

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended **October 31, 2019**

OR

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

For the transition period from _____ to _____

Commission File Number **001-36805**

Box, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

20-2714444
(I.R.S. Employer
Identification No.)

900 Jefferson Ave.
Redwood City, California 94063
(Address of principal executive offices and Zip Code)

(877) 729-4269
(Registrant's telephone number, including area code)

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, \$0.0001 par value per share	BOX	New York Stock Exchange, Inc.

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 definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Small reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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 November 29, 2019, the number of shares of the registrant's Class A common stock outstanding was 149,626,825.

TABLE OF CONTENTS

	<u>Page</u>
<u>PART I – FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	5
<u>Condensed Consolidated Balance Sheets as of October 31, 2019 and January 31, 2019</u>	5
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended October 31, 2019 and 2018</u>	6
<u>Condensed Consolidated Statements of Comprehensive Loss for the Three and Nine Months Ended October 31, 2019 and 2018</u>	7
<u>Condensed Consolidated Statements of Stockholders' Equity for the Three and Nine Months Ended October 31, 2019 and 2018</u>	8
<u>Condensed Consolidated Statements of Cash Flows for the Three and Nine Months Ended October 31, 2019 and 2018</u>	10
<u>Notes to Condensed Consolidated Financial Statements</u>	11
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	27
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	43
Item 4. <u>Controls and Procedures</u>	43
<u>PART II – OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	44
Item 1A. <u>Risk Factors</u>	44
Item 6. <u>Exhibits</u>	64
<u>Signatures</u>	65

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- our future financial and operating results; including expectations regarding revenues, deferred revenue, billings, remaining performance obligations, gross margins and operating income;
- our ability to maintain an adequate rate of revenue and billings growth and our expectations regarding such growth;
- our market opportunity, business plan and ability to effectively manage our growth;
- our ability to achieve profitability and positive cash flow;
- our ability to achieve our long-term margin objectives;
- our ability to grow our unrecognized revenue and remaining performance obligations;
- our expectations regarding our revenue mix;
- costs associated with defending intellectual property infringement and other claims and the frequency of such claims;
- our ability to attract and retain end-customers;
- our ability to further penetrate our existing customer base;
- our expectations regarding our retention rate;
- our ability to displace existing products in established markets;
- our ability to expand our leadership position as a cloud content management platform;
- our ability to timely and effectively scale and adapt our existing technology;
- our ability to innovate new products and features and bring them to market in a timely manner and the expected benefits to customers and potential customers of our products;
- our investment strategy, including our plans to further invest in our business, including investment in research and development, sales and marketing, our data center infrastructure and our professional services organization, and our ability to effectively manage such investments;
- our ability to expand internationally;
- expectations about competition and its effect in our market and our ability to compete;
- the effects of seasonal trends on our operating results;
- use of non-GAAP financial measures;
- our belief regarding the sufficiency of our cash, cash equivalents and our credit facilities to meet our working capital and capital expenditure needs for at least the next 12 months;
- our expectations concerning relationships with third parties;
- our ability to attract and retain qualified employees and key personnel;
- our ability to realize the anticipated benefits of our partnerships with third parties;

- the effects of new laws, policies, taxes and regulations on our business;
- management’s plans, beliefs and objectives, including the importance of our brand and culture on our business;
- our ability to maintain, protect and enhance our brand and intellectual property; and
- future acquisitions of or investments in complementary companies, products, services or technologies and our ability to successfully integrate such companies or assets.

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

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

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

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

BOX, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	October 31, 2019	*	January 31, 2019	**
	(unaudited)			
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 200,890		\$ 217,518	
Accounts receivable, net of allowance of \$4,141 and \$2,728	108,393		175,130	
Prepaid expenses and other current assets	18,559		14,223	
Deferred commissions	27,249		21,683	
Total current assets	355,091		428,554	
Property and equipment, net	189,865		137,703	
Operating lease right-of-use assets, net	203,926		—	
Goodwill	18,740		18,740	
Restricted cash	—		238	
Deferred commissions, non-current	56,525		53,880	
Other long-term assets	19,771		11,046	
Total assets	<u>\$ 843,918</u>		<u>\$ 650,161</u>	
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	\$ 15,543		\$ 15,431	
Accrued compensation and benefits	18,718		34,484	
Accrued expenses and other current liabilities	31,229		31,378	
Finance lease liabilities	49,306		28,317	
Operating lease liabilities	40,335		—	
Deferred revenue	312,375		353,590	
Total current liabilities	467,506		463,200	
Debt, non-current	40,000		40,000	
Finance lease liabilities, non-current	82,637		44,597	
Operating lease liabilities, non-current	213,369		—	
Deferred revenue, non-current	13,272		21,451	
Other long-term liabilities	6,359		49,508	
Total liabilities	<u>823,143</u>		<u>618,756</u>	
Commitments and contingencies (Note 6)				
Stockholders' equity:				
Preferred stock, par value \$0.0001 per share; 100,000 shares authorized, no shares issued and outstanding as of October 31 (unaudited) and January 31, 2019	—		—	
Class A common stock, par value \$0.0001 per share; 1,000,000 shares authorized; 149,478 shares (unaudited) and 144,311 shares issued and outstanding as of October 31 and January 31, 2019, respectively	15		14	
Additional paid-in capital	1,269,904		1,166,443	
Treasury stock	(1,177)		(1,177)	
Accumulated other comprehensive (loss) income	(111)		23	
Accumulated deficit	(1,247,856)		(1,133,898)	
Total stockholders' equity	20,775		31,405	
Total liabilities and stockholders' equity	<u>\$ 843,918</u>		<u>\$ 650,161</u>	

* As reported and disclosed under ASC Topic 842

** As reported and disclosed under ASC Topic 840

See notes to condensed consolidated financial statements.

BOX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,						
	2019	*	2018	**		2019	*	2018	**
Revenue	\$	177,156	\$	155,944	\$	512,679	\$	444,673	
Cost of revenue		56,302		44,724		158,858		126,397	
Gross profit		120,854		111,220		353,821		318,276	
Operating expenses:									
Research and development		50,652		42,310		146,589		122,388	
Sales and marketing		82,939		84,490		242,164		238,472	
General and administrative		26,496		23,884		75,959		69,959	
Total operating expenses		160,087		150,684		464,712		430,819	
Loss from operations		(39,233)		(39,464)		(110,891)		(112,543)	
Interest expense, net		(738)		(47)		(1,141)		(208)	
Other loss, net		(653)		(321)		(840)		(1,243)	
Loss before provision for income taxes		(40,624)		(39,832)		(112,872)		(113,994)	
Provision for income taxes		272		364		1,086		924	
Net loss	\$	(40,896)	\$	(40,196)	\$	(113,958)	\$	(114,918)	
Net loss per share, basic and diluted	\$	(0.28)	\$	(0.28)	\$	(0.78)	\$	(0.82)	
Weighted-average shares used to compute net loss per share, basic and diluted		148,555		142,366		146,997		140,559	

* As reported and disclosed under ASC Topic 842

** As reported and disclosed under ASC Topic 840

See notes to condensed consolidated financial statements.

BOX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)
(unaudited)

	Three Months Ended		Nine Months Ended					
	October 31,		October 31,					
	2019	*	2018	**	2019	*	2018	**
Net loss	\$	(40,896)	\$	(40,196)	\$	(113,958)	\$	(114,918)
Other comprehensive loss***:								
Changes in foreign currency translation adjustment		(7)		(89)		(83)		(375)
Net unrealized loss on cash flow hedge		(51)		—		(51)		—
Other comprehensive loss		(58)		(89)		(134)		(375)
Comprehensive loss	\$	(40,954)	\$	(40,285)	\$	(114,092)	\$	(115,293)

* As reported and disclosed under ASC Topic 842

** As reported and disclosed under ASC Topic 840

*** Tax effect was not material

See notes to condensed consolidated financial statements.

BOX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)
(unaudited)

	Class A Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity*
	Shares	Amount					
Balance as of January 31, 2019	144,311	\$ 14	\$ 1,166,443	\$ (1,177)	\$ 23	\$ (1,133,898)	\$ 31,405
Issuance of common stock upon stock option exercises	152	—	1,213	—	—	—	1,213
Stock-based compensation related to stock awards	—	—	35,678	—	—	—	35,678
Vesting of restricted stock units, net of shares withheld for employee payroll taxes	1,205	1	—	—	—	—	1
Employee payroll taxes withheld related to vesting of restricted stock units	—	—	(14,624)	—	—	—	(14,624)
Common stock issued under employee stock purchase plan	829	—	13,605	—	—	—	13,605
Other comprehensive income	—	—	—	—	88	—	88
Net loss	—	—	—	—	—	(36,828)	(36,828)
Balance as of April 30, 2019	146,497	15	1,202,315	(1,177)	111	(1,170,726)	30,538
Issuance of common stock upon stock option exercises	143	—	1,031	—	—	—	1,031
Stock-based compensation related to stock awards	—	—	38,035	—	—	—	38,035
Vesting of restricted stock units, net of shares withheld for employee payroll taxes	1,082	—	—	—	—	—	—
Employee payroll taxes withheld related to vesting of restricted stock units	—	—	(10,940)	—	—	—	(10,940)
Other comprehensive loss	—	—	—	—	(164)	—	(164)
Net loss	—	—	—	—	—	(36,234)	(36,234)
Balance as of July 31, 2019	147,722	15	1,230,441	(1,177)	(53)	(1,206,960)	22,266
Issuance of common stock upon stock option exercises	122	—	764	—	—	—	764
Stock-based compensation related to stock awards	—	—	38,373	—	—	—	38,373
Vesting of restricted stock units, net of shares withheld for employee payroll taxes	989	—	—	—	—	—	—
Employee payroll taxes withheld related to vesting of restricted stock units	—	—	(9,494)	—	—	—	(9,494)
Common stock issued under employee stock purchase plan	645	—	9,820	—	—	—	9,820
Other comprehensive loss	—	—	—	—	(58)	—	(58)
Net loss	—	—	—	—	—	(40,896)	(40,896)
Balance as of October 31, 2019	149,478	\$ 15	\$ 1,269,904	\$ (1,177)	\$ (111)	\$ (1,247,856)	\$ 20,775

* As reported and disclosed under ASC Topic 842

See notes to condensed consolidated financial statements.

BOX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (CONT.)

(In thousands)

(unaudited)

	Class A and Class B Common Stock*		Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity**
	Shares	Amount					
Balance as of January 31, 2018	137,317	\$ 13	\$ 1,054,932	\$ (1,177)	\$ 288	\$ (1,039,088)	\$ 14,968
Issuance of common stock upon stock option exercises	631	—	4,369	—	—	—	4,369
Issuance of common stock in connection with charitable donations	12	—	243	—	—	—	243
Stock-based compensation related to stock awards	—	—	25,443	—	—	—	25,443
Vesting of restricted stock units, net of shares withheld for employee payroll taxes	1,011	—	—	—	—	—	—
Employee payroll taxes withheld related to vesting of restricted stock units	—	—	(13,295)	—	—	—	(13,295)
Cumulative effect of ASC Topic 606 adoption	—	—	—	—	—	39,802	39,802
Common stock issued under employee stock purchase plan	1,004	—	11,846	—	—	—	11,846
Other comprehensive loss	—	—	—	—	(124)	—	(124)
Net loss	—	—	—	—	—	(36,637)	(36,637)
Balance as of April 30, 2018	139,975	13	1,083,538	(1,177)	164	(1,035,923)	46,615
Issuance of common stock upon stock option exercises	815	—	8,462	—	—	—	8,462
Issuance of common stock in connection with fiscal year 2019 acquisitions	40	—	1,053	—	—	—	1,053
Stock-based compensation related to stock awards	—	—	29,252	—	—	—	29,252
Vesting of restricted stock units, net of shares withheld for employee payroll taxes	776	1	—	—	—	—	1
Employee payroll taxes withheld related to vesting of restricted stock units	—	—	(12,009)	—	—	—	(12,009)
Other comprehensive loss	—	—	—	—	(162)	—	(162)
Net loss	—	—	—	—	—	(38,085)	(38,085)
Balance as of July 31, 2018	141,606	14	1,110,296	(1,177)	2	(1,074,008)	35,127
Issuance of common stock upon stock option exercises	299	—	2,145	—	—	—	2,145
Stock-based compensation related to stock awards	—	—	30,241	—	—	—	30,241
Vesting of restricted stock units, net of shares withheld for employee payroll taxes	869	—	—	—	—	—	—
Employee payroll taxes withheld related to vesting of restricted stock units	—	—	(11,597)	—	—	—	(11,597)
Common stock issued under employee stock purchase plan	614	—	10,015	—	—	—	10,015
Other comprehensive loss	—	—	—	—	(89)	—	(89)
Net loss	—	—	—	—	—	(40,196)	(40,196)
Balance as of October 31, 2018	143,388	14	1,141,100	(1,177)	(87)	(1,114,204)	\$ 25,646

* On June 14, 2018, all outstanding shares of our Class B common stock automatically converted into the same number of shares of Class A common stock pursuant to the terms of our Amended and Restated Certificate of Incorporation. We do not intend to issue any additional shares of Class B common stock.

** As reported and disclosed under ASC Topic 840

See notes to condensed consolidated financial statements.

