RingCentral Inc
Form 10-Q
May 02, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

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.)

1400 Fashion Island Boulevard, Suite 700

San Mateo, California 94404

(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 x 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 x No ¨

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	x (do not check if a smaller reporting company)	Smaller reporting company	¨

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

As of April 28, 2014, there were 28,311,061 shares of Class A Common Stock issued and outstanding and 38,675,124 shares of Class B Common Stock 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 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 negativ terms. Forward-looking statements include, but are not limited to, statements about:

our future financial performance;
our anticipated growth and growth strategies and our ability to effectively manage that growth and effect these strategies;
anticipated trends, developments and challenges in our business and in the markets in which we operate;
our ability to anticipate and adapt to future changes in our industry;
our ability to anticipate market needs and develop new and enhanced products and services 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;
the impact of competition in our industry and innovation by our competitors;
our ability to sell our products;
our ability to expand our business to larger customers and internationally;
the impact of seasonality on our business;
the impact of any failure of our solutions or solution innovations;
our reliance on our third-party service providers;
the potential effect on our business of litigation to which we may become a party;
our liquidity and working capital requirements;
the estimates and estimate methodologies used in preparing our consolidated financial statements; and
the political environment and stability in the regions in which we or our subcontractors operate

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially 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 materially 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 materially 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)

	March 31, 2014	December 31, 2013
Assets:		
Current assets:		
Cash and cash equivalents	$166,826	$116,378
Accounts receivable, net	3,873	3,045
Inventory	2,301	2,111
Prepaid expenses and other current assets	6,775	5,214
Total current assets	179,775	126,748
Property and equipment, net	19,164	16,660
Other assets	1,860	1,777
Total assets	$200,799	$145,185
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$2,706	$4,414
Accrued liabilities	29,826	20,559
Current portion of capital lease obligation	356	347
Current portion of long-term debt	9,714	9,871
Deferred revenue	18,315	16,552
Total current liabilities	60,917	51,743
Long-term debt	22,257	24,356
Sales tax liability	3,952	3,988
Capital lease obligation	125	247
Other long-term liabilities	1,786	1,336
Total liabilities	89,037	81,670
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Common stock	7	6
Additional paid-in capital	254,824	193,574
Accumulated other comprehensive loss	(410)	(310)
Accumulated deficit	(142,659)	(129,755)
Total stockholders' equity	111,762	63,515

Total liabilities and stockholders' equity	$200,799	$145,185

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 March 31,	
	2014	2013
Revenues:		
Services	$43,850	$32,273
Product	4,412	3,252
Total revenues	48,262	35,525
Cost of revenues:		
Services	13,714	10,709
Product	4,189	3,028
Total cost of revenues	17,903	13,737
Gross profit	30,359	21,788
Operating expenses:		
Research and development	9,673	7,504
Sales and marketing	23,957	17,142
General and administrative	8,967	6,550
Total operating expenses	42,597	31,196
Loss from operations	(12,238)	(9,408)
Other income (expense), net:		
Interest expense	(601)	(639)
Other income (expense), net	(37)	(203)
Other income (expense), net	(638)	(842)
Loss before provision for income taxes	(12,876)	(10,250)
Provision for income taxes	28	12
Net loss	$(12,904)	$(10,262)
Net loss per common share:		
Basic and diluted	$(0.20)	$(0.45)
Weighted-average number of shares used in computing net loss per share:		
Basic and diluted	63,800	22,631

See accompanying notes to condensed consolidated financial statements

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RINGCENTRAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited, in thousands)

	Three Months Ended March 31,	
	2014	2013
Net loss	$(12,904)	$(10,262)
Other comprehensive loss:		
Foreign currency translation adjustments, net	(100)	209
Comprehensive loss	$(13,004)	$(10,053)

