

RingCentral Inc
Form 10-K
February 27, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014

OR

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

For transition period from _____ to _____

Commission File Number: 001-36089

RingCentral, Inc.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

94-3322844
(I.R.S. Employer
Identification Number)

1400 Fashion Island Boulevard, Suite 700

San Mateo, California 94404

(Address of principal executive offices)

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(650) 472-4100

(Registrant's telephone number, including area code)

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

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

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

None

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

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

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

The aggregate market value of voting stock held by non-affiliates of the Registrant on June 30, 2014, based on the closing price of \$15.13 for shares of the Registrant's common stock as reported by the New York Stock Exchange, was

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approximately \$617 million. Shares of common stock held by each executive officer, director, and their affiliated holders have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 23, 2015, there were 52,320,814 shares of Class A common stock and 16,437,570 shares of Class B common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Information required in response to Part III of Form 10-K (Items 10, 11, 12, 13 and 14) is hereby incorporated by reference to portions of the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held in 2015. Such Proxy Statement will be filed by the Registrant with the Securities and Exchange Commission no later than 120 days after the end of the Registrant's fiscal year ended December 31, 2014.

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PART I.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements that are based on our management's beliefs and assumptions and on information currently available to our management. Forward-looking statements include all statements that are not historical facts and can be identified by terms such as "anticipates," "believes," "could," "seeks," "estimates," "expects," "intends," "may," "plans," "potential," "predicts", "projects," "should," "will," "would" or similar expressions and the negatives of those 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;
- maintaining and expanding our distribution channels, including our network of sales agents and resellers;
- 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 medium-sized and larger customers 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 service providers;
- the potential effect on our business of litigation to which we may become a party;
- our liquidity and working capital requirements;
- our capital expenditure projections;
- 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 Annual Report on Form 10-K. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our management's beliefs and assumptions only as of the date of this Annual Report on Form 10-K. You should read this Annual Report on Form 10-K completely and with the understanding that our actual future results may be 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.

ITEM 1. BUSINESS

Overview

We are a leading provider of software-as-a-service, or SaaS, solutions for the way employees communicate in business. We believe that our innovative, cloud-based approach disrupts the large market for business communications solutions by providing flexible and cost-effective services that support distributed workforces, mobile employees and the proliferation of “bring-your-own” communications devices.

Traditionally, business communications has consisted of a series of inflexible, expensive, and disparate systems: on-premise hardware based private branch exchanges, or PBX systems, which are still prevalent in businesses today. The emergence of the cloud and the SaaS business model, combined with the proliferation of smart phones and tablets as well as the corresponding new paradigms in user experiences, is enabling a revolution in how people communicate. We believe RingCentral is poised to benefit from this structural shift. RingCentral’s cloud communications platform is designed from the ground-up, specifically for today’s dispersed and mobile workforce. We are integrating the ways employees communicate—voice calls through mobile and desktop devices, text messaging, and audio, video and web conferencing—from a single, easy-to-use carrier-grade SaaS platform. Further, we are developing application programming interfaces (API’s) to integrate our platform with other cloud solutions to better reflect the way we work today. By doing this in a unified fashion, we also substantially reduce the time to implement and total cost of ownership for our customers. Our solution provides a compelling value proposition in not only lowering both up-front and total overall costs, but also improving employee productivity by enabling businesses to tie together all of their locations and mobile employees under the umbrella of a single, easy to use cloud-based solution.

Our solutions have been developed with a mobile-centric approach and can be configured, managed and used from a smartphone or tablet. We have designed our user interfaces to be intuitive and easy to use for both administrators and end-users. We believe that we can provide substantial savings to our customers because our subscriptions do not require the significant upfront investment in on-premise infrastructure hardware or ongoing maintenance costs commonly associated with on-premise systems. Our solutions generally use existing broadband connections. We design our solutions to be delivered to our customers with high reliability and quality of service using our proprietary high-availability and scalable infrastructure. We have a differentiated business model that reduces the time and cost to purchase, activate and begin using our subscriptions.

