BOX INC
Form 10-Q
December 14, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 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 October 31, 2015

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 001-36805

Box, Inc.

(Exact name of registrant as specified in its charter)

Delaware	20-2714444
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

900 Jefferson Ave.

Redwood City, California 94063

(Address of principal executive offices and Zip Code)

(877) 729-4269

(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 definition 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 November 30, 2015, the number of shares of the registrant’s Class A common stock outstanding was 40,999,565 and the number of shares of the registrant’s Class B common stock outstanding was 82,461,456.

TABLE OF CONTENTS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which statements involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these words or other similar terms or expressio that concern our expectations, strategy, plans or intentions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- our ability to maintain an adequate rate of revenue and billings growth;
- our business plan and our ability to effectively manage our growth;
- costs associated with defending intellectual property infringement and other claims;
- our ability to attract and retain end-customers;
- our ability to further penetrate our existing customer base;
- our ability to displace existing products in established markets;
- our ability to expand our leadership position in enterprise content management and collaboration solutions;
- our ability to timely and effectively scale and adapt our existing technology;
- our ability to innovate new products and bring them to market in a timely manner;
- our ability to expand internationally;
- the effects of increased competition in our market and our ability to compete effectively;
- the effects of seasonal trends on our operating results;
- our future financial performance, including expectations regarding our revenue, cost of revenue, operating expenses, retention rate, ability to generate positive cash flow, and ability to achieve our long-term margin objectives;
- our expectations concerning relationships with third parties;
- the attraction and retention of qualified employees and key personnel;
- our ability to maintain, protect and enhance our brand and intellectual property; and
- future acquisitions of or investments in complementary companies, products, services or technologies and our ability to successfully integrate such companies or assets.

These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in the section titled "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment, and new risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. We undertake no obligation to update publicly any forward-looking statements for any reason after the date of this Quarterly Report on Form 10-Q to conform these statements to actual results or to changes in our expectations, except as required by law.

You should read this Quarterly Report on Form 10-Q and the documents that we reference in this Quarterly Report on Form 10-Q and have filed with the SEC as exhibits to this Quarterly Report on Form 10-Q with the understanding that our actual future results, levels of activity, performance, and events and circumstances may be materially different from what we expect.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

BOX, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	October 31, 2015 (unaudited)	January 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 189,695	$ 330,436
Marketable securities	25,204	—
Accounts receivable, net of allowance of $3,815 and $3,858	64,368	54,174
Prepaid expenses, restricted cash and other current assets	21,656	12,132
Deferred commissions	9,606	9,487
Total current assets	310,529	406,229
Property and equipment, net	113,543	58,446
Intangible assets, net	5,365	6,343
Goodwill	14,301	11,242
Restricted cash	28,332	3,367
Other long-term assets	7,916	7,039
Total assets	$ 479,986	$ 492,666
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$ 28,906	$ 17,486
Accrued compensation and benefits	20,166	20,486
Accrued expenses and other current liabilities	30,587	16,862
Capital lease obligations, current	2,894	625
Deferred revenue	128,589	107,893
Deferred rent	663	2,701
Total current liabilities	211,805	166,053
Debt, non-current	40,000	40,000
Capital lease obligations, non-current	4,696	1,238
Deferred revenue, non-current	12,558	12,164
Deferred rent, non-current	37,301	3,890
Other long-term liabilities	1,739	1,192
Total liabilities	308,099	224,537

Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, par value $0.0001 per share; 100,000 shares authorized, no shares issued and outstanding as of October 31, 2015 (unaudited) and January 31, 2015, respectively	—	—
Class A common stock, par value $0.0001 per share; 1,000,000 shares authorized, 40,165 shares issued and outstanding as of October 31, 2015 (unaudited); 1,000,000 shares authorized, 14,455 shares issued and outstanding as of January 31, 2015	4	1
Class B common stock, par value $0.0001 per share; 200,000 shares authorized, 83,233 shares issued and outstanding as of October 31, 2015 (unaudited); 200,000 shares authorized, 105,200 shares issued and outstanding as of January 31, 2015 (including common stock subject to repurchase, see Note 10)	8	11
Additional paid-in capital	855,094	798,743
Treasury stock	(1,177)	(1,177)
Accumulated other comprehensive loss	(74)	(56)
Accumulated deficit	(681,968)	(529,393)
Total stockholders' equity	171,887	268,129
Total liabilities and stockholders' equity	$ 479,986	$ 492,666

See notes to condensed consolidated financial statements.

4

BOX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2015	2014	2015	2014
Revenue	$78,651	$57,048	$217,722	$153,801
Cost of revenue	23,630	12,518	61,419	32,579
Gross profit	55,021	44,530	156,303	121,222
Operating expenses:				
Research and development	26,324	17,172	75,911	48,415
Sales and marketing	63,972	55,257	178,927	152,354
General and administrative	19,757	16,855	52,904	41,276
Total operating expenses	110,053	89,284	307,742	242,045
Loss from operations	(55,032)	(44,754)	(151,439)	(120,823)
Remeasurement of redeemable convertible preferred stock warrant liability	—	(54)	—	140
Interest expenses, net	(30)	(663)	(773)	(1,450)
Other income, net	165	105	57	41
Loss before provision (benefit) for income taxes	(54,897)	(45,366)	(152,155)	(122,092)
Provision (benefit) for income taxes	220	55	420	(598)
Net loss	(55,117)	(45,421)	(152,575)	(121,494)
Accretion of redeemable convertible preferred stock	—	(5,743)	—	(7,577)
Net loss attributable to common stockholders	$(55,117)	$(51,164)	$(152,575)	$(129,071)
Net loss per common share attributable to common stockholders, basic and diluted	$(0.45)	$(3.40)	$(1.27)	$(8.94)
Weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted	121,796	15,041	120,537	14,444

See notes to condensed consolidated financial statements.