See accompanying notes to condensed consolidated financial statements

RINGCENTRAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Three Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net loss	$(12,904)	$(10,262)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,119	2,156
Share-based compensation	3,177	1,114
Noncash interest expense related to debt	73	82
Loss on disposal of assets	4	—
Changes in assets and liabilities:		
Accounts receivable	(828)	(797)
Inventory	(190)	(274)
Prepaid expenses and other current assets	(1,561)	(2,965)
Other assets	(187)	160
Accounts payable	(1,353)	(1,695)
Accrued liabilities	7,009	1,413
Deferred revenue	1,763	1,073
Other liabilities	415	502
Net cash used in operating activities	(2,463)	(9,493)
Cash flows from investing activities:		
Purchases of property and equipment	(3,509)	(3,934)
Restricted investments	—	(130)
Net cash used in investing activities	(3,509)	(4,064)
Cash flows from financing activities:		
Net proceeds from secondary offering of common stock	57,167	—
Repayment of debt	(2,330)	(2,013)
Repayment of capital lease obligations	(113)	(101)
Payment of offering costs	(246)	(68)
Proceeds from exercise of stock options and common stock warrants	1,943	197
Net cash provided by (used in) financing activities	56,421	(1,985)
Effect of exchange rate changes on cash and cash equivalents	(1)	(2)
Net increase (decrease) in cash and cash equivalents	50,448	(15,544)
Cash and cash equivalents:		
Beginning of period	116,378	37,864
End of period	$166,826	$22,320
Supplemental disclosure of cash flow data:		
Cash paid for interest	$299	$357
Cash paid for income taxes	18	20
Noncash financing activities:		
Change in liability for unvested exercised options	$19	$55

Accrued liability for deferred offering costs	1,123	101
Equipment purchased and unpaid at period end	1,867	701

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 for business communications. The Company was incorporated in California in 1999 and was reincorporated in Delaware on September 26, 2013. The Company's condensed consolidated balance sheets have been prepared to reflect the reincorporation in Delaware for all periods presented. The Company is headquartered in San Mateo, California.

Public Offerings

On October 2, 2013, the Company completed an initial public offering ("IPO") and sold 8,625,000 shares of Class A common stock to the public, including the underwriters' overallotment option of 1,125,000 shares of Class A common stock and 80,000 shares of Class A common stock sold by selling stockholders, at a price of $13.00 per share. The offer and sale of all of the shares in the IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-190815) (the "Initial Registration Statement"). The Company received aggregate proceeds of $103,309,000 from the IPO, net of underwriters' discounts and commissions, but before deduction of offering expenses of approximately $4,032,000.

On March 11, 2014, the Company closed its secondary offering and sold 7,991,551 shares of Class A common stock to the public, including 791,551 of the underwriters' overallotment option and 5,200,000 shares of Class A common stock sold by selling stockholders, at a price of $21.50 per share. The offer and sale of all of the shares in the secondary offering were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-194132) (the "Secondary Registration Statement"). The Company received aggregate proceeds of $57,167,000 from the secondary offering, net of underwriters' discounts and commissions, but before deduction of offering expenses of approximately $1,055,000.

Basis of Presentation

The unaudited condensed consolidated financial statements and accompanying notes of the Company reflect all adjustments (all of which are normal and recurring in nature) that, in the opinion of management, are 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, 2014. Certain information and note disclosures normally included in annual 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 interim condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and related notes for the fiscal year ended December 31, 2013 included in the Company's fiscal 2013 Annual Report on Form 10-K. There have been no changes in the Company's significant accounting policies from those that were disclosed in the Company's audited consolidated financial statements for the fiscal year ended December 31, 2013.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The significant estimates made by management affect revenues, accounts receivable, the allowance for doubtful accounts, inventory and inventory reserves, share-based compensation, deferred revenue, return reserves, provision for income taxes, uncertain tax positions, loss contingencies, sales tax liabilities and accrued liabilities. Management periodically evaluates such estimates and they are adjusted prospectively based upon such periodic evaluation. Actual results could differ from those estimates.

RINGCENTRAL, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2013-11, Income Taxes (Topic 740) Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carry-forward, a Similar Tax Loss, or a Tax Credit Carry-forward Exists. The new guidance requires the netting of unrecognized tax benefits ("UTBs") against a deferred tax asset for a loss or other carry-forward that would apply in settlement of the uncertain tax positions. Under the new standard, UTBs will be netted against all available same-jurisdiction loss or other tax carry-forwards that would be utilized, rather than only against carry-forwards that are created by the UTBs. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The ASU should be applied prospectively to all UTBs that exist at the effective date. Retrospective application is permitted. The adoption of this guidance did not have a significant impact on the Company's consolidated financial statements.

