UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2022

OR

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

For the transition period from _____ to _____

Commission File Number: 001-36089

RingCentral, Inc.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**94-3322844**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

20 Davis Drive
Belmont, California 94002
(Address of principal executive offices)

(650) 472-4100
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock par value $0.0001	RNG	New York Stock Exchange

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

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

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

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

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

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

As of May 2, 2022, there were 84,942,736 shares of Class A Common Stock issued and outstanding and 9,955,674 shares of Class B Common Stock issued and outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements that are based on our management's beliefs and assumptions and on information currently available to our management. The forward-looking statements are contained principally in, but not limited to, the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations". Forward-looking statements include all statements that are not historical facts and can be identified by terms such as "anticipates", "believes", "could", "seeks", "estimates", "expects", "intends", "may", "plans", "potential", "predicts", "projects", "should", "will", "would" or similar expressions and the negatives of those terms. Forward-looking statements include, but are not limited to, statements about:

- our progress against short-term and long-term goals;
- our future financial performance;
- our anticipated growth, growth strategies and our ability to effectively manage that growth and effect these strategies;
- our reliance on our third-party product and service providers, particularly in light of Russia's ongoing invasion of Ukraine on our software development, quality assurance and customer support operations;
- the political environment and stability in the regions in which we or our subcontractors operate, particularly in light of Russia's ongoing invasion of Ukraine;
- our ability to defend our systems and our customer information from fraud and cyber-attack;
- our success in the enterprise market;
- anticipated trends, developments and challenges in our business and in the markets in which we operate, as well as general macroeconomic conditions;
- our ability to scale to our desired goals, particularly the implementation of new processes and systems and the addition to our workforce;
- the impact of competition in our industry and innovation by our competitors;
- our ability to anticipate and adapt to future changes in our industry;
- our ability to predict subscriptions revenues, formulate accurate financial projections, and make strategic business decisions based on our analysis of market trends;
- our ability to anticipate market needs and develop new and enhanced solutions and subscriptions to meet those needs, and our ability to successfully monetize them;
- maintaining and expanding our customer base;
- maintaining, expanding and responding to changes in our relationships with other companies;
- maintaining and expanding our distribution channels, including our network of sales agents and resellers, and our strategic partnerships;
- our success with our carrier partners;
- our ability to sell, market, and support our solutions and services;
- our ability to expand our business to larger customers as well as expanding domestically and internationally;
- our ability to realize increased purchasing leverage and economies of scale as we expand;
- the impact of seasonality on our business;
- the impact of any failure of our solutions or solution innovations;
- the potential effect on our business of litigation to which we may become a party;
- our liquidity and working capital requirements;

- the impact of changes in the regulatory environment;
- our ability to protect our intellectual property and rely on open source licenses;
- our expectations regarding the growth and reliability of the internet infrastructure;
- the timing of acquisitions of, or making and exiting investments in, other entities, businesses or technologies;
- our ability to successfully and timely execute on, integrate, and realize the benefits of any acquisition, investment, strategic partnership, or other strategic transaction we may make or undertake;
- our capital expenditure projections;
- our capital allocation plans, including expected allocations of cash and timing for any share repurchases and other investments;
- the estimates and estimate methodologies used in preparing our condensed consolidated financial statements;
- the impact of economic downturns on us and our customers;
- our ability to prevent the use of fraudulent payment methods for our solutions;
- our ability to retain key employees and to attract qualified personnel; and
- the impact of foreign currencies on our non-U.S. business as we expand our business internationally.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be significantly different from any future results, performance or achievements expressed or implied by the forward-looking statements. We discuss these risks in greater detail in the section entitled “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our management’s beliefs and assumptions only as of the date of this Quarterly Report on Form 10-Q. You should read this Quarterly Report on Form 10-Q completely and with the understanding that our actual future results may be significantly different from what we expect.

Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ significantly from those anticipated in these forward-looking statements, even if new information becomes available in the future.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

RINGCENTRAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited, in thousands)

	March 31, 2022	December 31, 2021
Assets		
Current assets		
Cash and cash equivalents	$ 301,929	$ 267,162
Accounts receivable, net	257,323	232,842
Deferred and prepaid sales commission costs	110,019	102,572
Prepaid expenses and other current assets	51,484	48,165
Total current assets	720,755	650,741
Property and equipment, net	173,436	166,910
Operating lease right-of-use assets	44,370	47,294
Long-term investments	163,811	210,445
Deferred and prepaid sales commission costs, non-current	729,920	723,448
Goodwill	55,083	55,490
Acquired intangibles, net	672,471	716,606
Other assets	7,906	8,105
Total assets	$ 2,567,752	$ 2,579,039
Liabilities, Temporary Equity, and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 77,019	$ 70,022
Accrued liabilities	297,256	279,798
Deferred revenue	201,394	176,450
Total current liabilities	575,669	526,270
Convertible senior notes, net	1,635,059	1,398,489
Operating lease liabilities	28,213	31,812
Other long-term liabilities	80,579	84,052
Total liabilities	2,319,520	2,040,623
Commitments and contingencies (Note 7)		
Series A convertible preferred stock	199,449	199,449
Stockholders' equity		
Common stock	9	9
Additional paid-in capital	855,894	1,086,870
Accumulated other comprehensive income (loss)	(1,418)	644
Accumulated deficit	(805,702)	(748,556)
Total stockholders' equity	48,783	338,967
Total liabilities, temporary equity and stockholders' equity	$ 2,567,752	$ 2,579,039

See accompanying notes to condensed consolidated financial statements

RINGCENTRAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands, except per share data)

	Three Months Ended March 31,	
	2022	**2021**
Revenues		
Subscriptions	$ 439,927	$ 325,223
Other	27,729	27,133
Total revenues	467,656	352,356
Cost of revenues		
Subscriptions	129,689	73,247
Other	25,785	23,734
Total cost of revenues	155,474	96,981
Gross profit	312,182	255,375
Operating expenses		
Research and development	90,274	62,676
Sales and marketing	254,455	179,249
General and administrative	70,995	55,461
Total operating expenses	415,724	297,386
Loss from operations	(103,542)	(42,011)
Other income (expense), net		
Interest expense	(1,232)	(16,278)
Other income (expense)	(45,219)	58,543
Other income (expense), net	(46,451)	42,265
Gain (loss) before income taxes	(149,993)	254
Provision for income taxes	979	440
Net loss	$ (150,972)	$ (186)
Net loss per common share		
Basic and diluted	$ (1.60)	$ —
Weighted-average number of shares used in computing net loss per share		
Basic and diluted	94,574	90,634

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended March 31,	
	2022	2021
Net loss	$ (150,972)	$ (186)
Other comprehensive loss		
Foreign currency translation adjustments, net	(2,062)	(3,412)
Comprehensive loss	$ (153,034)	$ (3,598)

See accompanying notes to condensed consolidated financial statements

RINGCENTRAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited, in thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance as of December 31, 2021	94,309	$ 9	$ 1,086,870	$ 644	$ (748,556)	$ 338,967
Cumulative effect of accounting change	—	—	(329,280)	—	93,826	(235,454)
Issuance of common stock in connection with Equity Incentive and Employee Stock Purchase plans, net of tax withholdings	588	—	(120)	—	—	(120)
Share-based compensation	—	—	98,424	—	—	98,424
Changes in other comprehensive income	—	—	—	(2,062)	—	(2,062)
Net loss	—	—	—	—	(150,972)	(150,972)
Balance as of March 31, 2022	94,897	9	855,894	(1,418)	(805,702)	48,783

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance as of December 31, 2020	90,430	$ 9	$ 673,950	$ 6,806	$ (372,306)	$ 308,459
Issuance of common stock in connection with Equity Incentive and Employee Stock Purchase plans, net of tax withholdings	438	—	(3,708)	—	—	(3,708)
Share-based compensation	—	—	59,993	—	—	59,993
Equity component from repurchase or redemption of convertible senior notes	—	—	(147,740)	—	—	(147,740)
Temporary equity reclassification	—	—	(338)	—	—	(338)
Changes in other comprehensive income	—	—	—	(3,412)	—	(3,412)
Net loss	—	—	—	—	(186)	(186)
Balance as of March 31, 2021	90,868	9	582,157	3,394	(372,492)	213,068

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended March 31,	
	2022	**2021**
Cash flows from operating activities		
Net loss	$ (150,972)	$ (186)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	60,929	24,577
Share-based compensation	97,608	54,962
Amortization of deferred and prepaid sales commission costs	23,173	15,644
Amortization of debt discount and issuance costs	1,116	16,200
Loss on early extinguishment of debt	—	658
Repayment of convertible senior notes attributable to debt discount	—	(4,712)
Reduction of operating lease right-of-use assets	4,877	4,322
Unrealized loss (gain) on investments	47,384	(57,521)
Provision for bad debt	4,605	1,485
Other	(251)	73
Changes in assets and liabilities:		
Accounts receivable	(29,086)	7,697
Deferred and prepaid sales commission costs	(39,487)	(36,502)
Prepaid expenses and other assets	(2,554)	7,128
Accounts payable	6,868	(8,109)
Accrued and other liabilities	15,097	11,599
Deferred revenue	24,944	4,022
Operating lease liabilities	(5,256)	(4,382)
Net cash provided by operating activities	58,995	36,955
Cash flows from investing activities		
Purchases of property and equipment	(6,852)	(8,721)
Capitalized internal-use software	(13,591)	(9,757)
Purchases of intangible assets and long-term investments	(1,484)	(8,358)
Net cash used in investing activities	(21,927)	(26,836)
Cash flows from financing activities		
Payments for repurchase or redemption of convertible senior notes	—	(178,911)
Proceeds from issuance of stock in connection with stock plans	627	1,192
Payments for taxes related to net share settlement of equity awards	(747)	(4,900)
Payment for contingent consideration for business acquisition	—	(3,600)
Repayment of financing obligations	(1,810)	(277)
Net cash used in financing activities	(1,930)	(186,496)
Effect of exchange rate changes	(371)	(409)
Net increase (decrease) in cash, cash equivalents, and restricted cash	34,767	(176,786)
Cash, cash equivalents, and restricted cash		
Beginning of period	267,162	639,853
End of period	$ 301,929	$ 463,067
Supplemental disclosure of cash flow data:		
Cash paid for interest	$ 131	$ 28
Cash paid for income taxes, net of refunds	$ 487	$ 320
Non-cash investing and financing activities		
Equipment and capitalized internal-use software purchased and unpaid at period end	$ 8,957	$ 5,835

See accompanying notes to condensed consolidated financial statements

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

Description of Business

RingCentral, Inc. (the "Company") is a provider of software-as-a-service ("SaaS") solutions that enables businesses to communicate, collaborate and connect. The Company was incorporated in California in 1999 and was reincorporated in Delaware on September 26, 2013.

Basis of Presentation and Consolidation

The Company's unaudited condensed consolidated financial statements and accompanying notes reflect all adjustments (all of which are normal, recurring in nature and those discussed in these notes) that are, in the opinion of management, necessary for a fair presentation of the interim periods presented. All intercompany balances and transactions have been eliminated in consolidation. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for any subsequent quarter or for the entire year ending December 31, 2022. Certain information and note disclosures normally included in annual consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") have been condensed or omitted under the rules and regulations of the Securities and Exchange Commission ("SEC").

The unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on March 1, 2022.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The significant estimates made by management affect revenues, the allowance for doubtful accounts, valuation of long-term investments, deferred and prepaid sales commission costs, goodwill, useful lives of intangible assets, share-based compensation, capitalization of internally developed software, return reserves, provision for income taxes, uncertain tax positions, loss contingencies, sales tax liabilities, and accrued liabilities. Management periodically evaluates these estimates and will make adjustments prospectively based upon the results of such periodic evaluations. Actual results may differ from these estimates. We assessed the impact of COVID-19 on the estimates and assumptions and determined there was no material impact.

Segment Information

The Company has determined that the chief executive officer is the chief operating decision maker. The Company's chief executive officer reviews financial information presented on a consolidated basis for purposes of assessing performance and making decisions on how to allocate resources. Accordingly, the Company has determined that it operates in a single reportable segment.

Concentrations

As of March 31, 2022 and December 31, 2021, none of the Company's customers accounted for more than 10% of the Company's total accounts receivable.

Long-lived assets by geographic location are based on the location of the legal entity that owns the asset. As of March 31, 2022 and December 31, 2021, approximately 95% of the Company's consolidated long-lived assets were located in the U.S. No other single country outside of the U.S. represented more than 10% of the Company's consolidated long-lived assets.

Recent Accounting Pronouncements Not Yet Adopted

In March 2020, the FASB issued optional guidance for a limited time to ease the potential burden in accounting for or recognizing the effects of reference rate reform, particularly, the risk of cessation of the London Interbank Offered Rate ("LIBOR") on financial reporting. The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments are elective and are effective upon issuance for all entities through December 31, 2022. The amendments in this ASU are not expected to have a material impact on the Company's consolidated financial statements.

Recently Adopted Accounting Pronouncements

In August 2020, the FASB issued ASU No. 2020-06, Accounting for Convertible Instruments and Contracts in an Entity's Own Equity. This update simplifies the accounting for convertible instruments by eliminating the conversion option separation model for convertible debt that can be settled in cash. Consequently, a convertible debt instrument will be accounted for as a single liability measured at its amortized cost, as long as no other features require bifurcation and recognition as derivatives. This update also eliminates the treasury stock method and instead requires entities to calculate the impact of convertible instruments on diluted earnings per share when the instruments may be settled in cash or shares. The required use of the if-converted method did not impact the diluted net loss per share as the Company was in a net loss position.

The Company adopted this update, effective January 1, 2022, using the modified retrospective method. Upon adoption, the Company is no longer recording the conversion feature of its convertible senior notes in equity. Instead, the Company combined the previously separated equity component with the liability component, which together is now classified as debt, thereby eliminating the subsequent amortization of the debt discount as interest expense. Similarly, the portion of issuance costs previously allocated to equity was reclassified to debt and amortized as interest expense. Accordingly, the Company recorded a decrease to accumulated deficit of approximately $93.8 million, a decrease to additional paid-in capital of $329.3 million, and an increase to convertible senior notes, net of approximately $235.5 million. Prior period financial statements were not restated.

Note 2. Revenue and Cost of Revenue

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

Disaggregation of revenue

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

	Three Months Ended March 31,	
	2022	2021
Primary geographical markets		
North America	90 %	88 %
Others	10	12
Total revenues	100 %	100 %

The Company derived over 90% of subscriptions revenues from RingCentral MVP and RingCentral customer engagement solutions products for both the three months ended March 31, 2022 and 2021.

Deferred revenue

During the three months ended March 31, 2022, the Company recognized revenue of $105.2 million that was included in the corresponding deferred revenue balance at the beginning of the year.

Remaining performance obligations

The typical subscription term ranges from one month to five years. Contract revenue as of March 31, 2022 that has not yet been recognized was approximately $1.9 billion. This excludes contracts with an original expected length of less than one

year. Of these remaining performance obligations, the Company expects to recognize revenue of 52% of this balance over the next 12 months and 48% thereafter.

Other revenues and cost of revenues

Other revenues are primarily comprised of product revenue from the sale of pre-configured phones and professional services. Product revenues from the sale of pre-configured phones were $11.3 million and $11.6 million for the three months ended March 31, 2022 and 2021, respectively. Cost of product revenues were $10.8 million and $10.4 million for the three months ended March 31, 2022 and 2021, respectively.

Note 3. Financial Statement Components

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

	March 31, 2022	December 31, 2021
Cash	$ 72,802	$ 91,499
Money market funds	229,127	175,663
Total cash and cash equivalents	$ 301,929	$ 267,162

As of March 31, 2022, $5.5 million in the cash balance above represents restricted cash, which is held in the form of a bank deposit for issuance of a foreign bank guarantee.

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

	March 31, 2022	December 31, 2021
Accounts receivable	$ 206,318	$ 193,192
Unbilled accounts receivable	60,206	47,676
Allowance for doubtful accounts	(9,201)	(8,026)
Accounts receivable, net	$ 257,323	$ 232,842

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

	March 31, 2022	December 31, 2021
Prepaid expenses	$ 30,193	$ 26,254
Inventory	5,747	5,655
Other current assets	15,544	16,256
Total prepaid expenses and other current assets	$ 51,484	$ 48,165

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

	March 31, 2022	December 31, 2021
Computer hardware and software	$ 203,769	$ 197,395
Internal-use software development costs	155,684	140,424
Furniture and fixtures	8,854	8,660
Leasehold improvements	13,984	13,533
Total property and equipment, gross	382,291	360,012
Less: accumulated depreciation and amortization	(208,855)	(193,102)
Property and equipment, net	$ 173,436	$ 166,910

Total depreciation and amortization expense related to property and equipment was $16.9 million and $13.0 million for the three months ended March 31, 2022 and 2021, respectively.

The carrying value of goodwill is as follows (in thousands):

Balance at December 31, 2021	$ 55,490
Foreign currency translation adjustments	(407)
Balance at March 31, 2022	$ 55,083

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

		March 31, 2022			December 31, 2021		
	Weighted-Average Remaining Useful Life	Cost	Accumulated Amortization	Acquired Intangibles, Net	Cost	Accumulated Amortization	Acquired Intangibles, Net
Customer relationships	1.3 years	$ 21,164	$ 16,551	$ 4,613	$ 21,333	$ 15,725	$ 5,608
Developed technology	4.4 years	814,798	146,940	667,858	814,873	103,875	710,998
Total acquired intangible assets		$ 835,962	$ 163,491	$ 672,471	$ 836,206	$ 119,600	$ 716,606

Amortization expense from acquired intangible assets for the three months ended March 31, 2022 and 2021 was $44.1 million and $11.6 million, respectively. Amortization of developed technology is included in cost of revenues and amortization of customer relationships is included in sales and marketing expenses in the Condensed Consolidated Statements of Operations.

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

2022 (remaining)	$ 128,666
2023	150,587
2024	147,056
2025	132,887
2026 onwards	113,275
Total estimated amortization expense	$ 672,471

Accrued liabilities consisted of the following (in thousands):

	March 31, 2022	December 31, 2021
Accrued compensation and benefits	$ 53,882	$ 48,911
Accrued sales, use, and telecom related taxes	33,390	30,463
Accrued marketing	56,048	52,547
Operating lease liabilities, short-term	18,973	18,686
Other accrued expenses	134,963	129,191
Total accrued liabilities	$ 297,256	$ 279,798

Deferred and Prepaid Sales Commission Costs

Amortization expense for the deferred and prepaid sales commission costs was $23.2 million and $15.6 million for the three months ended March 31, 2022 and 2021, respectively. There was no impairment loss in relation to the costs capitalized for the periods presented.

Note 4. Fair Value of Financial Instruments

The Company measures and reports certain cash equivalents, including money market funds and certificates of deposit, in addition to its long-term investments at fair value in accordance with the provisions of the authoritative accounting guidance that addresses fair value measurements. This guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is broken down into three levels based on the reliability of the inputs as follows:

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

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

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

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

	Fair Value at March 31, 2022	Level 1	Level 2	Level 3
Cash equivalents:				
Money market funds	$ 229,127	$ 229,127	$ —	$ —
Non-current assets:				
Long-term investments	$ 154,361	$ —	$ —	$ 154,361
Marketable equity investments	$ 6,820	$ 6,820	$ —	$ —

	Fair Value at December 31, 2021	Level 1	Level 2	Level 3
Cash equivalents:				
Money market funds	$ 175,663	$ 175,663	$ —	$ —
Non-current assets:				
Long-term investments	$ 199,965	$ —	$ —	$ 199,965
Marketable equity investments	$ 8,600	$ 8,600	$ —	$ —

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

Convertible Senior Notes

As of March 31, 2022, the fair value of the 0% convertible senior notes due 2026 (the "2026 Notes") was approximately $538.9 million, and 0% convertible senior notes due 2025 (the "2025 Notes") was approximately $882.0 million. The fair value for the convertible notes was determined based on the quoted price for such notes in an inactive market on the last trading day of the reporting period and is considered as Level 2 in the fair value hierarchy.

Long-Term Investments

As of March 31, 2022 and December 31, 2021, the fair value of the Company's long-term investments in convertible and redeemable preferred stock was $154.4 million and $200.0 million, respectively. The Company classifies these investments as Level 3 in the fair value hierarchy based on the nature of the fair value inputs and judgment involved in the valuation process. The Company uses a lattice model to value these investments and relies on observable inputs including share-price, credit spread, and volatility. The model also incorporates judgments relating to the probability of special redemption triggers, the expected holding period of the

investment and interest rates. These investments are reported at fair value in long-term investments in the Condensed Consolidated Balance Sheets with net unrealized gain (loss) recorded in other income (expense).

The Company recorded a loss of $46.6 million for the three months ended March 31, 2022 compared to a gain of $56.6 million for the three months ended March 31, 2021. Volatility in the global economic climate and financial markets, including the effects of the ongoing Russian invasion of Ukraine, rising inflation, and continued effect of the COVID-19 pandemic, could result in a significant change in the underlying share-price of the Company's investees, resulting in a material change in the value of the long-term investments.

Marketable Equity Investments

The Company has certain marketable equity investments in which it does not have a controlling interest or a significant influence. As of March 31, 2022 and December 31, 2021, the fair value of these marketable equity investments, which have readily determinable fair values, were $6.8 million and $8.6 million, respectively. These investments are reported at fair value in long-term investments in the Consolidated Balance Sheets with net unrealized gain (loss) recorded in other income (expense). The Company recorded a loss of $1.8 million for the three months ended March 31, 2022. There were no sales of marketable equity investments for the three months ended March 31, 2022.

Other Non-Marketable Investments

As of March 31, 2022, the Company had an immaterial amount of non-marketable investments held in debt and equity securities without readily determinable fair values in which it had neither a controlling interest nor significant influence. These investments are carried at cost under the measurement alternative as part of long-term investments in the Consolidated Balance Sheets.

Note 5. Convertible Senior Notes

In March 2018, the Company issued $460.0 million aggregate principal amount of 0% convertible senior notes due 2023 in a private placement, including the exercise in full of the over-allotment options of the initial purchasers (the "2023 Notes"). The 2023 Notes would have matured on March 15, 2023, unless earlier repurchased or redeemed by the Company or converted pursuant to their terms. The total net proceeds from the debt offering, after deducting initial purchase discounts and debt issuance costs, were approximately $449.5 million. In the second quarter of 2021, the Company redeemed the remaining outstanding principal balance of its 2023 Notes.

In March 2020, the Company issued $1.0 billion aggregate principal amount of 0% convertible senior notes due 2025 in a private placement to qualified institutional buyers (the "2025 Notes"). The 2025 Notes will mature on March 1, 2025, unless earlier repurchased or redeemed by the Company or converted pursuant to their terms. The total net proceeds from the debt offering, after deducting initial purchase discounts and debt issuance costs, were approximately $986.5 million.

In September 2020, the Company issued $650.0 million aggregate principal amount of 0% convertible senior notes due 2026 in a private placement to qualified institutional buyers (the "2026 Notes"). The 2026 Notes will mature on March 15, 2026, unless earlier repurchased or redeemed by the Company or converted pursuant to their terms. The total net proceeds from the debt offering, after deducting initial purchase discounts and debt issuance costs, were approximately $640.2 million.

The 2023 Notes, 2025 Notes and 2026 Notes (collectively, the "Notes") are senior, unsecured obligations of the Company that do not bear regular interest, and the principal amount of the Notes do not accrete. The Notes may bear special interest under specified circumstances relating to the Company's failure to comply with its reporting obligations under the indentures governing each of the Notes (collectively, the "Notes Indentures") or if the Notes are not freely tradeable as required by each respective Notes Indenture.

Other Terms of the Notes

	2025 Notes	2026 Notes
$1,000 principal amount initially convertible into number of the Company's Class A Common Stock, par value $0.0001	2.7745 shares	2.3583 shares
Equivalent initial approximate conversion price per share	$ 360.43	$ 424.03

The conversion rate is subject to adjustment upon the occurrence of certain specified events but will not be adjusted for any accrued and unpaid special interest. In addition, upon the occurrence of a make-whole fundamental change or a redemption

period, each as defined in the respective Notes Indentures, the Company will, in certain circumstances, increase the conversion rate by a number of additional shares for a holder that elects to convert its Notes in connection with such make-whole fundamental change or during the relevant redemption period.

The Notes will be convertible at certain times and upon the occurrence of certain events in the future. Further, on or after December 1, 2024 for the 2025 Notes, and December 15, 2025 for the 2026 Notes, until the close of business on the scheduled trading day immediately preceding the maturity date, holders of the Notes may convert all or a portion of their notes regardless of these conditions. Under the terms of the respective Notes Indentures, effective January 1, 2022, the Company made an irrevocable election to settle the principal portion of the Notes only in cash, with the conversion premium to be settled in cash or shares.