BOX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(unaudited)

	Three Months Ended October 31, 2015	Three Months Ended October 31, 2014	Nine Months Ended October 31, 2015	Nine Months Ended October 31, 2014
Net loss	$(55,117)	$(45,421)	$(152,575)	$(121,494)
Other comprehensive loss*:				
Changes in foreign currency translation adjustment	13	(16)	(15)	(21)
Net change in unrealized gains on available-for-sale investments	4	—	(3)	—
Other comprehensive loss	17	(16)	(18)	(21)
Comprehensive loss	$(55,100)	$(45,437)	$(152,593)	$(121,515)

*Tax effect was not material
See notes to condensed consolidated financial statements.

BOX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Three Months Ended October 31, 2015	Three Months Ended October 31, 2014	Nine Months Ended October 31, 2015	Nine Months Ended October 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	$(55,117)	$(45,421)	$(152,575)	$(121,494)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	9,936	7,623	28,967	19,952
Stock-based compensation expense	15,404	8,513	42,847	22,344
Amortization of deferred commissions	3,974	3,005	11,502	8,837
Remeasurement of redeemable convertible preferred stock warrant liability	—	54	—	(140)
Release of deferred tax valuation allowance	—	—	—	(825)
Other	457	113	557	426
Changes in operating assets and liabilities, net of effects of acquisitions:				
Accounts receivable	(10,321)	(3,762)	(10,194)	2,796
Deferred commissions	(3,729)	(3,737)	(11,896)	(9,686)
Prepaid expenses, restricted cash and other assets	1,565	2,020	(25,547)	(2,508)
Accounts payable	(6,989)	1,537	1,879	2,255
Accrued expenses and other liabilities	(937)	2,627	626	(3,907)
Deferred rent	17,616	(221)	21,558	2,031
Deferred revenue	10,798	8,086	21,090	10,608
Net cash used in operating activities	(17,343)	(19,563)	(71,186)	(69,311)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of marketable securities	—	—	(112,521)	—
Sales of marketable securities	63,062	—	66,911	—
Maturities of marketable securities	13,492	—	20,145	—
Purchases of property and equipment	(19,998)	(7,510)	(47,842)	(29,764)
Acquisitions and purchases of intangible assets, net of cash acquired	(53)	(100)	(271)	(202)
Net cash provided by (used in) investing activities	56,503	(7,610)	(73,578)	(29,966)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Payment of initial public offering costs	—	—	(2,172)	(2,748)
Proceeds from borrowings, net of borrowing costs	—	—	—	12,000
Principal payments on borrowings	—	(6,000)	—	(6,000)
Proceeds from issuance of redeemable convertible preferred stock,	—	(5)	—	149,614

net of issuance costs				
Proceeds from exercise of stock options, net of repurchases of early exercised stock options	2,734	746	5,148	2,851
Proceeds from issuances of common stock under employee stock purchase plan	10,282	—	10,282	—
Employee payroll taxes paid related to net share settlement of restricted stock units	(2,105)	—	(8,292)	—
Payments of capital lease obligations	(508)	—	(928)	—
Net cash provided by (used in) financing activities	10,403	(5,259)	4,038	155,717
Effect of exchange rate changes on cash and cash equivalents	13	(16)	(15)	(21)
Net increase (decrease) in cash and cash equivalents	49,576	(32,448)	(140,741)	56,419
Cash and cash equivalents, beginning of period	140,119	197,718	330,436	108,851
Cash and cash equivalents, end of period	$189,695	$165,270	$189,695	$165,270
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for interest	$297	$351	$949	$699
Cash paid for income taxes, net of tax refunds	132	50	832	157
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:				
Accretion of redeemable convertible preferred shares	$—	$5,743	$—	$7,577
Change in accrued equipment purchases	19,075	5,946	24,723	5,553
Purchases of property and equipment under capital lease	3,307	—	7,372	—
Issuance of common stock in connection with acquisitions and purchases of intangible assets	—	—	6,108	4,305
Change in unpaid deferred offering costs	—	32	(2,172)	(1,227)

See notes to condensed consolidated financial statements.

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Description of Business and Basis of Presentation

Description of Business

We were incorporated in the state of Washington in April 2005, and were reincorporated in the state of Delaware in March 2008. We changed our name from Box.Net, Inc. to Box, Inc. in November 2011. We provide a cloud-based mobile optimized enterprise content management and collaboration platform that enables organizations of all sizes to easily and securely manage their content from anywhere, and collaborate internally and externally.

Basis of Presentation

The accompanying condensed consolidated balance sheet as of October 31, 2015 and the condensed consolidated statements of operations, the condensed consolidated statements of comprehensive loss and the condensed consolidated statements of cash flows for the three and nine months ended October 31, 2015 and 2014, respectively, are unaudited. The condensed consolidated balance sheet data as of January 31, 2015 was derived from the audited consolidated financial statements that are included in our Form 10-K for the fiscal year ended January 31, 2015, which was filed with the Securities and Exchange Commission (SEC) on March 30, 2015. The accompanying statements should be read in conjunction with the audited consolidated financial statements and related notes contained in our fiscal 2015 Form 10-K.

The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information. Accordingly, they do not include all of the financial information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of our management, the unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements in the Form 10-K, and include all adjustments necessary for the fair presentation of our balance sheet as of October 31, 2015, and our results of operations, including our comprehensive loss, and our cash flows for the three and nine months ended October 31, 2015 and 2014. All adjustments are of a normal recurring nature. The results for the three and nine months ended October 31, 2015 are not necessarily indicative of the results to be expected for any subsequent quarter or for the fiscal year ending January 31, 2016.

Prior Period Reclassifications

Certain reclassifications of prior period amounts have been made to conform to the current period presentation.

Note 2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make, on an ongoing basis, estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ from these estimates. Such estimates include, but are not limited to, the determination of the allowance for accounts receivable, fair value of acquired intangible assets and goodwill, useful lives of acquired intangible assets and property and equipment, best estimate of selling price included in multiple-deliverable revenue arrangements, fair values of stock-based awards, legal contingencies, and the provision for income taxes, including related reserves, among others. Management bases its estimates on historical experience and on various other assumptions which management believes to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

Revenue Recognition

We derive our revenue from three sources: (1) subscription revenue, which is comprised of subscription fees from customers utilizing our cloud-based enterprise content management and collaboration services and other subscription-based services, which all include routine customer support; (2) revenue from customers purchasing our premier support package; and (3) revenue from professional services such as implementing best practice use cases, project management and implementation consulting services.