BOX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	*	2018	**
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	\$ (40,896)	\$ (40,196)	\$ (113,958)	\$ (114,918)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation and amortization	16,038	11,433	42,102	34,677
Stock-based compensation expense	37,758	31,790	106,925	89,086
Amortization of deferred commissions	6,650	4,516	18,360	12,231
Loss (gain) on disposal of property and equipment	—	586	(2)	586
Others	7	(18)	(113)	(13)
Changes in operating assets and liabilities:				
Accounts receivable, net	9,510	9,065	66,737	57,001
Deferred commissions	(11,617)	(9,753)	(26,571)	(23,057)
Prepaid expenses and other assets	1,550	350	(3,289)	(4,583)
Operating lease right-of-use assets, net	9,007	—	26,445	—
Accounts payable	(7,486)	959	(4,201)	(246)
Accrued expenses and other liabilities	919	(1,640)	(8,392)	(16,907)
Operating lease liabilities	(7,360)	—	(24,950)	—
Deferred revenue	(5,187)	(276)	(49,394)	(9,868)
Net cash provided by operating activities	8,893	6,816	29,699	23,989
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property and equipment	(1,055)	(5,247)	(4,221)	(12,613)
Capitalized internal-use software costs	(2,469)	(1,343)	(6,482)	(1,343)
Proceeds from sales of property and equipment	—	1	6	2
Acquisitions	—	—	—	(458)
Net cash used in investing activities	(3,524)	(6,589)	(10,697)	(14,412)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from exercise of stock options	764	2,145	3,008	14,976
Proceeds from issuances of common stock under employee stock purchase plan	9,820	10,015	23,425	21,861
Employee payroll taxes paid related to net share settlement of restricted stock units	(9,494)	(11,596)	(35,055)	(36,901)
Principal payments of finance lease liabilities	(7,055)	(4,290)	(26,200)	(17,192)
Acquisition related contingent consideration	—	—	(936)	—
Net cash used in financing activities	(5,965)	(3,726)	(35,758)	(17,256)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(3)	(123)	(110)	(405)
Net decrease in cash, cash equivalents, and restricted cash	(599)	(3,622)	(16,866)	(8,084)
Cash, cash equivalents, and restricted cash, beginning of period	201,489	203,964	217,756	208,426
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 200,890</u>	<u>\$ 200,342</u>	<u>\$ 200,890</u>	<u>\$ 200,342</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for interest	\$ 1,258	\$ 623	\$ 3,768	\$ 1,795
Cash paid for income taxes, net of tax refunds	967	501	2,718	1,493
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:				
Accrued equipment purchases	\$ 3,835	\$ 10,560	\$ 4,012	\$ 11,151
Increase in long-lived assets resulting from capitalizing asset retirement costs	—	—	2,717	566
Stock-based compensation capitalized in internal-use software costs	1,188	—	3,626	—
Increase in finance lease liabilities	40,530	9,230	84,950	27,751
Issuance of common stock in connection with acquisitions	—	—	—	1,053
Contingent consideration accruals in connection with acquisitions	—	—	—	936
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH INFORMATION:				
Cash and cash equivalents, beginning of period	\$ 201,489	\$ 203,726	\$ 217,518	208,076
Restricted cash, beginning of period	—	238	238	350
Cash, cash equivalents, and restricted cash, beginning of period	<u>\$ 201,489</u>	<u>\$ 203,964</u>	<u>\$ 217,756</u>	<u>\$ 208,426</u>
Cash and cash equivalents, end of period	\$ 200,890	\$ 200,104	\$ 200,890	\$ 200,104
Restricted cash, end of period	—	238	—	238
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 200,890</u>	<u>\$ 200,342</u>	<u>\$ 200,890</u>	<u>\$ 200,342</u>

* As reported and disclosed under ASC Topic 842

** As reported and disclosed under ASC Topic 840

See notes to condensed consolidated financial statements.

BOX, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Description of Business and Basis of Presentation

Description of Business

We were incorporated in the state of Washington in April 2005, and were reincorporated in the state of Delaware in March 2008. We changed our name from Box.Net, Inc. to Box, Inc. in November 2011. Box provides a leading cloud content management platform that enables organizations of all sizes to securely manage cloud content while allowing easy, secure access and sharing of this content from anywhere, on any device.

Basis of Presentation

The accompanying condensed consolidated balance sheet as of October 31, 2019 and the condensed consolidated statements of operations, the condensed consolidated statements of comprehensive loss, the condensed consolidated statements of stockholders' equity, and the condensed consolidated statements of cash flows for the three and nine months ended October 31, 2019 and 2018, respectively, are unaudited. The condensed consolidated balance sheet data as of January 31, 2019 was derived from the audited consolidated financial statements that are included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2019 (the "Form 10-K"), which was filed with the Securities and Exchange Commission (the "SEC") on March 20, 2019. The accompanying statements should be read in conjunction with the audited consolidated financial statements and related notes contained in our Form 10-K. Other than items discussed under *Use of Estimates, Recently Adopted Accounting Pronouncements, and Summary of Significant Accounting Policies*, there have been no other material changes to our critical accounting policies and estimates during the nine months ended October 31, 2019 from those disclosed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K.

The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information. Accordingly, they do not include all of the financial information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of our management, the unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements in the Form 10-K, and include all adjustments necessary for the fair presentation of our balance sheet as of October 31, 2019, and our results of operations, including our comprehensive loss, our stockholders' equity, and our cash flows for the three and nine months ended October 31, 2019 and 2018. All adjustments are of a normal recurring nature. The results for the three and nine months ended October 31, 2019 are not necessarily indicative of the results to be expected for any subsequent quarter or for the fiscal year ending January 31, 2020.

Certain prior period amounts reported in our condensed consolidated financial statements and notes thereto have been reclassified to conform to the current year presentation. Such reclassifications did not affect total revenues, operating income, or net income.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make, on an ongoing basis, estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ from these estimates. Such estimates include, but are not limited to, the determination of the allowance for accounts receivable, fair value of acquired intangible assets and goodwill, useful lives of acquired intangible assets and property and equipment, timing and costs associated with our asset retirement obligations, the nature and timing of satisfaction of performance obligations, estimate of standalone selling price allocation included in contracts with multiple performance obligations, the estimated expected benefit period for deferred commissions, the estimated useful life of capitalized internal-use software costs, observable price changes of non-marketable equity securities, the incremental borrowing rate we use to determine our lease liabilities, fair values of stock-based awards, legal contingencies, the valuation of deferred income tax assets, and unrecognized tax benefits, among others. Management bases its estimates on historical experience and on various other assumptions which management believes to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Certain Risks and Concentrations

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

We sell to a broad range of customers. Our revenue is derived substantially from the United States across a multitude of industries. Accounts receivable are derived from the delivery of our services to customers primarily located in the United States. We accept and settle our accounts receivable using credit cards, electronic payments and checks. A majority of our lower dollar value invoices are settled by credit card on or near the date of the invoice. We do not require collateral from customers to secure accounts receivable. We maintain an allowance for doubtful accounts based upon the expected collectability, which takes into consideration specific customer creditworthiness and current economic trends. We believe collections of our accounts receivable are probable based on the size, industry diversification, financial condition and past transaction history of our customers. As of October 31, 2019 and January 31, 2019, one reseller, which is also a customer, accounted for more than 10% of total accounts receivable. One reseller, which is also a customer, represented 10% of our revenue for the three and nine months ended October 31, 2019. One reseller, which is also a customer, represented 12% of our revenue for the three and nine months ended October 31, 2018.

We serve our customers and users from data center facilities operated by third parties. In order to reduce the risk of down time of our subscription services, we have established data centers and third-party cloud computing and hosting providers in various locations in the United States and abroad. We have internal procedures to restore services in the event of disaster at any one of our current data center facilities. Even with these procedures for disaster recovery in place, our cloud services could be significantly interrupted during the implementation of the procedures to restore services.

Geographic Locations

For both the three and nine months ended October 31, 2019, revenue attributable to customers in the United States was 75%. For the three and nine months ended October 31, 2018, revenue attributable to customers in the United States was 75% and 76%, respectively. For the three months ended October 31, 2019, revenue attributable to customers in Japan was 10%. No country outside of the United States comprised 10% or greater of our revenue for any of the other periods presented.

Substantially all of our net assets are located in the United States. As of October 31, 2019 and January 31, 2019, property and equipment located in the United States was approximately 94% and 91%, respectively.

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases*, and since that date has issued several additional accounting standard updates to further clarify certain aspects of ASU 2016-02 and to provide certain practical expedients entities can elect upon adoption (collectively, “ASC Topic 842”). ASC Topic 842 states that for most leases, a lessee would recognize a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term while recognizing expense in a manner similar to legacy guidance ASC Topic 840. We adopted ASC Topic 842, effective February 1, 2019 using the modified retrospective method for leases that existed as of February 1, 2019. The comparative periods presented and disclosed in the year of adoption are based on legacy ASC Topic 840 guidance. We elected the practical expedients which allow us to carry forward our assessment on whether a contract is or contains a lease, our historical lease classification, and our initial direct costs for any leases that expired or existed prior to adoption of ASC Topic 842. In addition, we elected the short-term lease exception and the practical expedient to not separate lease and non-lease components.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)Adoption Impact of ASC Topic 842 on the Opening Balance Sheet as of February 1, 2019

In connection with the adoption of ASC Topic 842, we recognized operating lease right-of-use assets and operating lease liabilities on our condensed consolidated balance sheet primarily related to our office and data center facilities of \$206.6 million and \$255.0 million, respectively, out of which \$218.6 million was the non-current portion of operating lease liabilities. The difference between the operating lease right-of-use assets and operating lease liabilities primarily represents the existing deferred rent liability balance as of the adoption date.

Our accounting for finance leases remains substantially unchanged from the legacy ASC Topic 840 except for the impacts of applying the practical expedient to not separate lease and non-lease components. As a result of recognizing the non-lease components as part of our finance leases, we recognized finance lease right-of-use assets and corresponding finance leases liabilities of \$5.2 million, out of which \$2.9 million represented the non-current portion of the additional finance lease liabilities.

As a sub-lessor, accounting for our subleases is largely unchanged from the legacy ASC Topic 840.

The adoption of ASC Topic 842 did not have a material effect on our condensed consolidated statements of operations and cash flows, however, it did materially increase our assets and liabilities on the condensed consolidated balance sheet. The adoption of ASC Topic 842 resulted in changes to our accounting estimates and accounting policy for leases. Please see *Summary of Significant Accounting Policies* for a discussion of the updated policy.

Ongoing ASC Topic 842 Financial Statement Impact as of and for the three and nine months ended October 31, 2019

Refer to “*Note 4. Balance Sheet Components*” and “*Note 5. Leases*” for the ongoing ASC Topic 842 impact on the condensed consolidated financial statements as of and for the three and nine months ended October 31, 2019.

Recently Issued Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments- Credit Losses*. ASU 2016-13 replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For trade receivables, loans, and other financial instruments, we will be required to use a forward-looking expected loss model rather than the incurred loss model for recognizing credit losses which reflects losses that are probable. The new standard is effective for us beginning February 1, 2020; we have elected not to adopt the standard earlier. Application of the amendments is through a cumulative-effect adjustment to retained earnings as of the effective date. We are in the process of evaluating appropriate changes to our business processes, systems and controls to support the adoption of the new standard. We are currently evaluating the impact of the provisions of this new standard on our condensed consolidated financial statements.

Summary of Significant Accounting Policies

Except for the accounting policies for leases and derivative instruments and hedging detailed under *Summary of Significant Accounting Policies*, there have been no other material changes to our critical accounting policies during the nine months ended October 31, 2019 from those disclosed in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K for the fiscal year ended January 31, 2019.

Leases

We adopted ASC Topic 842, effective February 1, 2019, using the modified retrospective method. The reported results for fiscal year 2020 reflect the application of ASC Topic 842, while the reported results for prior fiscal years are not adjusted and continue to be reported under ASC Topic 840. Refer to *Recently Adopted Accounting Pronouncements* regarding the adoption impact of ASC Topic 842 in fiscal year 2020.

We determine whether an arrangement contains a lease at inception. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To determine whether a contract is or contains a lease, we consider all relevant facts and circumstances to assess whether the customer has both of the following:

- The right to obtain substantially all of the economic benefits from use of the identified asset
- The right to direct the use of the identified asset

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

We recognize lease liabilities and right-of-use assets at lease commencement. We measure lease liabilities based on the present value of lease payments over the lease term discounted using the rate implicit in the lease when that rate is readily determinable or our incremental borrowing rate. We estimate our incremental borrowing rate based on an analysis of publicly traded debt securities of companies with credit and financial profiles similar to our own and adjust our incremental borrowing rate to reflect the corresponding lease term. We do not include in the lease term options to extend or terminate the lease unless it is reasonably certain at commencement that we will exercise any such options. We account for the lease and non-lease components as a single lease component for all our leases.

We measure right-of-use assets based on the corresponding lease liabilities adjusted for (i) prepayments made to the lessor at or before the commencement date, (ii) initial direct costs we incur, and (iii) tenant incentives under the lease. We evaluate the recoverability of our right-of-use assets for possible impairment in accordance with our long-lived assets policy. We do not recognize right-of-use assets or lease liabilities for short-term leases, which have a lease term of twelve months or less, and recognize the associated lease payments in the condensed consolidated statements of operations on a straight-line basis over the lease term.

Operating leases are reflected in operating lease right-of-use assets, operating lease liabilities, and operating lease liabilities, non-current on our condensed consolidated balance sheets. Finance leases are included in property and equipment, net, finance lease liabilities, and finance lease liabilities, non-current on our condensed consolidated balance sheets.

We begin recognizing rent expense when the lessor makes the underlying asset available to us. We recognize rent expense under our operating leases on a straight-line basis. For finance leases, we record interest expense on the lease liability in addition to amortizing the right-of-use asset (generally straight-line) over the shorter of the lease term or the useful life of the right-of-use asset. Variable lease payments are expensed as incurred and are not included within the lease liabilities and right-of-use assets calculation. We generally recognize sublease income on a straight-line basis over the sublease term.

Derivative Instruments and Hedging

We measure derivative financial instruments at fair value and recognize them as either assets or liabilities on our condensed consolidated balance sheets. We record changes in the fair value of derivative financial instruments designated as cash flow hedges in other comprehensive income (loss). When the hedged transaction affects earnings, we subsequently reclassify the changes in fair value into the same line as the hedged item on the condensed consolidated statements of operations.

The cash flow effects related to derivative financial instruments designated as cash flow hedges are included within operating activities on our condensed consolidated statements of cash flows.

Note 2. Revenue

Contract Assets

Contract assets, which are presented within accounts receivable, were not material as of October 31, 2019 and January 31, 2019.

Deferred Revenue

Deferred revenue was \$325.6 million and \$375.0 million as of October 31, 2019 and January 31, 2019, respectively. During the three months ended October 31, 2019 and 2018, we recognized \$141.5 million and \$120.1 million of revenue that was included in the deferred revenue balance as of July 31, 2019 and 2018, respectively. During the nine months ended October 31, 2019 and 2018, we recognized \$315.9 million and \$252.1 million that was included in the deferred revenue balance as of January 31, 2019 and February 1, 2018, respectively.

Transaction Price Allocated to the Remaining Performance Obligations

As of October 31, 2019, \$636.0 million of revenue is expected to be recognized from remaining performance obligations for subscription contracts. We expect to recognize revenue on 68% of these remaining performance obligations over the next 12 months, with the balance recognized thereafter.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Disaggregation of Revenues

For both the three and nine months ended October 31, 2019, revenue attributable to customers in the United States was 75%. For the three and nine months ended October 31, 2018, revenue attributable to customers in the United States was 75% and 76%, respectively. For the three months ended October 31, 2019, revenue attributable to customers in Japan was 10%. No country outside of the United States comprised 10% or greater of our revenue for any of the other periods presented.

Note 3. Fair Value Measurements

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

- Level 1—Observable inputs are unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2—Observable inputs are quoted prices for similar assets and liabilities in active markets or inputs other than quoted prices which are observable for the assets or liabilities, either directly or indirectly through market corroboration, for substantially the full term of the financial instruments.
- Level 3—Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. These inputs are based on our own assumptions used to measure assets and liabilities at fair value and require significant management judgment or estimation.

