that we believe helped to facilitate increased customer acceptance of our products.

Our core subscription revenues, defined as subscription revenues excluding subscription revenue from the AT&T legacy base, was $146.6 million and $106.4 million for the three months ended September 30, 2018 and 2017, respectively, or a 38% increase. Core subscription revenues for the nine months ended September 30, 2018 and 2017, was $405.4 million and $295.6 million, respectively, or a 37% increase. Since new subscriptions for the RingCentral Office@Hand solution sold by AT&T have declined throughout 2017 and into 2018 to an immaterial level, we believe this core subscription revenues information provides a useful indicator of our business performance.

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 $5.4 million, or 52%, and $16.5 million, or 60%, for the three and nine months ended September 30, 2018, respectively, as compared to the respective periods of the prior year primarily due to the increase in product sales and professional services revenue.

Cost of Revenues and Gross Margin

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in thousands, except percentages)	2018	2017	$ Change	% Change	2018	2017	$ Change	% Change
Cost of revenues								
Software subscriptions	$27,958	$22,912	$5,046	22 %	$79,200	$64,970	$14,230	22 %
Other	11,316	7,872	3,444	44 %	33,814	22,681	11,133	49 %
Total cost of revenues	$39,274	$30,784	$8,490	28 %	$113,014	$87,651	$25,363	29 %
Gross margins		*As Adjusted				*As Adjusted		
Software subscriptions	82 %	81 %			82 %	81 %		
Other	28 %	24 %			23 %	17 %		
Gross margin %	77 %	76 %			77 %	76 %		

Cost of software subscriptions revenues. Cost of software subscriptions revenues increased by $5.0 million, or 22%, for the three months ended September 30, 2018, as compared to the respective period of the prior year. Primary drivers of the increase were increases in third-party costs to support our products of $3.1 million, headcount and personnel related costs of $0.9 million, and overhead costs to support our products of $0.5 million.

Cost of software subscriptions revenues increased by $14.2 million, or 22%, for the nine months ended September 30, 2018 as compared to the respective period of the prior year. Primary drivers of the increase were increases in third-party costs to support our products of $8.1 million, headcount and personnel related costs of $3.6 million, and overhead costs to support our products of $2.1 million.

The increase 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 $3.4 million, or 44%, for the three months ended September 30, 2018 as compared to the respective period of the prior year. This was primarily due to the increase in personnel costs of $1.3 million, the cost of product sales of $1.1 million, and professional services of $0.7 million. The increase in the cost of professional services was due to an increase in revenues for implementation services.

Cost of other revenues increased by $11.1 million, or 49%, for the nine months ended September 30, 2018 as compared to the respective period of the prior year. This was primarily due to the increase in the cost of product sales of $4.8 million, personnel costs

of $3.3 million, professional services of $2.2 million, and overhead costs $0.5 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 77% for both the three months ended September 30, 2018 and 2017, and was 76% for both the nine months ended September 30, 2018 and 2017. We expect gross margin to remain fairly consistent in the future.

Software subscription revenues gross margin improved to 82% from 81% in both the three and nine months ended September 30, 2018, as compared to the respective periods in the prior year, primarily due to economies of scale obtained in our infrastructure, which includes transport costs and customer support expenses. We expect our software subscription revenues gross margin to remain relatively consistent in the future.

The gross margin for other revenues improved to 28% from 24%, and to 23% from 17%, in the three and nine months ended September 30, 2018, respectively, compared to the respective periods in the prior year. The increase in gross margin for other revenues was primarily due to improved savings for phones.

Research and Development

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in thousands, except percentages)	2018	2017	$ Change	% Change	2018	2017	$ Change	% Change
Research and development	$26,347	$19,082	$7,265	38 %	$73,812	$54,786	$19,026	35 %
Percentage of total revenues	15 %	15 %			15 %	15 %		

Research and development expenses increased by $7.3 million, or 38%, for the three months ended September 30, 2018 as compared to the respective period of the prior year primarily due to increases in personnel costs of $5.6 million, overhead costs to support our research and development efforts of $1.0 million, and professional fees of $0.2 million. The increase in personnel cost was primarily driven by headcount growth and higher share-based compensation expense of $1.5 million.

Research and development expenses increased by $19.0 million, or 35%, for the nine months ended September 30, 2018 as compared to the respective period of the prior year primarily due to increases in personnel costs of $15.1 million, overhead costs to support our research and development efforts of $2.7 million, and professional fees of $0.7 million. The increase in personnel cost was primarily driven by headcount growth and higher share-based compensation expense of $4.3 million.