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

We recognize revenue when all of the following conditions are met:

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

We typically invoice our customers at the beginning of the term, in multiyear, annual, quarterly or monthly installments. Our subscription and support contracts are typically non-cancellable and do not contain refund-type provisions.

In instances where we collect fees in advance of service delivery, revenue under the contract is deferred until we successfully deliver such services.

Subscription revenue is recognized ratably over the period of the subscription beginning once all requirements for revenue recognition have been met, including provisioning the service so that it is available to our customers. Premier support is sold together with the subscription services, and the term of the premier support is generally the same as the related subscription services arrangement. Accordingly, we recognize premier support revenue in the same manner as the associated subscription hosting service. Professional services revenue is recognized as the services are rendered for time and material contracts, and using the proportional performance method over the period the services are performed for fixed price contracts.

We assess collectability based on a number of factors, such as past collection history and creditworthiness of the customer. If management determines collectability is not reasonably assured, we defer revenue recognition until collectability becomes reasonably assured.

Our arrangements can include multiple elements which may consist of some or all of subscription services, premier support and professional services. When multiple-element arrangements exist, we evaluate whether these individual deliverables should be accounted for as separate units of accounting or one single unit of accounting.

In order to treat deliverables in a multiple-element arrangement as separate units of accounting, the delivered item or items must have standalone value upon delivery. A delivered item has standalone value to the customer when either (1) any vendor sells that item separately or (2) the customer could resell that item on a standalone basis. Our subscription services have standalone value as such services are often sold separately. Our premier support services do not have standalone value because we and other vendors do not sell premier support services separately. Our professional services have standalone value because there are other vendors which sell the same professional services separately. For new services, we assess standalone value consistently with the foregoing policy. Accordingly, we consider the separate units of accounting in our multiple deliverable arrangements to be the professional services, subscription services or a combined deliverable comprised of subscription services and premier support services. When multiple deliverables included in an arrangement are separable into different units of accounting, the arrangement consideration is allocated to the identified separate units of accounting based on their relative selling price. Multiple-element arrangement accounting guidance provides a hierarchy to use when determining the relative selling price for each unit of accounting. Vendor-specific objective evidence (VSOE) of selling price, based on the price at which the item is regularly sold by the vendor on a standalone basis, should be used if it exists. If VSOE of selling price is not available, third-party evidence (TPE) of selling price is used to establish the selling price if it exists. We have not established VSOE for our subscription services, premier support or professional services due to lack of pricing consistency, the introduction of new services and other factors. We have also concluded that third-party evidence of selling price is not a practical alternative due to differences in our service offerings compared to other parties and the availability of relevant third-party pricing information. Accordingly, we use our best estimate of selling price (BESP) to determine the relative selling price for our subscription, premier support and professional services offerings. For arrangements with multiple deliverables which can be separated into different units of accounting, we allocate the arrangement fee to the separate units of accounting based on our BESP. The amount of arrangement fee allocated is limited by contingent revenue, if any.

We determined BESP by considering our overall pricing objectives and market conditions. Significant pricing practices taken into consideration for our subscription services, which may also include premier support, and professional services, include discounting practices, the size and volume of our transactions, the customer demographic, the geographic area where services are sold, price lists, our go-to-market strategy, historical standalone sales and contract prices. The determination of BESP is made through consultation with and approval by our management, taking into consideration the go-to-market strategy. As our go-to-market strategies evolve, we may modify our pricing practices in the future, which could result in changes in relative selling prices.

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

Certain Risks and Concentrations

Our financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities, restricted cash and accounts receivable. Although we deposit our cash with multiple financial institutions, our deposits, at times, may exceed federally insured limits.

We sell to a broad range of customers. Our revenue is derived substantially from the United States across a multitude of industries. Accounts receivable are derived from the delivery of our services to customers primarily located in the United States. We accept and settle our accounts receivable using credit cards, electronic payments and checks. A majority of our lower dollar value invoices are settled by credit card on or near the date of the invoice. We do not require collateral from customers to secure accounts receivable. We maintain an allowance for accounts receivable based upon the expected collectability, which takes into consideration specific customer creditworthiness and current economic trends. We believe collections of our accounts receivable are reasonably assured based on the size, industry diversification, financial condition and past transaction history of our customers. As of October 31, 2015 and January 31, 2015, no single customer accounted for more than 10% of total accounts receivable. No single customer represented over 10% of revenue during the three and nine months ended October 31, 2015 and 2014.

We serve our customers and users from datacenter facilities operated by third parties. In order to reduce the risk of down time of our enterprise cloud content management services, we have established datacenters in various locations in the United States. We have internal procedures to restore services in the event of disaster at any one of our current datacenter facilities. Even with these procedures for disaster recovery in place, our cloud services could be significantly interrupted during the implementation of the procedures to restore services.

Geographic Locations

Revenue attributed to the United States was 81% and 80% for the three months ended October 31, 2015 and 2014, respectively, and 80% for the nine months ended October 31, 2015 and 2014. No other country outside of the United States comprised 10% or greater of our revenue for all periods presented.

Substantially all of our net assets are located in the United States. As of October 31, 2015 and January 31, 2015, property and equipment located in the United States was 99% and 98%, respectively.

Foreign Currency Translation and Transactions

The functional currency of our principal foreign subsidiaries is generally the U.S. dollar. Adjustments resulting from translating foreign functional currency financial statements into U.S. dollars for those entities that do not have U.S. dollars as their functional currency are recorded as part of a separate component of the consolidated statements of comprehensive loss. Foreign currency transaction gains and losses are included in the consolidated statements of operations for the period. All assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the exchange rate on the balance sheet date. Revenue and expenses are translated at the average exchange rate during the period. Equity transactions are translated using historical exchange rates. Translation adjustments at the balance sheet dates were not material. Transaction gains and losses recognized were not material for all periods presented.

Restricted Cash

Restricted cash is comprised of certificates of deposit and money market funds related to our credit card processing and leases.