During the three months ended March 31, 2022, the conditions allowing holders of the 2025 Notes and 2026 Notes to convert were not met. The Notes may be convertible thereafter if one or more of the conversion conditions specified in the indentures are satisfied during future measurement periods.

The Company may redeem the Notes at its option, on or after March 5, 2022 for the 2025 Notes, and March 20, 2023 for the 2026 Notes, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid special interest to, but excluding the redemption date, subject to certain conditions. No sinking fund is provided for the Notes.

Upon the occurrence of a fundamental change (as defined in each respective Notes Indentures) prior to the maturity date, holders may require the Company to repurchase all or a portion of the 2025 Notes or 2026 Notes for cash at a price equal to 100% of the principal amount of the Notes to be repurchased, plus any accrued and unpaid special interest to, but excluding, the fundamental change repurchase date.

The net carrying amount of the liability component of the Notes as of March 31, 2022 were as follows (in thousands):

	2025 Notes	2026 Notes
Principal	$ 1,000,000	$ 650,000
Unamortized issuance cost	(7,904)	(7,037)
Net carrying amount [1]	$ 992,096	$ 642,963

(1) The net carrying amount was increased on January 1, 2022 as a result of the adoption of ASU No. 2020-06. Refer to Note 1, *Description of Business and Summary of Significant Accounting Policies*, in this Quarterly Report on Form 10-Q for further information.

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

	Three Months Ended March 31,	
	2022	2021
Amortization of debt discount [1]	$ —	$ 15,411
Amortization of debt issuance cost [1]	1,116	789
Total interest expense related to the Notes [1]	$ 1,116	$ 16,200

(1) The decrease in total interest expense during the three months ended March 31, 2022 was due to the derecognition of the unamortized debt discount, partially offset by the increase in the amortization of issuance costs previously recognized in equity. These changes were the result of the Company's adoption of ASU No. 2020-06, as of January 1, 2022, as described in Note 1, *Description of Business and Summary of Significant Accounting Policies.*

Capped Calls

In connection with the offering of the Notes, the Company entered into privately-negotiated capped call transactions relating to each series of notes with certain counterparties (collectively the "Capped Calls"). The initial strike price of the Notes corresponds to the initial conversion price of each of the Notes. The Capped Calls are generally intended to reduce or offset the potential dilution to the Class A Common Stock upon any conversion of the Notes with such reduction or offset, as the case may be, subject to a cap based on the cap price. The Capped Calls are subject to either adjustment or termination upon the occurrence of specified extraordinary events affecting the Company, including a merger event; a tender offer; and a nationalization, insolvency or delisting involving the Company. In addition, the Capped Calls are subject to certain specified additional disruption events that may give rise to a termination of the Capped Calls, including changes in law; insolvency filings; and hedging disruptions. The Capped Call transactions are recorded in stockholders' equity and are not accounted for as derivatives.

The following table below sets forth key terms and costs incurred for the Capped Calls related to each of the Notes:

	2023 Notes	2025 Notes	2026 Notes
Initial approximate strike price per share, subject to certain adjustments	$ 81.45	$ 360.43	$ 424.03
Initial cap price per share, subject to certain adjustments	$ 119.04	$ 480.56	$ 556.10
Net cost incurred (in millions)	$ 49.9	$ 60.9	$ 41.8
Class A Common Stock covered, subject to anti-dilution adjustments (in millions)	5.6	2.8	1.5
Settlement commencement date	1/13/2023	1/31/2024	2/13/2025
Settlement expiration date	3/13/2023	2/28/2024	3/13/2025

All of the capped call transactions, including the capped call relating to the 2023 Notes, were outstanding as of March 31, 2022.

Note 6. Leases

The Company primarily leases facilities for office and data center space under non-cancelable operating leases for its U.S. and international locations. As of March 31, 2022, non-cancellable leases expire on various dates between 2022 and 2029.

The components of leases are as follows (in thousands):

	March 31, 2022	December 31, 2021
Operating leases		
Operating lease right-of-use assets	$ 44,370	$ 47,294
Accrued liabilities	$ 18,973	$ 18,686
Operating lease liabilities	28,213	31,812
Total operating lease liabilities	$ 47,186	$ 50,498

	Three Months Ended March 31,	
	2022	2021
Supplemental Cash Flow Information (in thousands)		
Operating cash flows resulting from operating leases:		
Cash paid for amounts included in the measurement of lease liabilities	$ 5,813	$ 5,072
New ROU assets obtained in exchange of lease liabilities:		
Operating leases	$ 2,095	$ 2,302

Note 7. Commitments and Contingencies

Legal Matters

The Company is subject to certain legal proceedings described below, and from time to time may be involved in a variety of claims, lawsuits, investigations, and proceedings relating to contractual disputes, intellectual property rights, employment matters, regulatory compliance matters, and other litigation matters relating to various claims that arise in the normal course of business.

The Company determines whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. The Company assesses its potential liability by analyzing specific litigation and regulatory matters using reasonably available information. The Company develops its views on estimated losses in consultation with inside and outside counsel, which involves a subjective analysis of potential results and outcomes, assuming various combinations of appropriate litigation and settlement strategies. Actual claims could settle or be adjudicated against the Company in the future for materially different amounts than the Company has accrued due to the inherently unpredictable nature of litigation. Legal fees are expensed in the period in which they are incurred.

Patent Infringement Matter

On April 25, 2017, Uniloc USA, Inc. and Uniloc Luxembourg, S.A. (together, "Uniloc") filed in the U.S. District Court for the Eastern District of Texas two actions against the Company alleging infringement of U.S. Patent Nos. 7,804,948; 7,853,000; and 8,571,194 by RingCentral's Glip unified communications application. The plaintiffs seek a declaration that the Company has infringed the patents, damages according to proof, injunctive relief, as well as their costs, attorney's fees, expenses and interest. On October 9, 2017, the Company filed a motion to dismiss or transfer requesting that the case be transferred to the United States District Court for the Northern District of California. In response to the motion, plaintiffs filed a first amended complaint on October 24, 2017. The Company filed a renewed motion to dismiss or transfer on November 15, 2017. Although briefing on that motion has been completed, the motion has not yet been decided. On February 5, 2018, Uniloc moved to stay the litigation pending the resolution of certain third-party inter partes review proceedings ("IPRs") before the United States Patent and Trademark Office. On February 9, 2018, the court stayed the litigation pending resolution of the IPRs without prejudice to or waiver of the Company's motion to dismiss or transfer. This litigation is still in its early stages. Based on the information known by the Company as of the date of this filing and the rules and regulations applicable to the preparation of the Company's consolidated financial statements, it is not possible to provide an estimated amount of any such loss or range of loss that may occur. The Company intends to vigorously defend against this lawsuit.

CIPA Matter

On June 16, 2020, Plaintiff Meena Reuben ("Reuben") filed a complaint against the Company for a putative class action lawsuit in California Superior Court for San Mateo County. The complaint alleges claims on behalf of a class of individuals for whom, while they were in California, the Company allegedly intercepted and recorded communications between individuals and the Company's customers without the individual's consent, in violation of the California Invasion of Privacy Act ("CIPA") Sections 631 and 632.7. Reuben seeks statutory damages of $5,000 for each alleged violation of Sections 631 and 632.7, injunctive relief, and attorneys' fees and costs, and other unspecified amount of damages. On July 7, 2020, the Court granted the parties' stipulation to extend time for the Company to respond to the Reuben's complaint. The parties participated in mediation on August 24, 2021. On September 16, 2021, Reuben filed an amended complaint. The Company filed a demurrer to the amended complaint on October 18, 2021. Reuben filed her opposition on November 8, 2021, and the Company filed its reply on November 22, 2021. A hearing was held on January 6, 2022. The Court overruled the Company's demurrer and scheduled a case management conference for July 14, 2022. This litigation is still in its early stages. Based on the information known by the Company as of the date of this filing and the rules and regulations applicable to the preparation of the Company's consolidated financial statements, it is not possible to provide an estimated amount of any such loss or range of loss that may occur. The Company intends to vigorously defend against this lawsuit.

Other Matter

On June 14, 2019, the Company filed suit in the Superior Court of California, County of Alameda, against Bright Pattern, Inc. and two of its officers, alleging that the defendants negotiated a potential acquisition of Bright Pattern by RingCentral fraudulently and in bad faith. The Company seeks its costs incurred in negotiating under the Letter of Intent ("LOI") that the parties entered into and damages for lost opportunity as a result of forgoing another acquisition opportunity, and attorneys' fees and costs. On August 26, 2019, Bright Pattern filed a cross-complaint against the Company and two of its executive officers alleging breach of the LOI as well as tort claims arising from the Company's allegedly inducing Bright Pattern to enter into the LOI and subsequent extensions while allegedly misstating the timeframe for the proposed transaction. As damages, Bright Pattern seeks audit fees it allegedly incurred, a $5 million break-up fee, its alleged "cash burn" during the negotiations, and unspecified lost opportunity damages. The Company filed a demurrer to Bright Pattern's amended cross-complaint, as well as a related motion to strike. On May 7, 2020, the court denied both the motion to strike and demurrer. The Court has set the matter for trial on March 20, 2023. This litigation is still in the midst of discovery. Based on the information known by the Company as of the date of this filing and the rules and regulations applicable to the preparation of the Company's consolidated financial statements, it is not possible to provide an estimated amount of any loss or range of loss that may occur. The Company intends to vigorously prosecute and defend this lawsuit.

Note 8. Convertible Preferred Stock

Series A Convertible Preferred Stock

On November 8, 2021, the Company entered into the Investment Agreement, pursuant to which the Company sold to Searchlight Investor, in a private placement exempt from registration under the Securities Act of 1933, as amended, 200,000 shares of newly-issued Series A Convertible Preferred Stock, par value $0.0001 per share, for an aggregate purchase price of $200 million. The Series A Convertible Preferred Stock issued to Searchlight Investor pursuant to the Investment Agreement is convertible into shares of the Company's Class A Common Stock, par value $0.0001 per share, at a conversion price of $269.22 per share, subject to adjustment as provided in the certificate of designations specifying the terms of such shares. The transactions contemplated by the Investment Agreement closed on November 9, 2021. The Series A Convertible Preferred Stock ranks senior to the shares of the Company's Class A Common Stock and Class B Common Stock with respect to rights on the distribution of assets on any voluntary or involuntary liquidation or winding up of the affairs of the Company. The Series A Convertible Preferred Stock is a zero coupon, perpetual preferred stock, with a liquidation preference of $1,000 per share and other customary terms, including with respect to mandatory conversion and change of control premium under certain circumstances. The shares of Series A Convertible Preferred Stock shall not be redeemable or otherwise mature, other than for a liquidation or a specified change in control event as provided in the certificate of designations specifying the terms of such shares. Holders of Series A Convertible Preferred Stock will be entitled to vote with the holders of the Class A Common Stock and Class B Common Stock on an as-converted basis. Holders of the Series A Convertible Preferred Stock will be entitled to a separate class vote with respect to, among other things, certain amendments to the Company's organizational documents that have an adverse impact on the rights, preferences, privileges or voting power of the Series A Convertible Preferred Stock, authorizations or issuances of Company capital stock, or other securities convertible into capital stock, that is senior to, or equal in priority with, the Series A Convertible Preferred Stock, and increases or decreases in the number of authorized shares of Series A Convertible Preferred Stock.

As the liquidation or specified change in control event is not solely within the Company's control, the Series A Convertible Preferred Stock is therefore classified as temporary equity and recorded outside of stockholders' equity on the Condensed Consolidated Balance Sheet. As of March 31, 2022, there were 200,000 shares of the Company's Series A Convertible Preferred Stock issued and outstanding, and the carrying value, net of issuance costs, was $199.4 million.

Note 9. Share-Based Compensation

A summary of share-based compensation expense recognized in the Condensed Consolidated Statements of Operations is as follows (in thousands):

	Three Months Ended March 31,	
	2022	2021
Cost of revenues	$ 9,047	$ 4,742
Research and development	23,198	13,189
Sales and marketing	39,877	21,343
General and administrative	25,486	15,688
Total share-based compensation expense	$ 97,608	$ 54,962

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

	Three Months Ended March 31,	
	2022	2021
Options	$ —	$ 1
Employee stock purchase plan rights	2,416	2,023
Restricted stock units	95,192	52,938
Total share-based compensation expense	$ 97,608	$ 54,962

Equity Incentive Plans

As of March 31, 2022, a total of 23,738,213 shares remained available for grant under the RingCentral, Inc. Amended and Restated 2013 Equity Incentive Plan (“2013 Plan”).

A summary of option activity under all of the Company’s equity incentive plans as of March 31, 2022 and changes during the period then ended is presented in the following table:

	Number of Options Outstanding (in thousands)	Weighted-Average Exercise Price Per Share	Weighted-Average Contractual Term (in Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2021	154	$ 9.12	0.9	$ 27,465
Exercised	(88)	7.10		
Canceled/Forfeited	—	—		
Outstanding at March 31, 2022	66	$ 11.82	0.9	$ 6,926
Vested and expected to vest as of March 31, 2022	66	$ 11.82	0.9	$ 6,926
Exercisable as of March 31, 2022	66	$ 11.82	0.9	$ 6,926

There were no options granted during the three months ended March 31, 2022 and 2021. The total intrinsic value of options exercised during the three months ended March 31, 2022 and 2021 were $11.5 million and $37.4 million, respectively. There is no remaining unamortized share-based compensation expense.

Employee Stock Purchase Plan

The Company's Employee Stock Purchase Plan (“ESPP”) allows eligible employees to purchase shares of the Company’s Class A Common Stock at a discounted price through payroll deductions.

As of March 31, 2022, there was a total of $1.6 million of unrecognized share-based compensation expense, net of estimated forfeitures, related to the ESPP, which will be recognized on a straight-line basis over the remaining weighted-

average vesting period of approximately 0.1 years. As of March 31, 2022, a total of 6,389,798 shares were available for issuance under the ESPP.

Restricted Stock Units

The 2013 Plan provides for the issuance of restricted stock units ("RSUs") to employees, directors, and consultants. RSUs issued under the 2013 Plan generally vest over four years. A summary of activity of RSUs under the 2013 Plan as of March 31, 2022, and changes during the period then ended is presented in the following table:

	Number of RSUs Outstanding (in thousands)	Weighted-Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2021	2,851	$ 258.26	$ 534,186
Granted	1,181	156.11	
Released	(505)	193.98	
Canceled/Forfeited	(234)	251.78	
Outstanding at March 31, 2022	3,293	$ 231.94	$ 386,023

As of March 31, 2022, there was a total of $577.4 million of unrecognized share-based compensation expense, net of estimated forfeitures, related to RSUs, which will be recognized on a straight-line basis over the remaining weighted-average vesting period of approximately 2.9 years.

Bonus Plan

The Company's board of directors (the "Board") adopted employee equity bonus plans (the "Bonus Plans"), which allow the recipients to earn fully vested shares of the Company's Class A Common Stock upon the achievement of quarterly service and performance conditions. During the three months ended March 31, 2022, the Company issued 81,104 RSUs under the Bonus Plans. The total requisite service period of each quarterly award is approximately 0.4 years.

The unrecognized share-based compensation expense was approximately $4.9 million, which will be recognized over the remaining service period of 0.1 years. The shares issued under the Bonus Plans will be issued from the reserve of shares available for issuance under the 2013 Plan.

Note 10. Income Taxes

The provision for income taxes for the three months ended March 31, 2022 and 2021, was $1.0 million and $0.4 million, respectively. The provision for income taxes for the three months ended March 31, 2022 and 2021 consisted primarily of foreign income taxes and state minimum taxes. For the three months ended March 31, 2022 and 2021, the provision for income taxes differed from the U.S. federal statutory rate primarily due to foreign and state taxes currently payable. The Company realized no benefit for the current year losses due to a full valuation allowance against the U.S. and foreign net deferred tax assets.

The realization of tax benefits of net deferred tax assets is dependent upon future levels of taxable income, of an appropriate character, in the periods the items are expected to be deductible or taxable. Based on the available objective evidence, the Company does not believe it is more likely than not that the net deferred tax assets will be realizable. Accordingly, the Company continues to provide a full valuation allowance against the entire domestic and the majority of the foreign net deferred tax assets as of March 31, 2022 and December 31, 2021. The Company intends to maintain the full valuation allowance on the U.S. and certain foreign net deferred tax assets until sufficient positive evidence exists to support a reversal of, or decrease in, the valuation allowance.

During the three months ended March 31, 2022, there were no material changes to the total amount of unrecognized tax benefits.

The 2017 Tax Cuts and Jobs Act amended Sec. 174 to require that specified research and experimental (SR&E) expenditures be capitalized and amortized over five years or fifteen years depending on where the expenditures are incurred. This provision applies to tax years beginning on or after January 1, 2022. The final FTC regulations were published in the Federal Register on January 4, 2022. There are significant changes and updates for allocation and apportionment of foreign taxes, creditability of foreign taxes and other provisions affecting FTC calculation. These provisions are generally effective for foreign taxes paid or accrued in tax years beginning on or after December 28, 2021. Due to full valuation allowance position for the US jurisdiction, the Company does not believe both provisions have material impact on its financial statements.

Note 11. Basic and Diluted Net Loss Per Share

Basic net loss per share is computed by dividing the net loss by the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share is computed by giving effect to all potential shares of common stock, stock options, restricted stock units, ESPP, convertible senior notes, and convertible preferred stock, to the extent dilutive. For the three months ended March 31, 2022 and 2021, all such common stock equivalents have been excluded from diluted net loss per share as the effect to net loss per share would be anti-dilutive.

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

	Three Months Ended March 31,	
	2022	2021
Numerator		
Net loss	$ (150,972)	$ (186)
Denominator		
Weighted-average common shares outstanding for basic and diluted net loss per share	94,574	90,634
Basic and diluted net loss per share	$ (1.60)	$ —

The following table summarizes the potentially dilutive common shares that were excluded from diluted weighted-average common shares outstanding because including them would have had an anti-dilutive effect (in thousands):

	Three Months Ended March 31,	
	2022	2021
Shares of common stock issuable under equity incentive plans outstanding	3,253	3,465
Shares of common stock related to convertible preferred stock	743	—
Shares of common stock related to convertible senior notes	—	538
Potential common shares excluded from diluted net loss per share	3,996	4,003

Under the terms of the respective Notes Indentures, effective January 1, 2022, the Company made an irrevocable election to settle the principal portion of the Notes only in cash, with the conversion premium to be settled in cash or shares.

Upon the adoption of ASU No. 2020-06 on January 1, 2022, the Company calculates the potential dilutive effect of its 2025 Notes and 2026 Notes under the if-converted method. Under this method, only the amounts settled in excess of the principal will be considered in diluted earnings per share, in line with the terms of our Notes Indentures.

The denominator for diluted net income per share does not include any effect from the capped call transactions the Company entered into concurrently with the issuance of the 2023, 2025 and 2026 Notes as this effect would be anti-dilutive. In the event of conversion of the Notes, if shares are delivered to the Company under the capped call, they will offset the dilutive effect of the shares that the Company would issue under the Notes.

Note 12. Related Party Transactions

In the ordinary course of business, the Company made purchases from Google Inc., at which one of the Company's directors serves as President, Americas. Total payables to Google Inc. as of March 31, 2022 and December 31, 2021 were $4.6 million and $3.0 million, respectively. Total expenses incurred from Google Inc. were $6.1 million and $4.8 million for the three months ended March 31, 2022 and 2021.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our Condensed Consolidated Financial Statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on March 1, 2022 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). As discussed in the section entitled "Special Note Regarding Forward-Looking Statements," the following discussion and analysis contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ significantly from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below and elsewhere in this report, particularly in the section entitled "Risk Factors" included under Part II, Item 1A below.

Overview

We are a leading provider of cloud communications, video meetings, collaboration, and contact center software-as-a-service ("SaaS") solutions. We believe that our innovative, cloud-based communication and contact center solutions disrupt the large market for business communications and collaboration by providing flexible and cost-effective solutions that support mobile and distributed workforces. We enable convenient and effective communications for organizations across all their locations and employees, enabling them to be more productive and more responsive.

Our cloud-based business communications and collaboration solutions are designed to be easy to use, providing a user identity across multiple locations and devices, including smartphones, tablets, PCs and desk phones. Our solutions can be deployed rapidly and configured and managed easily. Our cloud-based solutions are location and device independent and better suited to address the needs of modern mobile and global enterprise workforces than are legacy on-premise systems. Through our open Application Programming Interface (API) platform, we enable third-party developers and customers to integrate our solution with leading business applications to customize their own business workflows.

We have a portfolio of cloud-based offerings that are subscription based, made available at different rates varying by the specific functionalities, services, and number of users. We primarily generate revenues from the sale of subscriptions to our offerings. Our subscription plans have monthly, annual, or multi-year contractual terms. We believe that this flexibility in contract duration is important to meet the different needs of our customers. For each of the three months ended March 31, 2022 and 2021, subscriptions revenues accounted for 90% or more of our total revenues. The remainder of our revenues has historically been primarily comprised of product revenues from the sale of pre-configured phones and professional services. We do not develop or manufacture physical phones and offer it as a convenience for a total solution to our customers in connection with subscriptions to our services. We rely on third-party providers to develop and manufacture these devices and fulfillment partners to successfully serve our customers.

We continue to invest in our direct inside sales force while also developing indirect sales channels to market our brand and our subscription offerings. Our indirect sales channels who sell our solutions consist of:

- Regional and global network of resellers and distributors;
- Strategic partners who market and sell our solutions, including co-branded solutions. Such partnerships include Avaya, Atos, Unify, and ALE. In November 2021, we entered into a strategic partnership with Mitel. As part of this agreement, we became Mitel's exclusive UCaaS partner.
- Carriers including AT&T, TELUS, BT, Vodafone, Verizon, DT and other regional carriers. In May 2021, we entered into a partnership with Verizon and launched a co-branded service, RingCentral with Verizon, an integrated unified UCaaS solution for enterprise businesses. In June 2021, we entered into a strategic partnership with DT to offer a co-branded version of RingCentral Video ("RCV") as a stand-alone video solution and recently, we expanded our partnership with DT, to offer customers RingCentral X powered by Telekom, an end-to-end communications and collaboration solution.

Our revenue growth has primarily been driven by our flagship RingCentral MVP and RingCentral customer engagement solutions product offering, which has resulted in an increased number of customers, increased average subscription revenue per customer, and increased retention of our existing customer and user base. We define a "customer" as any party that purchases or subscribes to our products and services directly or indirectly through our channel partners. As of March 31, 2022, we had customers from a range of industries, including financial services, education, healthcare, legal services, real estate, retail, technology, insurance,

construction, hospitality, and state and local government, among others. For each of the three months ended March 31, 2022 and 2021, the vast majority of our total revenues were generated in the U.S. and Canada,

although we expect the percentage of our total revenues derived outside of the U.S. and Canada to grow as we continue to expand internationally.

The growth of our business and our future success depend on many factors, including our ability to expand our customer base to larger customers, expand our indirect sales channels, continue to innovate, grow revenues from our existing customer base, expand our distribution channels, and scale internationally.

During the reporting period, we saw contributions from new bookings as more businesses transition to RingCentral in the work-from-anywhere environment. We continue to see more customers opting for RingCentral apps on laptops and mobile devices over traditional desktop phones, which has impacted demand for physical phone devices.

Impact of Russian Invasion of Ukraine

In February 2022, Russian military forces invaded Ukraine. We have outsourced some of our software development and design, quality assurance, and operations activities to third-party contractors that have employees and consultants located in Odessa, Ukraine, and previously, in St. Petersburg, Russia. We are currently working with our affected third-party contractors to assist in relocating certain of their personnel to other countries and we expect to incur certain direct and incremental expenses in fiscal 2022, the full extent of which remains uncertain.

Further discussion of the potential impact of the Russian invasion of Ukraine on our business can be found in the section titled "Risk Factors" included in Part II, Item 1A below.

Impact of COVID-19

The COVID-19 pandemic, which began in early 2020, resulted in impacts on global societies, economies, financial markets and business practices. The worldwide spread of the COVID-19 pandemic resulted in authorities implementing numerous measures to contain the virus, including travel bans and restrictions, quarantines, shelter-in-place orders, and business limitations and shutdowns.

During 2020 and 2021, in response to the COVID-19 pandemic we adopted several measures to support the health and well-being of our global employees, customers, partners and communities. Such measures included temporarily requiring the vast majority of our employees to work remotely, suspending non-essential travel worldwide for our employees, and shifting some of our customer and industry events to virtual-only experiences.