We currently offer three products: RingCentral Office, RingCentral Professional, and RingCentral Fax. RingCentral Office is our flagship product, which we sell in three editions: Standard, Premium and Enterprise. Our Standard Edition of RingCentral Office includes call management, mobile applications, voice, business SMS, business analytics and reporting, audio, video, and web conferencing capabilities, and integration with other cloud-based business applications such as Box, Dropbox, Google for Work and Microsoft Office and Outlook. Our Premium and Enterprise Editions include the Standard Edition functionality together with additional software integrations with other cloud-based business applications such as Salesforce CRM, Zendesk and Desk.com, high-definition voice, more advanced call routing for our larger customers with multiple business units, automatic call recording. All editions also vary in the number of included toll-free minutes and number of concurrent video and web conference meeting attendees. RingCentral Professional is primarily an inbound call routing subscription with additional text and fax capabilities targeting smaller deployments, and RingCentral FAX is an Internet fax subscription that permits sending and receiving faxes over the Internet.

We primarily generate revenues by selling subscriptions for our cloud-based services. We focus on acquiring and retaining our customers and increasing their spending with us through adding additional users, upselling current customers to premium subscription editions, and providing additional features and functionality. We market and sell our subscriptions directly, through both our website and inside sales teams, as well as indirectly through a network of over 2,200 sales agents and resellers, including AT&T, which we refer to collectively as resellers. In addition to AT&T, we also signed agreements with TELUS in Canada and British Telecom in the United Kingdom as resellers of our cloud solutions.

We have a diverse and growing customer base across a wide range of industries, including advertising, consulting, finance, healthcare, legal, real estate, retail and technology.

Our Solutions

Our cloud-based business communications solutions provide a single user identity across multiple locations and devices, including smartphones, tablets, PCs and desk phones, and allow for communication across multiple channels, including voice, text, HD video and web conferencing and fax. Our proprietary solutions enable a more productive and dynamic workforce, and have been architected using industry standards to meet modern business communications requirements, including workforce mobility, “bring-your-own” communications device environments and multiple communications methods.

Our solutions are delivered using a high-availability and, scalable infrastructure and are designed for easy self-service activation, provisioning and management with minimal technical expertise or training required. Our solutions scale easily and rapidly, allowing our customers to add new users regardless of where they are located. They are generally affordable, requiring little to no upfront infrastructure hardware costs or ongoing maintenance and upgrade costs commonly associated with on-premise systems. RingCentral Office, our flagship offering, is a multi-user, enterprise-grade communications solution. We also offer RingCentral Professional, primarily an inbound call routing subscription with additional text and fax capabilities targeting smaller deployments, and RingCentral Fax, an Internet fax subscription that permits sending and receiving faxes over the Internet.

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

- **Location Independence.** Our cloud-based solution is designed to be location independent. We seamlessly connect distributed and mobile users, enabling employees to communicate with a single identity whether working from a central location, a branch office, on the road, or at home.
- **Device Independence.** Our solution is designed to work with a broad range of devices, including smartphones, tablets, PCs and desk phones, enabling businesses to successfully implement a “bring-your-own” communications device strategy.
- **Instant Activation; Easy Account Management.** Our solutions are designed for rapid deployment and ease of management. Our simple and intuitive graphical user interfaces allow administrators and users to set up and manage their business communications system with little or no IT expertise, training or dedicated staffing. Our solutions work with users’ existing smartphones, tablets, PCs and desk phones. Additionally, if a customer desires new desk phones, we also sell pre-configured, Plug&Ring-ready phones that can be easily connected to the customer’s existing broadband service.
- **Scalability.** Our cloud-based solutions scale easily and efficiently with the growth of our customers. Customers can add users, regardless of their location, without having to purchase additional infrastructure hardware or software upgrades.
- **Lower Cost of Ownership.** We believe that our customers experience significantly lower cost of ownership compared to legacy on-premise systems. Using our cloud-based solutions, our customers can avoid the significant upfront costs of infrastructure hardware, software, ongoing maintenance and upgrade costs, and the need for dedicated and trained IT personnel to support these systems.
- **Seamless and Intuitive Integration with Other Cloud-Based Applications.** Cloud-based applications are proliferating within businesses of all sizes. Integration of these cloud-based business applications with legacy on-premise systems is typically complex and expensive, which limits the ability of businesses to leverage cloud-based applications. Our platform provides seamless and intuitive integration with multiple popular cloud-based business applications such as Salesforce CRM and Zendesk.