Marketable Securities

Our marketable securities consisted of corporate paper, U.S. government agency obligations, corporate debt securities, asset-backed securities and U.S. government obligations. We classify our marketable securities as available-for-sale at the time of purchase and reevaluate such classification as of each balance sheet date. We may sell these securities at any time for use in current operations or for other purposes, such as consideration for acquisitions, even if they have not yet reached maturity. As a result, we classify our marketable securities, including securities with maturities beyond twelve months, as current assets in the accompanying consolidated balance sheets. All marketable securities are recorded at their estimated fair value. Unrealized gains and losses for available-for-sale securities are recorded in other comprehensive income (loss). We evaluate our marketable securities to assess whether those with unrealized loss positions are other than temporarily impaired. We consider impairments to be other than temporary if they are related

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

to deterioration in credit risk or if it is likely we will sell the securities before the recovery of their cost basis. Realized gains and losses and declines in value deemed to be other than temporary are determined based on the specific identification method and are reported in other income (expense), net in the consolidated statements of operations.

Recent Accounting Pronouncement

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes, which eliminates the requirement for organizations to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. The standard requires to classify all deferred tax assets and liabilities as noncurrent. We plan to adopt this standard beginning February 1, 2017, and do not believe that this adoption will have a material impact on our consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments, which eliminates the requirement to restate prior period financial statements for measurement period adjustments. The standard requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. We plan to adopt this standard beginning February 1, 2016, and do not believe that this adoption will have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09 regarding ASC Topic 606, Revenue from Contracts with Customers. The standard provides principles for recognizing revenue for the transfer of promised goods or services to customers with the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will be effective for us beginning February 1, 2019, at which time we may adopt the new standard under either the full retrospective method or the modified retrospective method. Early adoption is permitted. We are currently evaluating the impact of the adoption of this standard on our consolidated financial statements and have not determined whether the effect will be material.

Note 3. Fair Value Measurements

We define fair value as the exchange price that would be received from selling an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. We measure our financial assets and liabilities at fair value at each reporting period using a fair value hierarchy which requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's classification within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Three levels of inputs may be used to measure fair value:

- Level 1—Observable inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

- Level 2—Observable inputs are quoted prices for similar assets and liabilities in active markets or inputs other than quoted prices which are observable for the assets or liabilities, either directly or indirectly through market corroboration, for substantially the full term of the financial instruments.
- Level 3—Unobservable inputs which are supported by little or no market activity and which are significant to the fair value of the assets or liabilities. These inputs are based on our own assumptions used to measure assets and liabilities at fair value and require significant management judgment or estimation.

We measure our marketable securities and restricted cash at fair value on a recurring basis. We classify our marketable securities and restricted cash within Level 1 or Level 2 because they are valued using either quoted market prices for identical assets or inputs other than quoted prices which are directly or indirectly observable in the market, including readily-available pricing sources for the identical underlying security which may not be actively traded.

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

The following tables set forth the fair value of our financial assets measured at fair value on a recurring basis as of October 31, 2015 and January 31, 2015, using the above input categories (in thousands):

	October 31, 2015			
	Level 1	Level 2	Level 3	Fair Value
Assets				
Marketable securities:				
Corporate paper	$—	$3,095	$ —	$3,095
Corporate debt securities	—	15,867	—	15,867
Asset-backed securities	—	6,242	—	6,242
Prepaid expenses, restricted cash and other current assets:				
Certificates of deposit	—	750	—	750
Restricted cash:				
Certificates of deposit	—	27,128	—	27,128
Money market funds	1,204	—	—	1,204
Total assets measured at fair value	$1,204	$53,082	$ —	$54,286

	January 31, 2015			
	Level 1	Level 2	Level 3	Fair Value
Assets				
Restricted cash:				
Certificates of deposit	$—	$3,367	$ —	$3,367
Total assets measured at fair value	$—	$3,367	$ —	$3,367

Note 4. Marketable Securities

We held no marketable securities as of January 31, 2015. The following is a summary of our marketable securities as of October 31, 2015 (in thousands).

	October 31, 2015			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value

Corporate paper	$3,094	$ 1	—	$ 3,095
Corporate debt securities	15,869	2	(4)	15,867
Asset-backed securities	6,244	—	(2)	6,242
	$25,207	$ 3	$ (6)	$ 25,204

None of our marketable securities had been in an unrealized loss position for greater than 12 months as of October 31, 2015. Based on our evaluation of available evidence we concluded that the gross unrealized losses on our marketable securities as of October 31, 2015, are temporary in nature.

The amortized cost and estimated fair value of our marketable securities as of October 31, 2015 are shown below by contractual maturity (in thousands).

	October 31, 2015	
	Amortized Cost	Estimated Fair Value
Less than one year	$19,351	$ 19,350
Due in one to five years	5,856	5,854
	$25,207	$ 25,204

Net realized gains and losses from sales of our available-for-sale securities for the three and nine months ended October 31, 2015 were not significant.

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

Note 5. Balance Sheet Components

Prepaid Expenses, Restricted Cash and Other Current Assets

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

	October 31, 2015	January 31, 2015
Tenant incentives receivable under our new headquarters lease in Redwood City (see Note 8)	$9,815	$—
Restricted cash and other	11,841	12,132
Total prepaid expenses, restricted cash and other current assets	$21,656	$12,132

Property and Equipment, Net

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

	October 31, 2015	January 31, 2015
Servers	$103,861	$81,068
Leasehold improvements	15,107	13,400
Computer hardware and software	10,529	8,724
Furniture and fixtures	5,500	5,046
Construction in progress	57,993	4,815
Total property and equipment	192,990	113,053
Less: accumulated depreciation	(79,447)	(54,607)
Total property and equipment, net	$113,543	$58,446

As of October 31, 2015, the gross carrying amount of property and equipment includes $7.9 million of servers and $1.5 million of construction in progress acquired under capital leases, and the accumulated depreciation of property and equipment acquired under these capital leases was $1.3 million. As of January 31, 2015, the gross carrying amount of property and equipment includes $1.9 million of servers and $69,000 of construction in progress acquired under capital leases, and the accumulated depreciation of property and equipment acquired under these capital leases was $140,000.