Beginning in the first quarter of 2022, we have started to re-open our offices in the United States and certain other locations globally for employees to voluntarily return, electing to adopt a flexible and hybrid approach to working in our offices. We have taken recommended measures to protect our employees who return to the office that include respecting occupancy limitations applicable to our facilities and implementing vaccination requirements; among other safety measures. We have also introduced company-wide programs to support the mental well-being of our employees such as providing virtual wellness classes and also offering absence days under a program we call CaRing Days. As we continue to monitor the actual and potential effects of the COVID-19 pandemic across our business, we may further adjust our policies depending on the severity or spike in COVID-19 or as may be required or recommended by federal, foreign, state or local authorities.

Further discussion of the potential impact of the COVID-19 pandemic on our business can be found in the section titled "Risk Factors" included in Part II, Item 1A below.

Key Business Metrics

In addition to United States generally accepted accounting principles ("U.S. GAAP") and financial measures such as total revenues, gross margin, and cash flows from operations, we regularly review a number of key business metrics to evaluate growth trends, measure our performance, and make strategic decisions. We discuss revenues and gross margin under "Results of Operations", and cash flow from operations and free cash flows under "Liquidity and Capital Resources." Other key business metrics are discussed below.

Annualized Exit Monthly Recurring Subscriptions

We believe that our Annualized Exit Monthly Recurring Subscriptions ("ARR") is a leading indicator of our anticipated subscriptions revenues. We believe that trends in revenue are important to understanding the overall health of our business, and we use these trends in order to formulate financial projections and make strategic business decisions. Our ARR equals our Monthly Recurring Subscriptions multiplied by 12. Our Monthly Recurring Subscriptions equals the monthly value of all customer recurring charges at the end of a given month. For example, our Monthly Recurring Subscriptions at March 31, 2022 was $157.9 million. As such, our ARR at March 31, 2022 was $1.9 billion compared to $1.4 billion at March 31, 2021.

RingCentral Office Annualized Exit Monthly Recurring Subscriptions

We calculate our RingCentral Office Annualized Exit Monthly Recurring Subscriptions ("Office ARR") in the same manner as we calculate our ARR, except that primarily customer subscriptions from RingCentral Office and RingCentral customer engagement solutions customers are included when determining Monthly Recurring Subscriptions for the purposes of calculating this key business metric. We believe that trends in revenue with respect to these products are important to the understanding of the overall health of our business, and we use these trends in order to formulate financial projections and make strategic business decisions. Our Office ARR at March 31, 2022 was $1.8 billion.

Net Monthly Subscription Dollar Retention Rate

We believe that our Net Monthly Subscription Dollar Retention Rate provides insight into our ability to retain and grow subscriptions revenue, as well as our customers' potential long-term value to us. We believe that our ability to retain our customers and expand their use of our solutions over time is a leading indicator of the stability of our revenue base and we use these trends in order to formulate financial projections and make strategic business decisions. We define our Net Monthly Subscription Dollar Retention Rate as (i) one plus (ii) the quotient of Dollar Net Change divided by Average Monthly Recurring Subscriptions.

We define Dollar Net Change as the quotient of (i) the difference of our Monthly Recurring Subscriptions at the end of a period minus our Monthly Recurring Subscriptions at the beginning of a period minus our Monthly Recurring Subscriptions at the end of the period from new customers we added during the period, all divided by (ii) the number of months in the period. We define our Average Monthly Recurring Subscriptions as the average of the Monthly Recurring Subscriptions at the beginning and end of the measurement period.

For example, if our Monthly Recurring Subscriptions were $118 at the end of a quarterly period and $100 at the beginning of the period, and $20 at the end of the period from new customers we added during the period, then the Dollar Net Change would be equal to ($0.67), or the amount equal to the difference of $118 minus $100 minus $20, all divided by three months. Our Average Monthly Recurring Subscriptions would equal $109, or the sum of $100 plus $118, divided by two. Our Net Monthly Subscription Dollar Retention Rate would then equal 99.4%, or approximately 99%, or one plus the quotient of the Dollar Net Change divided by the Average Monthly Recurring Subscriptions.

Our key business metrics for the five quarterly periods ended March 31, 2022 were as follows (dollars in millions):

	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021
Net Monthly Subscription Dollar Retention Rate	>99%	>99%	>99%	>99%	>99%
Annualized Exit Monthly Recurring Subscriptions	$ 1,894.8	$ 1,799.9	$ 1,635.6	$ 1,516.3	$ 1,407.4
RingCentral Office Annualized Exit Monthly Recurring Subscriptions	$ 1,813.7	$ 1,715.9	$ 1,551.1	$ 1,431.0	$ 1,322.3

Results of Operations

The following tables set forth selected consolidated statements of operations data and such data as a percentage of total revenues. The historical results presented below are not necessarily indicative of the results that may be expected for any future period (in thousands):

	Three Months Ended March 31,	
	2022	2021
Revenues		
Subscriptions	$ 439,927	$ 325,223
Other	27,729	27,133
Total revenues	467,656	352,356
Cost of revenues		
Subscriptions	129,689	73,247
Other	25,785	23,734
Total cost of revenues	155,474	96,981
Gross profit	312,182	255,375
Operating expenses		
Research and development	90,274	62,676
Sales and marketing	254,455	179,249
General and administrative	70,995	55,461
Total operating expenses	415,724	297,386
Loss from operations	(103,542)	(42,011)
Other income (expense), net		
Interest expense	(1,232)	(16,278)
Other income (expense)	(45,219)	58,543
Other income (expense), net	(46,451)	42,265
Gain (loss) before income taxes	(149,993)	254
Provision for income taxes	979	440
Net loss	$ (150,972)	$ (186)

Percentage of Total Revenues*

	Three Months Ended March 31,	
	2022	2021
Revenues		
Subscriptions	94 %	92 %
Other	6	8
Total revenues	100	100
Cost of revenues		
Subscriptions	28	21
Other	6	7
Total cost of revenues	33	28
Gross profit	67	72
Operating expenses		
Research and development	19	18
Sales and marketing	54	51
General and administrative	15	16
Total operating expenses	89	84
Loss from operations	(22)	(12)
Other income (expense), net		
Interest expense	—	(5)
Other income (expense)	(10)	17
Other income (expense), net	(10)	12
Gain (loss) before income taxes	(32)	—
Provision for income taxes	—	—
Net loss	(32)%	— %

* Percentages may not add up due to rounding.

Comparison of the Three Months Ended March 31, 2022 and 2021

Revenues

	Three Months Ended March 31,			
(in thousands, except percentages)	2022	2021	$ Change	% Change
Revenues				
Subscriptions	$ 439,927	$ 325,223	$ 114,704	35 %
Other	27,729	27,133	596	2 %
Total revenues	$ 467,656	$ 352,356	$ 115,300	33 %
Percentage of revenues				
Subscriptions	94 %	92 %		
Other	6	8		
Total	100 %	100 %		

Subscriptions revenue. Subscriptions revenue increased by $114.7 million, or 35%, for the three months ended March 31, 2022, as compared to the respective prior year period. The increase was primarily a combination of the acquisition of new customers and upsells of seats and additional offerings to our existing customer base, from our MVP and contact center solutions. This growth was primarily driven by an increase in sales to our mid-market and enterprise customers as we continue to move up market and increase in sales through our direct and indirect sales channels, including resellers, strategic partners and carriers. Although we expect to continue to add new customers and to increase the usage of our product for existing customers,

we will continue to monitor the COVID-19 pandemic carefully and its impact on customer demand, contract duration, churn, payment terms, and credit card declines. Fluctuations in foreign currency exchange rates and volatility in the market, including those resulting from the macroeconomic impact of the ongoing Russian invasion of Ukraine and the continued effects of the COVID-19 pandemic, could also cause variability in our revenue.

Other revenues. Other revenues are primarily comprised of product revenue from the sale of pre-configured phones and professional services.

Other revenues increased by $0.6 million, or 2%, for the three months ended March 31, 2022, as compared to the respective prior year period, primarily due to the increase in product sales and professional services resulting from the overall growth in our business. Due to evolving hybrid work environments, we continued to see a shift towards using RingCentral apps on laptops and mobile devices over traditional desktop phones which impacted the demand of phones and timing of professional services. We will continue to monitor the COVID-19 pandemic carefully and its impact on phone and professional services revenue.

Cost of Revenues and Gross Margin

	Three Months Ended March 31,			
(in thousands, except percentages)	**2022**	**2021**	**$ Change**	**% Change**
Cost of revenues				
Subscriptions	$ 129,689	$ 73,247	$ 56,442	77 %
Other	25,785	23,734	2,051	9 %
Total cost of revenues	$ 155,474	$ 96,981	$ 58,493	60 %
Gross margins				
Subscriptions	71 %	77 %		
Other	7 %	13 %		
Total gross margin %	67 %	72 %		

Subscriptions cost of revenues and gross margin. Cost of subscriptions revenues increased by $56.4 million, or 77%, for the three months ended March 31, 2022 as compared to the respective prior year period. The higher cost of subscription revenues were due to amortization of acquired intangible assets of $32.5 million, third-party costs to support our solution offerings of $8.3 million, increased infrastructure support costs of $9.0 million, and personnel and contractor-related costs of $6.2 million. Personnel and contractor related costs includes share-based compensation expense of $3.5 million. Gross margin decrease is driven by $32.5 million of incremental amortization from certain intangible assets we acquired in the fourth quarter of 2021.

The increase in expenses was driven by investments in our infrastructure and capacity to improve the availability of our subscription offerings, while also supporting the growth of new customers and increased usage of our subscriptions by our existing customer base, in addition to amortization of intangible assets we acquired in prior year. We expect subscription gross margin to be within a relatively similar range in the future. However, we continue to monitor the COVID-19 pandemic carefully and its impact on our customers.

Other cost of revenues and gross margin. Cost of other revenues increased by $2.1 million, or 9%, for the three months ended March 31, 2022 as compared to the respective prior year period. This was primarily due to an increase in personnel costs of $2.2 million including share-based compensation expense. Gross margin decreased mainly driven by headcount growth for professional services in the first quarter of 2022 compared to the respective prior year period.

We continue to monitor the impact of the COVID-19 pandemic, including the severity of breakthrough cases and newer variants and their potential impact, on timing of professional services and transaction price of product sales.

Research and Development

(in thousands, except percentages)	Three Months Ended March 31, 2022	2021	$ Change	% Change
Research and development	$ 90,274	$ 62,676	$ 27,598	44 %
Percentage of total revenues	19 %	18 %		

Research and development expenses increased by $27.6 million, or 44%, for the three months ended March 31, 2022 as compared to the respective prior year period, primarily due to a $26.0 million increase in personnel and contractor costs, and $2.3 million in overhead costs to support our research and development efforts. The increase in personnel and contractor costs was mainly driven by $10.9 million related to headcount growth and $10.0 million related to share-based compensation expense primarily driven by equity awards granted to new and existing employees.

The increases in research and development headcount and other expense categories were driven by continued investment in current and future software development projects for our applications. Given the continued emphasis and focus on product innovation, we expect research and development expenses to continue to increase in absolute dollars.

Sales and Marketing

(in thousands, except percentages)	Three Months Ended March 31, 2022	2021	$ Change	% Change
Sales and marketing	$ 254,455	$ 179,249	$ 75,206	42 %
Percentage of total revenues	54 %	51 %		

Sales and marketing expenses increased by $75.2 million, or 42%, for the three months ended March 31, 2022 as compared to the respective prior year period, primarily due to increases in personnel and contractor costs of $29.8 million, advertising and marketing costs of $18.4 million, third-party commissions of $17.8 million, and amortization of deferred sales commission costs of $7.3 million. Of the total increase in personnel and contractor costs, $18.5 million was due to higher share-based compensation expense primarily driven by equity awards granted to new and existing employees and $7.8 million attributable to headcount growth.

The increases in sales and marketing headcount and other expense categories were necessary to support our growth strategy to acquire new customers with a focus on larger customers, and to establish brand recognition to achieve greater penetration into the North America and international markets. Additionally, we expect sales and marketing expenses to continue to increase in absolute dollars as we continue to expand our presence in North America and international markets.

General and Administrative

(in thousands, except percentages)	Three Months Ended March 31, 2022	2021	$ Change	% Change
General and administrative	$ 70,995	$ 55,461	$ 15,534	28 %
Percentage of total revenues	15 %	16 %		

General and administrative expenses increased by $15.5 million, or 28%, for the three months ended March 31, 2022 as compared to the respective prior year period, primarily due to increases in personnel and contractor costs of $11.9 million, and overhead and other costs of $1.7 million. Of the total increase in personnel and contractor costs, $9.8 million was mainly due to higher share-based compensation expense driven by equity awards granted to new and existing employees.

We expect general and administrative expenses to continue to increase in absolute dollars as we continue to make additional investments in processes, systems, and personnel to support our anticipated revenue growth.

Other Income (Expense), Net

(in thousands, except percentages)	Three Months Ended March 31, 2022	2021	$ Change	% Change
Interest expense	$ (1,232)	$ (16,278)	$ 15,046	nm
Other income (expense)	(45,219)	58,543	(103,762)	nm
Other income (expense), net	$ (46,451)	$ 42,265	$ (88,716)	nm

nm - not meaningful

Interest expense for the three months ended March 31, 2022 decreased by $15.0 million compared to the respective prior year period. The decrease was primarily due to lower non-cash interest expense related to our 2025 and 2026 Notes as a result of adopting ASU No. 2020-06 on January 1, 2022. Refer to Note 1, *Description of Business and Summary of Significant Accounting Policies*, in this Quarterly Report on Form 10-Q for further information.

Other expense, net, for the three months ended March 31, 2022 increased by $103.8 million compared to the respective prior year period. The increase was primarily due to a net unrealized loss recognized on our long-term investments driven by changes in the investee's stock price. The unrealized losses recognized on our long-term investments and marketable equity securities for the three months ended March 31, 2022 was $48.3 million compared to a gain of $56.6 million recognized in the respective prior year period.

We expect the gain or loss on our long-term investments to continue to fluctuate due to changes in the investee's stock price.

We expect interest income to further fluctuate in the future due to interest rate volatility in the current macroeconomic environment and reduction of our investments in money market funds.

Net Loss

Net loss increased by $150.8 million for the three months ended March 31, 2022, as compared to the respective prior year period, mainly due to non-cash items including an increase of $105.1 million unrealized net loss recognized from our long-term investments primarily driven by changes in the investee's stock price, and $42.6 million higher share-based compensation expense primarily driven by equity awards granted to new and existing employees.

Liquidity and Capital Resources

Liquidity is a measure of our ability to access sufficient cash flows to meet the short-term and long-term cash requirements of our business operations.

We finance our operations primarily through sales to our customers, which could be billed either monthly or annually one year in advance. For customers with annual or multi-year contracts and those who opt for annual invoicing, we generally invoice only one annual period in advance and revenue is deferred for such advanced billings. We also finance our operations from proceeds from issuance of convertible senior notes, proceeds from issuance of convertible preferred stock, and proceeds from issuance of stock under our stock plans.

As of March 31, 2022 and December 31, 2021, we had cash and cash equivalents of $301.9 million and $267.2 million, respectively. In addition to the cash provided by our operating activities, the capped call transaction relating to our 2023 Notes can be settled for cash proceeds of up to $210 million if settled on its maturity date, providing an additional source of cash. For additional details, refer to Note 5, Convertible Senior Notes, to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q. We are in compliance with all covenants under our 2026 and 2025 Notes as of March 31, 2022.

In December 2021, our board of directors authorized a share repurchase program under which we may repurchase up to $100 million of our outstanding shares of Class A Common Stock. Under the program, share repurchases may be made at our discretion from time to time in open market transactions, privately negotiated transactions, or any other means. The program does not obligate us to repurchase any specific dollar amount or to acquire any specific number of shares of our Class A Common Stock. The timing and number of any shares repurchased under the program will depend on a variety of factors, including stock price, trading volume, and general business and market conditions. The authorization is effective until December 31, 2022. As of March 31, 2022, no shares were repurchased under this plan.

We believe that our operations, existing liquidity sources as well as capital resources and ability to raise cash through additional financing will satisfy our future cash requirements and obligations for at least the next 12 months. Our future capital requirements will depend on many factors, including revenue growth and costs incurred to support customer growth, acquisitions and expansions, sales and marketing, research and development, increased general and administrative expenses to support the anticipated growth in our operations, and capital equipment required to support our growing headcount and in support of our co-location data center facilities, as well as the extent of the COVID-19 pandemic and its effect on our business. Our capital expenditures in future periods are expected to grow in line with our business. We continually evaluate our capital needs and may decide to raise additional capital to fund the growth of our business for general corporate purposes through public or private equity offerings or through additional debt financing. In the future, we may also make investments in or acquire businesses or technologies that could require us to seek additional equity or debt financing. Access to additional capital may not be available or on favorable terms. The uncertainty created by the changing markets and macroeconomic conditions related to the continuing effects of the COVID-19 pandemic may also impact our customers' ability to pay on a timely basis, which could negatively impact our operating cash flows.

The table below provides selected cash flow information (in thousands):

	Three Months Ended March 31,	
	2022	2021
Net cash provided by operating activities	$ 58,995	$ 36,955
Net cash used in investing activities	(21,927)	(26,836)
Net cash used in financing activities	(1,930)	(186,496)
Effect of exchange rate changes	(371)	(409)
Net increase (decrease) in cash and cash equivalents	$ 34,767	$ (176,786)

Net Cash Provided By Operating Activities

Cash used in or provided by operating activities is driven by the timing of customer collections, as well as the amount and timing of disbursements to our vendors, the amount of cash we invest in personnel, marketing, and infrastructure costs to support the anticipated growth of our business, and payments under strategic arrangements.

Net cash provided by operating activities was $59.0 million for the three months ended March 31, 2022. The cash flow from operating activities was driven by timing of cash receipts from customers and carriers, primarily offset by cash payments for personnel related costs and to vendors.

Net cash provided by operating activities for the three months ended March 31, 2022, increased by $22.0 million as compared to the respective prior year period. This change reflects working capital impacts resulting from the timing of payments and collections.

Net Cash Used In Investing Activities

Our primary investing activities have consisted of our purchase of intellectual property assets, capital expenditures, internal-use software, and long-term investments. As our business grows, we expect our capital expenditures to continue to increase.

Net cash used in investing activities was $21.9 million for the three months ended March 31, 2022, primarily due to capital expenditures including personnel-related costs associated with development of internal-use software of $20.4 million.

Net cash used in investing activities for the three months ended March 31, 2022 decreased by $4.9 million as compared to the respective prior year period. The decrease was primarily due to fewer acquisitions of intellectual property assets compared to the respective prior year period and investments in certain equity securities of $6.9 million, partially offset by an increase in investment in capital expenditures and internal-use software development of $2.0 million.

Net Cash Used In Financing Activities

Our primary financing activities have consisted of raising capital through the issuance of stock under our stock plans, partially offset by payments toward our current financing obligations.

Net cash used in financing activities was $1.9 million for the three months ended March 31, 2022, primarily due to payments of $1.8 million we made towards our current financing obligations in the first quarter of 2022.

Net cash used in financing activities for the three months ended March 31, 2022 decreased by $184.6 million as compared to the respective prior year period. For the three months ended March 31, 2021, net cash used in financing activities was $186.5 million, compared to $1.9 million of net cash used in financing activities for the three months ended March 31, 2022, leading to a net decrease of $184.6 million. Net cash used in financing activities for the three months ended March 31, 2021, was primarily due to $178.5 million paid for the partial repurchase and redemption of our 2023 Notes, $3.6 million settlement of our contingent consideration in connection with prior-year business acquisition, and $3.7 million for net taxes paid in connection with our stock plans.

Non-GAAP Free Cash Flow

To supplement our statements of cash flows presented on a GAAP basis, we use non-GAAP measures of cash flows to analyze cash flow generated from our operations. We define free cash flow, a non-GAAP financial measure, as GAAP net cash provided by (used in) operating activities plus cash paid for strategic partnerships and repayments of convertible senior notes attributable to debt discount, reduced by purchases of property and equipment and capitalized internal-use software. We believe information regarding free cash flow provides useful information to management and investors in understanding the strength of liquidity and available cash. A limitation of the use of free cash flow is that it does not represent the total increase or decrease in our cash balance for the period. Free cash flow should not be considered in isolation or as an alternative to cash flows from operations, and should be considered alongside our other GAAP-based financial liquidity performance measures, such as net cash provided by operating activities and our other GAAP financial results.

The following table presents a reconciliation of free cash flow to net cash provided by operating activities, the most directly comparable GAAP measure, for each of the periods presented (in thousands):

	Three Months Ended March 31,	
	2022	2021
Net cash provided by operating activities	$ 58,995	$ 36,955
Repayment of convertible senior notes attributable to debt discount	—	4,712
Non-GAAP net cash provided by operating activities	58,995	41,667
Purchases of property and equipment	(6,852)	(8,721)
Capitalized internal-use software	(13,591)	(9,757)
Non-GAAP free cash flow	$ 38,552	$ 23,189

Backlog

We have generally signed new customers contracts with varying length, from month-to-month to multi-year terms for our subscription services. At any point in the contract term, there can be amounts allocated to services that we have not yet contractually performed, which constitute a backlog. Until we meet our performance obligations, we do not recognize them as revenues in our consolidated financial statements. Given the variability in our contract length, we believe that backlog is not a reliable indicator of future revenues and we do not utilize backlog as a key management metric internally.

Deferred Revenue

Deferred revenue primarily consists of the unearned portion of monthly or annual invoiced fees for our subscriptions, which we recognize as revenue in accordance with our revenue recognition policy. For customers with multi-year contracts, we generally invoice for only one monthly or annual subscription period in advance. Therefore, our deferred revenue balance does not capture the full contract value of multi-year contracts. Accordingly, we believe that deferred revenue is not a reliable indicator of future revenues and we do not utilize deferred revenue as a key management metric internally.

Contractual Obligations and Commitments

Except as set forth below, and in Notes 3, 5, 6 and 7 in the accompanying notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, there were no significant changes in our commitments under contractual obligations, as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021.

Contingencies

We are and may be in the future subject to certain legal proceedings and from time to time may be involved in a variety of claims, lawsuits, investigations, and proceedings relating to contractual disputes, intellectual property rights, employment matters, regulatory compliance matters, and other matters relating to various claims that arise in the normal course of business. We record a provision for a liability when we believe that it is both probable that a liability has been incurred, and the amount can be reasonably estimated. Significant judgment is required to determine both probability and the estimated amount of loss. Such legal proceedings are inherently unpredictable and subject to significant uncertainties, some of which are beyond our control. Should any of these estimates and assumptions change or prove to be incorrect, it could have a significant impact on our results of operations, financial position, and cash flows.

Off-Balance Sheet Arrangements

During the three months ended March 31, 2022 and 2021, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in foreign currency exchange rates and interest rates. We do not hold or issue financial instruments for trading purposes.

Foreign Currency Risk

The majority of our sales and contracts are denominated in U.S. dollars, and therefore our net revenue is not currently subject to significant foreign currency risk. As part of our international operations, we charge customers in British Pounds, European Union ("EU") Euro, Canadian Dollars and Australian Dollars, among others. Fluctuations in foreign currency exchange rates and volatility in the market, including those resulting from the effects of the ongoing Russian invasion of Ukraine and the continued effects of the COVID-19 pandemic, will cause variability in our revenue. However, this impact has not been significant during the three months ended March 31, 2022. Our operating expenses are generally denominated in the currencies of the countries in which our operations are located, which are primarily in the U.S., and to a lesser extent in Canada, Europe, and Asia-Pacific. The functional currency of our foreign subsidiaries is generally the local currency. Our consolidated results of operations and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates and may be adversely affected in the future due to changes in foreign currency exchange rates. To date, we have not entered into any hedging arrangements with respect to foreign currency risk. During the three months ended March 31, 2022, a hypothetical 10% change in foreign currency exchange rates applicable to our business would not have had a material impact on our condensed consolidated financial statements. As our international operations continue to expand, risks associated with fluctuating foreign currency rates may increase. We will continue to reassess our approach to managing these risks.

Interest Rate Risk

As of March 31, 2022, we had cash and cash equivalents of $301.9 million. We invest our cash and cash equivalents in short-term money market funds. We have experienced a decline in the interest rates associated with money market funds over the last several quarters. Declines in interest rates would reduce future interest income. For the three months ended March 31, 2022, a hypothetical 10% increase or decrease in overall interest rates would not have had a material impact on our interest income. The carrying amount of our cash equivalents reasonably approximates fair values. Due to the short-term nature of our money-market funds, we believe that exposure to changes in interest rates will not have a material impact on the fair value of our cash equivalents. Interest income may further reduce in the future due to interest rate volatility in the current macroeconomic environment.