The increases for the three and nine months ended September 30, 2018 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

(in thousands, except percentages)	Three Months Ended September 30, 2018	2017 *As Adjusted	$ Change	% Change	Nine Months Ended September 30, 2018	2017 *As Adjusted	$ Change	% Change
Sales and marketing	$86,279	$61,605	$24,674	40 %	$237,222	$172,231	$64,991	38 %
Percentage of total revenues	49 %	47 %			49 %	47 %		

Sales and marketing expenses increased by $24.7 million, or 40%, for the three months ended September 30, 2018 as compared to the respective period of the prior year primarily due to increases in personnel costs of $15.1 million, advertising and marketing costs of $5.3 million, overhead costs to support our marketing efforts of $2.4 million, and amortization of deferred sales commission costs of $2.0 million. The increase in personnel cost was primarily due to headcount growth and higher share-based compensation expense of $3.3 million, and other related costs.

Sales and marketing expenses increased by $65.0 million, or 38%, for the nine months ended September 30, 2018 as compared to the respective period of the prior year primarily due to increases in personnel costs of $36.8 million, advertising and marketing costs of $14.9 million, overhead costs to support our marketing efforts of $6.7 million, amortization of deferred sales commission

costs of $5.1 million, and professional fees of $1.5 million. The increase in personnel cost was primarily due to headcount growth and higher share-based compensation expense of $8.1 million, and other related costs.

The increases for the three and nine months ended September 30, 2018 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 to 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

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in thousands, except percentages)	2018	2017	$ Change	% Change	2018	2017	$ Change	% Change
General and administrative	$28,952	$19,073	$9,879	52 %	$73,984	$52,885	$21,099	40 %
Percentage of total revenues	17 %	14 %			16 %	15 %		

General and administrative expenses increased by $9.9 million, or 52%, for the three months ended September 30, 2018 as compared to the respective period of the prior year, primarily due to increases in personnel costs of $6.4 million, acquisition related costs of $1.7 million, and legal and professional fees of $0.9 million. The increase in personnel cost was primarily driven by headcount growth and higher share-based compensation expense of $2.5 million.

General and administrative expenses increased by $21.1 million, or 40%, for the nine months ended September 30, 2018 as compared to the respective period of the prior year, primarily due to increases in personnel costs of $16.0 million, legal and professional fees of $2.2 million, acquisition related costs of $1.7 million, and travel costs of $0.7 million. The increase in personnel cost was primarily driven by headcount growth and higher share-based compensation expense of $5.7 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

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in thousands, except percentages)	2018	2017	$ Change	% Change	2018	2017	$ Change	% Change
Interest expense	$(4,916)	$(6)	$(4,910)	Nm	$(11,163)	$(94)	$(11,069)	Nm

Other income, net	2,533	613	1,920	(313	)%	3,944	1,313	2,631	(200	)%
Other (expense) income, net	$(2,383)	$607	$(2,990)	Nm		$(7,219)	$1,219	$(8,438)	Nm	

Nm – Not meaningful

Other income (expense), net decreased by $3.0 million for the three months ended September 30, 2018 as compared to the respective period of the prior year, and by $8.4 million for the nine months ended September 30, 2018, primarily due to an increase in interest expense resulting from the amortization of debt discount and issuance costs of our 0% convertible senior notes due 2023 (“Notes”), and foreign currency losses. This was offset by an increase in interest income on the proceeds from the issuance of our Notes.

Liquidity and Capital Resources

As of September 30, 2018 and December 31, 2017, we had $577.3 million and $181.2 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 convertible notes. We believe that our operations along with existing liquidity sources will satisfy our cash requirements for at least the next 12 months.

Generally over 65% 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 condensed 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 September 30, 2018 and December 31, 2017, we had deferred revenue of $80.0 million and $62.9 million, respectively.

In March 2018, we issued $460.0 million aggregate principal of the Notes in a private placement. As of September 30, 2018, the carrying value of our debt totaled $361.6 million relating to the Notes. The Notes contain customary financial covenants. See Note 7 of the Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q. We are in compliance with all covenants under the Notes as of September 30, 2018.

Our future capital requirements will depend on many factors, including revenue growth and costs incurred to support customer growth, international expansion, sales and marketing, research and development, 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):

	Nine Months Ended September 30,	
	2018	2017
Net cash provided by operating activities	$49,102	$30,876
Net cash used in investing activities	(44,439)	(20,788)
Net cash provided by financing activities	391,981	2,539
Effect of exchange rate changes on cash and cash equivalents	(553)	(676)
Net increase in cash and cash equivalents	$396,091	$11,951

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.