Depreciation expense related to property and equipment was $8.5 million and $6.6 million for the three months ended October 31, 2015 and 2014, respectively, and $24.8 million and $17.4 million for the nine months ended October 31, 2015 and 2014, respectively. Included in these amounts was depreciation expense for servers acquired under capital leases in the amount of $517,000 and $1.1 million for the three and nine months ended October 31, 2015, respectively. We held no property and equipment under capital lease during the three and nine months ended October 31, 2014. Construction in progress primarily consists of leasehold improvements related to our new Redwood City headquarters and other facilities, as well as servers, networking equipment and storage infrastructure being provisioned in our third party datacenter hosting facilities. In addition, the amounts of interest capitalized to property and equipment were $291,000 and $51,000 for the three months ended October 31, 2015 and 2014, respectively, and $389,000 and $278,000 for the nine months ended October 31, 2015 and 2014, respectively.

Note 6. Acquisitions

Verold, Inc.

On May 4, 2015, for a total purchase price of $5.4 million (in our common stock), we acquired certain assets of, and hired certain employees from, Verold Inc., a privately-held technology company which has built a cloud-based 3D model viewer and editor. The acquisition has been accounted for as a business combination. Of the $5.4 million, $2.8 million was attributed to developed technology and $2.6 million to goodwill. Developed technology is being amortized on a straight-line basis over an estimated useful life of two years. Goodwill is primarily attributable to the enhancement of the Box user experience and the value of acquired personnel. Goodwill is deductible for U.S. income tax purposes. Transaction costs related to this acquisition were immaterial.

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

Results of operations for this acquisition have been included in our consolidated statements of operations since the acquisition date and were not material. Pro forma results of operations for this acquisition have not been presented because they were also not material to the consolidated results of operations.

Other Acquisitions

During the nine months ended October 31, 2015, we purchased and licensed certain assets of two other companies for an aggregate purchase price of $764,000. We accounted for these transactions as business combinations. In allocating the purchase consideration based on estimated fair values, we recorded $349,000 of developed technology and $415,000 of goodwill. Goodwill for these acquisitions is deductible for U.S. income tax purposes. Developed technology is being amortized on a straight-line basis over an estimated useful life of two years. These acquisitions are expected to enhance our Box service by leveraging the acquired companies' technologies, along with gaining access to their key talent. Aggregate transaction costs related to these acquisitions were immaterial.

Results of operations for these acquisitions have been included in our consolidated statements of operations since the acquisition dates and were not material. Pro forma results of operations for these acquisitions have not been presented because they were also not material to the consolidated results of operations.

Note 7. Goodwill and Intangible Assets

Goodwill activity is reflected in the following table (in thousands):

Balance as of January 31, 2015	$11,242
Goodwill acquired—Verold	2,644
Goodwill acquired—Other	415
Balance as of October 31, 2015	$14,301

Intangible assets consisted of the following (in thousands):

Weighted Average Useful	Gross Value	Accumulated Amortization	Net Carrying Value

	Life (1)			
October 31, 2015				
Developed technology	2.5 years	$14,273	$ (9,279)	$ 4,994
Trade name and other	6.9 years	1,201	(830)	371
Intangibles, net		$15,474	$ (10,109)	$ 5,365
January 31, 2015				
Developed technology	2.7 years	$11,124	$ (5,268)	$ 5,856
Trade name and other	6.9 years	1,201	(714)	487
Intangibles, net		$12,325	$ (5,982)	$ 6,343

(1) From the date of acquisition

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

Intangible amortization expense was $1.5 million and $1.0 million for the three months ended October 31, 2015 and 2014, respectively, and $4.1 million and $2.5 million for the nine months ended October 31, 2015 and 2014, respectively. Amortization of acquired technology is included in cost of revenue and amortization for trade names is included in general and administrative expenses in the consolidated statements of operations. As of October 31, 2015, expected amortization expense for intangible assets was as follows (in thousands):

Years ending January 31:	
Remainder of 2016	$1,470
2017	3,352
2018	519
2019	23
2020	1
	$5,365

Note 8. Commitments and Contingencies

Letters of Credit

As of October 31, 2015 and January 31, 2015, we had letters of credit in the aggregate amount of $27.7 million and $27.0 million, respectively, in connection with our facility leases. These letters of credit mature at various dates through December 1, 2018. As of October 31, 2015 and January 31, 2015, certain letters of credit are collateralized by certificates of deposit held by us in the amount of $27.7 million and $2.0 million, respectively. Refer to Note 9 for additional details.

Leases

We have entered into various non-cancellable operating lease agreements for certain of our offices and datacenters with lease periods expiring primarily between fiscal years 2016 and 2029. Certain of these arrangements have free or escalating rent payment provisions and optional renewal clauses. We are also committed to pay a portion of the actual operating expenses under certain of these lease agreements. These operating expenses are not included in the table below.

We also entered into various capital lease arrangements to obtain servers for our operations. These agreements are typically for three years. The leases are secured by the underlying leased servers.

As of October 31, 2015, future minimum lease payments under non-cancellable capital and operating leases are as follows (in thousands):

Years ending January 31:	Capital Leases	Operating Leases, net of Sublease Income
Remainder of 2016	$779	$1,601
2017	3,117	14,009
2018	3,041	19,987
2019	990	20,866
2020	—	23,795
Thereafter		193,571
Total minimum lease payments	$7,927	$273,829
Less: amount representing interest	(337)	
Present value of minimum lease payments	$7,590	

In March and April 2015, we signed subleases for three floors of our new headquarters. The 18 and 36-month subleases expire in fiscal 2018 and 2019, respectively, and non-cancellable sublease proceeds of $12.2 million are included in the table above. In addition, because our subtenants will occupy the subleased portions of our new headquarters prior to the related lease commencement date, we will incur contingent rent payments of $4.8 million, which are also included in the table above.