Our Products

Our products are RingCentral Office, RingCentral Professional and RingCentral Fax which we sell as monthly subscriptions to our customers. RingCentral Office is our most comprehensive solution and provides our full suite of features and functionality for businesses, while RingCentral Professional and RingCentral Fax deliver subsets of RingCentral Office’s features and functionality.

RingCentral Office. RingCentral Office, our flagship product, is a multi-location, multi-user, enterprise-grade communications solution that enables employees to communicate via different channels and on multiple devices. This

subscription is designed primarily for businesses that require a communications solution, regardless of location, type of device, expertise, size or budget. Businesses are able to seamlessly connect users working in multiple office locations on smartphones, tablets, PCs and desk phones. We sell RingCentral Office in three editions: Standard, Premium and Enterprise. Our Standard Edition of RingCentral Office includes call management, mobile applications, voice, business SMS, business analytics and reporting, audio, video, and web conferencing capabilities, and integration with other cloud-based business applications such as Box, Dropbox, Google for Work and Microsoft Office and Outlook. Our Premium and Enterprise Editions include the Standard Edition functionality together with additional software integrations with other cloud-based business applications such as Salesforce CRM, Zendesk and Desk.com, high-definition voice, more advanced call routing for our larger customers with multiple business units, automatic call recording. All editions also vary in the number of included toll-free minutes and number of concurrent video and web conference meeting attendees.

Key features of RingCentral Office include:

- **Cloud-Based Business Communications Solutions.** We offer multi-user, multi-extension, cloud-based business communications solutions that do not require installation, configuration, management or maintenance of on-premise hardware and software. Our solutions are instantly activated, and deliver a rich set of functionality across multiple locations and devices.
- **Mobile-Centric Approach.** Our solution includes smartphone and tablet mobile applications that customers can use to set up and manage company, department and user settings from anywhere. Our applications turn iOS and Android smartphones and tablets into business communication devices. Users can change their personal settings instantly and communicate via voice, text, HD video and web conferencing and fax. Personal mobile devices are fully integrated into the customer's cloud-based communication solution, using the company's numbers, and displaying one of the company's caller ID for calls made through our mobile applications.
- **Easy Set-Up and Control.** Our user interfaces have a familiar smartphone touch-screen "look and feel" and provide a consistent user experience across smartphones, tablets, PCs and desk phones, making it intuitive and easy for our customers to quickly discover and use our solution across devices. Among other capabilities, administrators can specify and modify company, department, and user settings, auto-receptionist settings, call-handling, and routing rules, and add, change, and customize users and departments.
- **Flexible Call Routing.** Our solution includes an auto-attendant to easily customize call routing for the entire company, departments, groups, or individual employees. It includes a robust suite of communication management options, including time of day, caller ID, and call queuing, and sophisticated routing rules for complex call handling for the company, departments, groups and individual employees.
- **Integrated Voice, Text, HD Video and Web Conferencing and Fax Communications with One Business Number.** By eliminating the need for multiple business numbers, users are able to easily control how, when and where they conduct their business communications through routing logic with one number. Employees can stay connected, thus increasing efficiency, productivity and responsiveness to their customers. Having one business number also enables users to keep personal mobile numbers private.
- **Cloud-based Business Application Integrations.** Our solution seamlessly integrates with other cloud-based business applications such as Salesforce CRM, Google for Work, Box, Dropbox, and Zendesk. For example, integration with Salesforce CRM brings up customer records immediately based on inbound caller IDs, resulting in increased productivity and efficiency. Additionally, users can easily fax documents directly from their cloud-based storage accounts.

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

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

Our Customers

We have a diverse and growing customer base across a wide range of industries, including advertising, consulting, finance, healthcare, legal, real estate, retail and technology. For the year ended December 31, 2014, AT&T, one of our resellers, accounted for 12% of our total revenues. For the years ended December 31, 2013 and 2012, no single customer accounted for more than 10% of our total revenues. Traditionally, we have focused our principal efforts on the market for small- and medium-sized businesses, defined by IDC as less than 1,000 employees, in the U.S., Canada and the UK. In 2014 we began targeting larger customers through our product development and sales teams, and we will continue to do so in the future. We believe that there are additional growth opportunities in international markets.