As of March 31, 2022, we had $992.1 million and $643.0 million outstanding from our 2025 Notes and 2026 Notes (collectively the "Notes"), respectively. We carry the Notes at face value less unamortized discount on our balance sheet, and we present the fair value for required disclosure purposes only. The Notes have a zero percent fixed annual interest rate and, therefore, we have no economic exposure to changes in interest rates. The fair value of the Notes is exposed to interest rate risk. Generally, the fair value of our fixed interest rate Notes will increase as interest rates decline and decrease as interest rates increase. In addition, the fair values of the Notes are affected by our stock price. The fair value of the Notes will generally increase as our common stock price increases and will generally decrease as our common stock price decrease in value.

Market Risk

As of March 31, 2022, we had long-term investments in convertible and redeemable preferred stock, and certain marketable equity investments of $161.2 million. These investments are subject to market related risks that could decrease or increase the fair value of our holdings. These investments are adjusted to fair value based on market inputs at the balance sheet date, which are subject to market-related risks that could decrease or increase the fair value of our holdings, including uncertainty created by the macroeconomic conditions related to the Russian invasion of Ukraine and continuing effects of the COVID-19 pandemic.

A fluctuation in the investee's stock price, volatility or a combination of both could have an adverse impact on the fair value of our investment. A hypothetical adverse stock price or volatility change of 10% could have resulted in a potential decrease of up to $8.2 million in the fair-value of our investment as of March 31, 2022.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2022. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of March 31, 2022, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that has significantly affected, or is reasonably likely to significantly affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating our disclosure controls and procedures, management recognizes that any disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

Information with respect to this item may be found in Note 7, *Commitments and Contingencies*, in the accompanying notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q under "Legal Matters", which is incorporated herein by reference.

Item 1A. Risk Factors

This Quarterly Report on Form 10-Q contains forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, the risk factors set forth below. The risks and uncertainties described in this Quarterly Report on Form 10-Q are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently believe are immaterial may also affect our business. See the section entitled "Special Note Regarding Forward-Looking Statements" of this Quarterly Report on Form 10-Q for a discussion of the forward-looking statements that are qualified by these risk factors. If any of these known or unknown risks or uncertainties actually occurs and have a material adverse effect on us, our business, financial condition and results of operations could be seriously harmed.

Summary Risk Factors

An investment in our Class A Common Stock involves a high degree of risk, and the following is a summary of key risk factors when considering an investment. You should read this summary together with the more detailed description of each risk factor contained in the subheadings further below.

- We have incurred significant losses and negative cash flows in the past and anticipate continuing to incur losses for at least the foreseeable future, and we may therefore not be able to achieve or sustain profitability in the future.
- Our quarterly and annual results of operations have fluctuated in the past and may continue to do so in the future. As a result, we may fail to meet or to exceed the expectations of research analysts or investors, which could cause our stock price to fluctuate.
- We rely on third parties, including third parties in countries outside the U.S. including Russia (previously) and Ukraine, for some of our software development, quality assurance, operations, and customer support, and these activities may be impacted by Russia's ongoing invasion of Ukraine.
- Our rapid growth and the quickly changing markets in which we operate make it difficult to evaluate our current business and future prospects, which may increase the risk of investing in our stock.
- Our future operating results will rely in part upon the successful execution of our strategic partnerships with Avaya, Atos/Unify, ALE, Mitel, Vodafone, DT, Verizon and others, which may not be successful.
- We face intense competition in our markets and may lack sufficient financial or other resources to compete successfully.
- We rely and may in the future rely significantly on our strategic partners, resellers, and carriers to sell our subscriptions; our failure to effectively develop, manage, and maintain our indirect sales channels could materially and adversely affect our revenues.
- To deliver our subscriptions, we rely on third parties for our network connectivity and for certain of the features in our subscriptions.
- Interruptions or delays in service from our third-party data center hosting facilities and co-location facilities could impair the delivery of our subscriptions, require us to issue credits or pay penalties and harm our business.
- Failures in Internet infrastructure or interference with broadband access could cause current or potential users to believe that our systems are unreliable, possibly leading our customers to switch to our competitors or to avoid using our subscriptions.
- A security incident, such as a cyber-attack, information security breach or incident or denial of service event could delay or interrupt service to our customers, harm our reputation, or subject us to significant liability.
- Increased customer turnover, or costs we incur to retain and upsell our customers, could materially and adversely affect our financial performance.

- If we are unable to attract new customers to our subscriptions or upsell to those customers on a cost-effective basis, our business will be materially and adversely affected.

- The dual class structure of our common stock as contained in our charter documents has the effect of concentrating voting control with a limited number of stockholders that held our stock prior to our initial public offering, including our founders and our executive officers, employees and directors and their affiliates, and limiting other stockholders' ability to influence corporate matters.
- Our Series A Convertible Preferred Stock has rights, preferences and privileges that are not held by, and are preferential to the rights of, our Class A Common stockholders, which could adversely affect our liquidity and financial condition.

Risks Related to Our Business and Our Industry

We have incurred significant losses and negative cash flows in the past and anticipate continuing to incur losses for at least the foreseeable future, and we may therefore not be able to achieve or sustain profitability in the future.

We have incurred substantial net losses since our inception. Over the past few years, we have spent considerable amounts of time and money to develop new business communications solutions and enhanced versions of our existing business communications solutions to position us for future growth. Additionally, we have incurred substantial losses and expended significant resources upfront to market, promote and sell our solutions and expect to continue to do so in the future. We also expect to continue to invest for future growth, including for advertising, customer acquisition, technology infrastructure, storage capacity, services development and international expansion. In addition, as a public company, we incur significant accounting, legal, and other expenses.

We expect to continue to incur losses for at least the foreseeable future and will have to generate and sustain increased revenues to achieve future profitability. Achieving profitability will require us to increase revenues, manage our cost structure, and avoid significant liabilities. Revenue growth may slow, revenues may decline, or we may incur significant losses in the future for a number of possible reasons, including general macroeconomic conditions, increasing competition (including competitive pricing pressures), a decrease in the growth of the markets in which we compete, in particular the SaaS market, or if we fail for any reason to continue to capitalize on growth opportunities. Additionally, we may encounter unforeseen operating expenses, difficulties, complications, delays, service delivery, and quality problems and other unknown factors that may result in losses in future periods. If these losses exceed our expectations or our revenue growth expectations are not met in future periods, our financial performance will be harmed and our stock price could be volatile or decline.

Our quarterly and annual results of operations have fluctuated in the past and may continue to do so in the future. As a result, we may fail to meet or to exceed the expectations of research analysts or investors, which could cause our stock price to fluctuate.

Our quarterly and annual results of operations have varied historically from period to period, and we expect that they will continue to fluctuate due to a variety of factors, many of which are outside of our control, including:

- our ability to retain existing customers, resellers, partners, and carriers, and expand our existing customers' user base, and attract new customers;
- our ability to introduce new solutions;
- the actions of our competitors, including pricing changes or the introduction of new solutions;
- our ability to effectively manage our growth;
- our ability to successfully penetrate the market for larger businesses;
- the mix of annual and multi-year subscriptions at any given time;
- the timing, cost, and effectiveness of our advertising and marketing efforts;
- the timing, operating cost, and capital expenditures related to the operation, maintenance and expansion of our business;
- our ability to successfully and timely execute on, integrate, and realize the benefits of any acquisition, investment, strategic partnership, or other strategic transaction or partnership we may make or undertake;
- service outages or actual or perceived information security breaches or incidents and any related impact on our reputation;
- our ability to accurately forecast revenues and appropriately plan our expenses;

- our ability to realize our deferred tax assets;
- costs associated with defending and resolving intellectual property infringement and other claims;
- changes in tax laws, regulations, or accounting rules;
- the timing and cost of developing or acquiring technologies, services or businesses, and our ability to successfully manage any such acquisitions;
- the impact of foreign currencies on our business as we continue to expand our business internationally; and
- the impact of worldwide economic, political, industry, and market conditions, including the effects of the ongoing Russian invasion of Ukraine, including international sanctions against Russia, and the continued effects of the global outbreak of COVID-19.

Any one of the factors above, or the cumulative effect of some or all of the factors referred to above, may result in significant fluctuations in our quarterly and annual results of operations. This variability and unpredictability could result in our failure to meet our publicly announced guidance or the expectations of securities analysts or investors for any period, which could cause our stock price to decline. In addition, a significant percentage of our operating expenses is fixed in nature and is based on forecasted revenues trends. Accordingly, in the event of revenue shortfalls, we may not be able to mitigate the negative impact on net income (loss) and margins in the short term. If we fail to meet or exceed the expectations of research analysts or investors, the market price of our shares could fall substantially, and we could face costly lawsuits, including securities class-action suits.

We rely on third parties, including third parties in countries outside the U.S. including Russia (previously) and Ukraine, for some of our software development, quality assurance, operations, and customer support, and these activities may be impacted by Russia's ongoing invasion of Ukraine.

We currently depend on various third-parties for some of our software development efforts, quality assurance, operations, and customer support services. Specifically, we have outsourced some of our software development and design, quality assurance, and operations activities to third-party contractors that have employees and consultants located in Odessa, Ukraine, and Manila, the Philippines, and previously, St. Petersburg, Russia. In addition, we outsource a portion of our customer support, inside sales and network operation control functions to third-party contractors located in Manila, the Philippines. Our dependence on third-party contractors creates a number of risks, in particular, the risk that we may not maintain service quality, control, or effective management with respect to these business operations.

Our third-party partners in Ukraine and Russia have been impacted by Russia's ongoing invasion of Ukraine. In particular, the invasion has forced our Russian partner to cease its operations in St. Petersburg and a substantial proportion of the affected personnel have relocated to other countries such as Georgia. Currently, our Ukrainian partner is continuing to provide services in Ukraine. However, Russia's ongoing invasion of Ukraine may result in reducing or discontinuing our partner operations in Ukraine, and may also delay our product development efforts and/or the release of new features and functionalities. In addition, we expect to incur increased costs associated with managing or relocating our partners' personnel or engaging with alternative third-party contractors or hiring employees outside of Russia and Ukraine, which could negatively impact our operating results and financial condition. We are working with our affected third-party contractors to relocate their personnel to other countries; however, we cannot assure you that we can permanently relocate them in a cost-effective manner, or at all. In addition, we cannot assure you that the geographies where we relocate such staff will possess the same level of cost efficiencies as Russia and Ukraine. Also, while we do not store any customer data in Russia or Ukraine and currently are not dependent on our operations in these locations to continue to provide our services, we may need to rely on the affected Russian personnel to assist us with preventing and remediating any cyber-attacks and the ongoing invasion could impact our ability to respond in a timely manner or at all.

In addition, as a result of the ongoing invasion of Ukraine by Russia, the U.S., other North Atlantic Treaty Organization member states, as well as non-member states, have implemented sanctions against Russia and certain Russian banks, enterprises and individuals. These as well as any future additional sanctions and any resulting conflict between Russia, the U.S. and other countries could create global security concerns, increase the risk of cyber-attacks and have a lasting impact on regional and global economies, all of which could have a material adverse effect on our business, financial condition and results of operations.

We also rely on purchased or leased hardware and software licensed from third parties in order to offer our subscriptions, and in some cases, we integrate third-party licensed software components into our platform. Any errors or defects in third-party hardware or software could result in errors or a failure of our subscriptions which could harm our business.

We anticipate that we will continue to depend on our third-party relationships in order to grow our business for the foreseeable future. If we are unsuccessful in maintaining existing and, if needed, establishing new relationships with third parties, our ability to efficiently operate existing services or develop new services and provide adequate customer support could be impaired, and, as a result, our competitive position or our results of operations could suffer.

The global COVID-19 pandemic could harm our business, financial condition and results of operations.

The COVID-19 pandemic has continued to impact worldwide economic activity and financial markets. In light of the uncertain situation relating to the spread of COVID-19, we have taken precautionary measures intended to minimize the risk of the virus to our employees, our customers, and the communities in which we operate, which could negatively impact our business. After closing our offices and ceasing all non-essential travel earlier in the pandemic, we have reopened our offices to employees worldwide and currently allow non-essential travel. We continue to monitor the situation and may adjust our current policies as more information and public health guidance becomes available. This could result in our again temporarily suspending travel and restricting the ability to do business in person, which could negatively affect our customer success efforts, sales and marketing efforts, challenge our ability to enter into customer and other commercial contracts in a timely manner and our ability to source, assess, negotiate, and successfully implement and execute on, and realize the benefits of, acquisitions, investments, strategic partnerships and other strategic transactions, slow down our recruiting efforts, or create operational or other challenges, any of which could harm our business, financial condition and results of operations. In addition, the COVID-19 pandemic has and may continue to disrupt the operations of our customers, resellers and other channel partners, strategic partners, suppliers and other third-party providers, which could continue to negatively impact our business, financial condition and results of operations. In addition, although the U.S. economy has recovered since the early onset of the COVID-19 pandemic, the rapid spread of variants of the virus and the ongoing pandemic and preventative measures taken worldwide could adversely affect economies and financial markets globally in the future, which could decrease technology spending and continue to adversely affect demand for our solutions and harm our business. The full extent to which the COVID-19 pandemic may impact our financial condition or results of operations remains uncertain.

Our rapid growth and the quickly changing markets in which we operate make it difficult to evaluate our current business and future prospects, which may increase the risk of investing in our stock.

We have grown rapidly since 2009, when we introduced RingCentral MVP, our flagship product. We have encountered and expect to continue to encounter risks and uncertainties frequently experienced by growing companies in rapidly changing markets. If our assumptions regarding these uncertainties are incorrect or change in reaction to changes in our markets, or if we do not manage or address these risks successfully, our results of operations could differ materially from our expectations, and our business could suffer.

Growth may place significant demands on our management and our infrastructure.

We continue to experience substantial growth in our business. This growth has placed and may continue to place significant demands on our management, organizational structure, and our operational and financial infrastructure. As our operations grow in size, scope, and complexity, we will need to increase our sales and marketing efforts and add additional sales and marketing personnel in various regions worldwide and improve and upgrade our systems and infrastructure to attract, service, and retain an increasing number of customers. For example, we expect the volume of simultaneous calls to increase significantly as our customer base grows. Our network hardware and software may not be able to accommodate this additional simultaneous call volume. The expansion of our systems and infrastructure will require us to commit substantial financial, operational, and technical resources in advance of an increase in the volume of business, with no assurance that the volume of business will increase. Any such additional capital investments will increase our cost base.

Continued growth could also strain our ability to maintain reliable service levels for our customers, resellers, and carriers, develop and improve our operational, financial and management controls, enhance our billing and reporting systems and procedures and recruit, train and retain highly skilled personnel. In addition, our existing systems, processes, and controls may not prevent or detect all errors, omissions, or fraud. We may also experience difficulties in managing improvements to our systems, processes, and controls or in connection with third-party software licensed to help us with such improvements. Any future growth, particularly as we continue to expand internationally, would add complexity to our organization and require effective communication and coordination throughout our organization. To manage any future growth effectively, we must continue to improve and expand our information technology and financial, operating, security and administrative systems and controls, and our business continuity and disaster recovery plans and processes. Additionally, our productivity and the quality of our solutions and services may be adversely affected if we do not integrate and train our new employees quickly and

effectively. If we fail to achieve the necessary level of efficiency in our organization as we grow, our business, results of operations and financial condition could be materially and adversely affected.

Our future operating results will rely in part upon the successful execution of our strategic partnerships with Avaya, Atos/Unify, ALE, Mitel, Vodafone, Deutsche, Verizon and others, which may not be successful.

A strategic partnership between two independent businesses is a complex, costly, and time-consuming process that requires significant management attention and resources. Realizing the benefits of our strategic partnerships, particularly our relationships with Avaya and its subsidiaries, Atos and its subsidiaries, including Unify Software and Solutions GmbH & CO. KG ("Unify"), ALE Holding ("ALE Holding") and its subsidiaries, including ALE International ("ALE International" and together "ALE"), Mitel, Vodafone and its subsidiaries, Deutsche, and its subsidiaries, and Verizon and its subsidiaries will depend on a variety of factors, including our ability to work with our strategic partners to develop, market and sell co-branded solutions, such as Avaya Cloud Office by RingCentral ("ACO"), Unify Office by RingCentral ("UO"), and Rainbow Office powered by RingCentral ("Rainbow Office"), and our other offerings, such as RingCentral MVP. Setting up and maintaining the operations and processes of these strategic partnerships may cause us to incur significant costs, disrupt our business and, if implemented ineffectively, would limit the expected benefits to us. In addition, the process of bringing ACO, UO, Rainbow Office and other co-branded solutions to market may take longer than anticipated or fail to materialize, which could negate or reduce our anticipated benefits and revenue opportunities. In addition, we must be successful in marketing and selling ACO to realize the benefits of our prepayment to Avaya of $345 million in our Class A Common Stock. The failure to successfully and timely implement and operate our strategic partnerships could harm our ability to realize the anticipated benefits of these partnerships and could adversely affect our results of operations.

We face intense competition in our markets and may lack sufficient financial or other resources to compete successfully.

The cloud-based business communications and collaboration solutions industry is competitive, and we expect competition to increase in the future. We face intense competition from other providers of business communications and collaboration systems and solutions.

Our competitors include traditional on-premise, hardware business communications providers such as ALE, Avaya, Cisco Systems, Inc., Mitel, NEC Corporation, Siemens Enterprise Networks, LLC, their resellers, and others, as well as companies such as Microsoft Corporation and Cisco Systems, Inc., and their resellers that license their software. In addition, certain of our carriers and strategic partners, such as AT&T, BT, TELUS, Vodafone, DT, Verizon, Avaya, Atos, ALE, and Mitel sell or are expected to sell our solutions, but they are also competitors for business communications. These companies have or may have significantly greater resources than us and currently, or may in the future, develop and/or host their own or other solutions through the cloud. Such competitors may not be successful in or cease marketing and selling our solutions to their customers and ultimately be able to transition some or all of those customers onto their competing solutions, which could materially and adversely affect our revenues and growth. We also face competition from other cloud companies and established communications providers that resell on-premise hardware, software, and hosted solutions, such as 8x8, Inc., Amazon.com, Inc., Dialpad, Inc., Fuze, Inc., StarBlue, Inc., Intermedia.net, Inc., J2 Global, Inc., LogMeIn, Inc, Microsoft Corporation, Nextiva, Inc., Twilio Inc., Vonage Holdings Corp., West Corporation, and Zoom Video Communications, Inc., which has introduced a voice solution. Established communications providers, such as AT&T, Verizon Communications Inc., Sprint Corporation and Comcast Corporation in the U.S., TELUS and others in Canada, and BT, Vodafone Group plc, and others in the U.K., that resell on-premise hardware, software, and hosted solutions, compete with us in business communications and currently, or may in the future, develop and/or host their own cloud solutions. We may also face competition from other large Internet companies, such as Alphabet Inc. (Google Voice), Facebook, Inc., Oracle Corporation, and salesforce.com, inc., any of which might launch its own cloud-based business communications services or acquire other cloud-based business communications companies in the future. We also compete against providers of communications platform as a service solutions and messaging software platforms with APIs such as Twilio Inc., Vonage Holdings Corp., and Slack Technologies, Inc. (acquired by salesforce.com, inc.), on which customers can build diverse solutions by integrating cloud communications into business applications. We face competition with respect to this solution from contact center and customer relationship management providers such as Amazon.com, Inc., Aspect Software, Inc., Avaya, Five9, Inc., NICE InContact, Genesys Telecommunications Laboratories, Inc., Serenova, LLC (acquired by Lifesize, Inc.), Talkdesk, Inc., Vonage Holdings Corp., salesforce.com, inc., and Twilio Inc. We also face competition from digital engagement vendors such as eGain Corporation, Lithium Technologies, LLC, LivePerson, Inc., SparkCentral Inc. (acquired by Hootsuite Inc.), among others named above that may offer similar features.

Many of our current and potential competitors have longer operating histories, significantly greater resources and name recognition, more diversified offerings, and larger customer bases than we have. As a result, these competitors may have

greater credibility with our existing and potential customers and may be better able to withstand an extended period of downward pricing pressure. In addition, certain of our competitors have partnered with, or been acquired by, and may in the future partner with or acquire, other competitors to offer services, leveraging their collective competitive positions, which makes it more difficult to compete with them and could significantly and adversely affect our results of operations. Demand for our platform is also sensitive to price. Many factors, including our marketing, user acquisition and technology costs, and our current and future competitors' pricing and marketing strategies, can significantly affect our pricing strategies. Our competitors may be able to adopt more aggressive pricing policies and devote greater resources to the development, promotion and sale of their services than we can to ours. Some of these service providers have in the past and may choose in the future to sacrifice revenues in order to gain market share by offering their services at lower prices or for free, or offering alternative pricing models, such as "freemium" pricing, in which a basic offering is provided for free with advanced features provided for a fee, on the services they offer. Our competitors may also offer bundled service arrangements offering a more complete service offering, despite the technical merits or advantages of our subscriptions. In addition, some of the commercially available solutions in the markets in which we compete, such as video and web conferencing solutions of our competitors, including Zoom Video Communications, Inc. and Microsoft Corporation, have seen dramatically increased adoption, usage and publicity in connection with the global response to the COVID-19 pandemic. Competition could result in a decrease to our prices, slow our growth, increase our customer turnover, reduce our sales, or decrease our market share.

We rely and may in the future rely significantly on our strategic partners, resellers, and carriers to sell our subscriptions; our failure to effectively develop, manage, and maintain our indirect sales channels could materially and adversely affect our revenues.

Our future success depends on our continued ability to establish and maintain a network of channel relationships, and we expect that we will need to expand our network in order to support and expand our historical base of smaller enterprises as well as attract and support larger customers and expand into international markets. An increasing portion of our revenues are derived from our network of sales agents and resellers, which we refer to collectively as resellers, many of which sell or may in the future decide to sell their own services or services from other business communications providers. We generally do not have long-term contracts with these resellers, and the loss of or reduction in sales through these third parties could materially reduce our revenues. Our competitors may in some cases be effective in causing our current or potential resellers to favor their services or prevent or reduce sales of our subscriptions. Furthermore, while AT&T, BT, TELUS, Vodafone, DT, Verizon, Avaya, Atos (through its subsidiary Unify), ALE, and Mitel also sell our solutions, they are also competitors for business communications. These companies have significantly greater resources than us and currently, or may in the future, develop and/or host their own or other solutions through the cloud. Such competitors may cease marketing or selling our solutions to their customers and ultimately be able to transition some or all of those customers onto their competing solutions, which could materially and adversely affect our revenues and growth. For example, AT&T launched a competing hosted business communications solution in 2016, which caused new subscriptions for our solution sold by AT&T to decline to an immaterial level until we entered into a revised agreement with AT&T in 2018, under which AT&T resumed reselling our solutions. We have also entered into certain agreements for strategic partnerships with Avaya, Atos, ALE, Mitel, Vodafone, DT and Verizon to sell certain of our solutions. Avaya introduced the ACO solution at the end of the first quarter of 2020, Atos and Unify introduced the UO solution during the third quarter of 2020, and ALE introduced the Rainbow Office solution in 2021; however, there can be no guarantee that Avaya, Atos, Unify, ALE, Mitel, Vodafone, DT, Verizon and/or any of their respective channel partners will be successful in marketing or selling our solutions or that they will not cease marketing or selling our solutions in the future. If our strategic partners and carriers and/or any of their respective channel partners are not successful in marketing and selling our solutions or cease to market and sell our solutions, our revenues and growth could be significantly and adversely affected. If we fail to maintain relationships with our resellers and other channel partners, carriers and strategic partners or fail to develop new and expanded relationships in existing or new markets, or if our networks of indirect channel relationships are not successful in their sales efforts, sales of our subscriptions may decrease and our operating results would suffer. In addition, we may not be successful in managing, training, and providing appropriate incentives to our existing resellers and other channel partners, carriers and strategic partners, and they may not be able to commit adequate resources in order to successfully sell our solutions.

Recruiting and retaining qualified resellers and other channel partners and carriers in our network and training them in our technology and subscription offerings requires significant time and resources. To develop and expand our indirect sales channels, we must continue to scale and improve our processes and procedures to support these channels, including investment in systems and training. Many resellers and other channel partners and carriers may not be willing to invest the time and resources required to train their staff to effectively market our subscriptions.

To deliver our subscriptions, we rely on third parties for our network connectivity and for certain of the features in our subscriptions.

We currently use the infrastructure of third-party network service providers, including CenturyLink, Inc. and Bandwidth.com, Inc. in North America and several others internationally, to deliver our subscriptions over their networks. Our third-party network service providers provide access to their Internet protocol ("IP") networks and public switched telephone networks, and provide call termination and origination services, including 911 emergency calling in the U.S. and equivalent services internationally, and local number portability for our customers. We expect that we will continue to rely heavily on third-party network service providers to provide these subscriptions for the foreseeable future.