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

In November 2015, we signed a sublease agreement for one floor of our new headquarters. The 18-month sublease expires in fiscal 2018. Non-cancellable sublease proceeds of $2.5 million, as well as contingent rent payments of $1.5 million that we will incur because our subtenant will occupy the subleased portion of our new headquarters prior to the related lease commencement date, are not included in the table above.

We recognize rent expense under our operating leases on a straight-line basis. Rent expense totaled $6.7 million and $1.5 million, net of sublease income of $ 0 and $448,000 for the three months ended October 31, 2015 and 2014, respectively, and rent expense totaled $16.0 million and $4.5 million, net of sublease income of $294,000 and $1.3 million for the nine months ended October 31, 2015 and 2014, respectively.

We establish assets and liabilities for the present value of estimated future costs to return certain of our leased facilities to their original condition. Such assets are depreciated over the lease period into operating expense, and the recorded liabilities are accreted to the future value of the estimated restoration costs. As of October 31, 2015 and January 31, 2015, we had such asset retirement obligations in the amount of $144,000 and $135,000, respectively, which are included in other noncurrent liabilities in the consolidated balance sheets.

Purchase Obligations

As of October 31, 2015, future payments under non-cancellable contractual purchases, which relate primarily to datacenter operations and marketing activities, are as follows (in thousands):

Years ending January 31:	
Remainder of 2016	$5,077
2017	13,615
2018	4,287
	$22,979

Legal Matters

On June 5, 2013, Open Text S.A. (Open Text) filed a lawsuit against us in the U.S. District Court, Eastern District of Virginia, alleging that our core cloud software and Box Edit application infringe 12 patents of Open Text. Open Text sought preliminary and permanent injunctions against infringement, treble damages, and attorneys' fees. This case was subsequently transferred to the U.S. District Court for the Northern District of California.

On September 13, 2013, Open Text filed a motion for preliminary injunction seeking to enjoin us from providing our Box Edit feature to companies with more than 100 users. On April 9, 2014, the California court denied Open Text's motion for preliminary injunction, finding that (1) Open Text failed to meet its burden to show irreparable harm, (2) Open Text failed to show a reasonable likelihood of success on the merits of its case, and (3) we have raised a substantial question as to the validity of the patents asserted during the preliminary injunction proceedings.

On September 19, 2014, in a related action, Open Text S.A. v. Alfresco Software Ltd., et al., Case No. 13-cv-04843-JD, the Court granted the Alfresco Defendants' motion to dismiss with prejudice the asserted claims of the Dialog Patents, finding the asserted claims of the Dialog Patents patent ineligible under 35 U.S.C. § 101. On January 20, 2015, the Court entered an Order granting our motion for judgment on the pleadings as to the asserted patent claims of the Groupware Patents. The Court found that the asserted patent claims of the Groupware Patents are invalid because they claim non-patentable subject matter. As a result of the Court's January 20, 2015 order and other pretrial orders, the lawsuit was narrowed to four total claims across the three remaining File Synchronization Patents accusing the Company's Box Edit feature and Box Android application.

Trial commenced on February 2, 2015. On February 13, 2015, the jury returned a verdict, finding the asserted claims of the File Synchronization patents infringed and were not invalid. The jury awarded damages in favor of Open Text in a lump sum and fully paid-up royalty in the amount of $4.9 million. The Court found no willful infringement of the asserted claims and foreclosed Open Text's request for a permanent injunction since the jury returned a lump-sum award. On February 19, 2015, Open Text filed a notice of appeal to the United States Court of Appeals for the Federal Circuit from the Court's Order granting our motion for judgment of invalidity of the Groupware Patents. On March 9, 2015, Open Text filed a first amended notice of appeal from additional orders by the Court. On August 19, 2015, following a July 1, 2015 hearing in which portions of the jury's verdict were challenged, the Court

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

entered judgment in favor of Open Text with respect to infringement of the asserted claims of the File Synchronization patents in the amount of approximately $4.9 million plus pre-judgment interest, and with respect to validity of the asserted claims of the File Synchronization patents. The Court also entered judgment in our favor with respect to invalidity of the asserted claims of the Groupware Patents, and no willful infringement with respect to the asserted claims of the File Synchronization patents. We filed a notice of appeal on August 28, 2015, challenging a number of findings in the final judgment entered on August 19, 2015, including the jury's finding that the Synchronization Patents were infringed and not invalid.

While we intend to continue to defend the lawsuit vigorously and continue to believe we have valid defense to Open Text's claims, we considered the issuance of the verdict a recognized subsequent event that provided additional evidence about conditions that existed as of January 31, 2015. Accordingly, we accrued a liability in the amount of $4.9 million related to the legal verdict as of January 31, 2015, and recorded an expense in the amount of $3.9 million for the year ended January 31, 2015, in relation to the portion of the legal verdict amount attributable to prior periods. The portion of the legal verdict amount attributable to future periods is recorded as an asset as of January 31, 2015. This asset is being amortized over an estimated useful life of 14 months, and the amortization expense was $223,000 and $632,000 for the three and nine months ended October 31, 2015, respectively. In addition, as a result of the July 1, 2015 hearing, we deemed the claim for interest on the legal verdict amount to be probable and estimable for the first time. As such, we recorded additional expenses in the aggregate amount of $614,000 during the nine months ended October 31, 2015, in relation to the interest on the legal verdict amount.

In addition to the litigation discussed above, from time to time, we are a party to litigation and subject to claims that arise in the ordinary course of business. We investigate these claims as they arise, and accrue estimates for resolution of litigation and other contingencies when losses are probable and estimable. Although the results of litigation and claims cannot be predicted with certainty, we believe there was not at least a reasonable possibility that we had incurred a material loss with respect to such loss contingencies as of October 31, 2015 for which a reserve was not already established.

Indemnification

We include service level commitments to our customers warranting certain levels of uptime reliability and performance and permitting those customers to receive credits in the event that we fail to meet those levels. In addition, our customer contracts often include (i) specific obligations that we maintain the availability of the customer's data through our service and that we secure customer content against unauthorized access or loss, and (ii) indemnity provisions whereby we indemnify our customers for third-party claims asserted against them that result from our failure to maintain the availability of their content or securing the same from unauthorized access or loss. To date, we have not incurred any material costs as a result of such commitments.