Investments

Financial assets subject to the fair value disclosure requirements were as follows (in thousands):

	October 31, 2019			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	\$ 32,388	\$ —	\$ —	\$ 32,388
Certificates of deposit	—	20,000	—	20,000
Total cash equivalents	<u>\$ 32,388</u>	<u>\$ 20,000</u>	<u>\$ —</u>	<u>\$ 52,388</u>
	January 31, 2019			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Certificates of deposit	\$ —	\$ 50,056	\$ —	\$ 50,056
Restricted cash:				
Certificates of deposit	\$ —	\$ 238	\$ —	\$ 238

Derivative Instruments and Hedging

In association with our debt described in Note 7, we are required to make variable rate interest payments based on a contractually specified interest rate index (e.g., LIBOR). The variable rate interest payments create interest rate risk as interest payments will fluctuate based on changes in the contractually specified interest rate index over the life of the loan. To minimize our risk exposure due to the volatility of the interest rate index, we entered into an interest rate swap agreement with Wells Fargo Bank, National Association, effective as of September 5, 2019 ("Swap Agreement"). This agreement, which is designated as a cash flow hedge, has a maturity of five years. Under the Swap Agreement, we have hedged a portion of the variable interest payments by effectively fixing our interest payments over the term of the agreement. As of October 31, 2019, our interest rate swap had a notional value of \$30.0 million.

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

We classify our interest rate swap hedge agreement within Level 2. As of October 31, 2019, the fair value of the interest rate swap, which is included in accrued expenses and other current liabilities in our condensed consolidated balance sheet, was not material. For the three and nine months ended October 31, 2019, changes in the fair value of the derivative financial instrument, which are recorded in other comprehensive loss, were not material.

Note 4. Balance Sheet Components

Prepaid Expenses and Other Current Assets

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

	October 31, 2019	January 31, 2019
Prepaid expenses	\$ 12,029	\$ 9,323
Capitalized qualifying implementation costs incurred in a hosting arrangement that is a service contract, net (1)	1,318	1,663
Other current assets	5,212	3,237
Total prepaid expenses and other current assets	<u>\$ 18,559</u>	<u>\$ 14,223</u>

- (1) Net capitalized stock-based compensation expense and the amortization of the capitalized costs were not material for the periods presented. We have not recorded any related impairment charges during the periods presented.

Property and Equipment, Net

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

	October 31, 2019	January 31, 2019
Servers and related equipment	\$ 299,810	\$ 215,626
Leasehold improvements	79,910	76,888
Computer hardware and software	22,669	20,614
Furniture and fixtures	14,211	13,661
Construction in progress	13,779	9,737
Total property and equipment	430,379	336,526
Less: accumulated depreciation	(240,514)	(198,823)
Total property and equipment, net	<u>\$ 189,865</u>	<u>\$ 137,703</u>

As of October 31, 2019, the gross carrying amount of property and equipment included \$201.7 million of servers and related equipment and \$12.4 million of construction in progress acquired under finance leases, and the accumulated depreciation of property and equipment acquired under these finance leases was \$84.4 million. As of January 31, 2019, the gross carrying amount of property and equipment included \$120.0 million of servers and related equipment and \$8.8 million of construction in progress acquired under finance leases, and the accumulated depreciation of property and equipment acquired under these finance leases was \$54.5 million.

Depreciation expense related to property and equipment was \$15.8 million and \$11.4 million for the three months ended October 31, 2019 and 2018, respectively, and \$41.7 million and \$34.7 million for the nine months ended October 31, 2019 and 2018, respectively. Included in these amounts were depreciation expense for servers and related equipment acquired under finance leases in the amount of \$11.7 million and \$6.6 million for the three months ended October 31, 2019 and 2018, respectively, and \$29.8 million and \$19.0 million for the nine months ended October 31, 2019 and 2018, respectively. Construction in progress primarily consists of servers and networking equipment and storage infrastructure being provisioned in our data center facilities. Interest capitalized to property and equipment was not material for the periods presented.

BOX, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Operating Lease Right-of-Use Assets, Net

Operating lease right-of-use assets, net consisted of the following (in thousands):

	October 31, 2019
Operating lease right-of-use assets	\$ 230,371
Less: accumulated amortization	(26,445)
Operating lease right-of-use assets, net	<u>\$ 203,926</u>

Other Long-term Assets

Other long-term assets consisted of the following (in thousands):

	October 31, 2019	January 31, 2019
Deposits, non-current	\$ 2,741	\$ 2,674
Internal-use software costs, net (1)	13,204	3,514
Other assets, non-current	3,826	4,858
Other long-term assets	<u>\$ 19,771</u>	<u>\$ 11,046</u>

- (1) Included in these amounts were \$4.4 million and \$0.8 million in net capitalized stock-based compensation expense as of the respective period. The amortization of the capitalized costs was not material for all periods. We have not recorded any material impairment charges during the periods presented.

Note 5. Leases

We have entered into various non-cancellable operating lease agreements for certain of our offices and data centers with lease periods expiring primarily between fiscal years 2020 and 2029. Certain of these arrangements have free or escalating rent payment provisions and optional renewal or termination clauses. Our operating leases typically include variable lease payments, which are primarily comprised of common area maintenance and utility charges for our offices and power and network connections for our data centers, that are determined based on actual consumption. Our operating lease agreements do not contain any residual value guarantees, covenants, or other restrictions.

We also entered into various finance lease arrangements to obtain servers and related equipment for our data center operations. These agreements are primarily for four years and certain of these arrangements have optional renewal or termination clauses. The leases are secured by the underlying leased servers and related equipment.

We sublease certain floors of our Redwood City, San Francisco, and London offices. These subleases have terms ranging from 31 to 55 months that will expire at various dates by fiscal year 2023.

The components of lease cost, which were included in operating expenses in our condensed consolidated statements of operations, were as follows (in thousands):

	Three Months Ended October 31, 2019	Nine Months Ended October 31, 2019
Finance lease cost:		
Amortization of finance lease right-of-use assets	\$ 11,713	\$ 29,823
Interest on finance lease liabilities	1,312	2,987
Operating lease cost, gross	12,300	36,533
Variable lease cost, gross	3,040	8,741
Sublease income	(2,741)	(8,327)
Total lease cost (1)	<u>\$ 25,624</u>	<u>\$ 69,757</u>

- (1) Short-term lease cost for the three and nine months ended October 31, 2019 was not material and is not included in the table above.

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Supplemental cash flow information related to leases was as follows (in thousands):

	Three Months Ended October 31, 2019	Nine Months Ended October 31, 2019
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows for operating leases	\$ 11,562	\$ 35,053
Operating cash flows for finance leases	802	2,531
Financing cash flows for finance leases	7,055	26,200
Right-of-use assets obtained in exchange of lease obligations (1)		
Operating leases	1,016	230,371
Finance leases	40,530	84,950

(1) Includes the adoption impact of ASC Topic 842 on the opening balance sheet as of February 1, 2019 as disclosed in Note 1.

Supplemental information related to the remaining lease term and discount rate was as follows (in thousands):

	October 31, 2019
Weighted-average remaining lease term (in years)	
Operating leases	6.84
Finance leases	3.07
Weighted-average discount rate	
Operating leases	5.41%
Finance leases	4.29%

As of October 31, 2019, maturities of our operating and finance lease liabilities, which do not include short-term leases and variable lease payments, are as follows (in thousands):

Years ending January 31:	Operating Leases (1)	Finance Leases
Remainder of 2020	\$ 14,577	\$ 17,559
2021	51,175	48,240
2022	48,918	38,084
2023	39,241	29,160
2024	37,230	8,742
Thereafter	115,241	—
Total lease payments	<u>\$ 306,382</u>	<u>\$ 141,785</u>
Less: imputed interest	(52,678)	(9,842)
Present value of total lease liabilities	<u>\$ 253,704</u>	<u>\$ 131,943</u>

(1) Non-cancellable sublease proceeds for the remainder of the fiscal year ending January 31, 2020 and the fiscal years ending January 31, 2021, 2022, and 2023 of \$1.4 million, \$9.5 million, \$7.1 million, and \$6.1 million, respectively, are not included in the table above.

As of October 31, 2019, we had operating leases for two of our data centers that have not yet commenced with aggregated undiscounted future payments of \$17.2 million. These operating leases will commence in the later part of fiscal year 2020 and have lease terms ranging from 4 to 5 years and therefore, we did not reflect these on the condensed consolidated balance sheet as of October 31, 2019 and the tables above. We did not have any finance leases that have not yet commenced as of October 31, 2019.

BOX, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)**

We establish assets and liabilities for the present value of estimated future costs to return certain of our leased facilities to their original condition. Such assets are depreciated over the lease period into operating expense, and the recorded liabilities are accreted to the future value of the estimated restoration costs. For the nine months ended October 31, 2019, we recorded \$2.8 million in other long-term liabilities related to the present value of our estimated asset retirement obligation for our headquarters facility. We did not have material asset retirement obligations as of January 31, 2019. The accretion expense, which was included in operating expenses in our condensed consolidated statements of operations, was not material for all periods presented.

Note 6. Commitments and Contingencies***Letters of Credit***

As of both October 31, 2019 and January 31, 2019, we had letters of credit in the aggregate amount of \$26.5 million in connection with our operating leases, which were primarily issued under the available sublimit for the issuance of letters of credit in conjunction with a secured credit agreement as disclosed in Note 7.

Purchase Obligations

As of October 31, 2019, future payments under non-cancellable contractual purchases, which relate primarily to infrastructure services and IT software and support services costs, are as follows (in thousands):

Years ending January 31:	
2020	\$ 8,786
2021	12,003
2022	2,309
2023	34,011
2024	—
Thereafter	165,800
	<u>\$ 222,909</u>

During the third quarter of fiscal year 2020, we entered into multiple contracts for infrastructure services and IT software, with terms ranging from 3 to 8 years, which have increased our purchase obligations in comparison to previous reporting periods.

Legal Matters

We are currently involved in, and may in the future be involved in, litigation and subject to claims that arise in the ordinary course of business, including matters we initiate to defend ourselves or our users by determining the scope, enforceability, and validity of third-party proprietary rights or to establish our proprietary rights. We investigate these claims as they arise and accrue estimates for resolution of legal and other contingencies when losses are probable and estimable. Although the results of litigation and claims cannot be predicted with certainty, we believe there was not at least a reasonable possibility that we had incurred a material loss with respect to such loss contingencies as of October 31, 2019. Additionally, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors, regardless of the outcome of such litigation.

On June 6, 2019, a purported securities class action was filed in the U.S. District Court for the Northern District of California naming Box and certain of its officers and directors as defendants (the "Securities Class Action"). The complaint purports to bring suit on behalf of shareholders who purchased or otherwise acquired Box's securities between November 28, 2018 and June 3, 2019. The complaint purports to allege that defendants made false and misleading statements about Box's business and prospects in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and seeks unspecified compensatory damages, fees, and costs. We believe the claims are without merit and intend to defend against the lawsuit vigorously.

On October 23, 2019, a shareholder derivative complaint was filed in the Superior Court of California, San Mateo County, purportedly on behalf of Box and naming as defendants certain current and former officers and directors. The complaint purports to allege claims for breach of fiduciary duty and unjust enrichment in connection with the same events alleged in the Securities Class Action and seeks, among other relief, unspecified monetary damages, attorneys' fees, and costs. Because the litigation is in the early stages, we are unable to estimate a reasonably possible loss or range of loss, if any, that may result from this matter.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

We believe these claims are without merit and intend to defend against the lawsuits vigorously.

Indemnification

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

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

Note 7. Debt**Line of Credit**

On November 27, 2017, we entered into a secured credit agreement with Wells Fargo Bank, National Association (as amended or otherwise modified from time to time, the "November 2017 Facility") and in July 2019, we entered into Amendment No. 1 to the November 2017 Facility. Pursuant to the terms of the amendment, among other changes, (i) the maturity date of borrowings under the November 2017 Facility was extended from November 27, 2020 to July 12, 2022; (ii) the revolving commitments were increased from \$85.0 million to \$100.0 million; (iii) the sublimit for the issuance of letters of credit was increased from \$30.0 million to \$45.0 million; and (iv) the covenant in the November 2017 Facility that limits the amount of finance leases and debt that we can incur to finance the acquisition, construction or improvement of any equipment or capital assets was increased from \$100.0 million to \$200.0 million. The proceeds of the revolving loans may be used for general corporate purposes. The revolving loans accrue interest at a prime rate plus a margin of 0.25% or, at our option, a LIBOR rate (based on one, three or six-month interest periods) plus a margin of 1.00%. Interest on the revolving loans is payable quarterly in arrears with respect to loans based on the prime rate and at the end of an interest period in the case of loans based on the LIBOR rate (or at each three-month interval if the interest period is longer than three months). Borrowings under the November 2017 Facility are collateralized by substantially all of our assets. The November 2017 Facility requires us to comply with a maximum leverage ratio and a minimum liquidity requirement. Additionally, the November 2017 Facility contains customary affirmative and negative covenants, including covenants limiting our, and our subsidiaries', ability to, among other things, grant liens, incur debt, pay dividends or distributions on the capital stock, effect certain mergers, make investments, dispose of assets and enter into transactions with affiliates, in each case subject to customary exceptions for a credit facility of the size and type of the November 2017 Facility. As of October 31, 2019, the outstanding borrowings under the credit facility were \$40.0 million.

As of October 31, 2019, we were in compliance with all financial covenants.

In connection with the above credit facility, for the three and nine months ended October 31, 2019 and 2018, interest expense, net of capitalized interest costs, was not material. During the same periods, we did not capitalize any interest amounts. Interest expense in connection with the above credit facilities includes interest charges for our line of credit, amortization of issuance costs, and unused commitment fees on our line of credit.

Effective September 5, 2019, we entered into a Swap Agreement with Wells Fargo Bank, National Association, in order to minimize our interest rate risk exposure due to the volatility of LIBOR. Under the Swap Agreement, we have hedged a portion of the variable interest payments of our debt by effectively fixing our interest payments over the five year term of the agreement. Refer to Note 3 for further details.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Note 8. Stock-Based Compensation**2015 Equity Incentive Plan**

In January 2015, our board of directors adopted the 2015 Equity Incentive Plan (“2015 Plan”), which became effective prior to the completion of our initial public offering (IPO). A total of 12,200,000 shares of Class A common stock was initially reserved for issuance pursuant to future awards under the 2015 Plan. On the first day of each fiscal year, shares available for issuance are increased based on the provisions of the 2015 Plan. Any shares subject to outstanding awards under our 2006 Equity Incentive Plan or 2011 Equity Incentive Plan that are cancelled or repurchased subsequent to the 2015 Plan’s effective date are returned to the pool of shares reserved for issuance under the 2015 Plan. Awards granted under the 2015 Plan may be (i) incentive stock options, (ii) nonstatutory stock options, (iii) restricted stock units, (iv) restricted stock awards or (v) stock appreciation rights, as determined by our board of directors at the time of grant. Generally, twenty-five percent of each grant of stock options and restricted stock units vest one year from the vesting commencement date and continue to vest (a) in the case of options, 1/48th per month thereafter, and (b) in the case of restricted stock units, 1/16th per quarter thereafter. As of October 31, 2019, 19,337,104 shares were reserved for future issuance under the 2015 Plan.

2015 Employee Stock Purchase Plan

In January 2015, our board of directors adopted the 2015 Employee Stock Purchase Plan (“2015 ESPP”), which became effective prior to the completion of our IPO. A total of 2,500,000 shares of Class A common stock was initially reserved for issuance under the 2015 ESPP. On the first day of each fiscal year, shares available for issuance are increased based on the provisions of the 2015 ESPP. The 2015 ESPP allows eligible employees to purchase shares of our Class A common stock at a discount of up to 15% through payroll deductions of their eligible compensation, subject to any plan limitations. The 2015 ESPP provides for 24-month offering periods beginning March 16 and September 16 of each year, and each offering period consists of four six-month purchase periods.