Net cash provided by operating activities was $49.1 million for the nine months ended September 30, 2018. Net cash provided by operating activities resulted from net loss of $20.5 million adjusted for non-cash items of $95.1 million,

primarily consisting of $49.4 million of share-based compensation, $17.2 million of depreciation and amortization, $14.0 million of amortization of deferred sales commission costs, $11.0 million of amortization of debt discount and issuance costs, and $2.4 million of bad debt expense, partially offset by use of cash for working capital of $25.4 million, which was primarily driven by deferred sales commission costs of $31.8 million and the timing cash receipts and pre-payments from customers and carriers and the timing of cash payments to vendors.

Net cash provided by operating activities for the nine months ended September 30, 2018 increased by $18.2 million as compared to the respective period of the prior year. The increase was driven by a change in net loss as adjusted for non-cash items of $26.4 million. This increase was partially offset by higher cash used for working capital of $8.2 million, which was due to timing of cash payments to vendors and receipt and pre-payments from customers and carriers.

Net Cash Used in Investing Activities

Net cash used in investing activities was $44.4 million for the nine months ended September 30, 2018. Our primary investing activities have consisted of capital expenditures and internal-use software of $25.7 million, that are necessary to support our increasing customer base and headcount levels in all functions of our business. It also includes the acquisition of the existing customer base of RingCentral Office@Hand solution from AT&T for $18.5 million. The remaining $1.5 million of the total $20.0 million cash paid to

AT&T was recorded in net cash provided from operating activities as prepaid expenses. As our business grows, we expect our capital expenditures to continue to increase.

Net cash used in investing activities for the nine months ended September 30, 2018 increased by $23.6 million as compared to the respective period of the prior year. The increase was primarily due to $18.5 million paid for the acquisition of the existing customer base for the RingCentral Office@Hand solution from AT&T and approximately $4.7 million of capital expenditures and capitalized internal-use software to support our business growth.

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 issuance of the Notes.

Net cash provided by financing activities was approximately $392.0 million for the nine months ended September 30, 2018, primarily driven by $449.5 million in proceeds from the issuance of the Notes net of issuance costs, and $13.6 million in proceeds from the issuance of shares in connection with our stock plans; partially offset by payments of capped call transactions and costs of $50.0 million and repurchase of Class A common stock of $15.0 million.

Net cash provided by financing activities for the nine months ended September 30, 2018 increased by $389.4 million as compared to the respective period of the prior year primarily due to the proceeds from the issuance of the Notes, net of issuance costs of $449.5 million partially offset by payments of capped call transactions and costs in connection with the issuance of the Notes of $50.0 million, repurchase of Class A common stock of $15.0 million, and a decrease of $6.1 million in proceeds from the issuance of shares in connection with our stock plans. The increase was also partially driven by repayment of debt in the prior year of $14.8 million.

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 once 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 and Commitments

Except as set forth below and in Note 8 of the Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, there were no significant changes in our commitments under contractual obligations, as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

Contingencies

There has been and may be in the future, substantial litigation in the areas in which we operate regarding intellectual property rights, including third parties claiming patent infringement. We record a provision for a liability when we believe that it is both probable that a liability has been incurred, and the amount can be reasonably estimated. Significant judgment is required to determine both probability and the estimated amount of loss. Such legal proceedings are inherently unpredictable and subject to significant uncertainties, some of which are beyond our control. Should any of these estimates and assumptions change or prove to be incorrect, it could have a significant impact on our results of operations, financial position, and cash flows.

Off-balance Sheet Arrangements

During the nine months ended September 30, 2018 and 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.

Item 3. 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

The functional currency of our foreign subsidiaries is generally the local currency. Most of our sales are denominated in U.S. dollars, therefore, our net revenue is not currently subject to significant foreign currency risk. As part of our international expansion, we charge customers in British Pounds, European Union (“EU”) Euro, Canadian dollars and Australian dollars and expect to add additional currencies in the future. However, this impact has not been significant in the first three quarters of 2018. 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 United Kingdom (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. For the three and nine months ended September 30, 2018, the effect of a hypothetical 10% change in foreign currency exchange rates applicable to our business would have had an impact of approximately $0.8 million and $3.7 million, respectively, on our condensed consolidated financial statements.

Interest Rate Sensitivity

As of September 30, 2018, we had cash and cash equivalents of $515.3 million that were primarily in cash or money-market funds. We hold our cash and cash equivalents for working capital purposes. Declines in interest rates would reduce future interest income. For the three months ended September 30, 2018, the effect of a hypothetical 10% increase or decrease in overall interest rates would not materially impact our interest income. The carrying amount of our cash equivalents reasonably approximates fair values. Due to the short-term nature of our money-market funds, we believe that we do not have any material exposure to changes in the fair value of our cash equivalents as a result of

changes in interest rates.