Through our wholly-owned local exchange carrier subsidiary, RCLEC, Inc. ("RCLEC"), we also obtain certain connectivity and network services directly from incumbent local exchange carriers ("ILECS") and from other competitive local exchange carriers ("CLECs") in certain geographic markets at lower prices than we pay for such services through third-party network service providers. However, RCLEC also uses the infrastructure of third-party network service providers to deliver its services and the ILECs may favor themselves and their affiliates may not provide network services to us at lower prices than we could obtain through third-party CLECs, or at all. If we are unable to continue to reduce our pricing as a result of obtaining network services through our subsidiary, we may be forced to rely on other third-party network service providers and be unable to effectively lower our cost of service. Historically, our reliance on third-party networks has reduced our operating flexibility and ability to make timely service changes and control quality of service, and we expect that this will continue for the foreseeable future. If any of these network service providers stop providing us with access to their infrastructure, fail to provide these services to us on a cost-effective basis or at reasonable levels of quality and security, cease operations, or otherwise terminate these services, the delay caused by qualifying and switching to another third-party network service provider, if one is available, could have a material adverse effect on our business and results of operations.

In addition, we currently use and may in the future use third-party service providers to deliver certain features of our subscriptions. For example, although we introduced our own video and web conferencing solution in April 2020 and have migrated many of our customers to RingCentral Video, there are still several existing customers who continue to use Zoom Video Communications, Inc. for HD video and web conferencing and screen sharing features, Bandwidth.com for texting capabilities, and NICE inContact, Inc. for contact center capabilities. In the future, we may not continue to have long-term contracts with any or all of these third-party providers. Any of these service providers could elect or attempt to stop providing us with access to their services or our contracts with these third-party providers may terminate, expire, or be breached. If any of these service providers ceases to provide us with their services, fails to provide these services to us on a cost-effective basis or at reasonable levels of quality and security, ceases operations, or otherwise terminates or discontinues these services, the delay caused by qualifying and switching to another third-party service provider, if one is available, or building a proprietary replacement solution could have a material adverse effect on our business and results of operations. Furthermore, we are no longer offering or selling RingCentral Meetings to new customers and are instead offering our own RingCentral Video solution, and, in light of our recent settlement of the Zoom litigation, we believe that we will be able to migrate all or substantially all of our customers to RingCentral Video. Nevertheless, it is possible that not all existing customers will migrate to RingCentral Video. Therefore, our inability to offer and sell RingCentral Meetings, or to successfully transfer existing customers to our own solution, may cause some prospective customers not to purchase our services and/or existing customers not to renew their contracts for our services or to renew for a fewer number of seats.

Finally, if problems occur with any of these third-party network or service providers, it may cause errors or poor call quality in our subscriptions, and we could encounter difficulty identifying the source of the problem. The occurrence of errors or poor call quality in our subscriptions, whether caused by our systems or a third-party network or service provider, may result in the loss of our existing customers, delay or loss of market acceptance of our subscriptions, termination of our relationships and agreements with our resellers or carriers, or liability for failure to meet service level agreements, and may seriously harm our business and results of operations.

We rely on third-party software that may be difficult to replace or which could cause errors or failures of our subscriptions.

We rely on software licensed from certain third parties in order to offer our solutions. In some cases, we integrate third-party licensed software components into our platform. This software may not continue to be available at reasonable prices or on commercially reasonable terms, or at all. Any loss of the right to use any of this software could significantly increase our expenses and otherwise result in delays in the provisioning of our solutions until equivalent technology is either developed by us, or, if available, is identified, obtained, and integrated. Any errors or defects in third-party software could result in errors or a failure of our solutions, which could harm our business.

Interruptions or delays in service from our third-party data center hosting facilities and co-location facilities could impair the delivery of our subscriptions, require us to issue credits or pay penalties and harm our business.

We currently serve our North American customers from geographically disparate data center hosting facilities in North America, where we lease space from Equinix, Inc., and other providers, and we serve our European customers from third-party data center hosting facilities in Europe. We also use third-party co-location facilities located in various international regions to serve our customers in these regions. Certain of our solutions are hosted by third party data center facilities including Amazon Web Services, Inc. ("AWS"), NICE inContact, Inc., and Google Cloud Platform. In addition, RCLEC uses third-party co-location facilities to provide us with network services at several locations. Damage to, or failure of, these facilities, the communications network providers with whom we or they contract, or with the systems by which our communications providers allocate capacity among their customers, including us, or software errors, have in the past and could in the future result in interruptions in our services. Additionally, in connection with the addition of new data centers or expansion or consolidation of our existing data center facilities, we may move or transfer our data and our customers' data to other data centers. Despite precautions that we take during this process, any unsuccessful data transfers may impair or cause disruptions in the delivery of our subscriptions. Interruptions in our subscriptions may reduce our revenues, may require us to issue credits or pay penalties, subject us to claims and litigation, cause customers to terminate their subscriptions and adversely affect our renewal rates and our ability to attract new customers. Our ability to attract and retain customers depends on our ability to provide customers with a highly reliable subscription and even minor interruptions in our subscriptions could harm our brand and reputation and have a material adverse effect on our business.

As part of our current disaster recovery arrangements, our North American and European infrastructure and our North American and European customers' data is currently replicated in near real-time at data center facilities in the U.S. and Europe, respectively. We do not control the operation of these facilities or of our other data center facilities or RCLEC's co-location facilities, and they are vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunications failures, and similar events. They may also be subject to human error or to break-ins, sabotage, acts of vandalism, and similar misconduct.

Despite precautions taken at these facilities, the occurrence of a natural disaster, public health crisis, such as the COVID-19 pandemic, human error, cybersecurity incident, including ransomware or denial-of-service attack, an act of terrorism or other unanticipated problems at these facilities could result in lengthy interruptions in our subscriptions. Even with the disaster recovery arrangements in place, our subscriptions could be interrupted.

We may also be required to transfer our servers to new data center facilities in the event that we are unable to renew our leases on acceptable terms, if at all, or the owners of the facilities decide to close their facilities, and we may incur significant costs and possible subscription interruption in connection with doing so. In addition, any financial difficulties, such as bankruptcy or foreclosure, faced by our third-party data center operators, or any of the service providers with which we or they contract may have negative effects on our business, the nature and extent of which are difficult to predict. Additionally, if our data centers are unable to keep up with our increasing needs for capacity, our ability to grow our business could be materially and adversely impacted.

Failures in Internet infrastructure or interference with broadband access could cause current or potential users to believe that our systems are unreliable, possibly leading our customers to switch to our competitors or to avoid using our subscriptions.

Unlike traditional communications services, our subscriptions depend on our customers' high-speed broadband access to the Internet. Increasing numbers of users and increasing bandwidth requirements may degrade the performance of our services and applications due to capacity constraints and other Internet infrastructure limitations. As our customer base grows and their usage of our services increases, we will be required to make additional investments in network capacity to maintain adequate data transmission speeds, the availability of which may be limited, or the cost of which may be on terms unacceptable to us. If adequate capacity is not available to us as our customers' usage increases, our network may be unable to achieve or maintain sufficiently high reliability or performance. In addition, if Internet access service providers have outages or deteriorations in their quality of service, our customers will not have access to our subscriptions or may experience a decrease in the quality of our services. Frequent or persistent interruptions could cause current or potential users to believe that our systems or services are unreliable, leading them to switch to our competitors or to avoid our subscriptions, and could permanently harm our reputation and brands.

In addition, users who access our subscriptions and applications through mobile devices, such as smartphones and tablets, must have a high-speed connection, such as Wi-Fi®, 4G, 5G, or LTE, to use our services and applications. Currently, this access is provided by companies that have significant and increasing market power in the broadband and Internet access

marketplace, including incumbent phone companies, cable companies, and wireless companies. Some of these providers offer solutions and subscriptions that directly compete with our own offerings, which can potentially give them a competitive advantage. Also, these providers could take measures that degrade, disrupt or increase the cost of user access to third-party services, including our subscriptions, by restricting or prohibiting the use of their infrastructure to support or facilitate third-party services or by charging increased fees to third parties or the users of third-party services, any of which would make our subscriptions less attractive to users, and reduce our revenues.

Interruptions in our services caused by undetected errors, failures, or bugs in our subscriptions could harm our reputation, result in significant costs to us, and impair our ability to sell our subscriptions.

Our subscriptions may have errors or defects that customers identify after they begin using them that could result in unanticipated interruptions of service. Internet-based services frequently contain undetected errors and bugs when first introduced or when new versions or enhancements are released. While the substantial majority of our customers are small and medium-sized businesses, the use of our subscriptions in complicated, large-scale network environments may increase our exposure to undetected errors, failures, or bugs in our subscriptions. Although we test our subscriptions to detect and correct errors and defects before their general release, we have, from time to time, experienced significant interruptions in our subscriptions as a result of such errors or defects and may experience future interruptions of service if we fail to detect and correct these errors and defects. The costs incurred in correcting such defects or errors may be substantial and could harm our results of operations. In addition, we rely on hardware purchased or leased and software licensed from third parties to offer our subscriptions.

Any defects in, or unavailability of, our or third-party software or hardware that cause interruptions of our subscriptions could, among other things:

- cause a reduction in revenues or a delay in market acceptance of our subscriptions;
- require us to pay penalties or issue credits or refunds to our customers, resellers, or carriers, or expose us to claims for damages;
- cause us to lose existing customers and make it more difficult to attract new customers;
- divert our development resources or require us to make extensive changes to our software, which would increase our expenses and slow innovation;
- increase our technical support costs; and
- harm our reputation and brand.

A security incident, such as a cyber-attack, information security breach or denial of service event could delay or interrupt service to our customers, harm our reputation or business, impact our subscriptions, and subject us to significant liability.

Our operations depend on our ability to protect our production and corporate information technology services from interruption or damage from cyber-attacks, denial-of-service events, unauthorized entry, computer malware or other security incidents, including events beyond our control. We have, from time to time, been subject to communications fraud and cyber-attacks by malicious actors, and denial of service events, and we may be subject to similar attacks in the future, particularly as the frequency and sophistication of cyber-attacks increases. For example, cybersecurity researchers anticipate an increase in cyber-attack activity in connection Russia's invasion of Ukraine. We cannot assure you that our backup systems, regular data backups, security controls and other procedures currently in place, or that may be in place in the future, will be adequate to prevent significant damage, system failure, service outages, data breach, data loss, unauthorized access, loss of use, interruption, or increased charges from our technology vendors.

Also, our subscriptions are web-based. The amount of data we store for our customers and users increases as our business grows. We host services, which includes hosting customer data, both in co-located data centers and in multiple public cloud services. Our solutions allow users to store files, tasks, calendar events, messages and other data indefinitely on our services or as may be directed by our customers, although we have begun instituting in our customer agreements a provision that customer content and certain other customer data will be deleted upon termination of the agreements. We also maintain sensitive data related to our technology and business, and that of our employees, strategic partners, and customers, including intellectual property, proprietary business information and personally identifiable information (also called personal data) on our own systems and in multiple vendors' cloud services. As a result of maintaining larger volumes of data and user files and/or as a result of our continued movement up market, or movement into new customer segments and acquisition of larger and more recognized customers, we may become more of a target for hackers, nation states and other malicious actors.

In addition, we use third-party vendors which, in some cases, have access to our data and our employees', partners', and customers' data. We employ layered security measures and have a means of working with third parties who report vulnerabilities to us. Despite the implementation of security measures by us or our vendors, our computing devices, infrastructure, or networks, or our vendors' computing devices, infrastructure, or networks, may be vulnerable to hackers, computer viruses, worms, ransomware, other malicious software programs, employee theft or misuse, phishing, denial-of-service attacks, or similar disruptive problems that are caused by or through a security weakness or vulnerability in our or our vendors' infrastructure, network, or business practices or our or our vendors' customers, employees, business partners, consultants, or other Internet users who attempt to invade our or our vendors' corporate and personal computers, tablets, mobile devices, software, data networks, or voice networks. If there is a security weakness or vulnerability in our, our vendors', or our customers' infrastructure, networks, or business practices that is successfully targeted, we could face increased costs, liability claims, including contractual liability claims relating to security obligations in agreements with our partners and our customers, fines, claims, investigations and other proceedings, reduced revenue, or harm to our reputation or competitive position. In addition, even if not targeted, in strengthening our security controls or in remediating security vulnerabilities, we could incur increased costs and capital expenditures.

We have implemented remote working protocols and offer work-issued devices to certain employees, but the actions of employees while working remotely may have a greater effect on the security of our infrastructure, networks, and the information, including personally identifiable information, we process, including for example by increasing the risk of compromise to systems or data arising from employees' combined personal and private use of devices, accessing our networks or information using wireless networks that we do not control, or the ability to transmit or store company-controlled information outside of our secured network. Although many of these risks are not unique to the remote working environment, they have been heightened by the dramatic increase in the numbers of our employees who have been and are continuing to work from home as a result of the COVID-19 pandemic. Our employees' or third parties' intentional, unintentional, or inadvertent actions may increase our vulnerability or expose us to security threats, such as ransomware, other malware and phishing attacks, and we may remain responsible for unauthorized access to, loss, alteration, destruction, acquisition, disclosure or other processing of information we or our vendors, business partners, or consultants process or otherwise maintain, even if the security measures used to protect such information comply with applicable laws, regulations and other actual or asserted obligations. Additionally, due to political uncertainty and military actions associated with Russia's invasion of Ukraine, we and our vendors, business partners, and consultants are vulnerable to heightened risks of cyber-attacks, from or affiliated with nation-state actors, including attacks that could materially disrupt our systems and operations, supply chain, and ability to produce, sell and distribute our services. Also, cyber-attacks, including on the supply chain, continue to increase in frequency and magnitude, and we cannot provide assurances that our preventative efforts will be successful.

We rely on encryption and authentication technology to ensure secure transmission of and access to confidential information, including customer credit card numbers, debit card numbers, direct debit information, customer communications, and files uploaded by our customers. Advances in computer capabilities, new discoveries in the field of cryptography, discovery of software bugs or vulnerabilities, discovery of hardware bugs or vulnerabilities, social engineering activities, or other developments may result in a compromise or breach of the technology we use to protect our data and our customer data, or of the data itself.

Additionally, third parties have attempted in the past, and may attempt in the future, to induce domestic and international employees, consultants, or customers into disclosing sensitive information, such as user names, provisioning data, customer proprietary network information ("CPNI") or other information in order to gain access to our customers' user accounts or data, or to our data. CPNI includes information such as the phone numbers called by a customer, the frequency, duration, and timing of such calls, and any services purchased by the consumer, such as call waiting, call forwarding, and caller ID, in addition to other information that may appear on a customer's bill. Third parties may also attempt to induce employees, consultants, or customers into disclosing information regarding our and our customers' intellectual property, personal data and other confidential business information. In addition, the techniques used to obtain unauthorized access, to perform hacking, phishing and social engineering, or to sabotage systems change and evolve frequently and may not be recognized until launched against a target, may be new and previously unknown or little-known, or may not be detected or understood until well after such actions are conducted. We may be unable to anticipate these techniques or to implement adequate preventative measures, and any security breach or other incident may take longer than expected to remediate or otherwise address. Any system failure or security breach or incident that causes interruptions or data loss in our operations or in the computer systems of our customers or leads to the misappropriation of our or our customers' confidential or personal information could result in significant liability to us, loss of our intellectual property, cause our subscriptions to be perceived as not being secure, cause considerable harm to us and our reputation (including requiring notification to customers, regulators, or the media), and deter current and potential customers from using our subscriptions. Any of these events could have a material adverse effect on our business, results of operations, and financial condition.

It is critical to our business that our information and our employees', strategic partners', and customers' sensitive information remains secure and that our customers perceive that this information is secure. An information security incident could result in unauthorized access to, loss of, or unauthorized disclosure of such information. A cybersecurity breach or incident could expose us to litigation, indemnity obligations, government investigations, contractual liability, and other possible liabilities. Additionally, a cyber-attack or other information security incident, whether actual or perceived, could result in negative publicity, which could harm our reputation and reduce our customers' confidence in the effectiveness of our solutions, which could materially and adversely affect our business and operating results. A breach of our security systems could also expose us to increased costs, including remediation costs, disruption of operations, or increased cybersecurity protection costs, that may have a material adverse effect on our business. In addition, a cybersecurity breach or incident of our customers' systems can also result in exposure of their authentication credentials, unauthorized access to their accounts, exposure of their account information and data (including CPNI), and fraudulent calls on their accounts, which can subsequently have similar actual or perceived impacts to us as described above. A cybersecurity breach or incident of our partners' or vendors' systems can result in similar actual or perceived impacts.

While we maintain cybersecurity insurance, our insurance may be insufficient to cover all liabilities incurred by privacy or security incidents. We also cannot be certain that our insurance coverage will be adequate for data handling or data security liabilities actually incurred, that insurance will continue to be available to us on economically reasonable terms, or at all, or that an insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, including our financial condition, operating results, and reputation.

Laws, regulations, and enforcement actions relating to security and privacy of information continue to evolve. With respect to security, we are closely monitoring the development of rules and guidance that may apply to us, including, for example, pursuant to the Cyber Incident Reporting for Critical Infrastructure Act of 2022. We have incurred and expect to continue to incur significant expenses to prevent security incidents. It is possible that, in order to support changes to applicable laws and to support our expansion of sales into new geographic areas or into new industry segments, we will need to increase or change our cybersecurity systems and expenditures. Further, it is possible that changes to laws and regulations relating to security and privacy may make it more expensive to operate in certain jurisdictions and may increase the risk of our non-compliance with such changing laws and regulations.

Potential problems with our information systems could interfere with our business and operations.

We rely on our information systems and those of third parties for processing customer orders, distribution of our subscriptions, billing our customers, processing credit card transactions, customer relationship management, supporting financial planning and analysis, accounting functions and financial statement preparation, and otherwise running our business. Information systems may experience interruptions, including interruptions of related services from third-party providers, which may be beyond our control. Such business interruptions could cause us to fail to meet customer requirements. All information systems, both internal and external, are potentially vulnerable to damage or interruption from a variety of sources, including without limitation, computer viruses, security breaches and incidents, energy blackouts, natural disasters, terrorism, war, telecommunication failures, employee or other theft, and third-party provider failures. In addition, since telecommunications billing is inherently complex and requires highly sophisticated information systems to administer, our internally developed billing system, which is currently being implemented, may experience errors or we may improperly operate the system, which could result in the system incorrectly calculating the fees owed by our customers for our subscriptions or related taxes and administrative fees. Any such errors in our customer billing could harm our reputation and cause us to violate truth in billing laws and regulations. Our current internally developed billing system requires us to process an increasing number of invoices manually, which could result in billing errors. Any errors or disruption in our information systems and those of the third parties upon which we rely could have a significant impact on our business. In addition, we may implement further and enhanced information systems in the future to meet the demands resulting from our growth and to provide additional capabilities and functionality. The implementation of new systems and enhancements is frequently disruptive to the underlying business of an enterprise, and can be time-consuming and expensive, increase management responsibilities, and divert management attention.

We depend largely on the continued services of our senior management and other highly-skilled employees, and if we are unable to hire, retain, manage and motivate our employees, we may not be able to grow effectively and our business, results of operations and financial condition could be adversely affected.

Our future performance depends on the continued services and contributions of our senior management and other key employees to execute on our business plan, and to identify and pursue opportunities and services innovations. The loss of

services of senior management or other key employees, whether in the past or in the future, could significantly delay or prevent the achievement of our business, financial condition, development and strategic objectives. In particular, we depend to a considerable degree on the vision, skills, experience, and effort of our co-founder, Chairman and Chief Executive Officer, Vladimir Shmunis. None of our executive officers or other senior management personnel is bound by a written employment agreement and any of them may therefore terminate employment with us at any time with no advance notice. The replacement of any of these senior management personnel, whether past or future, could involve significant time and costs, and such loss could significantly delay or prevent the achievement of our business objectives.

Our future success also depends on our ability to continue to attract and retain highly skilled personnel. We believe that there is, and will continue to be, intense competition for highly skilled technical and other personnel with experience in our industry in the San Francisco Bay Area, where our headquarters is located, in Denver, Colorado, where our U.S. sales and customer support office and our network operations center is located, and in other locations where we maintain offices. In addition, changes to U.S. immigration policies, particularly to H-1B and other visa programs, and restrictions on travel (including but not limited to travel restrictions due to the COVID-19 pandemic) could restrain the flow of technical and professional talent into the U.S. and may inhibit our ability to hire qualified personnel. We must provide competitive compensation packages and a high-quality work environment to hire, retain, and motivate employees. If we are unable to retain and motivate our existing employees and attract qualified personnel to fill key positions, we may be unable to manage our business effectively, including the development, marketing, and sale of existing and new subscriptions, which could have a material adverse effect on our business, financial condition, and results of operations. To the extent we hire personnel from competitors, we may be subject to allegations that they have been improperly solicited or divulged proprietary or other confidential information. Volatility in, or lack of performance of, our stock price may also affect our ability to attract and retain key personnel.

Increased customer turnover, or costs we incur to retain and upsell our customers, could materially and adversely affect our financial performance.

Although we have entered into long-term contracts with larger customers, those customers who do not have long-term contracts with us may terminate their subscriptions at any time without penalty or early termination charges. We cannot accurately predict the rate of customer terminations or average monthly subscription cancellations or failures to renew, which we refer to as turnover. Our customers with subscription agreements have no obligation to renew their subscriptions for our service after the expiration of their initial subscription period, which is typically between one and three years. In the event that these customers do renew their subscriptions, they may choose to renew for fewer users, shorter contract lengths, or for a less expensive subscription plan or edition. We cannot predict the renewal rates for customers that have entered into subscription contracts with us.

Customer turnover, as well as reductions in the number of users for which a customer subscribes, each could have a significant impact on our results of operations, as does the cost we incur in our efforts to retain our customers and encourage them to upgrade their subscriptions and increase their number of users. Our turnover rate could increase in the future if customers are not satisfied with our subscriptions, the value proposition of our subscriptions or our ability to otherwise meet their needs and expectations. Turnover and reductions in the number of users for whom a customer subscribes may also increase due to factors beyond our control, including the failure or unwillingness of customers to pay their monthly subscription fees due to financial constraints and the impact of a slowing economy. In addition, any economic downturn could cause financial hardship for our customers, decrease technology spending and materially and negatively impact our customers' willingness to enter into or renew subscriptions with us, or cause our customers to seek a decrease in the number of users or solutions for which they subscribe. For example, to address customer hardships, we may work with customers to provide greater flexibility to manage challenges they are facing, but we cannot be assured that they will not reduce their number of users or terminate their subscriptions altogether. Due to turnover and reductions in the number of users for whom a customer subscribes, we must acquire new customers, or acquire new users within our existing customer base, on an ongoing basis simply to maintain our existing level of customers and revenues. If a significant number of customers terminate, reduce, or fail to renew their subscriptions, we may be required to incur significantly higher marketing expenditures than we currently anticipate in order to increase the number of new customers or to upsell existing customers, and such additional marketing expenditures could harm our business and results of operations.

Our future success also depends in part on our ability to sell additional subscriptions and additional functionalities to our current customers. This may require increasingly sophisticated and more costly sales efforts and a longer sales cycle. Any increase in the costs necessary to upgrade, expand and retain existing customers could materially and adversely affect our financial performance. If our efforts to convince customers to add users and, in the future, to purchase additional functionalities

are not successful, our business may suffer. In addition, such increased costs could cause us to increase our subscription rates, which could increase our turnover rate.

If we are unable to attract new customers to our subscriptions or upsell to those customers on a cost-effective basis, our business will be materially and adversely affected.

In order to grow our business, we must continue to attract new customers and expand the number of users in, and services provided to, our existing customer base on a cost-effective basis. We use and periodically adjust the mix of advertising and marketing programs to promote our subscriptions. Significant increases in the pricing of one or more of our advertising channels would increase our advertising costs or may cause us to choose less expensive and perhaps less effective channels to promote our subscriptions. As we add to or change the mix of our advertising and marketing strategies, we may need to expand into channels with significantly higher costs than our current programs, which could materially and adversely affect our results of operations. In addition, a global slowdown of economic activity may disrupt our sales channels and our ability to attract new customers, which may require us to adjust our advertising and marketing programs or make further investments in these programs. We will incur advertising and marketing expenses in advance of when we anticipate recognizing any revenues generated by such expenses, and we may fail to otherwise experience an increase in revenues or brand awareness as a result of such expenditures. We have made in the past, and may make in the future, significant expenditures and investments in new advertising campaigns, and we cannot assure you that any such investments will lead to the cost-effective acquisition of additional customers. If we are unable to maintain effective advertising programs, our ability to attract new customers could be materially and adversely affected, our advertising and marketing expenses could increase substantially, and our results of operations may suffer.