On each purchase date, eligible employees may purchase our stock at a price per share equal to 85% of the lesser of (1) the fair market value of our stock on the offering date or (2) the fair market value of our stock on the purchase date. In the event the price is lower on the last day of any purchase price period, in addition to using that price as the basis for that purchase period, the offering period resets and the new lower price becomes the new offering price for a new 24 month offering period. As of October 31, 2019, 1,926,616 shares were reserved for future issuance under the 2015 ESPP.

Stock Options

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

	<u>Shares Subject to Options Outstanding</u>		<u>Weighted-Average Remaining Contractual Life (Years)</u>	<u>Aggregate Intrinsic Value (in thousands)</u>
	<u>Shares</u>	<u>Weighted-Average Exercise Price</u>		
Balance as of January 31, 2019	9,096,961	\$ 9.01	4.97	\$ 108,731
Options granted	577,082	19.89		
Options exercised	(417,245)	7.21		
Options forfeited/cancelled	(60,972)	18.00		
Balance as of October 31, 2019	<u>9,195,826</u>	\$ 9.71	4.55	\$ 72,392
Vested and expected to vest as of October 31, 2019	<u>9,119,519</u>	\$ 9.63	4.51	\$ 72,389
Exercisable as of October 31, 2019	<u>7,579,160</u>	\$ 7.60	3.68	\$ 72,342

The aggregate intrinsic value of options vested and expected to vest and exercisable as of October 31, 2019 is calculated based on the difference between the exercise price and the current fair value of our common stock. The aggregate intrinsic value of exercised options for the nine months ended October 31, 2019 and 2018 was \$4.5 million and \$27.5 million, respectively. The aggregate estimated fair value of stock options granted to employees that vested during the nine months ended October 31, 2019 and 2018 was \$2.4 million and \$5.6 million, respectively. The weighted-average grant date fair value of options granted to employees during the nine months ended October 31, 2019 and 2018 was \$8.00 and \$8.24 per share, respectively.

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

As of October 31, 2019, there was \$6.8 million of unrecognized stock-based compensation expense related to outstanding stock options granted to employees that is expected to be recognized over a weighted-average period of 2.44 years.

Stock Options with Market-Based Performance Goals

To further align our stockholders' interests with executive officers' interests, the Compensation Committee of our board of directors approved and granted performance-based stock options with market-based performance goals under the 2015 Plan to certain executive officers, which are subject to both the achievement of the market-based performance goal established by the Compensation Committee and the continued employment of the participant. These performance-based stock options vest only to the extent that both the market-based performance goal and time-based condition are satisfied. The market-based performance goal will be satisfied if, before the four-year anniversary of the grant date, the closing price of our Class A common stock is maintained at or above a pre-determined share price for a period of 30 consecutive trading days. The time-based vesting condition will be satisfied over the following four-year schedule: Twenty-five percent of the option's time-based vesting condition is satisfied one year from the vesting commencement date and the remaining 1/48th of the option's time-based vesting condition is satisfied monthly thereafter, subject to continued employment through each such date. The total outstanding performance-based stock options granted was 1,375,000 as of October 31, 2019.

The grant date fair value of these awards was determined using a Monte Carlo valuation model and the related stock-based compensation expense is recognized based on an accelerated attribution method. Of the total \$6.8 million in unrecognized stock-based compensation expense for stock options as of October 31, 2019, \$4.0 million related to outstanding performance-based stock options with market-based performance goals, which is expected to be recognized over a weighted-average period of 3.01 years.

Restricted Stock Units

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

	Number of Restricted Stock Units Outstanding	Weighted- Average Grant Date Fair Value
Unvested balance - January 31, 2019	18,098,707	\$ 19.35
Granted	11,032,086	19.02
Vested, net of shares withheld for employee payroll taxes	(3,275,859)	20.00
Forfeited/cancelled	(3,320,045)	19.68
Unvested balance - October 31, 2019	<u>22,534,889</u>	<u>\$ 19.04</u>

As of October 31, 2019, there was \$304.6 million of unrecognized stock-based compensation expense related to outstanding restricted stock units granted to employees that is expected to be recognized over a weighted-average period of 2.84 years.

Performance-Based Restricted Stock Units

We use performance-based incentives for certain employees, including our named executive officers, to achieve our annual financial and operational objectives, while making progress towards our longer-term strategic and growth goals. Typically, near the beginning of each fiscal year, our Compensation Committee adopts the performance criteria and targets for the incentive compensation plan for that fiscal year, which identifies the plan participants, the performance measures and the associated target levels for each measure, and the potential payouts based on actual performance for the fiscal year.

In the first quarter of fiscal year 2019, our Compensation Committee adopted and approved the performance criteria and targets for fiscal year 2019 under our omnibus Executive Incentive Plan (the "Fiscal 2019 Executive Bonus Plan"). Based on a review of our actual achievement of pre-established corporate financial objectives and additional inputs from our Compensation Committee, the Fiscal 2019 Executive Bonus Plan was determined, settled and paid out in the first quarter of fiscal year 2020 in a mixture of cash and equity compensation.

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

In the first quarter of fiscal year 2020, our Compensation Committee adopted and approved the performance criteria and targets for fiscal year 2020 under our omnibus Executive Plan (the “Fiscal 2020 Executive Bonus Plan”). The Fiscal 2020 Executive Bonus Plan provides opportunities for 100% equity incentive compensation payouts based on our actual achievement of pre-established corporate financial objectives, subject to review and a final approval by our Compensation Committee. During the nine months ended October 31, 2019, we recognized stock-based compensation expense related to the Fiscal 2020 Executive Bonus Plan in the amount of \$2.7 million. The unrecognized compensation expense related to the ungranted and unvested Fiscal 2020 Executive Bonus Plan is \$1.8 million, based on the expected performance against the pre-established corporate financial objectives as of October 31, 2019, which is expected to be recognized over a weighted-average period of less than 1 year. The payouts of the Fiscal 2020 Executive Bonus Plan are expected to be made in the form of fully vested restricted stock units in the first quarter of fiscal year 2021. The number of restricted stock units each participant will receive is equal to the dollar value of his or her actual award payment divided by the average closing price of a share of our Class A common stock for the 30-trading day period ending the last trading date before the grant date.

2015 ESPP

As of October 31, 2019, there was \$21.1 million of unrecognized stock-based compensation expense related to the 2015 ESPP that is expected to be recognized over the remaining term of the respective offering periods. During the first and third quarters of fiscal year 2020, the fair market value of our stock on the purchase date within each quarter (i.e., March 15, 2019 and September 15, 2019) was lower than the fair market value of our stock on certain offering dates. As a result, certain offering periods reset and the new lower price became the new offering price for a new 24 month offering period. These resets resulted in a change in fair value and a corresponding incremental stock-based compensation expense initially totaling \$7.2 million and \$3.3 million upon the first and third quarter reset, respectively, which are expected to be recognized over the terms of the new offering periods.

Stock-Based Compensation

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
Cost of revenue	\$ 4,428	\$ 3,598	\$ 12,399	\$ 10,280
Research and development	16,653	12,043	44,878	33,668
Sales and marketing	9,250	9,708	28,644	27,701
General and administrative	7,427	6,441	21,004	17,437
Total stock-based compensation	<u>\$ 37,758</u>	<u>\$ 31,790</u>	<u>\$ 106,925</u>	<u>\$ 89,086</u>

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Determination of Fair Value

We estimated the fair value of employee stock options and 2015 ESPP purchase rights using a Black-Scholes option pricing model with the following assumptions.

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
Employee Stock Options				
Expected term (in years)	N/A	5.8	5.5 - 5.8	5.5 - 5.8
Risk-free interest rate	N/A	3.1%	1.8% - 2.8%	2.8% - 3.1%
Volatility	N/A	45%	45%	45%
Dividend yield	N/A	0%	0%	0%
Employee Stock Purchase Plan				
Expected term (in years)	0.5 - 2.0	0.5 - 2.0	0.5 - 2.0	0.5 - 2.0
Risk-free interest rate	1.7% - 1.9%	2.3% - 2.8%	1.7% - 2.5%	2.0% - 2.8%
Volatility	34% - 47%	40% - 48%	34% - 55%	37% - 50%
Dividend yield	0%	0%	0%	0%

The assumptions used in the Black-Scholes option pricing model were determined as follows:

Fair Value of Common Stock. We use the market closing price for our Class A common stock as reported on the New York Stock Exchange to determine the fair value of our common stock at each grant date.

Expected Term. The expected term represents the period that our share-based awards are expected to be outstanding. The expected term assumptions were determined based on the vesting terms, exercise terms and contractual lives of the options and 2015 ESPP purchase rights.

Expected Volatility. We estimate the expected volatility of the stock option grants and 2015 ESPP purchase rights based on the historical volatility of our Class A common stock over a period equivalent to the expected term of the stock option grants and 2015 ESPP purchase rights, respectively.

Risk-free Interest Rate. The risk-free rate that we use is based on the implied yield available on U.S. Treasury zero-coupon issues with remaining terms similar to the expected term on the options and 2015 ESPP purchase rights.

Dividend Yield. We have never declared or paid any cash dividends and do not plan to pay cash dividends in the foreseeable future, and, therefore, use an expected dividend yield of zero.

Note 9. Net Loss per Share

Material modification of rights of security holders

On June 14, 2018, all of our outstanding shares of Class B common stock automatically converted into the same number of shares of Class A common stock pursuant to the terms of our Amended and Restated Certificate of Incorporation. No additional shares of Class B common stock will be issued following such conversion. The conversion occurred pursuant to Article IV of the Amended and Restated Certificate of Incorporation, which provided that each one share of Class B common stock would convert automatically, without any further action, into one share of Class A common stock on the first trading day falling on or after the date on which the outstanding shares of Class B common stock represent less than 5% of the aggregate number of shares of the then outstanding Class A common stock and Class B common stock. On June 15, 2018, we filed a certificate with the Secretary of State of the State of Delaware effecting the retirement and cancellation of our Class B common stock. This certificate of retirement had the additional effect of eliminating the authorized Class B common stock, thereby reducing the total number of our authorized shares of common stock by 200,000,000.

Our Class A and Class B common stock are referred to as common stock throughout the notes to the financial statements, unless otherwise noted. After June 14, 2018, common stock refers to our Class A common stock.

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

For periods where there were Class B shares outstanding, we calculate our basic and diluted net loss per share in conformity with the two-class method required for companies with participating securities. Under the two-class method, basic net loss per share is calculated by dividing the net loss by the weighted-average number of shares of common stock outstanding for the period, less shares subject to repurchase. The diluted net loss per share is computed by giving effect to all potential dilutive common stock equivalents outstanding for the period. For purposes of this calculation, options to purchase common stock, restricted stock units, shares issuable pursuant to our employee stock purchase plan, shares subject to repurchase from early exercised options and unvested restricted stock, and contingently issuable shares are considered common stock equivalents but have been excluded from the calculation of diluted net loss per share as their effect is antidilutive.

The rights, including the liquidation and dividend rights, of the holders of our Class A and Class B common stock are identical, except with respect to voting and conversion. As the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis and the resulting net loss per share will, therefore, be the same for both Class A and Class B common stock on an individual or combined basis. We did not present diluted net loss per share on an as-if converted basis because the impact was not dilutive.

The following table sets forth the computation of basic and diluted net loss per share (in thousands, except per share amounts):

	Three Months Ended October 31,			
	2019		2018	
	Class A	Class B	Class A	Class B
Numerator:				
Net loss	\$ (40,896)	\$ —	\$ (40,196)	\$ —
Denominator:				
Weighted-average number of shares outstanding—basic and diluted	148,555	—	142,366	—
Net loss per share—basic and diluted	\$ (0.28)	\$ —	\$ (0.28)	\$ —
	Nine Months Ended October 31,			
	2019		2018	
	Class A	Class B	Class A	Class B
Numerator:				
Net loss	\$ (113,958)	\$ —	\$ (110,868)	\$ (4,050)
Denominator:				
Weighted-average number of shares outstanding—basic and diluted	146,997	—	135,605	4,954
Net loss per share—basic and diluted	\$ (0.78)	\$ —	\$ (0.82)	\$ (0.82)

The following weighted-average outstanding shares of common stock equivalents were excluded from the computation of diluted net loss per share for the periods presented because the impact of including them would have been antidilutive (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
Options to purchase common stock	5,880	9,488	7,709	10,026
Restricted stock units	17,006	14,791	16,477	14,474
Employee stock purchase plan	2,035	1,679	1,244	1,131
	<u>24,921</u>	<u>25,958</u>	<u>25,430</u>	<u>25,631</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Note 10. Income Taxes

We evaluate tax positions for recognition using a more-likely-than-not recognition threshold, and those tax positions eligible for recognition are measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon the effective settlement with a taxing authority that has full knowledge of all relevant information. We believe that we have provided adequate reserves for our income tax uncertainties in all open tax years.

We file tax returns in the U.S. for federal, California, and other states. All tax years remain open to examination for both federal and state purposes as a result of our net operating loss and credit carryforwards. We began to file foreign tax returns in the United Kingdom starting with the year ended January 31, 2013, in France, Germany and Japan starting with the year ended January 31, 2014, in Canada starting with the year ended January 31, 2015, and in Australia, Sweden, and Netherlands starting with the year ended January 31, 2016. Certain tax years remain open to examination.

Note 11. Segments

Our chief operating decision maker reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. As such, we have a single reporting segment and operating unit structure. Since we operate in one operating segment, all required segment information can be found in the condensed consolidated financial statements.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with the condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed in the section titled "Risk Factors" and in other parts of this Quarterly Report on Form 10-Q.

Overview

Box provides a leading cloud content management platform that enables organizations of all sizes to securely manage their content while allowing easy, secure access and sharing of this content from anywhere, on any device. With our Software-as-a-Service (SaaS) cloud content management platform, users can collaborate on content both internally and with external parties, automate content-driven business processes, develop custom applications, and implement data protection, security and compliance features to comply with legal and regulatory requirements, internal policies and industry standards and regulations. Box provides a single content platform that accelerates business processes, improves employee productivity and protects an organization's most valuable data. Our platform enables a broad set of business use cases across enterprises, multiple file formats and media types, and user experiences. Our platform integrates with leading enterprise business applications, and is compatible with multiple application environments, operating systems and devices, ensuring that workers have access to their critical business content whenever and wherever they need it.

At our founding, we recognized that content is more accessible, secure and powerful when it is centrally stored, managed, and shared. In 2005, we publicly launched our cloud content management platform, which we have architected from the ground up, with a simple but powerful idea: to make it incredibly easy for people to securely manage, share and collaborate on their most important content online. Our cloud content management platform is built to meet the evolving demands of today's distributed and mobile workforce, and for enterprises that are looking to benefit from the increasing digitization of business. Our cloud content management platform integrates with other cloud-based and enterprise applications and enables users to work and collaborate on content seamlessly and securely at any time, from anywhere in the world, on any device.