In March 2018, we issued $460.0 million aggregate principal amount of 0.0% convertible senior notes due 2023. The Notes have zero percent fixed annual interest rates and, therefore, we do not have economic interest rate exposure on our Notes. However, the values of the Notes are exposed to interest rate risk. Generally, the fair market value of our fixed interest rate Notes will increase as interest rates fall and decrease as interest rates rise. In addition, the fair values of the Notes are affected by our stock price. The fair value of the Notes will generally increase as our common stock price increases and will generally decrease as our common stock price declines in value. Additionally, we carry the Notes at face value less unamortized discount on our balance sheet, and we present the fair value for required disclosure purposes only.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2018. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of September 30, 2018, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

Effective January 1, 2018, we adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606). Changes were made to the relevant business processes and the related control activities, including information systems, in order to monitor and maintain appropriate controls over financial reporting. There are no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the three months ended September 30, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

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.

PART II — OTHER INFORMATION

Item 1. 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 September 30, 2018, 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 ("SPS 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 SPS Lawsuit ("Petition"). The Petition remains pending. On July 8, 2016, we filed a motion to dismiss the SPS Lawsuit in its entirety, along with a collateral motion to dismiss or stay the SPS 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 district 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; asking that the dismissal be reversed and the case be returned to the district court for the Lawsuit to proceed. Our answering brief was filed on February 20, 2018; asking that the dismissal be affirmed. SPS filed its reply brief on April 12, 2018. Oral argument had been scheduled to be heard on November 16, 2018, but on October 23, 2018, the district court ordered that the case be submitted on the briefs and record without oral argument. There is no deadline for the Ninth Circuit Court of Appeals to then issue its decision. It is too early to predict the outcome of the SPS 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 condensed 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 us 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 our 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. On March 23, 2018, we filed a motion to dismiss the complaint for lack of standing and failure to sufficiently state a claim on which relief may be granted. Hurley filed her opposition brief on April 6, 2018, and we filed our reply brief on April 13, 2018. On October 4, 2018, the district court issued its memorandum and opinion order granting in part and denying in part our motion to dismiss. The court dismissed Hurley's vicarious liability claim, but allowed Hurley's TCPA claim to proceed. We filed our answer and affirmatives defenses to the second amended complaint on October 18, 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 condensed 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. (together "Uniloc") 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 condensed 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.

On August 13, 2018, we were sued by a former employee, Darren Stemple, in the United States District Court for the Northern District of California in a putative class and collective action alleging certain violations of federal and Colorado laws concerning overtime pay. The Stemple lawsuit is in its earliest stages, and it is too early to predict the outcome of this litigation. 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 condensed consolidated financial statements, we intend to contest the allegations but have accrued for an estimated loss that may occur.

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. Please see page 3 of this Quarterly Report on Form 10-Q for a discussion of the forward-looking statements that are qualified by these risk factors. 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 $9.5 million and $20.5 million for the three and nine months ended September 30, 2018, respectively, and $4.2 million for the year ended December 31, 2017, and had an accumulated deficit of $230.0 million as of September 30, 2018. 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 rapid growth and the quickly changing markets in which we operate make it difficult to evaluate our current business and future prospects, which may increase the risk of investing in our stock.

We have grown rapidly since 2009, when we introduced RingCentral Office, our current flagship product. 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;
- deliver our onsite support and professional services engagements effectively to ensure our customers' systems are successfully deployed;
- 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, resellers, and carriers, and 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, NEC Corporation, Siemens Enterprise Networks, LLC, their resellers, and others; as well as companies such as BroadSoft, Inc. (which was acquired by Cisco Systems, Inc. in February 2018) and their resellers that license their software. Mitel Networks recently announced that it will become a privately held company so that it will have additional flexibility to focus on transitioning their business to cloud solutions. They could accelerate their development and sales for such solutions and become more competitive. In addition, certain of our carriers are also our competitors. AT&T, BT and TELUS, for example, each sell our solutions 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. For example, AT&T launched a competing hosted business communications solution in 2016, and new subscriptions for our solution sold by AT&T declined to an immaterial level in 2017 and into 2018. In August 2018, the Company and AT&T entered into a revised agreement, under which AT&T will resume reselling our solutions, and we expect sales of our solutions by AT&T to increase as a result, but there can be no guarantee that AT&T will not cease reselling our solutions in the future. We also face competition from other cloud companies such as 8x8, Inc., Amazon.com, Inc.(with its Connect and Chime products), 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., Twilio, Inc., Vonage Holdings Corp., West Corporation, and Zoom Video Communications, Inc., which recently announced a voice solution. Established communications providers, such as AT&T, Verizon Communications Inc., Sprint Corporation 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, compete with us in business communications and currently, or may in the future, develop and/or host their own cloud solutions. We may also face competition from other large Internet companies, such as Alphabet Inc. (Google Voice), 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. We also compete against providers of communications platform as a service solutions and messaging software platforms with APIs such as Twilio, Nexmo and Slack, on which customers can build diverse solutions by integrating cloud communications into business applications. These vendors leverage free, and usage and user based paid services that over time could result in disincentives for customers to switch to RingCentral. In order to compete, we must successfully enlist developers to write applications for our marketplace and ensure that these applications have high quality, customer appeal and value. Efforts to compete with these application marketplaces may increase our cost of revenue and lower our operating margins. In addition, in 2016 we began selling a contact center solution. We face competition with respect to this solution from contact center and customer relationship management providers such as Amazon.com, Inc., Aspect Software, Inc., Avaya Inc., Five9, Inc., Genesys Telecommunications Laboratories, Inc., Serenova, LLC, Talkdesk, Inc., NewVoiceMedia, and Salesforce.com, Inc.