Some of our potential customers learn about us through leading search engines, such as Google, Yahoo!, and Microsoft Bing. While we employ search engine optimization and search engine marketing strategies, our ability to maintain and increase the number of visitors directed to our website is not entirely within our control. If search engine companies modify their search algorithms in a manner that reduces the prominence of our listing, or if our competitors' search engine optimization efforts are more successful than ours, or if search engine companies restrict or prohibit us from using their services, fewer potential customers may click through to our website. In addition, the cost of purchased listings has increased in the past and may increase in the future. A decrease in website traffic or an increase in search costs could materially and adversely affect our customer acquisition efforts and our results of operations.

As a result of the COVID-19 pandemic, there has been an increase in the rate of adoption of video and web conferencing solutions; however, we cannot predict whether or for how long these patterns will continue.

A significant portion of our revenues today come from small and medium-sized businesses, which may have fewer financial resources to weather an economic downturn.

A significant portion of our revenues today come from small and medium-sized businesses. These customers may be materially and adversely affected by economic downturns to a greater extent than larger, more established businesses. These businesses typically have more limited financial resources, including capital-borrowing capacity, than larger entities. Any economic downturn could decrease technology spending and the number of employees of small and medium sized businesses in ways that adversely affect demand for our offerings and harm our business and results of operations. As the majority of our customers pay for our subscriptions through credit and debit cards, weakness in certain segments of the credit markets and in the U.S. and global economies has resulted in and may in the future result in increased numbers of rejected credit and debit card payments, which could materially affect our business by increasing customer cancellations and impacting our ability to engage new small and medium-sized customers. If small and medium-sized businesses experience financial hardship as a result of a weak economy, industry consolidation or for any other reason, the overall demand for our subscriptions could be materially and adversely affected.

We face significant risks in our strategy to target medium-sized and larger businesses for sales of our subscriptions and, if we do not manage these efforts effectively, our business and results of operations could be materially and adversely affected.

Sales to medium-sized and larger businesses continue to grow in both absolute dollars and as a percentage of our total sales. As we continue to target more of our sales efforts to medium-sized and larger businesses, we expect to incur higher costs and longer sales cycles and we may be less effective at predicting when we will complete these sales. In these market segments, the decision to purchase our subscriptions generally requires the approval of more technical personnel and management levels within a potential customer's organization, and therefore, these types of sales require us to invest more time educating these

potential customers about the benefits of our subscriptions. In addition, larger customers may demand more features, integration services, and customization, and may require highly skilled sales and support personnel. Our investment in marketing our subscriptions to these potential customers may not be successful, which could significantly and adversely affect our results of operations and our overall ability to grow our customer base. Furthermore, many medium-sized and larger businesses that we target for sales may already purchase business communications solutions from our larger competitors. As a result of these factors, these sales opportunities may require us to devote greater research and development resources and sales support to individual customers, and invest in hiring and retaining highly skilled personnel, resulting in increased costs and could likely lengthen our typical sales cycle, which could strain our sales and support resources. Moreover, these larger transactions may require us to delay recognizing the associated revenues we derive from these customers until any technical or implementation requirements have been met.

Support for smartphones and tablets are an integral part of our solutions. If we are unable to develop robust mobile applications that operate on mobile platforms that our customers use, our business and results of operations could be materially and adversely affected.

Our solutions allow our customers to use and manage our cloud-based business communications solution on smart devices. As new smart devices and operating systems are released, we may encounter difficulties supporting these devices and services, and we may need to devote significant resources to the creation, support, and maintenance of our mobile applications. In addition, if we experience difficulties in the future integrating our mobile applications into smart devices or if problems arise with our relationships with providers of mobile operating systems, such as those of Apple Inc. or Alphabet Inc., our future growth and our results of operations could suffer.

If we are unable to develop, license, or acquire new services or applications on a timely and cost-effective basis, our business, financial condition, and results of operations may be materially and adversely affected.

The cloud-based business communications industry is an emerging market that is characterized by rapid development of and changes in customer requirements, frequent introductions of new and enhanced services, and continuing and rapid technological advancement. We cannot predict the effect of technological changes or the introduction of new, disruptive technologies on our business, and the market for cloud-based business communications may develop more slowly than we anticipate, or develop in a manner different than we expect, and our solutions could fail to achieve market acceptance. Our continued growth depends on continued use of voice and video communications by businesses, as compared to email and other data-based methods, and future demand for and adoption of Internet voice and video communications systems and services. In addition, to compete successfully in this emerging market, we must anticipate and adapt to technological changes and evolving industry standards, and continue to design, develop, manufacture, and sell new and enhanced services that provide increasingly higher levels of performance and reliability at lower cost. Currently, we derive a majority of our revenues from subscriptions to RingCentral MVP, and we expect this will continue for the foreseeable future. However, our future success will also depend on our ability to introduce and sell new services, features, and functionality that enhance or are beyond the subscriptions we currently offer, as well as to improve usability and support and increase customer satisfaction. Our failure to develop solutions that satisfy customer preferences in a timely and cost-effective manner may harm our ability to renew our subscriptions with existing customers and create or increase demand for our subscriptions and may materially and adversely impact our results of operations.

The introduction of new services by competitors or the development of entirely new technologies to replace existing offerings could make our solutions obsolete or adversely affect our business and results of operations. Announcements of future releases and new services and technologies by our competitors or us could cause customers to defer purchases of our existing subscriptions, which also could have a material adverse effect on our business, financial condition or results of operations. We may experience difficulties with software development, operations, design, or marketing that could delay or prevent our development, introduction, or implementation of new or enhanced services and applications. We have in the past experienced delays in the planned release dates of new features and upgrades and have discovered defects in new services and applications after their introduction. We cannot assure you that new features or upgrades will be released according to schedule, or that, when released, they will not contain defects. Either of these situations could result in adverse publicity, loss of revenues, delay in market acceptance, or claims by customers brought against us, all of which could harm our reputation, business, results of operations, and financial condition. Moreover, the development of new or enhanced services or applications may require substantial investment, and we must continue to invest a significant amount of resources in our research and development efforts to develop these services and applications to remain competitive. We do not know whether these investments will be successful. If customers do not widely adopt any new or enhanced services and applications, we may not be able to realize a return on our investment. If we are unable to develop, license, or acquire new or enhanced services and applications on a timely

and cost-effective basis, or if such new or enhanced services and applications do not achieve market acceptance, our business, financial condition, and results of operations may be materially and adversely affected.

If we fail to continue to develop our brand or our reputation is harmed, our business may suffer.

We believe that continuing to strengthen our current brand will be critical to achieving widespread acceptance of our subscriptions and will require continued focus on active marketing efforts. The demand for and cost of online and traditional advertising have been increasing and may continue to increase. Accordingly, we may need to increase our investment in, and devote greater resources to, advertising, marketing, and other efforts to create and maintain brand loyalty among users. Brand promotion activities may not yield increased revenues, and even if they do, any increased revenues may not offset the expenses incurred in building our brand. In addition, if we do not handle customer complaints effectively, our brand and reputation may suffer, we may lose our customers' confidence, and they may choose to terminate, reduce or not to renew their subscriptions. Many of our customers also participate in social media and online blogs about Internet-based software solutions, including our subscriptions, and our success depends in part on our ability to minimize negative and generate positive customer feedback through such online channels where existing and potential customers seek and share information. If we fail to sufficiently invest in, promote and maintain our brand, our business could be materially and adversely affected.

If we experience excessive fraudulent activity or cannot meet evolving credit card association merchant standards, we could incur substantial costs and lose the right to accept credit cards for payment, which could cause our customer base to decline significantly.

Most of our customers authorize us to bill their credit card accounts directly for service fees that we charge. If customers pay for our subscriptions with stolen credit cards, we could incur substantial third-party vendor costs for which we may not be reimbursed. Further, our customers provide us with credit card billing information online or over the phone, and we do not review the physical credit cards used in these transactions, which increases our risk of exposure to fraudulent activity. We also incur charges, which are referred to in the industry as chargebacks, from the credit card companies from claims that a customer did not authorize the specific credit card transaction to purchase our subscription. If the number of chargebacks becomes excessive, we could be assessed substantial fines or be charged higher transaction fees, and we could lose the right to accept credit cards for payment. In addition, credit card issuers may change merchant and/or service provider standards, including data protection standards, required to utilize their services from time to time. We have established and implemented measures intended to comply with the Payment Card Industry Data Security Standard ("PCI DSS") in the U.S., Canada, and the U.K. If we fail to maintain compliance with such standards or fail to meet new standards, the credit card associations could fine us or terminate their agreements with us, and we would be unable to accept credit cards as payment for our subscriptions. If we fail to maintain compliance with current service provider standards, such as PCI DSS, or fail to meet new standards, customers may choose not to use our services for certain types of communication they have with their customers. If such a failure to comply with relevant standards occurs, we may also face legal liability if we are found to not comply with applicable laws that incorporate, by reference or by adoption of substantially similar provisions, merchant or service provider standards, including PCI DSS. Our subscriptions may also be subject to fraudulent usage, including but not limited to revenue share fraud, domestic traffic pumping, subscription fraud, premium text message scams, and other fraudulent schemes. This usage can result in, among other things, substantial bills from our vendors, for which we would be responsible, for terminating fraudulent call traffic. In addition, third parties may have attempted in the past, and may attempt in the future, to induce employees, sub-contractors, or consultants into disclosing customer credentials and other account information, which can result in unauthorized access to customer accounts and customer data, unauthorized use of customers' services, charges to customers for fraudulent usage and costs that we must pay to carriers. Although we implement multiple fraud prevention and detection controls, we cannot assure you that these controls will be adequate to protect against fraud. Substantial losses due to fraud or our inability to accept credit card payments could cause our paid customer base to significantly decrease, which would have a material adverse effect on our results of operations, financial condition, and ability to grow our business.

We are in the process of expanding our international operations, which exposes us to significant risks.

We have significant operations in the U.S., Canada, the U.K., China, Ukraine, the Philippines and France. We also sell our solutions to customers in other countries in Europe, Australia and in Singapore, and we expect to grow our international presence in the future. The future success of our business will depend, in part, on our ability to expand our operations and customer base worldwide. Operating in international markets requires significant resources and management attention and will subject us to regulatory, economic, and political risks that are different from those in the U.S. Due to our limited experience with international operations and developing and managing sales and distribution channels in international markets, our

international expansion efforts may not be successful. In addition, we will face risks in doing business internationally that could materially and adversely affect our business, including:

- our ability to comply with differing and evolving technical and environmental standards, telecommunications regulations, and certification requirements outside the U.S.;
- difficulties and costs associated with staffing and managing foreign operations;
- our ability to effectively price our subscriptions in competitive international markets;
- potentially greater difficulty collecting accounts receivable and longer payment cycles;
- the need to adapt and localize our subscriptions for specific countries;
- the need to offer customer care in various native languages;
- reliance on third parties over which we have limited control, including those that market and resell our subscriptions;
- availability of reliable broadband connectivity and wide area networks in targeted areas for expansion;
- lower levels of adoption of credit or debit card usage for Internet related purchases by foreign customers and compliance with various foreign regulations related to credit or debit card processing and data protection requirements;
- difficulties in understanding and complying with local laws, regulations, and customs in foreign jurisdictions;
- restrictions on travel to or from countries in which we operate or inability to access certain areas;
- export controls and economic sanctions;
- changes in diplomatic and trade relationships, including tariffs and other non-tariff barriers, such as quotas and local content rules;
- U.S. government trade restrictions, including those which may impose restrictions, including prohibitions, on the exportation, re-exportation, sale, shipment or other transfer of programming, technology, components, and/or services to foreign persons;
- our ability to comply with different and evolving laws, rules, and regulations, including the European General Data Protection Regulation (the "GDPR") and other data privacy and data protection laws, rules and regulations;
- compliance with various anti-bribery and anti-corruption laws such as the Foreign Corrupt Practices Act and U.K. Bribery Act of 2010;
- more limited protection for intellectual property rights in some countries;
- adverse tax consequences;
- fluctuations in currency exchange rates;
- exchange control regulations, which might restrict or prohibit our conversion of other currencies into U.S. dollars;
- restrictions on the transfer of funds;
- new and different sources of competition;
- natural disasters or global health crises, including the ongoing COVID-19 pandemic;
- political and economic instability created by the Russian invasion of Ukraine;
- deterioration of political relations between the U.S. and other countries in which we operate, particularly Ukraine, China, and the Philippines; and
- political or social unrest, economic instability, conflict or war in such countries, or sanctions implemented by the U.S. against these countries, such as the ongoing geopolitical tensions related to Russia's actions in Ukraine, and resulting sanctions imposed by the U.S. and other countries, and retaliatory actions taken by Russia in response to such sanctions, all of which could have a material adverse effect on our operations.

Our failure to manage any of these risks successfully could harm our future international operations and our overall business.

We may expand through acquisitions of, investments in, or strategic partnerships or other strategic transactions with other companies, each of which may divert our management's attention, result in additional dilution to our stockholders, increase expenses, disrupt our operations, and harm our results of operations.

Our business strategy may, from time to time, include acquiring or investing in complementary services, technologies or businesses, strategic investments and partnerships, or other strategic transactions, such as our investment in and strategic partnerships with Avaya, Atos, ALE, Mitel, Vodafone, DT and Verizon. We cannot assure you that we will successfully identify suitable acquisition candidates or transaction counterparties, securely or effectively integrate or manage disparate technologies, lines of business, personnel and corporate cultures, realize our business strategy or the expected return on our investment, or manage a geographically dispersed company. Any such acquisition, investment, strategic partnership, or other

strategic transaction could materially and adversely affect our results of operations. The process of negotiating, effecting, and realizing the benefits from acquisitions, investments, strategic partnerships, and strategic transactions is complex, expensive and time-consuming, and may cause an interruption of, or loss of momentum in, development and sales activities and operations of both companies, and we may incur substantial cost and expense, as well as divert the attention of management. We may issue equity securities which could dilute current stockholders' ownership, incur debt, assume contingent or other liabilities and expend cash in acquisitions, investments, strategic partnerships, and other strategic transactions which could negatively impact our financial position, stockholder equity, and stock price.

Acquisitions, investments, strategic partnerships, and other strategic transactions involve significant risks and uncertainties, including:

- the potential failure to achieve the expected benefits of the acquisition, investment, strategic partnership, or other strategic transaction;
- unanticipated costs and liabilities;
- difficulties in integrating new solutions and subscriptions, software, businesses, operations, and technology infrastructure in an efficient and effective manner;
- difficulties in maintaining customer relations;
- the potential loss of key employees of any acquired businesses;
- the diversion of the attention of our senior management from the operation of our daily business;
- the potential adverse effect on our cash position to the extent that we use cash for the transaction consideration;
- the potential significant increase of our interest expense, leverage, and debt service requirements if we incur additional debt to pay for an acquisition, investment, strategic partnership, or other strategic transaction;
- the potential issuance of securities that would dilute our stockholders' percentage ownership;
- the potential to incur large and immediate write-offs and restructuring and other related expenses;
- the potential liability or expenses associated with new types of data stored, existing security obligations or liabilities, unknown weaknesses in our solutions, insufficient security measures in place, and compromise of our networks via access to our systems from assets not previously under our control; and
- the inability to maintain uniform standards, controls, policies, and procedures.

Any acquisition, investment, strategic partnership, or other strategic transaction could expose us to unknown liabilities. Moreover, we cannot assure you that we will realize the anticipated benefits of any acquisition, investment, strategic partnership, or other strategic transaction. In addition, our inability to successfully operate and integrate newly acquired businesses or newly formed strategic partnerships appropriately, effectively, and in a timely manner could impair our ability to take advantage of future growth opportunities and other advances in technology, as well as on our revenues, gross margins, and expenses.

For example, in connection with our strategic partnership with Avaya, we purchased $125.0 million of Avaya Series A Preferred Stock and made an advance of $375.0 million, predominantly for future fees, as well as for certain licensing rights (paid primarily in our Class A Common Stock). These are significant investments on which we may not realize the anticipated benefits for various reasons, including a lack of success in the marketing and sale of ACO, potential or actual financial distress, insolvency, or bankruptcy of Avaya or any of its subsidiaries, or other facts or circumstances that may limit our ability to recover, or realize benefits from, these investments.

In addition, our ability to offer, sell or transfer certain investments may be limited by applicable securities laws and regulations, and our ability to liquidate and realize value from such investments may be negatively and materially impacted by any delays or limitations on our ability to offer, sell, or transfer certain investments. In addition, certain investments are speculative in nature and may be volatile or decline in value or be entirely lost, which could have a negative impact on our future financial position, results of operations, and cash flows.

We may be subject to liabilities on past sales for taxes, surcharges, and fees and our operating results may be harmed if we are required to collect such amounts in jurisdictions where we have not historically done so.

We believe we collect state and local sales tax and use, excise, utility user, and ad valorem taxes, fees, or surcharges in all relevant jurisdictions in which we generate sales, based on our understanding of the applicable laws in those jurisdictions. Such tax, fees and surcharge laws and rates vary greatly by jurisdiction, and the application of such taxes to e-commerce businesses, such as ours, is a complex and evolving area. There is uncertainty as to what constitutes sufficient "in state presence" for a state to levy taxes, fees, and surcharges for sales made over the Internet, and after the U.S. Supreme Court's ruling in *South Dakota v. Wayfair*, U.S. states may require an online retailer with no in-state property or personnel to collect and remit sales tax on sales to the state's residents, which may permit wider enforcement of sales tax collection requirements. Therefore, the application of existing or future laws relating to indirect taxes to our business, or the audit of our business and operations with respect to such taxes or challenges of our positions by taxing authorities, all could result in increased tax liabilities for us or our customers that could materially and adversely affect our results of operations and our relationships with our customers.

We may be unable to use some or all of our net operating loss carryforwards, which could materially and adversely affect our reported financial condition and results of operations.

As of December 31, 2021, we have federal net operating loss carryforwards ("NOLs") of $2.0 billion, of which $272.9 million expire between 2023 and 2037 and the remainder do not expire. Additionally, we have state net operating loss carryforwards of $1.4 billion which will begin to expire in 2022. We also have federal research tax credit carryforwards that will begin to expire in 2028. Realization of these net operating loss and research tax credit carryforwards depends on future income, and there is a risk that our existing carryforwards could expire unused and be unavailable to offset future income tax liabilities, which could materially and adversely affect our results of operations.

In addition, under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, our ability to utilize NOLs or other tax attributes, such as research tax credits, in any taxable year may be limited if we experience an "ownership change." An "ownership change" generally occurs if one or more stockholders or groups of stockholders, who each own at least 5% of our stock, increase their collective ownership by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. Similar rules may apply under state tax laws.

No material deferred tax assets have been recognized on our Consolidated Balance Sheets related to these NOLs, as they are fully offset by a valuation allowance. If we have previously had, or have in the future, one or more Section 382 "ownership changes," including in connection with our initial public offering or another offering, or if we do not generate sufficient taxable income, we may not be able to utilize a material portion of our NOLs, even if we achieve profitability. If we are limited in our ability to use our NOLs in future years in which we have taxable income, we will pay more taxes than if we were able to fully utilize our NOLs. This could materially and adversely affect our results of operations.

If we are unable to effectively process local number and toll-free number portability provisioning in a timely manner, our growth may be negatively affected.

We support local number and toll-free number portability, which allows our customers to transfer to us and thereby retain their existing phone numbers when subscribing to our services. Transferring numbers is a manual process that can take up to 15 business days or longer to complete. A new customer of our subscriptions must maintain both our subscription and the customer's existing phone service during the number transferring process. Any delay that we experience in transferring these numbers typically results from the fact that we depend on third-party carriers to transfer these numbers, a process that we do not control, and these third-party carriers may refuse or substantially delay the transfer of these numbers to us. Local number portability is considered an important feature by many potential customers, and if we fail to reduce any related delays, we may experience increased difficulty in acquiring new customers. Moreover, the FCC requires Internet voice communications providers to comply with specified number porting timeframes when customers leave our subscription for the services of another provider. Several international jurisdictions have imposed similar number portability requirements on subscription providers like us. If we or our third-party carriers are unable to process number portability requests within the requisite timeframes, we could be subject to fines and penalties. Additionally, in the U.S., both customers and carriers may seek relief from the relevant state public utility commission, the FCC, or in state or federal court for violation of local number portability requirements.

Our business could suffer if we cannot obtain or retain direct inward dialing numbers or are prohibited from obtaining local or toll-free numbers or if we are limited to distributing local or toll-free numbers to only certain customers.

Our future success depends on our ability to procure large quantities of local and toll-free direct inward dialing numbers ("DIDs") in the U.S. and foreign countries in desirable locations at a reasonable cost and without restrictions. Our ability to procure and distribute DIDs depends on factors outside of our control, such as applicable regulations, the practices of the communications carriers that provide DIDs, the cost of these DIDs, and the level of demand for new DIDs. Due to their limited availability, there are certain popular area code prefixes that we generally cannot obtain. Our inability to acquire DIDs for our operations would make our subscriptions less attractive to potential customers in the affected local geographic areas. In addition, future growth in our customer base, together with growth in the customer bases of other providers of cloud-based business communications, has increased, which increases our dependence on needing sufficiently large quantities of DIDs.

We may not be able to manage our inventory levels effectively, which may lead to inventory obsolescence that would force us to incur inventory write-downs.

Our vendor-supplied phones have lead times of up to several months for delivery to our fulfillment agents and are built to forecasts that are necessarily imprecise. It is likely that, from time to time, we will have either excess or insufficient product inventory. In addition, because we rely on third-party vendors for the supply of our vendor-supplied phones, our inventory levels are subject to the conditions regarding the timing of purchase orders and delivery dates that are not within our control. Excess inventory levels would subject us to the risk of inventory obsolescence, while insufficient levels of inventory may negatively affect relations with customers. For instance, our customers rely upon our ability to meet committed delivery dates, and any disruption in the supply of our subscriptions could result in loss of customers or harm to our ability to attract new customers. Any reduction or interruption in the ability of our vendors to supply our customers with vendor-supplied phones, including as a result of the ongoing COVID-19 pandemic, could cause us to lose revenue, damage our customer relationships and harm our reputation in the marketplace. Any of these factors could have a material adverse effect on our business, financial condition or results of operations.

We currently depend on three phone device suppliers and two fulfillment agents to configure and deliver the phones that we sell and any delay or interruption in manufacturing, configuring and delivering by these third parties would result in delayed or reduced shipments to our customers and may harm our business.

We rely on three suppliers to provide phones that we offer for sale to our customers that use our subscriptions, and we rely on two fulfillment agents to configure and deliver the phones that we sell to our customers. Accordingly, we could be adversely affected if such third parties fail to maintain competitive phones or configuration services or fail to continue to make them available on attractive terms, or at all. These suppliers have been and will continue to be adversely impacted by the COVID-19 pandemic, which could affect their ability to perform satisfactorily or at all.

If our fulfillment agents are unable to deliver phones of acceptable quality, or if there is a reduction or interruption in their ability to supply the phones in a timely manner, our ability to bring services to market, the reliability of our subscriptions and our relationships with customers or our overall reputation in the marketplace could suffer, which could cause us to lose revenue. We expect that it could take several months to effectively transition to new third-party manufacturers or fulfillment agents.

If our vendor-supplied phones are not able to interoperate effectively with our own back-end servers and systems, our customers may not be able to use our subscriptions, which could harm our business, financial condition and results of operations.

Phones must interoperate with our back-end servers and systems, which contain complex specifications and utilize multiple protocol standards and software applications. Currently, the phones used by our customers are manufactured by only three third-party providers. If any of these providers changes the operation of their phones, we will be required to undertake development and testing efforts to ensure that the new phones interoperate with our system. In addition, we must be successful in integrating our solutions with strategic partners' devices in order to market and sell these solutions. These efforts may require significant capital and employee resources, and we may not accomplish these development efforts quickly or cost-effectively, if at all. If our vendor-supplied phones do not interoperate effectively with our system, our customers' ability to use our subscriptions could be delayed or orders for our subscriptions could be canceled, which would harm our business, financial condition, and results of operations.

We may require additional capital to pursue our business objectives and to respond to business opportunities, challenges or unforeseen circumstances. If capital is not available to us, our business, results of operations, and financial condition may be adversely affected.

We intend to continue to make expenditures and investments to support the growth of our business and may require additional capital to pursue our business objectives and respond to business opportunities, challenges, or unforeseen circumstances, including the need to develop new solutions or enhance our existing solutions, enhance our operating infrastructure, and acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. However, additional funds may not be available when we need them on terms that are acceptable to us, or at all. Any debt financing that we secure in the future could involve restrictive covenants, which may make it more difficult for us to obtain additional capital and to pursue business opportunities. In addition, the restrictive covenants in credit facilities we may secure in the future may restrict us from being able to conduct our operations in a manner required for our business and may restrict our growth, which could have an adverse effect on our business, financial condition, or results of operations.

We cannot assure you that we will be able to comply with any such restrictive covenants. In the event that we are unable to comply with these covenants in the future, we would seek an amendment or waiver of the covenants. We cannot assure you that any such waiver or amendment would be granted. In such event, we may be required to repay any or all of our existing borrowings, and we cannot assure you that we will be able to borrow under our existing credit agreements, or obtain alternative funding arrangements on commercially reasonable terms, or at all.

