# Section 1: 10-Q (10-Q)

# 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 June 30, 2017**

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

Indicate by check mark 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 | ☐ (do not check if a smaller reporting company) | Smaller reporting company | ☐ |
| Emerging growth company | ☐ | | |

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

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

As of August 2, 2017, there were 63,899,687 shares of Class A Common Stock issued and outstanding and 12,733,998 shares of Class B Common Stock issued and outstanding.

TABLE OF CONTENTS

## 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 titled "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 negatives of those terms. Forward-looking statements include, but are not limited to, statements about:

- our progress against short term and long term goals;
- our future financial performance;
- our anticipated growth, growth strategies and our ability to effectively manage that growth and effect these strategies;
- our success in the enterprise market;
- our success with our carrier partners;
- 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 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 clients;
- 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)**

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 167,015 | $ 160,355 |
| Accounts receivable, net | 33,264 | 30,243 |
| Prepaid expenses and other current assets | 17,936 | 15,313 |
| **Total current assets** | 218,215 | 205,911 |
| Property and equipment, net | 36,613 | 31,994 |
| Goodwill | 9,393 | 9,393 |
| Acquired intangibles, net | 1,763 | 2,244 |
| Other assets | 2,633 | 3,087 |
| **Total assets** | $ 268,617 | $ 252,629 |
| **Liabilities and Stockholders' Equity** | | |
| **Current liabilities** | | |
| Accounts payable | $ 5,556 | $ 7,810 |
| Accrued liabilities | 49,720 | 48,322 |
| Current portion of capital lease obligation | — | 181 |
| Current portion of long-term debt | — | 14,528 |
| Deferred revenue | 53,367 | 45,159 |
| **Total current liabilities** | 108,643 | 116,000 |
| Long-term debt | — | 312 |
| Sales tax liability | 3,077 | 3,077 |
| Other long-term liabilities | 3,175 | 3,199 |
| **Total liabilities** | 114,895 | 122,588 |
| Commitments and contingencies (Note 8) | | |
| **Stockholders' equity** | | |
| Common stock | 8 | 7 |
| Additional paid-in capital | 404,742 | 366,800 |
| Accumulated other comprehensive income | 2,815 | 2,737 |
| Accumulated deficit | (253,843) | (239,503) |
| **Total stockholders' equity** | 153,722 | 130,041 |
| **Total liabilities and stockholders' equity** | $ 268,617 | $ 252,629 |

**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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| **Revenues** | | | | |
| Software subscriptions | $ 110,413 | $ 86,067 | $ 214,100 | $ 166,045 |
| Other | 9,023 | 5,777 | 17,127 | 12,337 |
| Total revenues | 119,436 | 91,844 | 231,227 | 178,382 |
| **Cost of revenues** | | | | |
| Software subscriptions | 21,795 | 18,173 | 42,058 | 34,896 |
| Other | 7,766 | 4,191 | 14,809 | 9,208 |
| Total cost of revenues | 29,561 | 22,364 | 56,867 | 44,104 |
| Gross profit | 89,875 | 69,480 | 174,360 | 134,278 |
| **Operating expenses** | | | | |
| Research and development | 18,617 | 16,681 | 35,704 | 31,607 |
| Sales and marketing | 60,794 | 45,662 | 119,688 | 87,490 |
| General and administrative | 18,007 | 13,441 | 33,812 | 27,465 |
| Total operating expenses | 97,418 | 75,784 | 189,204 | 146,562 |
| Loss from operations | (7,543) | (6,304) | (14,844) | (12,284) |
| **Other income (expense), net** | | | | |
| Interest expense | (9) | (193) | (88) | (409) |
| Other income (expense), net | 578 | (1,217) | 700 | (1,584) |
| Other income (expense), net | 569 | (1,410) | 612 | (1,993) |
| Loss before income taxes | (6,974) | (7,714) | (14,232) | (14,277) |
| Provision for income taxes | 57 | 57 | 108 | 107 |
| **Net loss** | $ (7,031) | $ (7,771) | $ (14,340) | $ (14,384) |
| Net loss per common share | | | | |
| Basic and diluted | $ (0.09) | $ (0.11) | $ (0.19) | $ (0.20) |
| Weighted-average number of shares used in computing net loss per share | | | | |
| Basic and diluted | 75,867 | 72,649 | 75,278 | 72,380 |