In addition, we continue to innovate by expanding our core services and our expanded offerings with a focus on frictionless security and compliance, seamless internal and external collaboration and workflow, and integration with best-of-breed applications. For example, we provide Box Shield, our advanced security offering that helps customers reduce the risk of accidental data leakage and protect their business from insider threats and account compromise; Box Relay, which allows our end users to easily build, manage and track their own workflows; Box Platform, which further enables customers and partners to build enterprise apps using the Box Platform; Box KeySafe, a solution that builds on top of Box's strong encryption and security capabilities to give customers greater control over the encryption keys used to secure the file contents that are stored with Box; Box Governance, which gives customers a better way to comply with regulatory policies, satisfy e-discovery requests and effectively manage sensitive business information; and Box Zones, which gives global customers the ability to store their data locally in certain regions. The increasing success of our add-on products allows our customers to realize the full set of Box capabilities of our cloud content management platform.

We continue to expand our international presence. We moved to our current European headquarters in London's Tech City in 2017 and a new office in Tokyo in 2018, each of which provide room to grow while keeping us close to our customers.

We offer our solution to our customers as a subscription-based service, with subscription fees based on the requirements of our customers, including the number of users and functionality deployed. The majority of our customers subscribe to our service through one-year contracts, although we also offer our services for terms ranging from one month to three years or more. We typically invoice our customers at the beginning of the term, in multiyear, annual, quarterly or monthly installments. We recognize revenue when, or as we, satisfy a performance obligation. Accordingly, due to our subscription model, we recognize revenue for our subscription and premier services ratably over the term of the contract.

Our objective is to build an enduring business that creates sustainable revenue and earnings growth over the long term. To best achieve this objective, we focus on growing the number of users and paying organizations through direct field sales, direct inside sales, indirect channel sales and through word-of-mouth by individual users, some of whom use our services at no cost. Individual users and organizations can also simply sign up to use our solution on our website. We believe this approach not only helps us build a critical mass of users but also has a viral effect within organizations as more of their employees use our service and encourage their IT professionals to deploy our services to a broader user base.

We have achieved significant growth in a short period of time. As of October 31, 2019, we had 13.2 million registered users who were paying users who registered as part of a larger enterprise or business account or by using a paid personal account. We define a registered user as a Box account that has been provisioned a unique user identification number. As of October 31, 2019, we had over 97,000 paying organizations, and our solution was offered in 24 languages. We define paying organizations as separate and distinct buying entities, such as a company, an educational or government institution, or a distinct business unit of a large corporation, that have entered into a subscription agreement with us to utilize our services.

Organizations typically purchase our solution in the following ways: (i) employees in one or more small groups within the organization may individually purchase our service; (ii) organizations may purchase IT-sponsored, enterprise-level agreements with deployments for specific, targeted use cases ranging from tens to thousands of user seats; (iii) organizations may purchase IT-sponsored, enterprise-level agreements where the number of user seats sold is intended to accommodate and enable nearly all information workers within the organization in whatever use cases they desire to adopt over the term of the subscription; and (iv) organizations may purchase our Box Platform service to create custom business applications for their internal use and extended ecosystem of customers, suppliers and partners.

We intend to continue scaling our organization to meet the increasingly complex needs of our customers. Our sales and customer success teams are organized to efficiently serve organizations ranging from small businesses to the world's largest global organizations. We have invested, and expect to continue to invest in our sales and marketing teams to sell our services around the world, as well as in our development efforts to deliver additional features and capabilities of our cloud services to address our customers' evolving needs. We also expect to continue to make investments in both our infrastructure to meet the needs of our growing global user base and our professional services organization (Box Consulting) to address the strategic needs of our customers in more complex deployments and to drive broader adoption across a wide array of use cases. As a result of our continuing investments to scale our business in each of these areas, we do not expect to be profitable for the foreseeable future.

For the nine months ended October 31, 2019 and 2018, our revenue was \$512.7 million and \$444.7 million, respectively, representing year-over-year growth of 15%, and our net losses were \$114.0 million and \$114.9 million, respectively. For the nine months ended October 31, 2019 and 2018, revenue from non-U.S. customers represented 25% and 24% of our revenue, respectively. Box is headquartered in Redwood City, California and operates offices throughout the United States, Europe, and Asia.

Our Business Model

Our business model focuses on maximizing the lifetime value of a customer relationship. We make significant investments in acquiring new customers and believe that we will be able to achieve a positive return on these investments by retaining customers, cross-selling our add-on products and expanding the size of our deployments within our customer base over time. In connection with the acquisition of new customers, we incur and recognize significant upfront costs. These costs include sales and marketing costs associated with acquiring new customers, such as sales commission expenses, a portion of which are deferred and then amortized over a period of benefit, and marketing costs, which are expensed as incurred. We recognize revenue when, or as we, satisfy a performance obligation. Accordingly, due to our subscription model, we recognize revenue for our subscription and premier services ratably over the term of the contract. Although our objective is for each customer to be profitable for us over the duration of our relationship, the costs we incur with respect to any customer relationship, whether a new customer or an expansion within an existing customer, may exceed revenue in earlier periods because we recognize those costs faster than we recognize the associated revenue.

Because of these dynamics, we experience a range of profitability with our customers depending in large part upon their current stage. We generally incur higher sales and marketing expenses for new customers and existing customers who are still in an expanding stage. For new customers, our associated sales and marketing expenses typically exceed the first year revenue we recognize from those customers. For customers who are expanding their use of Box, we incur various associated marketing expenses as well as sales commission expenses, though we typically recognize higher revenue than sales and marketing expenses. For typical customers who are renewing their Box subscriptions, our associated sales and marketing expenses are significantly less than the revenue we recognize from those customers. These differences are primarily driven by the higher compensation we provide to our sales force for new customers and customer subscription expansions compared to the compensation we provide to our sales force for routine subscription renewals by customers. In addition, our sales and marketing expenses, even after considering deferred incremental compensation we provide to our sales force, are generally higher for acquiring new customers versus expansions or renewals of existing customer subscriptions. We believe that, over time, as our existing customer base grows and a relatively higher percentage of our revenue is attributable to renewals versus new or expanding Box deployments, we will experience lower associated sales and marketing expenses as a percentage of revenue.

Key Business Metrics

We use the key metrics below for financial and operational decision-making and as a means to evaluate period-to-period comparisons. We believe that these key metrics provide meaningful supplemental information regarding our performance. We believe that both management and investors benefit from referring to these key metrics in assessing our performance and when planning, forecasting, and analyzing future periods. These key metrics also facilitate management's internal comparisons to our historical performance as well as comparisons to certain competitors' operating results. We believe these key metrics are useful to investors both because (1) they allow for greater transparency with respect to key metrics used by management in its financial and operational decision-making and (2) they are used by institutional investors and the analyst community to help analyze the health of our business.

	As of and for the Three Months Ended October 31,		As of and for the Nine Months Ended October 31,	
	2019	2018	2019	2018
Remaining performance obligations (in millions)	\$ 636.0	\$ 607.4	\$ 636.0	\$ 607.4
Remaining performance obligations growth rate	5%	— *	5%	— *
Billings (in thousands)	171,893	155,609	463,212	435,171
Billings growth rate	10%	10%	6%	14%
Free cash flow (in thousands)	(1,686)	(4,064)	(7,204)	(7,159)
Retention rate (period end)	105%	108%	105%	108%

* Box began disclosing remaining performance obligations upon the adoption of ASC Topic 606 on February 1, 2018. Year-over-year comparisons against prior periods before February 1, 2018 are not applicable.

Remaining Performance Obligations

Remaining performance obligations (“RPO”) represent, at a point in time, contracted revenue that has not yet been recognized. RPO consists of deferred revenue and backlog, offset by contract assets. Backlog is defined as non-cancellable contracts deemed certain to be invoiced and recognized as revenue in future periods. Future invoicing is determined to be certain when we have an executed non-cancellable contract and invoicing is not dependent on a future event such as the delivery of a specific new product or feature, or the achievement of contractual contingencies. While Box believes RPO is a leading indicator of revenue as it represents sales activity not yet recognized in revenue, it is not necessarily indicative of future revenue growth as it is influenced by several factors, including seasonality, contract renewal timing, average contract terms and foreign currency exchange rates. Box monitors RPO to manage the business and evaluate performance. Although we consider RPO to be a significant performance measure, we do not consider it to be a non-GAAP financial measure given that it is calculated in accordance with GAAP, specifically under ASC Topic 606.

RPO increased 5% in the nine months ended October 31, 2019 over the nine months ended October 31, 2018. The increase in RPO was primarily driven by the addition of new customers, expansion within existing customers as they broadened their deployment of our product offerings, and strong attach rates of add-on products.

Billings

Billings represent our revenue plus the changes in deferred revenue and contract assets in the period. Billings we record in any particular period primarily reflect subscription renewals and expansion within existing customers plus sales to new customers, and represent amounts invoiced for all of our products and professional services. We typically invoice our customers at the beginning of the term, in multiyear, annual, quarterly or monthly installments. If the customer negotiates to pay the full subscription amount at the beginning of the period, the total subscription amount for the entire term will be reflected in billings. If the customer negotiates to be invoiced annually or more frequently, only the amount billed for such period will be included in billings.

Billings help investors better understand our sales activity for a particular period, which is not necessarily reflected in our revenue given that we recognize subscription revenue ratably over the contract term. We consider billings a significant performance measure. We monitor billings to manage our business, make planning decisions, evaluate our performance and allocate resources. We believe that billings offer valuable supplemental information regarding the performance of our business and will help investors better understand the sales volumes and performance of our business. Although we consider billings to be a significant performance measure, we do not consider it to be a non-GAAP financial measure given that it is calculated using exclusively revenue, deferred revenue, and contract assets, all of which are financial measures calculated in accordance with GAAP.

Billings increased 6% in the nine months ended October 31, 2019 over the nine months ended October 31, 2018. The increase in billings was primarily driven by the addition of new customers, expansion within existing customers as they broadened their deployment of our product offerings, and strong attach rates of add-on products, offset by a non-recurring enhanced developer fee from one of our resellers billed in the prior period, the impact of an unusually high volume of customer driven multi-year prepayments in the prior period, and a large customer reducing its use cases in the current period.

Our use of billings has certain limitations as an analytical tool and should not be considered in isolation or as a substitute for revenue or an analysis of our results as reported under GAAP. Billings are recognized when invoiced, while the related subscription and premier services revenue is recognized ratably over the contract term when, or as we, satisfy a performance obligation. Also, other companies, including companies in our industry, may not use billings, may calculate billings differently, may have different billing frequencies, or may use other financial measures to evaluate their performance, all of which could reduce the usefulness of billings as a comparative measure.

Over time, we expect to continue to normalize payment durations. In addition, as we have gained and expect to continue to gain more traction with large enterprise customers, we also anticipate our quarterly billings to increasingly concentrate in the back half of our fiscal year, especially in the fourth quarter.

A calculation of billings starting with revenue, the most directly comparable GAAP financial measure, is presented below (in thousands):

	Three Months Ended		Nine Months Ended	
	October 31,		October 31,	
	2019	2018	2019	2018
GAAP revenue	\$ 177,156	\$ 155,944	\$ 512,679	\$ 444,673
Deferred revenue, end of period	325,647	301,241	325,647	301,241
Less: deferred revenue, beginning of period	(330,834)	(301,517)	(375,041)	(311,109) *
Contract assets, beginning of period	—	157	3	582
Less: contract assets, end of period	(76)	(216)	(76)	(216)
Billings	\$ 171,893	\$ 155,609	\$ 463,212	\$ 435,171

* Balance as of February 1, 2018 upon the adoption of ASC Topic 606

Free Cash Flow

We define free cash flow as cash flows from operating activities less purchases of property and equipment, principal payments of finance lease liabilities, capitalized internal-use software costs, and other items that did not or are not expected to require cash settlement and that management considers to be outside of our core business. We specifically identify adjusting items in our reconciliation of GAAP to non-GAAP financial measures. We consider free cash flow to be a profitability and liquidity measure that provides useful information to management and investors about the amount of cash generated by the business that can possibly be used for investing in our business and strengthening the balance sheet; but it is not intended to represent the residual cash flow available for discretionary expenditures. A reconciliation of free cash flow to net cash provided by operating activities, its nearest GAAP equivalent, is presented in the non-GAAP Financial Measures section of this report. The presentation of free cash flow is also not meant to be considered in isolation or as an alternative to cash flows from operating activities as a measure of liquidity.

For both the nine months ended October 31, 2019 and 2018, free cash flow was negative \$7.2 million.

Retention Rate

Retention rate is defined as the net percentage of Total Account Value (TAV) retained from existing customers, including expansion. We calculate our retention rate as of a period end by starting with the TAV from customers with contract value of \$5,000 or more as of 12 months prior to such period end (Prior Period TAV) and a subscription term of at least 12 months. We then calculate TAV from these same customers as of the current period end (Current Period TAV). Finally, we divide the Current Period TAV by the Prior Period TAV to arrive at our retention rate. We believe our retention rate is an important metric that provides insight into the long-term value of our subscription agreements and our ability to retain and grow revenue from our customer base. We focus on contracts that have a value of \$5,000 or more because, over time, these customers give us the best indicator for the growth of our business and the potential for incremental business as they renew and expand their deployments, and contracts with these customers represented a substantial majority of our revenue for the nine months ended October 31, 2019. Retention rate is an operational metric and there is no comparable GAAP financial measure to which we can reconcile this particular key metric.

Our retention rate was approximately 105% and 108% as of October 31, 2019 and 2018, respectively. The calculation of our retention rate reflects both net user expansion and the loss of customers who do not renew their subscriptions with us, which was below 5% of the Prior Period TAV. Our strong retention rates were primarily attributable to strong seat growth in existing customers and strong attach rates of add-on products. As our customers purchase add-on products, we tend to realize significantly higher average contract values and stronger retention rates as compared to customers who only purchase our core product. We believe our go-to-market efforts to deliver a solution selling strategy and our investments in product, Customer Success, and Box Consulting have been a significant factor in our strong customer retention results. Our retention rate is higher in customers who have purchased at least one add-on product. As we penetrate customer accounts, we expect our retention rate to remain above 100% for the foreseeable future.

Components of Results of Operations

Revenue

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

To date, practically all of our revenue has been derived from subscription and premier services. Subscription and premier services revenue are driven primarily by the number of customers, the number of seats sold to each customer and the price of our services.

We recognize revenue when, or as we, satisfy a performance obligation. Accordingly, due to our subscription model, we recognize revenue for our subscription and premier services ratably over the contract term. We typically invoice our customers at the beginning of the term, in multiyear, annual, quarterly or monthly installments. Our subscription and premier services contracts are typically non-cancellable and do not contain refund-type provisions. The majority of our customers subscribe to our service through one-year contracts, although we also offer our services for terms ranging between one month to three years or more.

Professional services are generally billed on a fixed price basis, for which revenue is recognized over time based on the proportion performed. Professional services revenue was not material as a percentage of total revenue for all periods presented.