In addition, volatility in the credit markets may have an adverse effect on our ability to obtain debt financing. The conversion of our 0% convertible senior notes due 2025 (the “2025 Notes”) and our 0% convertible senior notes due 2026 (the “2026 Notes” and, together with the 2025 Notes, the “Notes”) and any future issuances of other equity or any future issuances of equity or convertible debt securities could result in significant dilution to our existing stockholders, and any new equity or convertible debt securities we issue could have rights, preferences, and privileges superior to those of holders of our Class A Common Stock. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to pursue our business objectives and to respond to business opportunities, challenges, or unforeseen circumstances could be significantly limited, and our business, results of operations, financial condition and prospects could be materially and adversely affected.

Risks Related to Regulatory Matters

Our subscriptions are subject to regulation, and future legislative or regulatory actions could adversely affect our business and expose us to liability in the U.S. and internationally.

Federal Regulation

Our business is regulated by the FCC. As a communications services provider, we are subject to existing or potential FCC regulations relating to privacy, disability access, porting of numbers, maintaining records for disconnected numbers, cooperation with law enforcement, Federal Universal Service Fund (“USF”) contributions, Enhanced 911 (“E-911”), outage reporting, call authentication, call spoofing, call blocking and other requirements and regulations. FCC classification of our Internet voice communications services as telecommunications services could result in additional federal and state regulatory obligations. If we do not comply with FCC rules and regulations, we could be subject to FCC enforcement actions, fines, loss of licenses, and possibly restrictions on our ability to operate or offer certain of our subscriptions. Any enforcement action by the FCC, which may be a public process, would hurt our reputation in the industry, possibly impair our ability to sell our subscriptions to customers and could have a materially adverse impact on our revenues.

Through RCLEC, we also provide competitive local exchange carrier (“CLEC”) and IP-enabled (“IPES”) services which are regulated by the FCC as traditional telecommunications services. Our CLEC services depend on certain provisions of the Telecommunications Act of 1996 that require incumbent local exchange carriers (“ILECs”) to provide us facilities and services that are necessary to provide our services. Over the past several years, the FCC has reduced or eliminated a number of regulations governing ILECs’ wholesale offerings. If ILECs were no longer required by law to provide such services to us, or ceased to provide these services at reasonable rates, terms and conditions, our business could be adversely affected and our cost of providing CLEC services could increase. This could have a materially adverse impact on our results of operations and cash flows.

In addition, the federal Telephone Consumer Protection Act ("TCPA") and FCC rules implementing the TCPA, prohibit sending unsolicited facsimile advertisements or making illegal robocalls, subject to certain exceptions. The FCC may take enforcement action against persons or entities that send "junk faxes," or make illegal robocalls and individuals also may have a private cause of action. Although the FCC's rules prohibiting unsolicited fax advertisements or making illegal robocalls apply to those who "send" the advertisements or make the calls, fax transmitters or other service providers that have a high degree of involvement in, or actual notice of, unlawful sending of junk faxes or making of illegal robocalls and have failed to take steps to prevent such transmissions may also face liability under the FCC's rules, or in the case of illegal robocalls, Federal Trade Commission rules. We take significant steps designed to prevent our systems from being used to make illegal robocalls or send unsolicited faxes on a large scale, and we do not believe that we have a high degree of involvement in, or notice of, the use of our systems to broadcast junk faxes or make illegal robocalls. However, because fax transmitters and related service providers do not enjoy an absolute exemption from liability under the TCPA and related FCC rules, we could face FCC or FTC inquiry and enforcement or civil litigation, or private causes of action, if someone uses our system for such purposes. If any of these were to occur, we could be required to incur significant costs and management's attention could be diverted. Further, if we were to be held liable for the use of our service to send unsolicited faxes or make illegal robocalls or to settle any action or proceeding, any judgment, settlement, or penalties could cause a material adverse effect on our operations.

State Regulation

States currently do not regulate our Internet voice communications subscriptions, which are considered to be nomadic because they can be used from any broadband connection. However, a number of states require us to register as a Voice over Internet Protocol ("VoIP") provider, contribute to state USF, contribute to E-911, and pay other surcharges and annual fees that fund various utility commission programs, while others are actively considering extending their public policy programs to include the subscriptions we provide. We pass USF, E-911 fees, and other surcharges through to our customers, which may result in our subscriptions becoming more expensive or require that we absorb these costs. State public utility commissions may attempt to apply state telecommunications regulations to Internet voice communications subscriptions like ours.

RCLEC services are subject to regulation by the public utility regulatory agency in those states where we provide local telecommunications services. This regulation includes the requirement to obtain a certificate of public convenience and necessity or other similar licenses prior to offering our CLEC services, as well as registrations related to IPES services. We may also be required to file tariffs that describe our CLEC services and provide rates for those services. We are also required to comply with regulations that vary by state concerning service quality, disconnection and billing requirements. State commissions also have authority to review and approve interconnection agreements between incumbent phone carriers and CLECs such as our subsidiary.

Both we and RCLEC are also subject to state consumer protection laws, as well as U.S. state or municipal sales, use, excise, gross receipts, utility user and ad valorem taxes, fees, or surcharges.

International Regulation

As we expand internationally, we may be subject to telecommunications, consumer protection, data protection, emergency call services, and other laws, regulations, taxes, and fees in the foreign countries where we offer our subscriptions. Any foreign regulations could impose substantial compliance costs on us, restrict our ability to compete, and impact our ability to expand our service offerings in certain markets. Moreover, the regulatory environment is constantly evolving and changes to the applicable regulations could impose additional compliance costs and require modifications to our technology and operations. European Union member states are currently implementing the new European Electronic Communications Code, including major modifications to the German Telecommunications Act and French regulations. The new rules in France impose additional obligations beyond our existing business model and will require domestic infrastructure buildout in France. Internationally, we currently sell our subscriptions in Canada, the U.K., Australia, Singapore, and several European countries. We also offer our Global MVP solution, enabling our multinational customers in locations where we sell our solutions, to establish local phone solutions in various countries internationally. We may be subject to telecommunications, consumer protection, data protection, emergency call services, call authentication, and other laws and regulations in additional countries as we continue to expand our Global MVP solution internationally.

In addition, our international operations are potentially subject to country-specific governmental regulation and related actions that may increase our costs or impact our solution and service offerings or prevent us from offering or providing our solutions and subscriptions in certain countries. Certain of our subscriptions may be used by customers located in countries where VoIP and other forms of IP communications may be illegal or require special licensing or in countries on a U.S. embargo list. Even where our solutions

are reportedly illegal or become illegal or where users are located in an embargoed country, users in those countries may be able to continue to use our solutions and subscriptions in those countries notwithstanding the

illegality or embargo. We may be subject to penalties or governmental action if customers continue to use our solutions and subscriptions in countries where it is illegal to do so, and any such penalties or governmental action may be costly and may harm our business and damage our brand and reputation. We may be required to incur additional expenses to meet applicable international regulatory requirements or be required to discontinue those subscriptions if required by law or if we cannot or will not meet those requirements.

The increasing growth and popularity of Internet voice communications, video conferencing and messaging heighten the risk that governments will regulate or impose new or increased fees or taxes on these services. To the extent that the use of our subscriptions continues to grow, and our user base continues to expand, regulators may be more likely to seek to regulate or impose new or additional taxes, surcharges or fees on our subscriptions.

We process, store, and use personal information and other data, which subjects us and our customers to a variety of evolving international statutes, governmental regulation, industry standards and self-regulatory schemes, contractual obligations, and other legal obligations related to privacy and data protection, which may increase our costs, decrease adoption and use of our solutions and subscriptions, and expose us to liability.

In the course of providing our services, we collect, store, and process many types of data, including personal data. Moreover, our customers can use our subscriptions to store contact and other personal or identifying information, and to process, transmit, receive, store, and retrieve a variety of communications and messages, including information about their own customers and other contacts. Customers are able, and may be authorized under certain circumstances, to use our subscriptions to transmit, receive, and/or store personal information.

There are a number of federal, state, local, and foreign laws and regulations, as well as contractual obligations and industry standards, that provide for certain obligations and restrictions with respect to data privacy and security, and the collection, storage, retention, protection, use, processing, transmission, sharing, disclosure, and protection of personal information and other customer data. With the implementation of our Global MVP solution, we are subject to additional data privacy regulations in other countries throughout the world. The scope of these obligations and restrictions is changing, subject to differing interpretations, and may be inconsistent among countries or conflict with other rules, and their status remains uncertain. Failure to comply with obligations and restrictions related to data privacy, data protection, and security in any jurisdiction in which we operate could subject us to lawsuits, fines, criminal penalties, statutory damages, consent decrees, injunctions, adverse publicity, and other losses that could harm our business.

For example, the GDPR, which came into force in May 2018, strengthened the existing data protection regulations in the EU and its provisions include increasing the maximum level of fines that EU regulators may impose for the most serious of breaches to the greater of €20 million or 4% of worldwide annual turnover. Such fines would be in addition to (i) the rights of individuals to sue for damages in respect of any data privacy breach which causes them to suffer harm and (ii) the right of individual member states to impose additional sanctions over and above the administrative fines specified in the GDPR. Other examples include, but are not limited to, Canadian anti-spam legislation and Australia's Spam Act 2003, as amended.

Until recently, we relied on the EU-U.S. Privacy Shield framework as well as the Swiss-U.S. Privacy Shield framework as our valid transfer mechanisms for data transferred from the European Economic Area (the "EEA") to the U.S. On July 16, 2020, the Court of Justice of the European Union, invalidated the EU-U.S. Privacy Shield as a valid transfer mechanism. On September 8, 2020 the Federal Data Protection and Information Commissioner of Switzerland issued an opinion concluding that the Swiss-U.S. Privacy Shield did not provide an adequate level of protection for data transfers from Switzerland to the U.S. pursuant to Swiss data protection law, invalidating the Swiss-U.S. Privacy Shield Framework. We now rely on alternative data transfer mechanisms such as the EU Standard Contractual Clauses ("Model Clauses") where we previously relied on the EU-U.S. Privacy Shield and Swiss-U.S. Privacy Shield frameworks. On June 4, 2021, the EU Commission adopted new Model Clauses, the new Standard Contractual Clauses ("2021 SCCs"), for the transfer of personal data from the EU to countries not deemed by the EU Commission as providing adequate protection of personal data (e.g., the U.S.). We are prepared to adopt and have begun adopting the 2021 SCCs with our customers and our suppliers transferring data out of the EEA and Switzerland (with approved modifications by the Federal Data Protection and Information Commissioner).

Following the U.K.'s exit from the EU on January 31, 2020 the U.K. largely adopted the EU rules on cross-border data flows, but allowed flexibility to diverge. On June 28, 2021, the European Commission issued an adequacy decision under the GDPR and the Law Enforcement Directive, pursuant to which personal data generally may be transferred from the EU to the U.K. without restriction; however, this adequacy decision is subject to a four-year "sunset" period, after which the European Commission's adequacy decision

may be renewed. On March 21, 2022, the U.K. Parliament approved new standard contractual clauses to support personal data transfers out of the U.K., and we may, in addition to other impacts, experience additional costs

associated with increased compliance burdens and be required to engage in new contract negotiations with third parties that aid in processing personal data on our behalf or localize certain personal data.

The 2021 SCCs also now include requirements to conduct personal data transfer impact assessments before transferring personal data out of the EEA. The assessment requires the parties to take into account the specific circumstances of the transfer, the laws and practices of the destination country, particularly relating to government access, and any additional relevant contractual, technical or organizational safeguards. Each party is required to perform such an assessment and determine whether the transfer can proceed or must be suspended if there are insufficient safeguards to protect the transfer of personal data. Data protection authorities may require measures be put in place in addition to Model Clauses for transfers to countries outside of Switzerland and the U.K. as well. We may, in addition to other impacts, experience additional costs associated with increased compliance burdens following the implementation of the 2021 SCCs, including requirements to block, or require ad hoc verification of measures taken with respect to, certain data flows from the EEA, Switzerland and the U.K. to the U.S and other non-EEA countries. Additionally, we and our customers face the potential for regulators in the EEA, Switzerland or the U.K. to apply different standards to the transfer of personal data from the EEA, Switzerland or the U.K. to the U.S. and other non-EEA countries.

Anticipated developments and future regulatory guidance may, moreover, result in further varying requirements as well as varying interpretations regarding the industry-standard measures that we, and other companies, have taken, and as such, may require ongoing investments in our compliance program. Uncertainty regarding some details for cross-border data transfers remains. If we are unable to take necessary and additional measures as may be required, then we may be at risk of experiencing reluctance or refusal of European or multi-national customers to use our solutions and incurring regulatory penalties, which may have an adverse effect on our business.

The European Commission has proposed new legislation to enhance privacy protections for users of communications services and to enhance protection for individuals against online tracking technologies. The proposed legislation, the Regulation on Privacy and Electronic Communications (the "e-Privacy Regulation"), is currently undergoing legislative scrutiny. When introduced, the e-Privacy Regulation is expected to impose greater potential liabilities upon communications service providers, including potential fines for the most serious of breaches of the greater of €20 million or 4% of worldwide annual turnover. New rules introduced by the e-Privacy Regulation are likely to include enhanced consent requirements for communications service providers in order to use communications content and communications metadata to deliver value added services, as well as restrict the use of data related to corporations and other non-natural persons. These restrictions, if adopted, may affect our future business growth in the EEA.

Further, the Data Security Law of China ("DSL"), which took effect on September 1, 2021, and the Personal Information Protection Law of China ("PIPL"), which took effect on November 1, 2021, implement comprehensive regulation of data and personal data processing activities across all industries and operations such as collecting, utilizing, processing, sharing and transferring data and personal information in and out of China. The DSL and PIPL apply not only to the processing of data within China, but also seeks to regulate cross-border data transfers as well as certain activities outside of China that relate to data originating from China. Limitations imposed by the DSL and PIPL and uncertainty regarding their application in practice may impact us and our customers, and we may be required to implement modifications to our policies and practices in an effort to comply with these laws.

In the U.S., there are numerous federal and state laws governing the privacy and security of personal information. In particular, the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") establishes privacy and security standards that limit the use and disclosure of individually identifiable health information and requires the implementation of administrative, physical, and technical safeguards to protect the privacy of protected health information and ensure the confidentiality, integrity, and availability of electronic protected health information by certain institutions. We act as a "Business Associate" through our relationships with certain customers and are thus directly subject to certain provisions of HIPAA. In addition, if we are unable to protect the privacy and security of protected health information, we could be found to have breached our contracts with customers with whom we have a Business Associate relationship and may also face regulatory liability. Additionally, we are subject to FCC regulations imposing obligations related to our use and disclosure of certain data related our interconnected VoIP service. If we experience a data security incident, we may be required by state law or FCC or other regulations to notify our customers and/or law enforcement. We may also be subject to Federal Trade Commission ("FTC") enforcement actions if the FTC has reason to believe we have engaged in unfair or deceptive privacy or data security practices.

Noncompliance with laws and regulations relating to privacy and security of personal information, including HIPAA, or with contractual obligations under any Business Associate agreement may lead to significant fines, civil and criminal penalties, or liabilities. The U.S. Department of Health and Human Services ("HHS") audits the compliance of Business

Associates and enforces HIPAA privacy and security standards. HHS enforcement activity has become more significant over the last few years and HHS has signaled its intent to continue this trend. Violation of the FCC's privacy rules can result in large monetary forfeitures and injunctive relief. The FTC has broad authority to seek monetary redress for affected consumers and injunctive relief. In addition to federal regulators, state attorneys general (and, in some states, individual residents) are authorized to bring civil actions seeking either injunctions or damages to the extent violations implicate the privacy of state residents. Class action lawsuits are common in the event of a data breach affecting financial or other forms of sensitive information.

Additionally, California has enacted the California Consumer Privacy Act ("CCPA"), which came into effect on January 1, 2020, with implementing regulations effective August 14, 2020. Pursuant to the CCPA, we are required, among other things, to make certain enhanced disclosures related to California residents regarding our use or disclosure of their personal information, allow California residents to opt-out of certain uses and disclosures of their personal information without penalty, provide Californians with other choices related to personal data in our possession, and obtain opt-in consent before engaging in certain uses of personal information relating to Californians under the age of 16. The California Attorney General may seek substantial monetary penalties and injunctive relief in the event of our non-compliance with the CCPA. The CCPA also allows for private lawsuits from Californians in the event of certain data breaches. Aspects of the CCPA remain uncertain, and we may be required to make modifications to our policies or practices in order to comply. Moreover, a new privacy law, the California Privacy Rights Act ("CPRA"), was approved by California voters in November 2020. The CPRA significantly modifies the CCPA, potentially resulting in further uncertainty and requiring us to incur additional costs and expenses in an effort to comply. The CPRA created obligations relating to consumer data beginning on January 1, 2022, with implementing regulations expected on or before July 1, 2022, and enforcement beginning July 1, 2023. Further, on March 2, 2021, Virginia enacted the Virginia Consumer Data Protection Act ("CDPA"), a comprehensive privacy statute that shares similarities with the CCPA, CPRA, and legislation proposed in other states. The CDPA will require us to incur additional costs and expenses in an effort to comply with it before it becomes effective on January 1, 2023. Colorado enacted a similar law, the Colorado Privacy Act, on June 8, 2021, which will take effect on July 1, 2023, and Utah enacted a similar law, the Utah Consumer Privacy Act, on March 24, 2022, which will take effect on December 31, 2023.

As Internet commerce and communication technologies continue to evolve, thereby increasing online service providers' and network users' capacity to collect, store, retain, protect, use, process, and transmit large volumes of personal information, increasingly restrictive regulation by federal, state, or foreign agencies becomes more likely.

While we try to comply with applicable data protection laws, regulations, standards, and codes of conduct, as well as our own posted privacy policies and contractual commitments to the extent possible, any actual or alleged failure by us to comply with any of the foregoing or to protect our users' privacy and data, including as a result of our systems being compromised by hacking or other malicious or surreptitious activity, could result in a loss of user confidence in our subscriptions and ultimately in a loss of users, which could materially and adversely affect our business.

Regulation of personal information is evolving, and new laws, such as those in Brazil, could further impact how we handle personal information or could require us to incur additional compliance costs, either of which could have an adverse impact on our operations. Further, our actual compliance, our customers' perception of our compliance, costs of compliance with such regulations, and obligations and customer concerns regarding their own compliance obligations (whether factual or in error) may limit the use and adoption of our subscriptions and reduce overall demand. Privacy-related concerns, including the inability or impracticality of providing advance notice to customers of privacy issues related to the use of our subscriptions, may cause our customers' customers to resist providing the personal data necessary to allow our customers to use our subscriptions effectively. Even the perception of privacy-related concerns, whether or not valid, may inhibit market adoption of our subscriptions in certain industries.

Additionally, due to the nature of our service, we are unable to maintain complete control over data security or the implementation of measures that reduce the risk of a data security incident. For example, our customers may accidentally disclose their passwords or store them on a mobile device that is lost or stolen, creating the perception that our systems are not secure against third-party access. Additionally, our third-party contractors in the Philippines, Ukraine, India, Poland, and formerly in Russia, may have access to customer data. If these or other third-party vendors violate applicable laws or our policies, such violations may also put our customers' information at risk and could in turn have a material and adverse effect on our business.

Our emergency and E-911 calling services may expose us to significant liability.

The FCC requires Internet voice communications providers, such as our company, to provide E-911 service in all geographic areas covered by the traditional wire-line E-911 network. Under the FCC's rules, Internet voice communications providers must transmit the caller's phone number and registered location information to the appropriate public safety answering point ("PSAP") for the caller's registered location. Our CLEC services are also required by the FCC and state regulators to provide E-911 service to the extent that they provide services to end users. We are also subject to similar requirements internationally.

In connection with the regulatory requirements that we provide access to emergency services dialing to our interconnected VoIP customers, we must obtain from each customer, prior to the initiation of or changes to service, the physical locations at which the service will first be used for each VoIP line. For subscriptions that can be utilized from more than one physical location, we must provide customers one or more methods of updating their physical location. Because we are not able to confirm that the service is used at the physical addresses provided by our customers, and because customers may provide an incorrect location or fail to provide updated location information, it is possible that emergency services calls may get routed to the wrong PSAP. If emergency services calls are not routed to the correct PSAP, and if the delay results in serious injury or death, we could be sued and the damages substantial. We are evaluating measures to attempt to verify and update the addresses for locations where our subscriptions are used.

In addition, customers may attempt to hold us responsible for any loss, damage, personal injury, or death suffered as a result of delayed, misrouted, or uncompleted emergency service calls or text messages, subject to any limitations on a provider's liability provided by applicable laws, regulations and our customer agreements.

We rely on third parties to provide the majority of our customer service and support representatives and to fulfill various aspects of our E-911 service. If these third parties do not provide our customers with reliable, high-quality service, our reputation will be harmed, and we may lose customers.

We offer customer support through both our online account management website and our toll-free customer support number in multiple languages. Our customer support is currently provided via a third-party provider located in the Philippines, as well as our employees in the U.S. Our third-party providers generally provide customer service and support to our customers without identifying themselves as independent parties. The ability to support our customers may be disrupted by natural disasters, inclement weather conditions, civil unrest, strikes, and other adverse events in the Philippines. Furthermore, as we expand our operations internationally, we may need to make significant expenditures and investments in our customer service and support to adequately address the complex needs of international customers, such as support in additional foreign languages. We also use third parties to deliver onsite professional services to our customers in deploying our solutions. If these vendors do not deliver timely and high-quality services to our customers, our reputation could be damaged, and we could lose customers. In addition, third party professional services vendors may not be available when needed, which would adversely impact our ability to deliver on our customer commitments.

We also contract with third parties to provide emergency services calls in the U.S., Canada, the U.K., and other jurisdictions in which we provide access to emergency services dialing, including assistance in routing emergency calls and terminating emergency services calls. Our domestic providers operate a national call center that is available 24 hours a day, seven days a week, to receive certain emergency calls and maintain PSAP databases for the purpose of deploying and operating E-911 services. We rely on providers for similar functions in other jurisdictions in which we provide access to emergency services dialing. On mobile devices, we rely on the underlying cellular or wireless carrier to provide emergency services dialing. Interruptions in service from our vendors could cause failures in our customers' access to E-911/999/112 services and expose us to liability and damage our reputation.

If any of these third parties do not provide reliable, high-quality service, or the service is not provided in compliance with regulatory requirements, our reputation and our business will be harmed. In addition, industry consolidation among providers of services to us may impact our ability to obtain these services or increase our costs for these services.

Risks Related to Intellectual Property

Accusations of infringement of third-party intellectual property rights could materially and adversely affect our business.

There has been substantial litigation in the areas in which we operate regarding intellectual property rights. For instance, we have recently and in the past been sued by third parties claiming infringement of their intellectual property rights and we may be sued for infringement from time to time in the future. Also, in some instances, we have agreed to indemnify our

customers, resellers, and carriers for expenses and liability resulting from claimed intellectual property infringement by our solutions. From time to time, we have received requests for indemnification in connection with allegations of intellectual property infringement and we may choose, or be required, to assume the defense and/or reimburse our customers and/or resellers and carriers for their expenses, settlement and/or liability. In the past, we have settled infringement litigation brought against us; however, we cannot assure you that we will be able to settle any future claims or, if we are able to settle any such claims, that the settlement will be on terms favorable to us. Our broad range of technology may increase the likelihood that third parties will claim that we, or our customers and/or resellers, and carriers, infringe their intellectual property rights.

We have in the past received, and may in the future receive, notices of claims of infringement, misappropriation or misuse of other parties' proprietary rights. Furthermore, regardless of their merits, accusations and lawsuits like these, whether against us or our customers, resellers, and carriers, may require significant time and expense to defend, may negatively affect customer relationships, may divert management's attention away from other aspects of our operations and, upon resolution, may have a material adverse effect on our business, results of operations, financial condition, and cash flows.

Certain technology necessary for us to provide our subscriptions may, in fact, be patented by other parties either now or in the future. If such technology were validly patented by another person, we would have to negotiate a license for the use of that technology. We may not be able to negotiate such a license at a price that is acceptable to us or at all. The existence of such a patent, or our inability to negotiate a license for any such technology on acceptable terms, could force us to cease using the technology and cease offering subscriptions incorporating the technology, which could materially and adversely affect our business and results of operations.

If we, or any of our solutions, were found to be infringing on the intellectual property rights of any third party, we could be subject to liability for such infringement, which could be material. We could also be prohibited from using or selling certain subscriptions, prohibited from using certain processes, or required to redesign certain subscriptions, each of which could have a material adverse effect on our business and results of operations.