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. Demand for our platform is also sensitive to price. Many factors, including our marketing, user acquisition and technology costs, and our current and future competitors' pricing and marketing strategies, can significantly affect our pricing strategies. Our competitors 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, or offering alternative pricing models, such as "freemium" pricing, in which a basic offering is provided for free with advanced features provided for a fee, on the services they offer. 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., Bandwidth.com, Inc., Inteliquent, Inc. and Verizon Communications, Inc. in North America, Iristel Inc. and Comwave Networks Inc. in Canada, 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, Inc. ("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, carriers, 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 three data center hosting facilities located in northern California, northern Virginia, and Chicago, Illinois, 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 and we serve the customers of Dimelo SA ("Dimelo")'s digital customer engagement platform from a third-party data center hosting facility in Paris, France. 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. ("AWS"), and our contact center solution is hosted by NICE inContact's third party data center facilities and AWS. 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

addition of new data centers or 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 two of our 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 went into effect on June 11, 2018. 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. Moreover, a number of states are adopting or considering legislation or executive actions that would regulate the conduct of broadband providers. We cannot predict whether the FCC order or state initiatives 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, and may require highly skilled sales and support personnel. 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, and invest in hiring and retaining highly skilled personnel, 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 our indirect sales channel 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 also sell our solutions, 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, AT&T launched a competing hosted business communications solution in 2016, and new subscriptions for our solution sold by AT&T declined to an immaterial level in 2017 and into 2018. In August 2018, the Company and AT&T entered into a revised

agreement, under which AT&T will resume reselling our solutions, and we expect sales of our solutions by AT&T to increase as a result, but there can be no guarantee that AT&T will not cease reselling our solutions in the future. If AT&T will cease reselling our solutions, our revenues and growth could be significantly and adversely affected. If we fail to maintain relationships with our resellers and carriers, fail to develop relationships with new resellers and carriers in new markets or expand the number of resellers and carriers in our network in existing markets, or fail to manage, train, or provide appropriate incentives to our existing resellers and carriers, or if our resellers and carriers 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 carriers reduce resources committed to reselling the service, our results of operations may suffer.

Recruiting and retaining qualified resellers and carriers 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 and carriers may not be willing to invest the time and resources required to train their staff to effectively market our subscriptions.

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, resellers, and carriers 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. In addition, our existing systems, processes, and controls may not prevent or detect all errors, omissions, or fraud. We may also experience difficulties in managing improvements to our systems, processes, and controls or in connection with third-party software licensed to help us with such improvements. Any future growth, particularly as we continue to expand internationally, would add complexity to our organization and require effective communication and coordination throughout our organization. Additionally, our productivity and the quality of our products and services may be adversely affected if we do not integrate and train our new employees quickly and effectively. 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.

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 event 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 malware 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, data breach 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 technology and business, and that of our employees, strategic partners, and customers, including intellectual property, proprietary business information and personally identifiable information (also called personal data) 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 movement up market, or movement into new customer segments and acquisition of larger and more recognized customers, we may become more of a target for hackers, nation states 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 weakness or vulnerability in our or our vendors' infrastructure, network or business practices, 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 weakness or vulnerability in our or our vendors' infrastructure, networks or business practices 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 strengthening our security controls or in remediating security vulnerabilities we could incur increased costs and capital expenditures and utilize employee resources to implement such measures, including potential replacements or upgrades of 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, may be new and previously unknown or little-known, or may not be detected or understood until well after such actions are conducted. 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, loss of our intellectual property, 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 information and 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. A cybersecurity breach of our partners' systems can result in similar actual or perceived impacts.

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 poor 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.