Revenue is presented net of sales and other taxes we collect on behalf of governmental authorities.

Cost of Revenue

Our cost of revenue consists primarily of costs related to providing our subscription services to our paying customers, including employee compensation and related expenses for data center operations, customer support and professional services personnel, payments to outside technology service providers, depreciation of servers and equipment, security services and other tools, as well as amortization expense associated with acquired technology and capitalized internal-use software. We allocate overhead such as rent, information technology costs and employee benefit costs to all departments based on headcount. As such, general overhead expenses are reflected in cost of revenue and each of the operating expense categories set forth below. As part of our hybrid cloud infrastructure strategy, we are in the process of migrating our primary data centers by the middle of fiscal year 2021 to significantly lower cost regions in order to continue to optimize infrastructure efficiency and to support the growth in our paying customers. During the migration, we will be incurring increased overall costs as we pay for multiple data centers and, therefore, we expect our cost of revenue as a percentage of revenue to remain relatively stable in the near future. Upon the completion of this migration, we expect our cost of revenue to increase in dollars but trend downwards as a percentage of revenue as we continue to drive efficiencies in our infrastructure to support the growth of our business, our customer base, as well as our international expansion.

Operating Expenses

Our operating expenses consist of research and development, sales and marketing, and general and administrative expenses. Personnel costs are the most significant component of each category of operating expenses. Operating expenses also include allocated overhead costs for facilities, information technology costs and employee benefit costs.

Research and Development. Research and development expense consists primarily of employee compensation and related expenses, as well as allocated overhead. Our research and development efforts are focused on scaling our platform, building an ecosystem of best of breed applications and platforms, adding enterprise grade features, functionality and enhancements such as workflow automation, intelligent content management capabilities, and advanced security to enhance the ease of use of our cloud content management services. We capitalize certain qualifying costs to develop software for internal use incurred during the application development stage. We expect our research and development expense to increase in dollars but remain stable as a percentage of revenue over time, even as we continue to make significant enhancements to our cloud content management product offerings and services and develop new technologies.

Sales and Marketing. Sales and marketing expense consists primarily of employee compensation and related expenses, sales commissions, marketing programs, travel-related expenses, as well as allocated overhead. Marketing programs include but are not limited to advertising, events, corporate communications, brand building, and product marketing. Sales and marketing expense also consists of data center and customer support costs related to providing our cloud-based services to our free users. We market and sell our cloud content management services worldwide through our direct sales organization and through indirect distribution channels such as strategic resellers. We expect our sales and marketing expense to continue to increase in dollars but decrease as a percentage of revenue over time as our existing customer base grows and a relatively higher percentage of our revenue is attributable to renewals versus new or expanding Box deployments, and as we improve sales productivity from our solution selling strategy and simplifying our product offerings while optimizing the size of our sales and marketing organization to capture strong demand globally and expand our international presence.

General and Administrative. General and administrative expense consists primarily of employee compensation and related expenses for administrative functions including finance, legal, human resources, recruiting, information systems, security, compliance, fees for external professional services and cloud based enterprise systems, as well as allocated overhead. External professional services fees are primarily comprised of outside legal, accounting, audit and outsourcing services. We expect our general and administrative expense to increase in dollars but to decrease as a percentage of revenue over time as we benefit from even greater operational efficiency.

Interest Expense, Net

Interest expense, net consists of interest expense and interest income. Interest expense consists primarily of interest charges for our line of credit and interest rate swap agreement, interest expense related to finance leases, unused commitment fees on our line of credit, the amortization of capitalized debt issuance costs, and fees on our letters of credit. Interest income consists primarily of interest earned on our cash and cash equivalents. We have historically invested our cash and cash equivalents in overnight deposits, certificates of deposit, money market funds, and short term, investment-grade corporate debt, marketable securities and asset backed securities.

Other Loss, Net

Other income loss, net consists primarily of gains and losses from foreign currency transactions and other income and expense.

Provision for Income Taxes

Provision for income taxes consists primarily of income taxes in certain foreign jurisdictions in which we conduct business and state income taxes in the United States and, as applicable, changes in our deferred taxes and related valuation allowance positions and uncertain tax positions.

Results of Operations

The following tables set forth our results of operations for the periods presented in dollars and as a percentage of our revenue:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
	(in thousands)		(in thousands)	
Revenue	\$ 177,156	\$ 155,944	\$ 512,679	\$ 444,673
Cost of revenue (2)	56,302	44,724	158,858	126,397
Gross profit	120,854	111,220	353,821	318,276
Operating expenses:				
Research and development (2)	50,652	42,310	146,589	122,388
Sales and marketing (1)(2)	82,939	84,490	242,164	238,472
General and administrative (1)(2)	26,496	23,884	75,959	69,959
Total operating expenses	160,087	150,684	464,712	430,819
Loss from operations	(39,233)	(39,464)	(110,891)	(112,543)
Interest expense, net	(738)	(47)	(1,141)	(208)
Other loss, net	(653)	(321)	(840)	(1,243)
Loss before provision for income taxes	(40,624)	(39,832)	(112,872)	(113,994)
Provision for income taxes	272	364	1,086	924
Net loss	\$ (40,896)	\$ (40,196)	\$ (113,958)	\$ (114,918)
Net loss per share, basic and diluted	\$ (0.28)	\$ (0.28)	\$ (0.78)	\$ (0.82)
Weighted-average shares used to compute net loss per share, basic and diluted	148,555	142,366	146,997	140,559

(1) Intangible assets amortization was not material for the periods presented.

(2) Includes stock-based compensation expense as follows:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
	(in thousands)		(in thousands)	
Cost of revenue	\$ 4,428	\$ 3,598	\$ 12,399	\$ 10,280
Research and development	16,653	12,043	44,878	33,668
Sales and marketing	9,250	9,708	28,644	27,701
General and administrative	7,427	6,441	21,004	17,437
Total stock-based compensation	\$ 37,758	\$ 31,790	\$ 106,925	\$ 89,086

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
Percentage of Revenue:				
Revenue	100 %	100 %	100 %	100 %
Cost of revenue (2)	32	29	31	28
Gross profit	68	71	69	72
Operating expenses:				
Research and development (2)	28	27	29	27
Sales and marketing (1)(2)	47	54	47	54
General and administrative (1)(2)	15	15	15	16
Total operating expenses	90	96	91	97
Loss from operations	(22)	(25)	(22)	(25)
Interest expense, net	(1)	—	—	—
Other loss, net	—	—	—	(1)
Loss before provision for income taxes	(23)	(25)	(22)	(26)
Provision for income taxes	—	—	—	—
Net loss	(23) %	(25) %	(22) %	(26) %

(1) Intangible assets amortization was not material for the periods presented.

(2) Includes stock-based compensation expense as follows:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
Cost of revenue	3 %	2 %	2 %	2 %
Research and development	9	8	9	8
Sales and marketing	5	6	6	6
General and administrative	4	4	4	4
Total stock-based compensation	21 %	20 %	21 %	20 %

Comparison of the Three Months Ended October 31, 2019 and 2018

Revenue

	Three Months Ended October 31,		\$ Change	% Change
	2019	2018		
(dollars in thousands)				
Revenue	\$ 177,156	\$ 155,944	\$ 21,212	14%

The increase in revenue was primarily driven by an increase in subscription services. The increase in subscription services was primarily due to the addition of new customers, as the number of paying organizations increased by 8% from October 31, 2018 to October 31, 2019, and strong attach rates of add-on products, which strengthened our price per seat. Also, in this period, we experienced strong renewals from, and expansion within, existing customers as they broadened their deployment of our product offerings, as reflected in our retention rate of 105% as of October 31, 2019.

Cost of Revenue

	Three Months Ended October 31,		\$ Change	% Change
	2019	2018		
(dollars in thousands)				
Cost of revenue	\$ 56,302	\$ 44,724	\$ 11,578	26%
Percentage of revenue	32%	29%		

The increase in absolute dollars was primarily due to a net increase of \$4.5 million in depreciation primarily related to additional data center equipment and an increase of \$3.1 million in rent primarily related to the expansion of data centers and our temporary occupancy of redundant colocation facilities as we are migrating our data center footprint to lower cost regions. In addition, there was an increase of \$1.1 million in employee and related costs primarily driven by an increase in headcount, an increase of \$0.8 million in stock-based compensation expense primarily driven by equity grants to existing and new employees, and an increase of \$1.1 million in allocated overhead costs attributable mainly to increased facilities and IT software and support services costs. Cost of revenue as a percentage of revenue increased three points year-over-year. As part of our hybrid cloud infrastructure strategy, we are in the process of migrating our primary data centers by the middle of fiscal year 2021 to significantly lower cost regions in order to continue to optimize infrastructure efficiency and to support the growth in our paying customers. During the migration, we will be incurring increased overall costs as we pay for multiple data centers and, therefore, we expect our cost of revenue as a percentage of revenue to increase slightly in the fiscal year ending January 31, 2020.

Research and Development

	Three Months Ended October 31,			
	2019	2018	\$ Change	% Change
	(dollars in thousands)			
Research and development	\$ 50,652	\$ 42,310	\$ 8,342	20%
Percentage of revenue	28%	27%		

The increase in absolute dollars was primarily due to an increase of \$5.8 million in stock-based compensation expense primarily driven by equity grants to existing and new employees and an increase of \$3.2 million in employee and related costs primarily driven by an increase in headcount. In addition, there was an increase of \$1.5 million in allocated costs attributable mainly to increased facilities and IT software and support services costs. The increase in research and development expenses was partially offset by a \$1.8 million increase in capitalized internal-use software costs associated with the development of additional significant features and functionality to our products during the same period. Research and development expenses as a percentage of revenue increased one point year-over-year. We continue to invest in enhancements of our product and services, develop new products, and further differentiate our offerings. We expect our research and development expenses to increase in dollars but remain relatively stable as a percentage of revenue over time, even as we continue to make significant enhancements to our cloud content management product offerings and services, including expanding our advanced security, intelligence, and workflow automation capabilities.

Sales and Marketing

	Three Months Ended October 31,			
	2019	2018	\$ Change	% Change
	(dollars in thousands)			
Sales and marketing	\$ 82,939	\$ 84,490	\$ (1,551)	-2%
Percentage of revenue	47%	54%		

The decrease in absolute dollars was primarily due to a decrease of \$1.3 million in marketing expenses for media and marketing events. Sales and marketing expenses as a percentage of revenue decreased seven points year-over-year due to our focus on driving greater efficiency from our solution selling strategy and simplifying our product offerings.

Our sales and marketing expenses are generally higher for acquiring new customers than for expansions or renewals of existing customer subscriptions. We expect to continue to invest to capture our large market opportunity globally and capitalize on our competitive position with continued focus on our long-term margin objectives. Over time, as our existing customer base grows and a relatively higher percentage of our revenue is attributable to renewals versus new or expanding Box deployments and as we continue to focus on improving sales productivity from our solution selling strategy and simplifying our product offerings, we expect that sales and marketing expenses will continue to decrease as a percentage of revenue.

General and Administrative

	Three Months Ended October 31,		\$ Change	% Change
	2019	2018		
	(dollars in thousands)			
General and administrative	\$ 26,496	\$ 23,884	\$ 2,612	11%
Percentage of revenue	15%	15%		

The increase in absolute dollars was primarily due to an increase of \$1.3 million in employee and related costs primarily driven by an increase in headcount and an increase of \$1.0 million in stock-based compensation expense primarily driven by equity grants to existing and new employees. General and administrative expense as a percentage of revenue remained flat year-over-year. We expect our general and administrative expense to increase in dollars but to decrease as a percentage of revenue over time as we benefit from even greater operational efficiency.

Interest Expense, Net and Other Loss, Net

	Three Months Ended October 31,		\$ Change	% Change
	2019	2018		
	(dollars in thousands)			
Interest expense, net	\$ (738)	\$ (47)	\$ (691)	*
Other loss, net	(653)	(321)	(332)	*

* Percentage change not meaningful.

The increase in interest expense, net is primarily due to an increase in interest expense related to finance leases provisioned for our data center facilities, partially offset by an increase in interest income from our certificates of deposit and money market funds.

The increase in other loss, net was primarily due to foreign currency gains and losses.

Comparison of the Nine Months Ended October 31, 2019 and 2018

Revenue

	Nine Months Ended October 31,		\$ Change	% Change
	2019	2018		
	(dollars in thousands)			
Revenue	\$ 512,679	\$ 444,673	\$ 68,006	15%

The increase in revenue was primarily driven by an increase in subscription services. The increase in subscription services was primarily due to the addition of new customers, as the number of paying organizations increased by 8% from October 31, 2018 to October 31, 2019, and strong attach rates of add-on products, which strengthened our price per seat. Also, in this period, we experienced strong renewals from, and expansion within, existing customers as they broadened their deployment of our product offerings, as reflected in our retention rate of 105% as of October 31, 2019.

Cost of Revenue

	Nine Months Ended October 31,		\$ Change	% Change
	2019	2018		
	(dollars in thousands)			
Cost of revenue	\$ 158,858	\$ 126,397	\$ 32,461	26%
Percentage of revenue	31%	28%		

The increase in absolute dollars was primarily due to an increase of \$9.8 million in rent primarily related to the expansion of data centers and our temporary occupancy of redundant colocation facilities as we are migrating our data center footprint to lower cost regions and a net increase of \$7.9 million in depreciation primarily related to additional data center equipment. In addition, there was an increase of \$4.0 million in employee and related costs primarily driven by an increase in headcount, an increase of \$2.1 million in stock-based compensation expense primarily driven by equity grants to existing and new employees, and an increase of \$2.6 million in allocated overhead costs attributable mainly to increased facilities and IT software and support services costs. Cost of revenue as a percentage of revenue increased three points year-over-year. As part of our hybrid cloud infrastructure strategy, we are in the process of migrating our primary data centers by the middle of fiscal year 2021 to significantly lower cost regions in order to continue to optimize infrastructure efficiency and to support the growth in our paying customers. During the migration, we will be incurring increased overall costs as we pay for multiple data centers and, therefore, we expect our cost of revenue as a percentage of revenue to increase slightly in the fiscal year ending January 31, 2020.

Research and Development

	Nine Months Ended October 31,		\$ Change	% Change
	2019	2018		
	(dollars in thousands)			
Research and development	\$ 146,589	\$ 122,388	\$ 24,201	20%
Percentage of revenue	29%	27%		

The increase in absolute dollars was primarily due to an increase of \$14.9 million in stock-based compensation expense primarily driven by equity grants to existing and new employees and an increase of \$13.4 million in employee and related costs primarily driven by an increase in headcount. In addition, there was an increase of \$4.1 million in allocated costs attributable mainly to increased facilities and IT software and support services costs. The increase in research and development expenses was partially offset by an \$8.1 million increase in capitalized internal-use software costs associated with the development of additional significant features and functionality to our products during the same period. Research and development expenses as a percentage of revenue increased two points year-over-year. We continue to invest in enhancements of our product and services, develop new products, and further differentiate our offerings. We expect our research and development expenses to increase in dollars but remain relatively stable as a percentage of revenue over time, even as we continue to make significant enhancements to our cloud content management product offerings and services, including expanding our advanced security, intelligence, and workflow automation capabilities.