Note 2. Financial Statement Components

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

	March 31, 2014	December 31, 2013
Cash	$37,808	$34,561
Money market funds	129,018	81,817
Total cash and cash equivalents	$166,826	$116,378

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

	March 31, 2014	December 31, 2013
Accounts receivable	$2,532	$ 2,192
Unbilled accounts receivable	1,461	992
Allowance for doubtful accounts	(120)	(139)
Accounts receivable, net	$3,873	$ 3,045

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

	March 31, 2014	December 31, 2013
Computer hardware and software	$33,911	$30,449
Internal-use software development costs	4,823	4,636
Furniture and fixtures	1,187	1,127
Leasehold improvements	1,569	859
Property and equipment, gross	41,490	37,071
Less: accumulated depreciation	(22,326)	(20,411)
Property and equipment, net	$19,164	$16,660

Accrued liabilities consisted of (in thousands):

	March 31, 2014	December 31, 2013
Accrued compensation and benefits	$7,230	$5,660
Accrued sales, use and telecom related taxes	4,643	3,967
Accrued expenses	17,172	10,168
Other	781	764
Total accrued liabilities	$29,826	$20,559

RINGCENTRAL, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 3. Fair Value of Financial Instruments

The Company carries certain financial assets consisting of money market funds and certificates of deposit at fair value on a recurring basis. 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. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1: Observable inputs which include unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: 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: 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 fair value of assets carried at fair value was determined using the following inputs (in thousands):

	Balance at March 31, 2014	(Level 1)	(Level 2)	(Level 3)
Cash equivalents:				
Money market funds	$129,018	$72,724	$56,194	$ —
Other assets:				
Certificates of deposit	$630	$—	$630	$ —

	Balance at December 31, 2013	(Level 1)	(Level 2)	(Level 3)
Cash equivalents:				
Money market funds	$ 81,817	$72,717	$9,000	$ —
Other assets:				
Certificates of deposit	$ 630	$—	$630	$ —

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.

Based on borrowing rates available to the Company for loans with similar terms and considering our credit risks, the carrying value of debt approximates fair value.

Note 4. Debt

As of March 31, 2014, the Company’s debt is comprised of borrowings under loan and security agreements, as amended, with Silicon Valley Bank (“SVB”) and TriplePoint Capital LLC (“TriplePoint”).

SVB Loan Agreement

Under the SVB agreement, the Company has two outstanding growth capital term loans (i.e.,” the 2012 term loan” and “the 2013 term loan”), and a revolving line of credit.

The 2012 term loan was borrowed in March 2012 with a principal amount of $8,000,000, which is being repaid in 36 equal monthly installments of principal and interest. Under the 2012 term loan, interest is paid monthly and accrues at a floating rate based on the Company’s option of the (i) prime rate plus a margin of 0.25% or 0.50% or (ii) adjusted LIBOR rate (based on one, two, three or six-month interest periods) plus a margin of 3.25% or 3.50%, in each case such margin being determined based on cash balances maintained with SVB. The Company elected the prime rate option and, based on cash balances maintained with SVB at March 31, 2014, the current interest rate is 3.5%. In addition, a final terminal payment equal to 0.5% of the original loan principal is due at maturity. At March 31, 2014, the outstanding principal balance of the 2012 term loan was $2,667,000.

RINGCENTRAL, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

The 2013 term loan was borrowed on December 31, 2013 with a principal amount of $15,000,000, which is being repaid in 48 equal monthly installments of principal and interest. Interest is due monthly and accrues at a floating rate based on the Company's option of an annual rate of either the (i) prime rate plus a margin of 0.75% or 1.00% or (ii) adjusted LIBOR rate (based on one, two, three or six-month interest periods) plus a margin of 3.75% or 4.00%, in each case such margin being determined based on cash balances maintained with SVB. The Company elected the prime rate option and based on cash balances maintained with SVB at March 31, 2014, the current interest rate is 4.0%. As of March 31, 2014, the outstanding principal balance of the 2013 term loan was $14,375,000.

The revolving line of credit provides for a maximum borrowing of up to $15,000,000 subject to limits based on the outstanding principal balance of the 2012 term loan and recurring subscription revenue amounts as defined in the agreement. The recurring subscription revenue requirement is not expected to limit the amount of borrowings available under the line of credit. Under the line of credit, interest is paid monthly and accrues at a floating rate based on the Company's option of the (i) prime rate plus a margin of 0.25% or 0.50% or (ii) adjusted LIBOR rate (based on one, two, three or six-month interest periods) plus a margin of 3.25% or 3.50%, in each case such margin being determined based on cash balances maintained with SVB. The Company elected the prime rate option and based on cash balances maintained with SVB at March 31, 2014, the current interest rate is 3.5%. All outstanding principal and unpaid interest must be repaid by August 13, 2015. As of March 31, 2014, the outstanding principal balance and the available borrowing capacity of the line of credit were $10,778,000 and $1,556,000, respectively.