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. Also, in some instances, we have agreed to indemnify our customers, resellers, and carriers for expenses and liability resulting from claimed intellectual property infringement by our products. From time to time, we have received requests for indemnification in connection with allegations of intellectual property infringement and we may choose, or be required to, assume the defense and/or reimburse our customers and/or resellers and carriers for their expenses, settlement and/or liability. 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, or our customers and/or resellers, and carriers, 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, whether against us or our

customers, resellers, and carriers, 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, or any of our products, 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 pre-payments 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 151 issued U.S. utility patents, which expire between 2025 and 2037. We also have 41 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, resellers, or carriers, 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 ("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. In addition, Dimelo, our recently acquired digital customer engagement platform provider, is based in France. We have also recently begun selling our solutions to customers in other countries in the EU and in Australia, 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;
- changes in diplomatic and trade relationships, including tariffs and other non-tariff barriers, such as quotas and local content rules;
- tariffs imposed by the U.S. on goods from other countries and tariffs imposed by other countries on U.S. goods, including the tariffs recently implemented and additional tariffs that have been proposed by the U.S. government on various imports from China, Canada, Mexico and the EU, and by the governments of these jurisdictions on certain U.S. goods, and any other possible tariffs that may be imposed on services such as ours or the phones that we sell, the scope and duration of which, if implemented, remain uncertain;
- U.S. government trade restrictions, including those which may impose restrictions, including prohibitions, on the exportation, reexportation, sale, shipment or other transfer of programming, technology, components, and/or services to foreign persons;
- our ability to comply with the European General Data Protection Regulation (the "GDPR") and other data privacy and data protection laws, 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 referendum in favor of the U.K. leaving the EU (commonly referred to as "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 Brexit vote 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 our development operations in China;
- 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, and
- deterioration of political relations between the U.S. and Canada, the U.K. and the EU, which could have a material adverse effect on our sales and operations in these countries.

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. Following expiration of that two-year period, there will be a transition period until December 31, 2020 to allow businesses to prepare for the moment when the new post-Brexit rules between the U.K. and the EU begin. During the transition period, the U.K. will be able to strike its own trade deals, although they will not be able to come into force until January 1, 2021.

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 is in the process of 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. With only six months of the two-year negotiation period remaining, the possibility of the U.K. leaving the EU with no trade deal is looking more likely than had been predicted.

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 implemented the Data Protection Act of 2018 that implements the GDPR in U.K. domestic legislation. 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 election in the United States has resulted in significant uncertainty with respect to, and has and could further result in changes in, legislation, regulation, and government policy at the federal level, as well as the state and local levels, and the 2018 congressional elections may result in further significant uncertainty and changes. 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, Enhanced 911 ("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 ("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 II, Item 1 of this Quarterly Report on Form 10-Q 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 regarding call completion 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 Voice over Internet Protocol ("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, emergency call services, and other laws, regulations, taxes, and fees in the foreign countries where we offer our subscriptions. Any foreign regulations could impose substantial compliance costs on us, restrict our ability to compete, and impact our ability to expand our service offerings in certain markets. Moreover, the regulatory environment is constantly evolving and changes to the applicable regulations could impose additional compliance costs and require modifications to our technology and operations. Internationally, we currently offer our subscriptions in Canada, the U.K., Australia, 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, emergency call services, 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. In addition, the CRTC has mandated that all Internet voice communications providers, such as our company, implement procedures for the authentication and verification of caller ID for all calls received in Canada by March 31, 2019, and once implemented, we will be required to offer call traceability to customers for all calls. 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 ("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; responding to warrants and orders for interception and other forms of surveillance; providing access to standard caller line identification facilities without charge; 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.

In the course of providing its service, RingCentral collects, stores, and processes many types of data, including personal data. Moreover, 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 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. Failure to comply with obligations and restrictions related to data privacy and security in any jurisdiction in which we operate could subject us to lawsuits, fines, criminal penalties, statutory damages, consent decrees, injunctions, adverse publicity, and other losses that could harm our business.

Strict laws, including the GDPR, apply in connection with the collection, storage, retention, use, processing, transmission, sharing, disclosure and protection of personal information, and other customer data, collected in or exported from the EU. 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.

The GDPR, which came into force in May 2018, strengthened 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.

We have taken administrative, contractual, and other measures designed to achieve compliance with the GDPR. The measures we have taken 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-U.S. and Swiss-U.S. 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 ("Model Clauses") data export agreements, for our transfers of EU personal data to other non-EEA countries, where necessary. However, we cannot guarantee that these measures will operate free from error. Nor can we guarantee that EU enforcement bodies will find RingCentral operations in complete compliance, particularly in light of significant industry uncertainty about how EU regulators will interpret the GDPR. If we are found in non-compliance with the GDPR, we may be at risk of the penalties described above.

At present, the EU-U.S. 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-U.S. 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-U.S. Privacy Shield, brought by a French digital rights group, is still pending. Additionally, the European Parliament has issued a non-binding resolution, recommending that the European Commission suspend the Privacy Shield program absent certain U.S. reforms in advance of the European Commission's second review of the Privacy Shield program. 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 EU.