**See accompanying notes to condensed consolidated financial statements**

**RINGCENTRAL, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**
**(Unaudited, in thousands)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| **Net loss** | $ (7,031) | $ (7,771) | $ (14,340) | $ (14,384) |
| **Other comprehensive loss** | | | | |
| Foreign currency translation adjustments | 47 | 1,134 | 78 | 1,676 |
| **Comprehensive loss** | $ (6,984) | $ (6,637) | $ (14,262) | $ (12,708) |

**See accompanying notes to condensed consolidated financial statements**

**RINGCENTRAL, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Unaudited, in thousands)**

| | Six Months Ended June 30, | |
|---|---|---|
| | **2017** | **2016** |
| **Cash flows from operating activities** | | |
| Net loss | $ (14,340) | $ (14,384) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 7,842 | 6,953 |
| Share-based compensation | 19,562 | 14,214 |
| Foreign currency remeasurement (gain) loss | (463) | 1,708 |
| Provision for bad debt | 1,003 | 388 |
| Deferred income taxes | (12) | (4) |
| Other | 113 | 113 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (4,024) | (5,395) |
| Prepaid expenses and other current assets | (2,623) | (452) |
| Other assets | 501 | 131 |
| Accounts payable | (1,427) | (3,911) |
| Accrued liabilities | 3,136 | 11,492 |
| Deferred revenue | 8,208 | 5,448 |
| Other liabilities | (24) | (1,620) |
| Net cash provided by operating activities | 17,452 | 14,681 |
| **Cash flows from investing activities** | | |
| Purchases of property and equipment | (8,814) | (6,056) |
| Capitalized internal-use software | (3,488) | (961) |
| Restricted investments | 530 | — |
| Net cash used in investing activities | (11,772) | (7,017) |
| **Cash flows from financing activities** | | |
| Proceeds from issuance of stock in connection with stock plans | 17,449 | 6,168 |
| Payment of holdback from Glip acquisition | — | (1,500) |
| Taxes paid related to net share settlement of equity awards | (1,118) | — |
| Repayment of debt | (14,840) | (1,875) |
| Repayment of capital lease obligations | (181) | (177) |
| Net cash provided by financing activities | 1,310 | 2,616 |
| Effect of exchange rate changes on cash and cash equivalents | (330) | (77) |
| Net increase in cash and cash equivalents | 6,660 | 10,203 |
| **Cash and cash equivalents** | | |
| Beginning of period | 160,355 | 137,588 |
| End of period | $ 167,015 | $ 147,791 |
| **Supplemental disclosure of cash flow data** | | |
| Cash paid for interest | $ 116 | $ 407 |
| Cash paid for income taxes | $ 188 | $ 168 |
| **Non-cash investing and financing activities** | | |
| Change in liability for unvested exercised options | $ — | $ 3 |
| Equipment and capitalized internal-use software purchased and unpaid at period end | $ 1,175 | $ 1,212 |
| Issuance of common stock for achievement of Glip related matters | $ 1,760 | $ — |

**See accompanying notes to condensed consolidated financial statements**

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

### *Description of Business*

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

### *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, 2017. 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").

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, 2016.

### *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, the allowance for doubtful accounts, goodwill, share-based compensation, capitalization of internally developed software, return reserves, provision for income taxes, uncertain tax positions, loss contingencies, sales tax liabilities, and accrued liabilities. Management periodically evaluates these estimates and will make adjustments prospectively based upon the results of such periodic evaluations. Actual results could differ from these estimates.

### *Recent Accounting Pronouncements*

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

The Company continues to evaluate the potential changes from adopting the new standard on its financial statements and disclosures. The Company is in the process of implementing appropriate changes to its business processes, systems and controls to support revenue recognition and disclosures under the new standard. Based on this evaluation, the Company will adopt the requirements of the new standard in the first quarter of 2018 and anticipates using the modified retrospective transition method. Additionally, as the Company continues to assess the new standard along with industry trends and internal progress, the Company may adjust its implementation plan and methodology to use the full retrospective method accordingly.