The Company has pledged all of its assets, excluding intellectual property, as collateral to secure its obligations under the SVB agreement. The SVB agreement contains customary negative covenants that limit the Company's ability to, among other things, incur additional indebtedness, grant liens, make investments, repurchase stock, pay dividends, transfer assets and merge or consolidate. The SVB agreement also contains customary affirmative covenants, including requirements to, among other things, (i) maintain minimum cash balances representing the greater of $10,000,000 or three times the Company's quarterly cash burn rate, as defined in the agreement, and (ii) maintain minimum EBITDA levels, as determined in accordance with the agreement. The Company was in compliance with all covenants under its credit agreement with SVB as of March 31, 2014.

TriplePoint Loan Agreement

Under the equipment loan and security agreement with TriplePoint, the Company borrowed equipment term loans with aggregate principal of $9,691,000 in August 2012. The equipment term loans are being repaid in 36 equal monthly installments of principal and interest, which accrues at an annual fixed rate of 5.75%. In addition, a final terminal payment is due at maturity equal to 10% of the original loan principal. At March 31, 2014, the outstanding principal balance of the TriplePoint equipment term loan was $4,492,000.

The TriplePoint equipment loan and security agreement contains customary negative covenants that limit the Company's ability to, among other things, incur additional indebtedness, grant liens, make investments, repurchase stock, pay dividends, transfer assets and merge or consolidate. The TriplePoint equipment loan and security agreement also contain customary affirmative covenants, including requirements to, among other things, deliver audited financial statements. The Company was in compliance with all covenants under its credit agreements with TriplePoint as of March 31, 2014.

Other Debt

In April 2012, the Company borrowed $1,500,000 to finance the purchase of software. The loan was required to be repaid in three equal installments of $500,000 due in April 2012, January 2013 and January 2014. The loan was repaid in full in January 2014 in accordance with the agreement.

RINGCENTRAL, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 5. Commitments and Contingencies

Leases

The Company leases facilities for office space under noncancelable 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. In March 2014, the Company entered into a new lease for its office in Denver, Colorado for approximately 40,000 square feet for a total lease commitment of $4.7 million through 2019. The agreement contains escalating monthly rental payments over the lease term, which will be amortized to rent expense on a straight-line basis over the lease term.

Sales Tax Liability

During 2010 and 2011, the Company increased its sales and marketing activities in the U.S., which may be asserted by a number of states to create an obligation under nexus regulations to collect sales taxes on sales to customers in the state. Prior to 2012, the Company did not collect sales taxes from customers on sales in all states. In the second quarter of 2012, the Company commenced collecting and remitting sales taxes on sales in all states so a loss contingency related to sales taxes exists for sales and marketing activities in 2010, 2011 and the six months ended June 30, 2012. As of March 31, 2014 and December 31, 2013, the Company had a balance for a long-term sales tax liability of $3,952,000 and $3,988,000, respectively, 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.

A current sales tax liability for noncontingent amounts expected to be remitted in the next twelve months of $3,888,000 and $3,451,000, is included in accrued liabilities as of March 31, 2014 and December 31, 2013, respectively.

Legal Matters

The Company determines whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. The Company assesses its potential liability by analyzing specific litigation and regulatory matters using reasonably available information. The Company develops its views on estimated losses in consultation with inside and outside counsel, which involves a subjective analysis of potential results and outcomes, assuming various combinations of appropriate litigation and settlement strategies. Legal fees are expensed in the period in which they are incurred. As of March 31, 2014 and December 31, 2013, the Company did not have any accrued liabilities recorded for such loss contingencies.

Note 6. Share-Based Compensation

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

	Three Months Ended March 31,	
	2014	2013
Cost of services revenues	$296	$81
Research and development	652	275
Sales and marketing	960	179
General and administrative	1,269	579
Total share-based compensation expense	$3,177	$1,114

RINGCENTRAL, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

	Three Months Ended March 31,	
	2014	2013
Options	$2,454	$1,114
Employee stock purchase plan rights	505	—
Restricted stock units	218	—
Total share-based compensation expense	$3,177	$1,114

As of March 31, 2014 and December 31, 2013, there was approximately $22,176,000 and $22,439,000 of unrecognized share-based compensation expense, net of estimated forfeitures, related to nonvested stock option grants, which will be recognized on a straight-line basis over the remaining weighted-average vesting periods of approximately 2.8 years and 3.0 years, respectively.