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 EU-U.S. 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 enacted legislation intended to implement the GDPR in the U.K, which commits 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. 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 solutions, 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 (the "e-Privacy Regulation"), is currently undergoing legislative scrutiny, and the European Commission intends to achieve its adoption and implementation in 2019. 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, as well as restrict the use of data related to corporations and other non-natural persons. These restrictions, if adopted, may affect our future business growth in the EU.

Other foreign jurisdictions also have currently in-effect privacy and data protection laws and regulations that may impact our growth and costs. For example, Canadian anti-spam legislation ("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 CAD 10 million, and the CRTC has begun actively enforcing the law and penalization non-compliant organizations. 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 right 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.

Similarly, in Australia, the sending of commercial electronic messages without prior consent is prohibited under Australia's Spam Act 2005 (Cth), as are various activities around the development, sale and use of software-harvested contact lists. Violations of this legislation are subject to penalties of up to AUD 2.1 million for repeat infringers, and the regulator, the Australian Communications and Media Authority (ACMA), is active in monitoring market behavior and prosecuting infringements. 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 CAD 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 on November 1, 2018, 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.

Similarly, Australia's Privacy Act 1988 (Cth) was amended in February 2018 to introduce mandatory data breach notification requirements providing that where personal information is lost or is subject to unauthorized access or disclosure, and that would be likely to lead to serious harm, then affected individuals and the Information Commissioner must be notified within 30 days. A failure to notify can result in an enforceable undertaking and penalties of up to AUD 2.1 million.

More generally, data privacy is an area of increasing public awareness and concern in Australia. In 2014, the Privacy Act was amended to introduce the 13 Australian Privacy Principles that govern the collection, storage, use and disclosure of personal information, and set out restrictions about the use of personal information for direct marketing and disclosure of personal information of Australians overseas. Under these principles, the acts of an overseas recipient of personal information are taken to be the acts of the party in Australia who disclosed the information. Non-compliance with these principles is subject to penalties of up to AUD 2.1 million.

In the United States, 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 by certain institutions. We act as a "Business Associate" through our relationships with certain customers and are 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. Additionally, we are subject to FCC regulations imposing obligations related to our

use and disclosure of certain data related our interconnected VoIP service. If we experience a data security incident, we may be required by state law or FCC regulations to notify our customers and/or law enforcement. We may also be subject to Federal Trade Commission ("FTC") enforcement actions if the FTC has reason to believe we have engaged in unfair or deceptive privacy or data security practices.

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. Violation of the FCC's privacy rules can result in large monetary forfeitures and injunctive relief. The FTC has broad authority to seek monetary redress for affected consumers and injunctive relief. In addition to federal regulators, state attorneys general (and, in some states, individual residents) are authorized to bring civil actions seeking either injunctions or damages to the extent violations implicate the privacy of state residents. Class action lawsuits are common in the event of a data breach affecting financial or other forms of sensitive information.

Additionally, California recently enacted the California Consumer Privacy Act ("CCPA"), which is sweeping legislation with some similarities to the GDPR. It is scheduled to come into effect on January 1, 2020. The CCPA was amended on September 23, 2018, but without substantial modification of its fundamental obligations. If CCPA is not further amended before the implementation date, we will be required, among other things, to make certain enhanced disclosures related to California residents regarding our use or disclosure of their personal information, allow California residents to opt-out of certain uses and disclosures of their personal information without penalty, provide Californians with other choices related to personal data in our possession, and obtain opt-in consent before engaging in certain uses of personal information relating to Californians under the age of 16. The California Attorney General would be able to seek substantial monetary penalties and injunctive relief in the event of our non-compliance with the CCPA after its effective date. The CCPA also allows for private lawsuits from Californians in the event of certain data breaches.

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 or California models.

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.

We have implemented policies and procedures to assist us in complying with applicable privacy-related laws and regulations and our contractual obligations, and will develop new policies and procedures as new legal obligations arise. However, 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.

Additionally, due to the nature of our service, we are unable to maintain complete control over data security or the implementation of measures that reduce the risk of a data security incident. For example, our customers may 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 and our user base continues to expand, 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. 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 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. In 2017, the CRTC mandated that all telecommunications service providers, including Internet voice communications providers, are to be in a position to support Next Generation 911 ("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 use third parties to deliver onsite professional services to our customers in deploying our solutions. If these vendors do not deliver timely and high quality services to our customers, our reputation could be damaged and we could lose customers. In addition, third party professional services vendors may not be available when needed, which would adversely impact our ability to deliver on our customer commitments.