Our arrangements generally include certain provisions for indemnifying customers against liabilities if our products or services infringe a third party's intellectual property rights. It is not possible to determine the maximum potential amount under these indemnification obligations due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. To date, we have not incurred any material costs as a result of such obligations and have not accrued any liabilities related to such obligations in the consolidated financial statements. In addition, we indemnify our officers, directors and certain key employees while they are serving in good faith in their respective capacities. To date, there have been no claims under any indemnification provisions.

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

Note 9. Debt

Line of Credit

In August 2013, we entered into a two-year $100.0 million secured revolving credit facility (August 2013 Facility). The August 2013 Facility was denominated in U.S. dollars and, depending on certain conditions, each borrowing was subject to a floating interest rate equal to the London Interbank Offer Rate (LIBOR) plus 3.0% or the Alternate Base Rate (ABR) plus 2.0%. In addition, there was a commitment fee of 0.5% on the outstanding unused commitment amount. At closing, we drew $34.0 million at 3.4% (six month LIBOR plus 3.0%) which we used to repay previous loans, as well as for other general corporate purposes. In July 2014, we drew an additional $12.0 million under the credit facility at 3.3% (six month LIBOR plus 3.0%). In September 2014, we paid down $6.0 million and amended the August 2013 Facility to reduce our borrowing capacity from $100.0 million to $75.0 million and extend the facility through August 2016. Concurrently and in conjunction with the execution of our new headquarters lease in September 2014, letters of credit in the aggregate amount of $25.0 million were issued under the August 2013 Facility. These letters of credit were subject to interest at 3.25% per annum.

In March 2015, we amended the August 2013 Facility to reduce our borrowing capacity to $60.0 million as of April 2015, and to increase certain limitations on the amount of capital asset and real estate related obligations we may incur. In connection with this amendment, the letters of credit under the August 2013 Facility were cancelled, and a new letter of credit in the amount of $25.0 million was issued by a party not affiliated with the August 2013 Facility, which was secured by a certificate of deposit in the same amount. As of October 31, 2015, the outstanding borrowings under the August 2013 Facility were $40.0 million, and our remaining borrowing capacity under the August 2013 Credit Facility was $20.0 million.

Borrowings under the August 2013 Facility were collateralized by substantially all of our assets. The August 2013 Facility also contained various covenants, including covenants related to the delivery of financial and other information, the maintenance of quarterly financial covenants, material adverse effects, as well as limitations on dispositions, mergers or consolidations and other corporate activities. As of October 31, 2015, we were in compliance with all financial covenants under the August 2013 Facility.

In December 2015, we paid in full all amounts outstanding under the August 2013 Facility, including the outstanding principal balance of $40.0 million, and terminated the August 2013 Facility and all related loan documents and collateral documents, in conjunction with entering into a new revolving credit facility with a different lender (December 2015 Facility). The December 2015 Facility provides for a revolving loan facility in the amount of up to $40.0 million maturing in December 2017.

The December 2015 Facility is denominated in U.S. dollars and, depending on certain conditions, each borrowing is subject to a floating interest rate equal to either the prime rate plus a spread of 0.25% to 2.75% or a reserve adjusted LIBOR rate (based on one, three or six-month interest periods) plus a spread of 1.25% to 3.75%. Although no minimum deposit is required for the December 2015 Facility, we are eligible for the lowest interest rate if we maintain at least $40 million in deposits with the lender. In addition, there is an annual fee of 0.2% on the total commitment amount. At closing, we drew $40.0 million at 1.82% (six month LIBOR plus 1.25%) which we used repay the outstanding principal balance under the August 2013 Facility. Borrowings under the December 2015 Facility are collateralized by substantially all of our assets in the United States. It also contains various covenants, including covenants related to the delivery of financial and other information, the maintenance of quarterly financial covenants, as well as customary limitations on dispositions, mergers or consolidations and other corporate activities.

In connection with the August 2013 Facility, we incurred interest expense of $419,000 and $379,000 during the three months ended October 31, 2015 and 2014, respectively, and $1.5 million and $1.5 million during the nine months ended October 31, 2015 and 2014, respectively. During the same periods, we capitalized $291,000 and $91,000 of interest costs during the three months ended October 31, 2015 and 2014, respectively, and $389,000 and $278,000 during the nine months ended October 31, 2015 and 2014, respectively. Interest expense also includes amortization of issuance costs, unused commitment fees and fees on letters of credit which are recognized over the related term of the borrowing.

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

Note 10. Stock-Based Compensation

2015 Equity Incentive Plan

In January 2015, our board of directors adopted the 2015 Equity Incentive Plan (2015 Plan), which became effective prior to the completion of our initial public offering (IPO). A total of 12,200,000 shares of Class A common stock was initially reserved for issuance pursuant to future awards under the 2015 Plan. Additionally, any shares subject to outstanding awards under our 2006 Equity Incentive Plan (2006 Plan) or 2011 Equity Incentive Plan (2011 Plan) that are cancelled or repurchased subsequent to the 2015 Plan's effective date will be returned to the pool of shares reserved for issuance under the 2015 Plan. Awards granted under the 2015 Plan may be (i) incentive stock options, (ii) nonstatutory stock options, (iii) restricted stock units, (iv) restricted stock awards or (v) stock appreciation rights, as determined by our board of directors at the time of grant. Options and restricted stock units generally vest 25% one year from the vesting commencement date and (a) in the case of options, 1/48th per month thereafter, and (b) in the case of restricted stock units, 1/16th per quarter thereafter. As of October 31, 2015, 13,408,455 shares were reserved for future issuance under the 2015 Plan.