Sales and Marketing

	Nine Months Ended October 31,		\$ Change	% Change
	2019	2018		
	(dollars in thousands)			
Sales and marketing	\$ 242,164	\$ 238,472	\$ 3,692	2%
Percentage of revenue	47%	54%		

The increase in absolute dollars was primarily due to an increase of \$4.7 million in commission costs primarily driven by increased sales and an increase of \$1.5 million in employee and related costs primarily driven by an increase in headcount. The increase in sales and marketing expenses was partially offset by a \$2.8 million decrease in marketing expenses for media and marketing events. Sales and marketing expenses as a percentage of revenue decreased seven points year-over-year due to our focus on driving greater efficiency from our solution selling strategy and simplifying our product offerings and a decrease in cost to support our free users.

Our sales and marketing expenses are generally higher for acquiring new customers than for expansions or renewals of existing customer subscriptions. We expect to continue to invest to capture our large market opportunity globally and capitalize on our competitive position with continued focus on our long-term margin objectives. Over time, as our existing customer base grows and a relatively higher percentage of our revenue is attributable to renewals versus new or expanding Box deployments and as we continue to focus on improving sales productivity from our solution selling strategy and simplifying our product offerings, we expect that sales and marketing expenses will continue to decrease as a percentage of revenue.

General and Administrative

	Nine Months Ended October 31,		\$ Change	% Change
	2019	2018		
General and administrative	\$ 75,959	\$ 69,959	\$ 6,000	9%
Percentage of revenue	15%	16%		

The increase in absolute dollars was primarily due to an increase of \$5.5 million in employee and related costs primarily driven by an increase in headcount and an increase of \$3.6 million in stock-based compensation expense primarily driven by equity grants to existing and new employees. The increase in general and administrative expenses was partially offset by a \$2.2 million decrease in outside agency and contractor costs. Despite an increase in absolute dollars, general and administrative expense as a percentage of revenue decreased one point year-over-year as we continued to benefit from greater operational efficiency and scale. We expect our general and administrative expense to increase in dollars but to decrease as a percentage of revenue over time as we benefit from even greater operational efficiency.

Interest Expense, Net and Other Loss, Net

	Nine Months Ended October 31,		\$ Change	% Change
	2019	2018		
Interest expense, net	\$ (1,141)	\$ (208)	\$ (933)	*
Other loss, net	(840)	(1,243)	403	*

* Percentage change not meaningful.

The increase in interest expense, net is primarily due to an increase in interest expense related to finance leases provisioned for our data center facilities, partially offset by an increase in interest income from our certificates of deposit and money market funds.

The decrease in other loss, net was primarily due to foreign currency gains and losses.

Liquidity and Capital Resources

	Nine Months Ended October 31,	
	2019	2018
Net cash provided by operating activities	\$ 29,699	\$ 23,989
Net cash used in investing activities	(10,697)	(14,412)
Net cash used in financing activities	(35,758)	(17,256)

As of October 31, 2019, we had cash and cash equivalents of \$200.9 million; we did not have any restricted cash. Our cash and cash equivalents are comprised primarily of overnight cash deposits, certificates of deposit, and money market funds. Since our inception, we have financed our operations primarily through equity, cash generated from sales and, to a lesser extent, debt financing. We believe our existing cash and cash equivalents, together with our finance leases and credit facilities, will be sufficient to meet our working capital and capital expenditure needs for at least the next 12 months. Our future capital requirements will depend on many factors including our growth rate, subscription renewal activity, billing frequency, data center expansions, the timing and extent of spending to support development efforts, the expansion of sales and marketing and international operation activities, the introduction of new and enhanced services offerings, and the continuing market acceptance of our services. We may in the future enter into arrangements to acquire or invest in complementary businesses, services and technologies, including intellectual property rights. We may be required to seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, operating results and financial condition would be adversely affected.

On November 27, 2017, we entered into a secured credit agreement with Wells Fargo Bank, National Association (as amended or otherwise modified from time to time, the “November 2017 Facility”) and on July 12, 2019, we entered into Amendment No.1 to the November 2017 Facility. Pursuant to the terms of the amendment, among other changes, (i) the maturity date of borrowings under the November 2017 Facility was extended from November 27, 2020 to July 12, 2022; (ii) the revolving commitments were increased from \$85.0 million to \$100.0 million; (iii) the sublimit for the issuance of letters of credit was increased from \$30.0 million to \$45.0 million; and (iv) the covenant in the November 2017 Facility that limits the amount of finance leases and debt that we can incur to finance the acquisition, construction or improvement of any equipment or capital assets was increased from \$100.0 million to \$200.0 million. The proceeds of the revolving loans may be used for general corporate purposes. The revolving loans accrue interest at a prime rate plus a margin of 0.25% or, at our option, a LIBOR rate (based on one, three or six-month interest periods) plus a margin of 1.00%. Interest on the revolving loans is payable quarterly in arrears with respect to loans based on the prime rate and at the end of an interest period in the case of loans based on the LIBOR rate (or at each three-month interval if the interest period is longer than three months). Borrowings under the November 2017 Facility are collateralized by substantially all of our assets. The November 2017 Facility requires us to comply with a maximum leverage ratio and a minimum liquidity requirement. Additionally, the November 2017 Facility contains customary affirmative and negative covenants, including covenants limiting our, and our subsidiaries’, ability to, among other things, grant liens, incur debt, pay dividends or distributions on the capital stock, effect certain mergers, make investments, dispose of assets and enter into transactions with affiliates, in each case subject to customary exceptions for a credit facility of the size and type of the November 2017 Facility.

Operating Activities

For the nine months ended October 31, 2019, cash provided by operating activities was \$29.7 million. The primary factors affecting our operating cash flows during this period were our net loss of \$114.0 million, offset by non-cash charges of \$106.9 million for stock-based compensation, \$42.1 million for depreciation and amortization of our property and equipment, \$18.4 million for amortization of deferred commissions, and net cash outflows of \$23.6 million provided by changes in our operating assets and liabilities.

The primary drivers for the changes in operating assets and liabilities include a \$66.7 million decrease in accounts receivable that was primarily due to the seasonality of our billings and relative timing of our cash collections, a \$49.4 million decrease in deferred revenue that was primarily due to seasonality in our sales cycle which is concentrated in the back half of our fiscal year, predominantly in the last quarter, a \$26.6 million increase in deferred commissions primarily due to new and expanded deployments with paying customers during this period, a \$26.4 million decrease in operating lease right-of-use assets, a \$25.0 million decrease in operating lease liabilities, and a \$8.4 million decrease in accrued expenses and other liabilities primarily attributable to timing of compensation and benefits payments and timing of invoice payments.

Investing Activities

Cash used in investing activities of \$10.7 million for the nine months ended October 31, 2019 was primarily due to \$6.5 million of capitalized internal-use software costs associated with the development of additional significant features and functionality to our products. In addition, included in cash used in investing activities was \$4.2 million of fixed asset purchases to support our increased headcount.

Financing Activities

Cash used in financing activities of \$35.8 million for the nine months ended October 31, 2019 was primarily due to \$35.1 million of employee payroll taxes paid related to net share settlement of restricted stock units reflecting the amount of equity grants vested and the valuation of our share price, \$26.2 million of principal payments of finance lease liabilities, and \$0.9 million of contingent consideration payments in connection with business combinations in fiscal year 2019, partially offset by \$23.4 million of proceeds from issuances of common stock under the 2015 ESPP and \$3.0 million of proceeds from the exercise of stock options.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations and commitments as of October 31, 2019:

	Total	Payments Due by Period (in thousands)			
		Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Debt (1)	\$ 43,389	\$ 1,235	\$ 42,154	\$ —	\$ —
Operating lease liabilities, net of sublease income amounts (2)	306,382	52,761	91,380	68,087	94,154
Finance leases (3)	141,785	54,340	72,688	14,757	—
Purchase obligations (4)	222,909	19,801	37,308	—	165,800
Total	<u>\$ 714,465</u>	<u>\$ 128,137</u>	<u>\$ 243,530</u>	<u>\$ 82,844</u>	<u>\$ 259,954</u>

- (1) Includes interest and unused commitment fees on our line of credit under the November 2017 Facility.
- (2) Includes operating lease liabilities for certain of our offices and data centers. As of October 31, 2019, we expected to receive sublease income of \$24.0 million over the next four years from tenants in certain of our leased facilities. The amounts set forth in the table above does not include any sublease income amounts nor does it include payments for short-term leases or variable lease payments.
- (3) Includes obligations related to our servers and related equipment for our data center operations.
- (4) Purchase obligations relate primarily to infrastructure services and IT software and support services costs. During the third quarter of fiscal year 2020, we entered into multiple contracts for infrastructure services and IT software, with terms ranging from 3 to 8 years, which have increased our purchase obligations in comparison to previous reporting periods. These contracts support our long-term goals of improving gross margin.

Off-Balance Sheet Arrangements

Through October 31, 2019, 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.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures. On an ongoing basis, we evaluate our estimates and assumptions. Our actual results may differ from these estimates under different assumptions or conditions.

Except for items discussed under *Use of Estimates, Recently Adopted Accounting Pronouncements*, and *Summary of Significant Accounting Policies* under Part I, Item 1. Financial Statements—Note 1, there have been no material changes to our critical accounting policies and estimates during the nine months ended October 31, 2019 from those disclosed in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended January 31, 2019.

Recent Accounting Pronouncements

Refer to Part I, Item 1. Financial Statements—Note 1 for information regarding the effect of new accounting pronouncements on our financial statements.

Non-GAAP Financial Measures

Regulation S-K Item 10(e), “Use of Non-GAAP Financial Measures in Commission Filings,” defines and prescribes the conditions for use of non-GAAP financial information. Our measures of non-GAAP operating income (loss), non-GAAP operating margin, non-GAAP net income (loss), non-GAAP net income (loss) per share, and free cash flow (collectively, the non-GAAP financial measures) each meet the definition of a non-GAAP financial measure.

We use these non-GAAP financial measures and our key metrics for financial and operational decision-making and as a means to evaluate period-to-period comparisons. We believe that these non-GAAP financial measures and key metrics provide meaningful supplemental information regarding our performance by excluding certain expenses that may not be indicative of our recurring core business operating results. We believe that both management and investors benefit from referring to these non-GAAP financial measures and key metrics in assessing our performance and when planning, forecasting, and analyzing future periods. These non-GAAP financial measures and key metrics also facilitate management's internal comparisons to our historical performance as well as comparisons to our competitors' operating results. We believe these non-GAAP financial measures and key metrics are useful to investors both because (1) they allow for greater transparency with respect to key metrics used by management in its financial and operational decision-making and (2) they are used by our institutional investors and the analyst community to help them analyze the health of our business.

Non-GAAP operating income (loss) and non-GAAP operating margin

We define non-GAAP operating income (loss) as operating loss excluding expenses related to stock-based compensation ("SBC"), intangible assets amortization, and as applicable, other special items. Non-GAAP operating margin is defined as non-GAAP operating income (loss) divided by revenue. Although SBC is an important aspect of the compensation of our employees and executives, determining the fair value of certain of the stock-based instruments we utilize involves a high degree of judgment and estimation and the expense recorded may bear little resemblance to the actual value realized upon the vesting or future exercise of the related stock-based awards. Furthermore, unlike cash compensation, the value of stock options, which is an element of our ongoing stock-based compensation expense, is determined using a complex formula that incorporates factors, such as market volatility, that are beyond our control. For restricted stock unit awards, the amount of stock-based compensation expenses is not reflective of the value ultimately received by the grant recipients. Management believes it is useful to exclude SBC in order to better understand the long-term performance of our core business and to facilitate comparison of our results to those of peer companies. Management also views amortization of acquisition-related intangible assets, such as the amortization of the cost associated with an acquired company's developed technology and trade names, as items arising from pre-acquisition activities determined at the time of an acquisition. While these intangible assets are continually evaluated for impairment, amortization of the cost of purchased intangibles is a static expense, one that is not typically affected by operations during any particular period. We further exclude expenses related to shareholder activism, which include directly applicable third party advisory and professional service fees, as well as expenses related to certain litigation, because they are considered by management to be special items outside of our core operating results. There are no expenses related to litigation excluded from non-GAAP operating income (loss) in any of the periods presented.

Non-GAAP net income (loss) and net income (loss) per share

We define non-GAAP net income (loss) as net loss excluding expenses related to stock-based compensation, intangible assets amortization and as applicable, other special items. We specifically identify other adjusting items in our reconciliation of GAAP to non-GAAP net income (loss). These items include expenses related to certain litigation because they are considered by management to be special items outside our core operating results. We define non-GAAP net income (loss) per share as non-GAAP net income (loss) divided by the weighted-average outstanding shares. Similarly, the same adjusting items specified in our reconciliation of GAAP to non-GAAP net income (loss) are also excluded from the calculation of non-GAAP net income (loss) per share.

Free Cash Flow

We define free cash flow as cash flows from operating activities less purchases of property and equipment, principal payments of finance lease liabilities, capitalized internal-use software costs, and other items that did not or are not expected to require cash settlement and that management considers to be outside of our core business. We specifically identify other adjusting items in our reconciliation of GAAP to non-GAAP financial measures. We consider free cash flow to be a profitability and liquidity measure that provides useful information to management and investors about the amount of cash generated by the business that can possibly be used for investing in our business and strengthening the balance sheet; but it is not intended to represent the residual cash flow available for discretionary expenditures. A reconciliation of free cash flow to net cash provided by operating activities, its nearest GAAP equivalent, is presented below. The presentation of free cash flow is also not meant to be considered in isolation or as an alternative to cash flows from operating activities as a measure of liquidity.

Limitations on the use of non-GAAP financial measures

A limitation of our non-GAAP financial measures is that they do not have uniform definitions. Our definitions will likely differ from the definitions used by other companies, including peer companies, and therefore comparability may be limited. Thus, our non-GAAP financial measures should be considered in addition to, not as a substitute for, or in isolation from, measures prepared in accordance with GAAP. Additionally, in the case of stock-based compensation expense, if we did not pay a portion of compensation in the form of stock-based compensation expense, the cash salary expense included in costs of revenue and operating expenses would be higher which would affect our cash position.

We compensate for these limitations by reconciling non-GAAP financial measures to the most comparable GAAP financial measures. We encourage investors and others to review our financial information in its entirety, not to rely on any single financial measure and to view our non-GAAP financial measures in conjunction with the most comparable GAAP financial measures.