Marketing, Sales and Support

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

- **Marketing.** Our marketing efforts include SEM, SEO, affiliates, list buys, shared leads, content leads, appointment setting, radio advertising, online display advertising, billboard advertising and other forms of demand generation. We track and measure our marketing costs closely across all channels so that we can acquire customers in a cost-efficient manner.
- **Direct Sales.** We primarily sell our products and subscriptions through direct inbound and outbound sales efforts. We have direct sales representatives located in the U.S. and internationally.
- **Indirect Sales.** Our indirect sales channel consists of a network of over 2,200 resellers, including AT&T, which help broaden the adoption of our subscriptions without the need for a large direct field sales force. In addition to AT&T, we also signed agreements with TELUS in Canada and British Telecom in the United Kingdom as resellers of our cloud platform.
- **Customer Support.** While our intuitive and easy-to-use user interface serves to reduce our customers' need for support, we provide online chat and phone customer support, as well as post-sale implementation support, as an option to help customers configure and use our solution. We track and measure our customer satisfaction and our support costs closely across all channels to provide a high level of customer service in a cost-efficient manner.

Research and Development

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

Our development methodology, in combination with our SaaS delivery model, allows us to provide new and enhanced capabilities on a regular basis. Based on feedback from our customers and prospects and our review of the broader business communications and SaaS markets, we continuously develop new functionality while maintaining and enhancing our existing solution.

Our research and development expenses were \$44.6 million, \$33.4 million and \$24.5 million in fiscal 2014, 2013 and 2012, respectively.

Technology and Operations

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

We host our products and serve our customers in North America from two third-party data center facilities in San Jose, California and Vienna, Virginia, and we host our products and serve our customers in the United Kingdom from two third-party data center facilities in Amsterdam, the Netherlands and Zurich, Switzerland. Our data centers are

designed to host mission-critical computer and communications systems with redundant, fault-tolerant subsystems and compartmentalized security zones. We maintain a security program designed to ensure the security and integrity of customer data, protect against security threats or data breaches, and prevent unauthorized access to our customers' data. We limit access to on-demand servers and networks at our production and remote backup facilities.

We serve North American customers out of two Points of Presence, known as POPs, one in San Jose, California and the other in Vienna, Virginia. RingCentral subscribers are divided into Parts of Data, or PODs, each comprised of two symmetrical, synchronized units, one per POP. POPs and PODs are redundant with switchover and failover capabilities between POPs. This architecture enables us to deliver our subscriptions in a scalable and reliable manner. We can manage our customer growth by adding additional PODs and POPs into our delivery infrastructure as required. We leverage third-party network service providers, including Level 3 Communications, Inc., Bandwidth.com, Inc., Novatel Wireless, Inc. and AT&T, for network connectivity. We also obtain connectivity and network services in certain regions from our subsidiary, RCLEC, Inc.

Intellectual Property

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

Our intellectual property portfolio includes 54 issued U.S. patents, which expire between 2026 and 2033. We also have 52 patent applications pending for examination in the U.S. and 22 patent applications pending for examination in foreign jurisdictions, all of which are related to U.S. applications. In general our patents and patent applications apply to certain aspects of our SaaS and mobile applications and underlying communications infrastructure. We are also a party to various license agreements with third parties that typically grant us the right to use certain third-party technology in conjunction with our products and subscriptions.

Competition

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

- subscription features and capabilities;
- system reliability, availability and performance;
- speed and ease of activation, setup and configuration;
- ownership and control of the underlying technology;
- integration with mobile devices;
- brand awareness and recognition;
- simplicity of the pricing model; and
- total cost of ownership.

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

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

- traditional on-premise, hardware business communications providers such as Alcatel-Lucent, S.A., Avaya Inc., Cisco Systems, Inc., Mitel Networks Corporation, ShoreTel, Inc. and Siemens Enterprise Networks, LLC, any of which may now or in the future also host their solutions through the cloud, and their resellers;
- software providers such as Microsoft Corporation and Broadsoft, Inc. that generally license their software and may now or in the future also host their solutions through the cloud, and their resellers including major carriers and cable companies;
- established communications providers, such as AT&T Inc., Verizon Communications Inc. and Comcast Corporation in the United States, and TELUS and others in Canada,