2015 Employee Stock Purchase Plan

In January 2015, our board of directors adopted the 2015 Employee Stock Purchase Plan (2015 ESPP), which became effective prior to the completion of our IPO. A total of 2,500,000 shares of Class A common stock was initially reserved for issuance under the 2015 ESPP. The number of shares of our Class A common stock available for issuance under our ESPP will be increased on the first day of each fiscal year beginning in fiscal 2016, with such increase equal to the least of: (i) 2,500,000 shares; (ii) 1% of the outstanding shares of our capital stock on the first day of such fiscal year; or (iii) such other amount as our board of directors may determine. The 2015 ESPP allows eligible employees to purchase shares of our Class A common stock at a discount of up to 15% through payroll deductions of their eligible compensation, subject to any plan limitations. Except for the initial offering period, the 2015 ESPP provides for 24-month offering periods beginning March 16 and September 16 of each year, and each offering period will consist of four six-month purchase periods.

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

On each purchase date, eligible employees will purchase our stock at a price per share equal to 85% of the lesser of (1) the fair market value of our stock on the offering date or (2) the fair market value of our stock on the purchase date. In the event the price is lower on the last day of any purchase price period, in addition to using that price as the basis for that purchase period, the offering period resets and the new lower price becomes the new offering price for a new 24 month offering period. As of October 31, 2015, 2,761,742 shares were reserved for future issuance under the 2015 ESPP.

Early Exercises of Stock Options

Prior to our IPO, certain employees and directors exercised stock options prior to vesting with the approval of our board of directors. The unvested shares are subject to a repurchase right held by us at the original purchase price. Early exercises of options are not deemed to be substantive exercises for accounting purposes, and accordingly, amounts received for early exercises are initially recorded in other liabilities and are reclassified to common stock and additional paid-in capital as the underlying shares vest. As of October 31, 2015 and January 31, 2015, we had $29,000 and $286,000, respectively, in liabilities and 25,416 and 113,541, respectively, unvested shares subject to repurchase related to early exercises of stock options.

Stock Options

The following table summarizes the stock option activity under the equity incentive plans and related information:

	Shares Subject to Options Outstanding			
	Shares Subject to Outstanding Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in thousands)
Balance as of January 31, 2015	17,465,571	$ 5.67	7.80	$ 229,713
Options granted	1,898,700	15.62		
Option exercised	(1,734,155)	3.05		
Options forfeited/cancelled	(1,289,083)	8.14		
Balance as of October 31, 2015	16,341,033	$ 6.90	7.37	$ 106,264
Vested and expected to vest as of October 31, 2015	16,081,099	$ 6.83	7.35	$ 105,566
Exercisable as of October 31, 2015	9,321,360	$ 4.02	6.64	$ 82,215

The aggregate intrinsic value of options vested and expected to vest and exercisable as of October 31, 2015 is calculated based on the difference between the exercise price and the current fair value of our common stock. The aggregate intrinsic value of exercised options for the nine months ended October 31, 2015 and 2014 was $20.5 million and $16.6 million, respectively. The aggregate estimated fair value of stock options granted to employees that vested during the nine months ended October 31, 2015 and 2014 was $13.5 million and $12.6 million, respectively. The weighted-average grant date fair value of options granted to employees during the nine months ended October 31, 2015 and 2014 was $6.72 and $7.96 per share, respectively.

As of October 31, 2015, there was $34.3 million of unrecognized stock-based compensation expense related to outstanding stock options granted to employees that is expected to be recognized over a weighted-average period of 2.58 years.

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

Restricted Stock Units

The following table summarizes the restricted stock unit activity under the equity incentive plans and related information:

	Number of Restricted Stock Units Outstanding	Weighted-Average Grant Date Fair Value
Unvested balance - January 31, 2015	4,939,709	$ 15.66
Granted	5,652,733	15.83
Vested, net of shares withheld for employee payroll taxes	(728,806)	16.48
Forfeited/cancelled, including shares withheld for employee payroll taxes	(1,300,475)	16.21
Unvested balance - October 31, 2015	8,563,161	$ 15.62

As of October 31, 2015, there was $120.4 million of unrecognized stock-based compensation expense related to outstanding restricted stock units granted to employees that is expected to be recognized over a weighted-average period of 3.23 years.

Restricted Stock

The following table summarizes the restricted stock activity under the equity incentive plans and related information:

	Number of Restricted Stock Outstanding	Weighted-Average Grant Date Fair Value
Unvested balance - January 31, 2015	172,661	$ 9.60
Granted	28,864	17.54
Vested	(75,874)	12.68
Forfeited/cancelled, including shares withheld for employee payroll taxes	(47,775)	9.94
Unvested balance - October 31, 2015	77,876	$ 9.33

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As of October 31, 2015, there was $2.9 million of unrecognized stock-based compensation expense related to outstanding restricted stock granted to employees that is expected to be recognized over a weighted-average period of 1.76 years.

2015 ESPP and Other

As of October 31, 2015, there was $14.8 million of unrecognized stock-based compensation expense related to our 2015 ESPP that is expected to be recognized over the remaining term of the respective offering periods.

In addition, in connection with our fiscal 2015 acquisitions, we issued 344,667 shares of restricted stock. This restricted stock was separately authorized by our board of directors, and did not reduce the number of shares available for future issuance under our equity incentive plans. 342,187 shares of restricted stock issued outside of the equity incentive plans were outstanding as of October 31, 2015.

As of October 31, 2015, there was $2.6 million of unrecognized stock-based compensation expense related to outstanding restricted stock granted outside of the equity incentive plans that is expected to be recognized over a weighted-average period of 1.84 years.

As of October 31, 2015, there was $0.9 million of unrecognized stock-based compensation related to 81,572 shares of contingently issuable common stock for certain bonus awards given in connection with our fiscal 2016 and 2015 acquisitions that is expected to be recognized over a weighted-average period of 1.64 years.

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

Stock-Based Compensation

The following table summarizes the components of stock-based compensation expense recognized in the consolidated statements of operations (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2015	2014	2015	2014
Cost of revenue	$1,272	$472	$3,164	$1,102
Research and development	6,455	3,207	18,021	8,220
Sales and marketing	5,005	3,122	14,030	8,306
General and administrative	2,672	1,712	7,632	4,716
Total stock-based compensation	$15,404	$8,513	$42,847	$22,344

Determination of Fair Value

We estimated the fair value of employee stock options and ESPP purchase rights using a Black-Scholes option pricing model with the following assumptions:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2015	2014	2015	2014
Employee Stock Options				