Under the new standard, the Company expects in some cases to recognize revenue earlier for subscription plans with free periods and products sold at discounts. The impact of adopting the new standard on the Company's total revenues is not expected to be material. The Company anticipates the most significant impact of adopting the new standard primarily relates to the deferral of sales commissions due to capitalization of certain sales commissions, which previously were expensed as incurred and to the incremental disclosure requirements. Under the new standard, certain commissions will be capitalized and amortized over the expected period of benefit.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires that lessees recognize a right-of-use asset and a lease liability on the balance sheet for all leases with the exception of short-term leases. Both capital and operating leases will need to be recognized on the balance sheet. The standard is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The standard must be adopted using a modified retrospective approach for all leases that existed or are entered into after the beginning of the earliest comparative period in the financial statements. The Company is currently evaluating the timing of adoption and the impact that the standard will have on its consolidated financial statements and related disclosures.

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

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

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

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

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

***Reclassification***

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

**Note 2. Agency Agreement with Westcon Group**

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

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

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

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

**Note 3. Other Revenue and Cost of Revenue**

For the three and six months ended June 30, 2017 and 2016, the majority of other revenues consisted of product revenues from sales of phones. Product revenues were $6.1 million and $3.2 million for the three months ended June 30, 2017 and 2016, respectively, and $12.2 million and $7.8 million for the six months ended June 30, 2017 and 2016. Product cost of revenues were $6.1 million and $3.7 million for the three months ended June 30, 2017 and 2016, respectively, and $12.0 million and $8.2 million for the six months ended June 30, 2017 and 2016, respectively.

**Note 4. Financial Statement Components**

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

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Cash | $ 57,237 | $ 40,908 |
| Money market funds | 109,778 | 119,447 |
| Total cash and cash equivalents | $ 167,015 | $ 160,355 |

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

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Accounts receivable | $ 29,625 | $ 25,687 |
| Unbilled accounts receivable | 4,159 | 4,990 |
| Allowance for doubtful accounts | (520) | (434) |
| Accounts receivable, net | $ 33,264 | $ 30,243 |

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

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Prepaid expenses | $ 12,554 | $ 9,780 |
| Inventory | 124 | 63 |
| Other current assets | 5,258 | 5,470 |
| Total prepaid expenses and other current assets | $ 17,936 | $ 15,313 |

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

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Computer hardware and software | $ 66,536 | $ 61,546 |
| Internal-use software development costs | 13,929 | 9,931 |
| Furniture and fixtures | 5,504 | 4,508 |
| Leasehold improvements | 4,138 | 2,596 |
| Total property and equipment | 90,107 | 78,581 |
| Less: accumulated depreciation and amortization | (53,494) | (46,587) |
| Property and equipment, net | $ 36,613 | $ 31,994 |

Accrued liabilities consisted of the following (in thousands):

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Accrued compensation and benefits | $ 14,724 | $ 14,041 |
| Accrued sales, use and telecom related taxes | 7,897 | 7,220 |
| Accrued marketing | 4,994 | 5,082 |
| Other accrued expenses | 22,105 | 21,979 |
| Total accrued liabilities | $ 49,720 | $ 48,322 |

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

| | | | June 30, 2017 | | December 31, 2016 | |
|---|---|---|---|---|---|---|
| | Estimated Lives | Cost | Accumulated Amortization | Acquired Intangibles, Net | Accumulated Amortization | Acquired Intangibles, Net |
| Customer relationships | 2 years | $ 840 | $ 840 | — | $ 660 | $ 180 |
| Developed technology | 5 years | 3,010 | 1,247 | 1,763 | 946 | 2,064 |
| Total acquired intangible assets | | $ 3,850 | $ 2,087 | $ 1,763 | $ 1,606 | $ 2,244 |

Amortization expense from acquired intangible assets for the three months ended June 30, 2017 and 2016 was $0.2 million and $0.3 million, respectively. Amortization expense from acquired intangible assets was $0.5 million for both the six months ended June 30, 2017 and 2016. 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 June 30, 2017, the weighted average amortization period for developed technology was approximately 2.9 years.

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

| | |
|---|---|
| 2017 (remaining) | 301 |
| 2018 | 602 |
| 2019 | 602 |
| 2020 | 258 |
| Total estimated amortization expense | $ 1,763 |

**Note 5. Fair Value of Financial Instruments**

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

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

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

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

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

| | Balance at June 30, 2017 | (Level 1) | (Level 2) | (Level 3) |
|---|---|---|---|---|
| Cash equivalents: | | | | |
| Money market funds | $ 109,778 | $ 109,778 | $ — | $ — |

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

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

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

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

**Note 6. Business Combinations**

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

The initial fair value of the milestone based earn out liability was determined to be $2.3 million using various estimates, including probabilities of achievement and discount rates. During the year ended December 31, 2016, the Company issued 45,893 shares of the Company’s Class A common stock to settle certain milestones achieved. Based on the completion of milestones for the six months ended June 30, 2017 and the estimated probability of completing the remaining milestones, the estimated fair value of the milestones based earn out liability was $1.9 million at June 30, 2017 and December 31, 2016, which is classified as a current liability in the condensed consolidated balance sheets.