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 recent acquisition of Dimelo in October 2018 and 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. and foreign 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 foreign jurisdictions. Changes in tax laws, including the U.S. federal tax legislation enacted in 2017, commonly referred to as the Tax Cuts and Jobs Act of 2017 (the "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 or 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 direct inward dialing numbers (“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 to our fulfillment agents 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 phone device suppliers and two fulfillment agents 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 and ABP Tech to configure and deliver the phones that we sell to our customers. Accordingly, we could be adversely affected if our suppliers or Westcon and ABP Tech fail to maintain competitive phones or configuration services, or fail to continue to make them available on attractive terms, or at all.

If Westcon and ABP Tech are unable to deliver phones of acceptable quality, or if there is a reduction or interruption in Westcon’s and ABP Tech’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, changes in diplomatic or trade relationships, 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 superseded nearly all prior revenue recognition guidance effective as of 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 adopted the new revenue guidance as of January 1, 2018, utilizing the full retrospective transition method. Under the new standard, we 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 has not been material. However, the most significant impact of adopting the new standard primarily related to the deferral of sales commissions, which previously were expensed as incurred and to the incremental disclosure requirements. Adoption of the new standard resulted in changes to our accounting policies for revenue recognition, trade and other receivables, and deferred commissions.

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, Our Convertible Senior Notes Due 2023 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 63% 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.

We may not have the ability to raise funds necessary to settle conversions of the convertible senior notes due 2023 in cash or to repurchase the notes upon a fundamental change, and our future debt may contain limitations on our ability to pay cash upon conversion or repurchase of the notes.

Holders of our 0% convertible senior notes due 2023 (the "Notes") will have the right to require us to repurchase all or a portion of their Notes upon the occurrence of a fundamental change before the maturity date at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus any accrued and unpaid special interest, if any, as set forth in the indenture governing the Notes. In addition, upon conversion of the Notes, unless we elect to deliver solely shares of our Class A common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the Notes being converted, as set forth in the indenture governing the Notes. Moreover, we will be required to repay the Notes in cash at their maturity unless earlier converted, redeemed or repurchased. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of the Notes surrendered therefor or pay cash

with respect to the Notes being converted or at their maturity.

In addition, our ability to repurchase the Notes or to pay cash upon conversions of the Notes or at their maturity may be limited by law, regulatory authority or agreements governing our future indebtedness. Our failure to repurchase the Notes at a time when the repurchase is required by the indenture governing the Notes or to pay cash upon conversions of Notes or at their maturity as required by the indenture governing the Notes would constitute a default under such indenture. A default under such indenture or the fundamental change itself could also lead to a default under agreements governing our future indebtedness. Moreover, the occurrence of a fundamental change under the indenture governing the Notes could constitute an event of default under any such agreement. If the payment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness.

The capped call transactions in connection with the pricing of the Notes may affect the value of the Notes and our Class A common stock.

In connection with the pricing of the Notes, we entered into capped call transactions with the counterparties. The capped call transactions cover, subject to customary adjustments, the number of shares of our Class A common stock initially underlying the Notes. The capped call transactions are expected to offset the potential dilution as a result of conversion of the notes.

In connection with establishing their initial hedge of the capped call transactions, the counterparties or their respective affiliates entered into various derivative transactions with respect to our Class A common stock concurrently with or shortly after the pricing of the Notes, including with certain investors in the Notes.

In addition, the counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our Class A common stock and/or purchasing or selling our Class A common stock or other securities of ours in secondary market transactions at any time prior to the maturity of the Notes (and are likely to do so on each exercise date of the capped call transactions). This activity could also cause or prevent an increase or a decrease in the market price of our Class A common stock.

We do not make any representation or prediction as to the direction or magnitude of any potential effect that the transactions described above may have on the price of the Notes or the shares of our Class A common stock. In addition, we do not make any representation that these transactions will not be discontinued without notice.

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

None.

Item 3. Default Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits.

The exhibits listed in the accompanying Exhibit Index are filed or incorporated by reference as part of this Quarterly Report on Form 10-Q.

EXHIBIT

INDEX

Exhibit Number	Description	Incorporated by Reference From Form	Incorporated by Reference From Exhibit Number	Date Filed
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.	Filed herewith		
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.	Filed herewith		
32.1*	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act.	Furnished herewith		
32.2*	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act.	Furnished herewith		
101.INS	XBRL Instance Document	Filed herewith		
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith		
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith		
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith		
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith		
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith		

* The certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. Such certifications will not be deemed to be incorporated by reference into any filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates it by reference.

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SIGNATURES

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

RingCentral, Inc.

Date: November 8, 2018 By: /s/ Mitesh Dhruv
Mitesh Dhruv
Chief Financial Officer

(Principal Financial and Accounting Officer)