These and other outcomes may:

- result in the loss of a substantial number of existing customers or prohibit the acquisition of new customers;
- cause us to pay license fees for intellectual property we are deemed to have infringed;
- cause us to incur costs and devote valuable technical resources to redesigning our subscriptions;
- cause our cost of revenues to increase;
- cause us to accelerate expenditures to preserve existing revenues;
- cause existing or new vendors to require pre-payments or letters of credit;
- materially and adversely affect our brand in the marketplace and cause a substantial loss of goodwill;
- cause us to change our business methods or subscriptions;
- require us to cease certain business operations or offering certain subscriptions or features; and
- lead to our bankruptcy or liquidation.

Our limited ability to protect our intellectual property rights could materially and adversely affect our business.

We rely, in part, on patent, trademark, copyright, and trade secret law to protect our intellectual property in the U.S. and abroad. We seek to protect our technology, software, documentation and other information under trade secret and copyright law, which afford only limited protection. For example, we typically enter into confidentiality agreements with our employees, consultants, third-party contractors, customers, and vendors in an effort to control access to, use of, and distribution of our technology, software, documentation, and other information. These agreements may not effectively prevent unauthorized use or disclosure of confidential information and may not provide an adequate remedy in the event of such unauthorized use or disclosure, and it may be possible for a third party to legally reverse engineer, copy, or otherwise obtain and use our technology without authorization. In addition, improper disclosure of trade secret information by our current or former employees, consultants, third-party contractors, customers, or vendors to the public or others who could make use of the trade secret information would likely preclude that information from being protected as a trade secret.

We also rely, in part, on patent law to protect our intellectual property in the U.S. and internationally. Our intellectual property portfolio includes over 926 issued patents, including patents acquired from a strategic partnership transaction, which expire between 2022 and 2041. We also have 78 patent applications pending examination in the U.S. and 73 patent applications, including patent applications acquired from a strategic partnership transaction, pending examination in foreign jurisdictions, all of which are related to

U.S. applications. We cannot predict whether such pending patent applications will result in issued patents or whether any issued patents will effectively protect our intellectual property. Even if a pending patent

application results in an issued patent, the patent may be circumvented or its validity may be challenged in various proceedings in United States District Court or before the U.S. Patent and Trademark Office, such as Post Grant Review or *Inter Partes* Review, which may require legal representation and involve substantial costs and diversion of management time and resources. We have also acquired patents in connection with a strategic partnership that are currently pending assignment in their respective patent offices. We cannot assure completeness of the chain of title of acquired patents prior to the completion of the assignments. In addition, we cannot assure you that every significant feature of our solutions is protected by our patents, or that we will mark our solutions with any or all patents they embody. As a result, we may be prevented from seeking injunctive relief or damages, in whole or in part for infringement of our patents.

The unlicensed use of our brand, including domain names, by third parties could harm our reputation, cause confusion among our customers and impair our ability to market our solutions and subscriptions. To that end, we have registered numerous trademarks and service marks and have applied for registration of additional trademarks and service marks and have acquired a large number of domain names in and outside the U.S. to establish and protect our brand names as part of our intellectual property strategy. If our applications receive objections or are successfully opposed by third parties, it will be difficult for us to prevent third parties from using our brand without our permission. Moreover, successful opposition to our applications might encourage third parties to make additional oppositions or commence trademark infringement proceedings against us, which could be costly and time consuming to defend against. If we are not successful in protecting our trademarks, our trademark rights may be diluted and subject to challenge or invalidation, which could materially and adversely affect our brand.

Despite our efforts to implement our intellectual property strategy, we may not be able to protect or enforce our proprietary rights in the U.S. or internationally (where effective intellectual property protection may be unavailable or limited). For example, we have entered into agreements containing confidentiality and invention assignment provisions in connection with the outsourcing of certain software development and quality assurance activities to third-party contractors located in Ukraine and formerly in Russia. We have also entered into an agreement containing a confidentiality provision with a third-party contractor located in the Philippines, where we have outsourced a significant portion of our customer support function. We cannot assure you that agreements with these third-party contractors or their agreements with their employees and contractors will adequately protect our proprietary rights in the applicable jurisdictions and foreign countries, as their respective laws may not protect proprietary rights to the same extent as the laws of the U.S. In addition, our competitors may independently develop technologies that are similar or superior to our technology, duplicate our technology in a manner that does not infringe our intellectual property rights or design around any of our patents. Furthermore, detecting and policing unauthorized use of our intellectual property is difficult and resource-intensive. Moreover, litigation may be necessary in the future to enforce our intellectual property rights, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Such litigation, whether successful or not, could result in substantial costs and diversion of management time and resources and could have a material adverse effect on our business, financial condition, and results of operations.

Our use of open source technology could impose limitations on our ability to commercialize our subscriptions.

We use open source software in our platform on which our subscriptions operate. There is a risk that the owners of the copyrights in such software may claim that such licenses impose unanticipated conditions or restrictions on our ability to market or provide our subscriptions. If such owners prevail in such claim, we could be required to make the source code for our proprietary software (which contains our valuable trade secrets) generally available to third parties, including competitors, at no cost, to seek licenses from third parties in order to continue offering our subscriptions, to re-engineer our technology, or to discontinue offering our subscriptions in the event re-engineering cannot be accomplished on a timely basis or at all, any of which could cause us to discontinue our subscriptions, harm our reputation, result in customer losses or claims, increase our costs or otherwise materially and adversely affect our business and results of operations.

Risks Related to Our Class A Common Stock, Our Notes and Our Charter Provisions

The market price of our Class A Common Stock is likely to be volatile and could decline.

The stock market in general, and the market for SaaS and other technology-related stocks in particular, has been highly volatile. As a result, the market price and trading volume for our Class A Common Stock has been and may continue to be highly volatile, and investors in our Class A Common Stock may experience a decrease in the value of their shares, including decreases unrelated to our operating performance or prospects. Factors that could cause the market price of our Class A Common Stock to fluctuate significantly include:

- our operating and financial performance and prospects and the performance of other similar companies;
- our quarterly or annual earnings or those of other companies in our industry;
- conditions that impact demand for our subscriptions;
- the public's reaction to our press releases, financial guidance, and other public announcements, and filings with the Securities and Exchange Commission (the "SEC");
- changes in earnings estimates or recommendations by securities or research analysts who track our Class A Common Stock;
- actual or perceived security breaches, or other privacy or cybersecurity incidents;
- market and industry perception of our success, or lack thereof, in pursuing our growth strategy;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- changes in government and other regulations;
- changes in accounting standards, policies, guidance, interpretations, or principles;
- arrival and departure of key personnel;
- sales of common stock by us, our investors, or members of our management team; and
- changes in general market, economic, and political conditions in the U.S. and global economies or financial markets, including those resulting from natural disasters, telecommunications failure, cyber-attack, changes in diplomatic or trade relationships, civil unrest in various parts of the world, acts of war (including ongoing geopolitical tensions related to Russia's actions in Ukraine, resulting sanctions imposed by the U.S. and other countries, and retaliatory actions taken by Russia in response to such sanctions), terrorist attacks, or other catastrophic events, such as the global outbreak of COVID-19.

Any of these factors may result in large and sudden changes in the trading volume and market price of our Class A Common Stock and may prevent investors from being able to sell their shares at or above the price they paid for their shares of our Class A Common Stock. Following periods of volatility in the market price of a company's securities, stockholders often file securities class-action lawsuits against such company. Our involvement in a class-action lawsuit could divert our senior management's attention and, if adversely determined, could have a material and adverse effect on our business, financial condition, and results of operations.

The dual class structure of our common stock as contained in our charter documents has the effect of concentrating voting control with a limited number of stockholders that held our stock prior to our initial public offering, including our founders and our executive officers, employees and directors and their affiliates, and limiting other stockholders' ability to influence corporate matters.

Our Class B common stock, par value $0.0001 per share ("Class B Common Stock" and, together with our Class A Common Stock, our "common stock"), has 10 votes per share, and our Class A Common Stock has one vote per share. Additionally, our Series A Convertible Preferred Stock has voting power measured on an as-converted to Class A Common Stock basis. Stockholders who hold shares of Class B Common Stock, including our founders and certain executive officers, and their affiliates, together hold approximately 54% of the voting power of our outstanding capital stock, and our founders, including our CEO and Chairman, together hold a majority of such voting power. As a result, for the foreseeable future, our stockholders who acquired their shares prior to the completion of our initial public offering will continue to have significant influence over the management and affairs of our company and over the outcome of many matters submitted to our stockholders for approval, including the election of directors and significant corporate transactions, such as a merger, consolidation or sale of substantially all of our assets.

In addition, because of the ten-to-one voting ratio between our Class B and Class A Common Stock, the holders of Class B Common Stock collectively will continue to control many matters submitted to our stockholders for approval even if their stock holdings represent less than 50% of the voting power of the outstanding shares of our capital stock. This concentrated control will limit your ability to influence corporate matters for the foreseeable future, and, as a result, the market price of our Class A Common Stock could be adversely affected.

Future transfers by holders of Class B Common Stock will generally result in those shares converting to Class A Common Stock, which may have the effect, over time, of increasing the relative voting power of those holders of Class B Common Stock who retain their shares in the long term. If, for example, Mr. Shmunis retains a significant portion of his holdings of Class B Common Stock for an extended period of time, he could, in the future, control a majority of the combined voting power of our capital stock. As a board member, Mr. Shmunis owes fiduciary duties to our stockholders and must act in good faith in a manner he reasonably believes to be in the best interests of our stockholders. As a stockholder, even a controlling stockholder, Mr. Shmunis is generally entitled to vote his shares in his own interests, which may not always be in the interests of our stockholders generally.

We have never paid cash dividends and do not anticipate paying any cash dividends on our common stock.

We currently do not plan to declare dividends on shares of our common stock in the foreseeable future and plan to, instead, retain any earnings to finance our operations and growth. Because we have never paid cash dividends and do not anticipate paying any cash dividends on our common stock in the foreseeable future, the only opportunity to achieve a return on an investor's investment in our company will be if the market price of our Class A Common Stock appreciates and the investor sells its shares at a profit. There is no guarantee that the price of our Class A Common Stock that will prevail in the market will ever exceed the price that an investor pays.

We may not have the ability to raise the funds necessary to settle conversions of the Notes in cash or to repurchase the Notes upon a fundamental change or pay the principal amount of the Notes at maturity, and our future debt may contain limitations on our ability to pay cash upon conversion or repurchase of the Notes.

Holders of either series of Notes will have the right to require us to repurchase all or a portion of such Notes upon the occurrence of a fundamental change before the applicable maturity date at a repurchase price equal to 100% of the principal amount of such Notes to be repurchased, plus any accrued and unpaid special interest thereon, if any, as set forth in the applicable indenture governing the Notes. In addition, upon conversion of the Notes of the applicable series, we will be required to make cash payments in respect of such Notes being converted, as set forth in the applicable indenture governing the Notes. Moreover, we will be required to repay the Notes of the applicable series in cash at their respective maturity unless earlier converted, redeemed or repurchased. However, we may not have enough available cash on hand or be able to obtain financing at the time we are required to make repurchases of such Notes surrendered therefor or pay cash with respect to such series of Notes being converted or at their respective maturity.

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

The conditional conversion feature of each series of Notes, if triggered, may adversely affect our financial condition and operating results.

In the event the conditional conversion feature of each series of Notes is triggered, holders of the Notes of the applicable series will be entitled under the applicable indenture governing the Notes to convert such Notes at any time during specified periods at their option. If one or more holders of a series elect to convert their Notes, we would be required to settle a portion or all of our conversion obligation in cash, which could adversely affect our liquidity. In addition, in certain circumstances, such as conversion by holders or redemption, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of such series of Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

The capped call transactions may affect the value of the Notes and our Class A Common Stock and we are subject to counterparty risk.

In connection with the issuances of the Notes, we entered into capped call transactions with the counterparties with respect to each series of Notes. The capped call transactions cover, subject to customary adjustments, the number of shares of our Class A Common Stock initially underlying each series of Notes. The capped call transactions are expected to offset the potential dilution as a result of conversion of the Notes.

The counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our Class A Common Stock and/or purchasing or selling our Class A Common Stock or other securities of

ours in secondary market transactions at any time prior to the respective maturity of the Notes (and are likely

to do so on each exercise date of the capped call transactions). This activity could also cause or prevent an increase or a decrease in the market price of our Class A Common Stock.

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

In addition, the counterparties to the capped call transactions are financial institutions and we will be subject to the risk that one or more of the counterparties may default or otherwise fail to perform, or may exercise certain rights to terminate, their obligations under the capped call transactions. If a counterparty to one or more capped call transaction becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at the time under such transaction. Our exposure will depend on many factors but, generally, it will increase if the market price or the volatility of our Class A Common Stock increases. Upon a default or other failure to perform, or a termination of obligations, by a counterparty, we may suffer adverse tax consequences and more dilution than we currently anticipate with respect to our Class A Common Stock. We can provide no assurances as to the financial stability or viability of the counterparties.

The holders of Series A Convertible Preferred Stock are entitled to vote on an as-converted to Class A Common Stock basis and have rights to approve certain actions.

The holders of our Series A Convertible Preferred Stock are generally entitled to vote with the holders of our common stock on all matters submitted for a vote of holders of shares of our capital stock (voting together with the holders of shares of common stock as one class) on an as-converted basis. However, the consent of the holders of a majority of the outstanding shares of Series A Convertible Preferred Stock (voting together as a separate class) is required in order for us to take certain actions, including (i) any amendment, alteration, or repeal of (A) any provision of our certificate of incorporation or bylaws that adversely affects, in any material respect, the rights, preferences, privileges, or voting power of the Series A Convertible Preferred Stock or the holders thereof or (B) any provision of our certificate of designations, (ii) issuances of securities that are senior to, or equal in priority with, the Series A Convertible Preferred Stock as to dividend rights or rights on the distribution of assets on liquidation, (iii) any increase or decrease in the authorized number of shares of Series A Convertible Preferred Stock or issuances thereof, and (iv) any dividend on our common stock that is a one-time special dividend of $100,000,000 or more. As a result, the holders of Series A Convertible Preferred Stock may in the future have the ability to influence the outcome of certain matters affecting our governance and capitalization.

The issuance of shares of our Series A Convertible Preferred Stock reduces the relative voting power of holders of our common stock, and the conversion of those shares into shares of our Class A Common Stock would dilute the ownership of our common stockholders and may adversely affect the market price of our Class A Common Stock.

The holders of our Series A Convertible Preferred Stock are generally entitled to vote, on an as-converted basis, together with holders of our common stock, on all matters submitted to a vote of the holders of our capital stock, which reduces the relative voting power of the holders of our common stock. In addition, the conversion of our Series A Convertible Preferred Stock into Class A Common Stock would dilute the ownership interest of existing holders of our common stock, and any conversion of the Series A Convertible Preferred Stock would increase the number of shares of our Class A Common Stock available for public trading, which could adversely affect prevailing market prices of our Class A Common Stock.

Our Series A Convertible Preferred Stock has rights, preferences and privileges that are not held by, and are preferential to the rights of, our common stockholders, which could adversely affect our liquidity and financial condition.

The holders of our Series A Convertible Preferred Stock have the right to receive payments as to dividend rights and on account of the distribution of assets on any voluntary or involuntary liquidation, dissolution or winding up of our business before any payment may be made to holders of any other class or series of capital stock. In addition, upon prior written notice of certain change of control events, all shares of Series A Convertible Preferred Stock will automatically be redeemed by us for a repurchase price equal to (i) $1,000 per share of each share of Series A Convertible Preferred Stock (the “Liquidation Preference”) or (ii) if the applicable change of control occurs before the second anniversary of November 9, 2021, 1.5 multiplied by the Liquidation Preference of such share of Series A Convertible Preferred Stock. These dividend and share repurchase obligations could impact our liquidity and reduce the amount of cash flows available for working capital, capital expenditures, growth opportunities, acquisitions, and other general corporate purposes. Our obligations to the holders of our Series A Convertible Preferred Stock could also limit our ability to obtain additional financing, which could have an adverse

effect on our financial condition. The preferential rights could also result in divergent interests between the holders of our Series A Convertible Preferred Stock and holders of our common stock.

We cannot guarantee that our stock repurchase program will be fully implemented or that it will enhance long-term stockholder value.

On December 13, 2021, our board of directors authorized a share repurchase program under which we may repurchase up to $100 million of our outstanding Class A Common Stock. We plan to fund repurchases under this program from our future cash flow generation, as well as from additional potential sources of cash including capped calls associated with the Notes. Under the program, share repurchases may be made at our discretion from time to time in open market transactions, privately negotiated transactions, or other means. The program does not obligate us to repurchase any specific dollar amount or to acquire any specific number of shares of our Class A Common Stock. The timing and number of any shares repurchased under the program will depend on a variety of factors, including stock price, trading volume, and general business and market conditions. The authorization is effective until December 31, 2022. Our board of directors will review the program periodically and may authorize adjustments of its terms if appropriate. As a result, there can be no guarantee around the timing or volume of our share repurchases. The program could affect the price of our Class A Common Stock, increase volatility and diminish our cash reserves. The program may be suspended or terminated at any time and, even if fully implemented, may not enhance long-term stockholder value.

Anti-takeover provisions in our certificate of incorporation and bylaws and under Delaware corporate law could make an acquisition of us more difficult, limit attempts by our stockholders to replace or remove our current management and limit the market price of our Class A Common Stock.

Provisions in our certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our management. Our certificate of incorporation and bylaws include provisions that:

- authorize our board of directors to issue, without further action by the stockholders, up to 100,000,000 shares of undesignated preferred stock, 200,000 share of which are currently designated as Series A Convertible Preferred Stock;
- require that, once our outstanding shares of Class B Common Stock represent less than a majority of the combined voting power of our common stock, any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent; specify that special meetings of our stockholders can be called only by our board of directors, the Chairman of our board of directors, or our Chief Executive Officer;
- establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for election to our board of directors;
- prohibit cumulative voting in the election of directors;
- provide that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum;
- state that the approval of our board of directors or the holders of a supermajority of our outstanding shares of capital stock is required to amend our bylaws and certain provisions of our certificate of incorporation; and
- reflect two classes of common stock, as discussed above.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any “interested” stockholder for a period of three years following the date on which the stockholder became an “interested” stockholder without obtaining specified approvals.

General Risk Factors

Changes in effective tax rates, or adverse outcomes resulting from examination of our income or other tax returns, could adversely affect our results of operations and financial condition.

Our future effective tax rates could be subject to volatility or adversely affected by a number of factors, including:

- changes in the valuation of our deferred tax assets and liabilities;
- expiration of, or lapses in, the research and development tax credit laws;
- expiration or non-utilization of net operating loss carryforwards;
- tax effects of share-based compensation;
- expansion into new jurisdictions;
- potential challenges to and costs related to implementation and ongoing operation of our intercompany arrangements;
- changes in tax laws and regulations and accounting principles, or interpretations or applications thereof; and
- certain non-deductible expenses as a result of acquisitions.

Any changes in our effective tax rate could adversely affect our results of operations.

Changes in U.S. and foreign tax laws could have a material adverse effect on our business, cash flow, results of operations or financial conditions.

We are subject to tax laws, regulations, and policies of the U.S. federal, state, and local governments and of comparable taxing authorities in foreign jurisdictions. Changes in tax laws, as well as other factors, could cause us to experience fluctuations in our tax obligations and effective tax rates in 2018 and thereafter and otherwise adversely affect our tax positions and/or our tax liabilities. For example, on July 25, 2019, France introduced a digital services tax at a rate of 3% on revenues derived from digital activities in France, and other jurisdictions are proposing or could introduce similar laws in the future. More recently, in 2021, U.S. congressional Democrats proposed numerous changes to U.S. federal income tax law, including an increase to the U.S. corporate tax rate, along with other tax measures, such as international business operations reform and/or imposition of a global minimum tax. Many countries, including the United States, and organizations such as the Organization for Economic Cooperation and Development are also actively considering changes to existing tax laws or have proposed or enacted new laws that could increase our tax obligations in countries where we do business or cause us to change the way we operate our business. Any of these developments or changes in federal, state, or international tax laws or tax rulings could adversely affect our effective tax rate and our operating results. There can be no assurance that our effective tax rates, tax payments, tax credits, or incentives will not be adversely affected by these or other developments or changes in law.

If our internal control over financial reporting is not effective, it may adversely affect investor confidence in our company.

Pursuant to Section 404 of the Sarbanes-Oxley Act, our independent registered public accounting firm, KPMG LLP, is required to and has issued an attestation report as of December 31, 2021. While management concluded internal control over financial reporting was at a reasonable assurance level as of December 31, 2021, there can be no assurance that material weaknesses will not be identified in the future. A “material weakness” is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal controls are effective. As a result, we may need to undertake various actions, such as implementing new internal controls and procedures and hiring accounting or internal audit staff. Our remediation efforts may not enable us to avoid a material weakness in the future.

If our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal controls, we could lose investor confidence in the accuracy and completeness of our financial reports, which could cause the price of our Class A Common Stock to decline, and we may be subject to investigation or sanctions by the SEC.

The nature of our business requires the application of complex revenue and expense recognition rules and the current legislative and regulatory environment affecting generally accepted accounting principles is uncertain. Significant changes in current principles could affect our financial statements going forward and changes in financial accounting standards or practices may cause adverse, unexpected financial reporting fluctuations and harm our operating results.

The accounting rules and regulations that we must comply with are complex and subject to interpretation by the Financial Accounting Standards Board (the “FASB”), the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. Recent actions and public comments from the FASB and the SEC have focused on the integrity of financial reporting and internal controls. In addition, many companies’ accounting policies are being subject to heightened scrutiny by regulators and the public. Further, the accounting rules and regulations are continually changing in ways that could materially impact our financial statements.

We cannot predict the impact of future changes to accounting principles or our accounting policies on our financial statements going forward, which could have a significant effect on our reported financial results and could affect the reporting of transactions completed before the announcement of the change. While we are not aware of any specific event or circumstance that would require a material update to our estimates, judgments or assumptions, this may change in the future. In addition, if we were to change our critical accounting estimates, including those related to the recognition of subscription revenue and other revenue sources, our operating results could be significantly affected.

Our corporate headquarters, one of our data centers and co-location facilities, our third-party customer service and support facilities, and a research and development facility are located near known earthquake fault zones, and the occurrence of an earthquake, tsunami, or other catastrophic disaster could damage our facilities or the facilities of our contractors, which could cause us to curtail our operations.

Our corporate headquarters and many of our data centers, co-location and research and development facilities, and third-party customer service call centers are located in California, Florida, and several countries in Asia, including the Philippines and Australia. All of these locations are near known earthquake fault zones, which are vulnerable to damage from earthquakes and tsunamis, or are in areas subject to hurricanes. We and our contractors are also vulnerable to other types of disasters, such as power loss, fire, floods, pandemics such as the global outbreak of COVID-19, cyber-attack, war (including ongoing geopolitical tensions related to Russia's actions in Ukraine, resulting sanctions imposed by the U.S. and other countries, and retaliatory actions taken by Russia in response to such sanctions), political unrest, and terrorist attacks and similar events that are beyond our control. If any disasters were to occur, our ability to operate our business could be seriously impaired, and we may endure system interruptions, reputational harm, loss of intellectual property, delays in our subscriptions development, lengthy interruptions in our services, breaches of data security, and loss of critical data, all of which could harm our future results of operations. In addition, we do not carry earthquake insurance and we may not have adequate insurance to cover our losses resulting from other disasters or other similar significant business interruptions. Any significant losses that are not recoverable under our insurance policies could seriously impair our business and financial condition.

If research analysts do not publish research or reports about our business, or if they issue unfavorable commentary or downgrade our Class A Common Stock, our stock price and trading volume may decline.

The trading market for our Class A Common Stock will depend in part on the research and reports that research analysts publish about us and our business. If we do not maintain adequate research coverage or if one or more analysts who covers us downgrades our stock or publishes inaccurate or unfavorable research about our business, the price of our Class A Common Stock may decline. If one or more of the research analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our Class A Common Stock may decrease, which could cause our stock price or trading volume to decline.

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

None.

Item 3. Default Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits.

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

EXHIBIT INDEX

Exhibit Number	Description	Incorporated by Reference From Form	Incorporated by Reference From Exhibit Number	Date Filed
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.	Filed herewith		
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.	Filed herewith		
32.1*	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act.	Furnished herewith		
32.2*	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act.	Furnished herewith		
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.	Filed herewith		
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith		
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith		
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith		
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith		
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith		
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).	Filed herewith		

+ Indicates a management or compensatory plan

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

SIGNATURES

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

RingCentral, Inc.

Date: May 10, 2022

By: /s/ Vaibhav Agarwal

Vaibhav Agarwal
Interim Chief Financial Officer and Chief Accounting Officer
(Principal Financial Officer and Principal Accounting Officer)