Equity Incentive Plans

As of March 31, 2014 a total of 9,126,000 shares remained available for grant under the 2013 Plan. A summary of option activity under all of the Company's equity incentive plans at March 31, 2014 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, 2013	11,156	$ 5.87	7.7	$ 139,484
Granted	209	20.74		
Exercised	(1,621)	1.20		
Canceled/Forfeited	(64)	9.76		
Outstanding at March 31, 2014	9,680	$ 6.94	7.9	$ 108,552
Vested and expected to vest as of March 31, 2014	9,036	$ 6.75	7.8	$ 103,134
Exercisable as of March 31, 2014	4,112	$ 3.22	6.7	$ 61,213

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 March 31,	
	2014	2013
Weighted average grant date fair value per share	$8.66	$4.28
Total intrinsic value of options exercised	$27,396	$803

RINGCENTRAL, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

The Company estimated the fair values of each option awarded on the date of grant using the Black-Scholes option pricing model, which requires inputs including the fair value of common stock, expected term, expected volatility, risk-free interest and dividend yield. The weighted-average assumptions used in the option pricing models and the resulting grant date fair value of stock options granted to employees and non-employees in the periods presented were as follows:

	Three Months Ended March 31,	
	2014	2013
Expected term for employees (in years)	4.7	6.1
Expected term for non-employees (in years)	7.0	10.0
Risk-free interest rate	1.42 %	1.15 %
Expected volatility	48 %	55 %
Expected dividend rate	0 %	0 %

On January 29, 2014, the Compensation Committee of the Board of Directors approved an amendment to decrease the contractual term of all equity awards issued from the 2013 Plan from 10 years to 7 years for all awards granted after January 29, 2014.

Employee Stock Purchase Plan

The ESPP allows eligible employees to purchase shares of the Class A common stock at a discount through payroll deductions of up to the lesser of 15% of their eligible compensation or $25,000 per calendar year, at not less than 90% of the fair market value, as defined in the ESPP, subject to any plan limitations. A participant may purchase a maximum of 3,000 shares during an offering period. The offering period starts on the first trading day on or after May 11th and November 11th of each year, except that the first offering period commenced on the first trading day following the effective date of the Company's Initial Registration Statement, and the offering period ends six months after the beginning of the offering period, on the last trading day on or after May 10th and November 10th of each year. At the end of the offering period, the purchase price is set at the lower of: (i) the fair value of the Company's common stock at the beginning of the six month offering period, and (ii) the fair value of the Company's common stock at the end of the six month offering period. At March 31, 2014, a total of 1,872,000 shares were available for issuance under the ESPP.

Restricted Stock Units

For the three months ended March 31, 2014, we issued 254,300 restricted stock units of Class A common stock under the 2013 Plan with a weighted average grant date fair value of $20.80 per share. As of March 31, 2014, there was a total of $5,915,000 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 3.8 years.

Note 7. Concentrations

Revenue by geographic location is based on the billing address of the customer. More than 90% of the Company's revenue is from the United States during the three months ended March 31, 2014 and 2013. Property and equipment by geographic location is based on the location of the legal entity that owns the asset. At March 31, 2014 and December 31, 2013, more than 88% and 84%, respectively, of the Company's property and equipment was located in the United States, with no single country outside the United States representing more than 10% of property and equipment.

Note 8. Income Taxes

The provision for income taxes for the three months ended March 31, 2014 and 2013, was $28,000 and $12,000, respectively. The provision for income taxes consisted primarily of foreign income taxes.

For the three months ended March 31, 2014 and 2013, the provision for income taxes differed from the statutory amount primarily due to state and foreign taxes currently payable, and the Company realized no benefit for current year losses due to maintaining a full valuation allowance against the U.S. and foreign net deferred tax assets.

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Notes to Condensed Consolidated Financial Statements (Unaudited)

The realization of tax benefits of 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 domestic and foreign net deferred tax assets as of March 31, 2014 and December 31, 2013. The Company intends to maintain the remaining valuation allowance until sufficient positive evidence exists to support a reversal of, or decrease in, the valuation allowance.

During the three months ended March 31, 2014, there have been no material changes to the total amount of unrecognized tax benefits.

Note 9. Basic and Diluted Net Loss Per Share

Basic net loss per share is computed by dividing the net loss by the weighted-average number of shares of common stock outstanding during the period, less the weighted-average unvested common stock subject to repurchase or forfeiture as they are not deemed to be issued for accounting purposes. Diluted net loss per share is computed by giving effect to all potential shares of common stock, including preferred stock, warrants to exercise common and preferred stock and stock options, to the extent they are dilutive. Upon the effectiveness of the Initial Registration Statement and the filing of its Certificate of Incorporation in Delaware on September 26, 2013, all outstanding preferred stock and warrants to purchase preferred stock were converted to common stock and warrants to purchase common stock, respectively. For the three months ended March 31, 2014 and 2013, all such common stock equivalents have been excluded from diluted net loss per share as the effect to net loss per share would be anti-dilutive.

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

	Three Months Ended March 31,	
	2014	2013
Numerator		