Additionally, under the terms of the acquisition, the Company may also pay up to $2.0 million in payments at the end of a two-year period to certain Glip employees, who continue to be employees of the Company, which are accounted for as a post-combination expense. The Company paid the bonus in full during the three months ended June 30, 2017. At December 31, 2016, the contingent payment liability was $1.4 million and was classified as a current liability in the condensed consolidated balance sheet.

**Note 7. Debt**

As of December 31, 2016, the Company’s debt was comprised of borrowings under the Third Amended and Restated Loan and Security Agreement dated March 30, 2015 (“SVB Agreement”), as amended, with Silicon Valley Bank (“SVB”). Under the SVB Agreement, the Company had one outstanding growth capital term loan (“2013 Term Loan”) and a revolving line of credit. On February 10, 2017, the Company paid off its 2013 Term Loan and revolving line of credit balances of $14.8 million to SVB. Upon repayment, the SVB Agreement was terminated.

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

**Note 8. Commitments and Contingencies**

***Leases***

The Company leases facilities for office space under non-cancelable operating leases for its U.S. and international locations. 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 June 30, 2017 and December 31, 2016, the Company had a long-term sales tax liability of $3.1 million at both period ends, 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 $7.0 million and $6.0 million as of June 30, 2017 and December 31, 2016, respectively, which is included in accrued liabilities in the condensed consolidated balance sheets.

***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. The results of complex legal proceedings are difficult to predict and the Company's view of these matters may change in the future as the litigation and events related thereto unfold. Legal fees are expensed in the period in which they are incurred.

**TCPA Matter**

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 (“Lawsuit”). SPS seeks statutory damages, costs, attorneys’ fees and an injunction in connection with its TCPA claim, and unspecified damages and punitive damages in connection with its conversion claim. On July 6, 2016, the Company filed a Petition for Expedited Declaratory Ruling before the Federal Communications Commission (“FCC”), requesting that the FCC issue a ruling clarifying certain portions of its regulations promulgated under TCPA at issue in the Lawsuit (“Petition”). The Petition remains pending. On July 8, 2016, the Company filed a motion to dismiss the Lawsuit in its entirety, along with a collateral motion to dismiss or stay the Lawsuit pending a ruling by the FCC on 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 must be filed by November 6, 2017, the Company’s opposition brief must be filed by December 5, 2017, and SPS’s optional reply brief must be filed within 21 days of the Company’s opposition brief. 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. 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. 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.

**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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Cost of revenues | $ 1,038 | $ 812 | $ 1,795 | $ 1,465 |
| Research and development | 2,342 | 1,857 | 4,201 | 3,495 |
| Sales and marketing | 3,926 | 2,578 | 7,451 | 4,768 |
| General and administrative | 3,321 | 2,230 | 6,115 | 4,486 |
| Total share-based compensation expense | $ 10,627 | $ 7,477 | $ 19,562 | $ 14,214 |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Options | $ 1,953 | $ 2,437 | $ 4,143 | $ 4,984 |
| Employee stock purchase plan rights | 518 | 298 | 979 | 848 |
| Restricted stock units | 8,156 | 4,742 | 14,440 | 8,382 |
| Total share-based compensation expense | $ 10,627 | $ 7,477 | $ 19,562 | $ 14,214 |

***Equity Incentive Plans***

As of June 30, 2017, a total of 10,944,284 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 June 30, 2017 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, 2016 | 7,384 | $ 10.59 | 5.3 | $ 74,065 |
| Granted | 25 | 23.99 | | |
| Exercised | (1,202) | 11.44 | | |
| Canceled/Forfeited | (326) | 16.16 | | |
| Outstanding at June 30, 2017 | 5,881 | $ 10.17 | 4.7 | $ 155,271 |
| Vested and expected to vest as of June 30, 2017 | 5,738 | $ 10.00 | 4.6 | $ 152,311 |
| Exercisable as of June 30, 2017 | 4,768 | $ 8.76 | 4.6 | $ 132,495 |

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):

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**Three Months Ended**