Our reconciliation of the non-GAAP financial measures for the three and nine months ended October 31, 2019 and 2018 are as follows (in thousands, except per share data and percentages):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
GAAP operating loss	\$ (39,233)	\$ (39,464)	\$ (110,891)	\$ (112,543)
Stock-based compensation	37,758	31,790	106,925	89,086
Intangible assets amortization	—	—	—	24
Fees related to shareholder activism	955	—	955	—
Non-GAAP operating loss	<u>\$ (520)</u>	<u>\$ (7,674)</u>	<u>\$ (3,011)</u>	<u>\$ (23,433)</u>
GAAP operating margin	(22) %	(25) %	(22) %	(25) %
Stock-based compensation	21	20	21	20
Intangible assets amortization	—	—	—	—
Fees related to shareholder activism	1	—	—	—
Non-GAAP operating margin	<u>— %</u>	<u>(5) %</u>	<u>(1) %</u>	<u>(5) %</u>
GAAP net loss	\$ (40,896)	\$ (40,196)	\$ (113,958)	\$ (114,918)
Stock-based compensation	37,758	31,790	106,925	89,086
Intangible assets amortization	—	—	—	24
Fees related to shareholder activism	955	—	955	—
Non-GAAP net loss	<u>\$ (2,183)</u>	<u>\$ (8,406)</u>	<u>\$ (6,078)</u>	<u>\$ (25,808)</u>
GAAP net loss per share, basic and diluted	\$ (0.28)	\$ (0.28)	\$ (0.78)	\$ (0.82)
Stock-based compensation	0.26	0.22	0.73	0.64
Intangible assets amortization	—	—	—	—
Fees related to shareholder activism	0.01	—	0.01	—
Non-GAAP net loss per share, basic and diluted	<u>\$ (0.01)</u>	<u>\$ (0.06)</u>	<u>\$ (0.04)</u>	<u>\$ (0.18)</u>
Weighted-average shares outstanding, basic and diluted	148,555	142,366	146,997	140,559
Net cash provided by operating activities	\$ 8,893	\$ 6,816	\$ 29,699	\$ 23,989
Purchases of property and equipment	(1,055)	(5,247)	(4,221)	(12,613)
Principal payments of finance lease liabilities	(7,055)	(4,290)	(26,200)	(17,192)
Capitalized internal-use software costs	(2,469)	(1,343)	(6,482)	(1,343)
Free cash flow	<u>\$ (1,686)</u>	<u>\$ (4,064)</u>	<u>\$ (7,204)</u>	<u>\$ (7,159)</u>
Net cash used in investing activities	<u>\$ (3,524)</u>	<u>\$ (6,589)</u>	<u>\$ (10,697)</u>	<u>\$ (14,412)</u>
Net cash used in financing activities	<u>\$ (5,965)</u>	<u>\$ (3,726)</u>	<u>\$ (35,758)</u>	<u>\$ (17,256)</u>

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We had cash and cash equivalents of \$200.9 million as of October 31, 2019; we did not have any restricted cash. Our cash and cash equivalents primarily consist of overnight deposits, certificates of deposit, and money market funds. We do not expect our operating results or cash flows to be materially affected by a sudden change in market interest rates and we do not enter into investments for trading or speculative purposes.

Interest rate risk also reflects our exposure to movements in interest rates associated with the November 2017 Facility. As of October 31, 2019, we had total debt outstanding with a carrying amount of \$40.0 million which approximates fair value. The revolving loans accrue interest at a prime rate plus a margin of 0.25% or, at our option, a LIBOR rate (based on one, three or six-month interest periods) plus a margin of 1.00%. A hypothetical 10% increase or decrease in interest rates as of October 31, 2019 under the November 2017 Facility would not have a material impact on the fair value of our outstanding debt.

Effective September 5, 2019, we entered into a Swap Agreement with Wells Fargo Bank, National Association, in order to minimize our interest rate risk exposure due to the volatility of LIBOR. Under the Swap Agreement, we have hedged a portion of the variable interest payments of our debt by effectively fixing our interest payments over the five year term of the agreement. As of October 31, 2019, our interest rate swap had a notional value of \$30.0 million.

Foreign Currency Risk

Our sales contracts are denominated predominantly in U.S. dollars. We support sales contracts denominated in 17 foreign currencies and consequently, our customer billings denominated in foreign currencies are subject to foreign currency exchange risk. 11 of the 17 currencies are only offered at this time through our online sales experience and are required to be settled by credit cards; accordingly, our foreign currency exposure on these transactions is limited only to ordinary credit card settlement timeframes. A portion of our operating expenses are incurred outside the United States and are denominated in foreign currencies, which are also subject to fluctuations due to changes in foreign currency exchange rates. Our international subsidiaries maintain certain asset and liability balances that are denominated in foreign currencies. Additionally, fluctuations in foreign currency exchange rates can result in fluctuations in our total assets, liabilities, and cash flows and may cause us to recognize transaction gains and losses in our statement of operations impacting our revenue and operating expenses. To date we have managed our foreign currency risk by maintaining offsetting assets and liabilities and minimizing non-U.S. dollar cash balances, and have not entered into derivatives or hedging transactions as our exposure to foreign currency exchange rates has not been material to our historical operating results; however, we may do so in the future if our exposure to foreign currency should become more significant. For the nine months ended October 31, 2019 and 2018, we incurred \$0.8 million and \$1.3 million in foreign exchange losses, respectively.

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, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (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, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The design of disclosure controls and procedures and internal control over financial reporting must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have 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 identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

From time to time, we are a party to litigation and subject to claims that arise in the ordinary course of business. We investigate these claims as they arise and accrue estimates for resolution of legal and other contingencies when losses are probable and estimable. Although the results of litigation and claims cannot be predicted with certainty, we believe there was not at least a reasonable possibility that we had incurred a material loss with respect to such loss contingencies as of October 31, 2019.

On June 6, 2019, a purported securities class action was filed in the U.S. District Court for the Northern District of California naming Box and certain of its officers and directors as defendants. The complaint purports to bring suit on behalf of shareholders who purchased or otherwise acquired Box's securities between November 28, 2018 and June 3, 2019. The complaint purports to allege that defendants made false and misleading statements about Box's business and prospects in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and seeks unspecified compensatory damages, fees, and costs. We believe the claims are without merit and intend to defend against the lawsuit vigorously.

On October 23, 2019, a shareholder derivative complaint was filed in the Superior Court of California, San Mateo County, purportedly on behalf of Box and naming as defendants certain current and former officers and directors. The complaint purports to allege claims for breach of fiduciary duty and unjust enrichment in connection with the same events alleged in the purported securities class action described in the preceding paragraph and seeks, among other relief, unspecified monetary damages, attorneys' fees, and costs.

Item 1A. RISK FACTORS

Investing in our Class A common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information in this Quarterly Report on Form 10-Q, including in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our condensed consolidated financial statements and related notes, before making a decision to invest in our Class A common stock. If any of the risks actually occur, our business, financial condition, operating results and prospects could be materially and adversely affected. In that event, the market price of our Class A common stock could decline, and you could lose part or all of your investment.

Risks Related to Our Business and Our Industry

We have a history of cumulative losses, and we do not expect to be profitable for the foreseeable future.

We have incurred significant losses in each period since our inception in 2005. We incurred net losses of \$134.6 million, \$155.0 million and \$151.8 million in our fiscal years ended January 31, 2019, 2018 and 2017, respectively, and \$114.0 million in the nine months ended October 31, 2019. As of October 31, 2019, we had an accumulated deficit of \$1.2 billion. These losses and accumulated deficit reflect the substantial investments we made to acquire new customers and develop our services. We intend to continue scaling our business to increase our number of users and paying organizations and to meet the increasingly complex needs of our customers. We have invested, and expect to continue to invest, in our sales and marketing organizations to sell our services around the world and in our product development organization to deliver additional features and capabilities of our cloud services to address our customers' evolving needs. We also expect to continue to make significant investments in our infrastructure and in our professional service organization as we focus on customer success. As a result of our continuing investments to scale our business in each of these areas, we do not expect to be profitable for the foreseeable future. Furthermore, to the extent we are successful in increasing our customer base, we will also incur increased losses due to upfront costs associated with acquiring new customers, particularly as a result of the limited free trial version of our service, and the nature of subscription revenue, which is generally recognized ratably over the term of the subscription period, which is typically one year, although we also offer our services for terms ranging from one month to three years or more. We cannot assure you that we will achieve profitability in the future or that, if we do become profitable, we will sustain profitability.

The market in which we participate is intensely competitive, and if we do not compete effectively, our operating results could be harmed.

The market for cloud content management services is fragmented, rapidly evolving and highly competitive, with relatively low barriers to entry for certain applications and services. Many of our competitors and potential competitors are larger and have greater brand recognition, substantially longer operating histories, larger marketing budgets and significantly greater resources than we do. Our primary competitors in the cloud content management market include, but are not limited to, Microsoft and Open Text (Documentum). In the enterprise file sync and share market, our primary competitors include, but are not limited to, Microsoft, Google and, to a lesser extent, Dropbox. With the introduction of new technologies and market entrants, we expect competition to

continue to intensify in the future. If we fail to compete effectively, our business will be harmed. Some of our principal competitors offer their products or services at a lower price or for free, which has resulted in pricing pressures on our business. If we are unable to achieve our target pricing levels, our operating results would be negatively impacted. In addition, pricing pressures and increased competition generally could result in reduced sales, lower margins, losses or the failure of our services to achieve or maintain widespread market acceptance, any of which could harm our business.

Many of our competitors are able to devote greater resources to the development, promotion and sale of their products or services. In addition, many of our competitors have established marketing relationships and major distribution agreements with channel partners, consultants, system integrators and resellers. Moreover, many software vendors could bundle products or offer them at lower prices as part of a broader product sale or enterprise license arrangement. Some competitors may offer products or services that address one or a number of business execution functions at lower prices or with greater depth than our services. Our competitors may be able to respond more quickly and effectively to new or changing opportunities, technologies, standards or customer requirements. Furthermore, some potential customers, particularly large enterprises, may elect to develop their own internal solutions. For any of these reasons, we may not be able to compete successfully against our current and future competitors.

If the market for cloud-based enterprise services declines or develops more slowly than we expect, our business could be adversely affected.

The market for cloud-based enterprise services is not as mature as the on-premise enterprise software market, and it is uncertain whether a cloud-based service like ours will achieve and sustain high levels of customer demand and market acceptance. Because we derive, and expect to continue to derive, substantially all of our revenue and cash flows from sales of our cloud content management solutions, our success will depend to a substantial extent on the widespread adoption of cloud computing in general and of cloud-based content management services in particular. Many organizations have invested substantial personnel and financial resources to integrate traditional enterprise software into their organizations and, therefore, may be reluctant or unwilling to migrate to a cloud-based model for storing, accessing, sharing and managing their content. It is difficult to predict customer adoption rates and demand for our services, the future growth rate and size of the cloud computing market or the entry of competitive services. The expansion of the cloud content management market depends on a number of factors, including the cost, performance and perceived value associated with cloud computing, as well as the ability of companies that provide cloud-based services to address security and privacy concerns. If we or other providers of cloud-based services experience security incidents, loss or corruption of customer data, disruptions in delivery of services, network outages, disruptions in the availability of the internet or other problems, the market for cloud-based services as a whole, including our services, may be negatively affected. If cloud-based services do not achieve widespread adoption, or there is a reduction in demand for cloud-based services caused by a lack of customer acceptance, technological challenges, weakening economic or political conditions, security or privacy concerns, competing technologies and products, decreases in corporate spending or otherwise, it could result in decreased revenue, harm our growth rates, and adversely affect our business and operating results.

We have experienced rapid growth. If we fail to manage our growth effectively, we may be unable to execute our business plan, maintain high levels of service or adequately address competitive challenges.

We have experienced rapid growth in our operations, employee headcount, and the size of our customer base. You should not consider our recent growth as indicative of our future performance. However, we anticipate that we will continue to expand our operations and employee headcount in the near term, including internationally. This growth has placed, and future growth will place, a significant strain on our management, administrative, operational and financial infrastructure. Our success will depend in part on our ability to manage this growth effectively. To manage the expected growth of our operations and personnel, we will need to continue to improve our operational, financial and management controls, as well as our reporting systems and procedures. Failure to effectively manage our growth could result in difficulty or delays in deploying customers, declines in quality or customer satisfaction, increases in costs, difficulties in introducing new features or other operational difficulties. Any of these difficulties could adversely impact our business performance and operating results.

Our business depends substantially on customers renewing their subscriptions with us and expanding their use of our services. Any decline in our customer renewals or failure to convince our customers to broaden their use of our services would harm our future operating results.

In order for us to maintain or improve our operating results, it is important that our customers renew their subscriptions with us when their existing subscription term expires. Our customers have no obligation to renew their subscriptions upon expiration, and we cannot assure you that customers will renew subscriptions at the same or higher level of service, if at all. Although our retention rate remains high, it has decreased over time, and may continue to decrease in the future, as some of our customers elect not to renew their subscriptions with us or to decrease the scope of their deployments. For example, our retention rate was approximately 105% as of October 31, 2019, compared to 108% as of October 31, 2018.

Our retention rate may decline or fluctuate as a result of a number of factors, including our customers' satisfaction or dissatisfaction with our services, the effectiveness of our customer support services, the performance of our partners and resellers, our pricing, the prices of competing products or services, mergers and acquisitions affecting our customer base, the effects of global economic conditions or reductions in our customers' spending levels. If our customers do not renew their subscriptions, purchase fewer seats, renew them on less favorable terms or fail to purchase new product offerings, our revenue may decline, and we may not realize improved operating results from our customer base.

In addition, the growth of our business depends in part on our customers expanding their use of our services. The use of our cloud content management platform often expands within an organization as new users are added or as additional services are purchased by or for other departments within an organization. Further, as we have introduced new services throughout our operating history, our existing customers have constituted a significant portion of the users of such services. If we are unable to encourage our customers to broaden their use of our services, our operating results may be adversely affected.

If we are not able to successfully launch new products and services, or provide enhancements or modifications to our existing products and services, our business could be adversely affected.

Our industry is marked by rapid technological developments and new and enhanced applications and services. If we are unable to provide enhancements and new features for our existing services or offer new services that achieve market acceptance or that keep pace with rapid technological developments, our business could be adversely affected. For example, we provide Box Platform, which allows our customers to leverage Box's powerful content services within their own custom applications; Box KeySafe, a solution that builds on top of Box's strong encryption and security capabilities to give customers greater control over the encryption keys used to secure the file contents that are stored with Box; Box Zones, which gives global customers the ability to store their data locally in certain regions; Box Governance, which gives customers a better way to comply with regulatory policies, satisfy e-discovery requests and effectively manage sensitive business information; and Box Skills, which enables customers to leverage a variety of machine learning tools to accelerate their business processes and help extract meaning from customers unstructured content. Earlier this year, we launched the all new Box Relay, which provides our customers with powerful workflow automation tools to improve business processes. In addition, in October 2019 we launched Box Shield, a set of new content security controls and intelligent threat detection capabilities that enables enterprises to secure and protect their most valuable intellectual property and help prevent accidental data leakage, detect potential access misuse and proactively identify potential security threats. The success of any new products and services, enhancements, or modifications to existing products and services depends on several factors, including the timely completion, introduction and market acceptance of such enhancements, integrations, products or services. Failure in this regard may significantly impair our revenue growth and our future financial results. In addition, because our services are designed to operate on a variety of systems, we will need to continuously modify and enhance our services to keep pace with changes in internet-related hardware, mobile operating systems such as iOS and Android, and other software, communication, browser and database technologies. We may not be successful in either developing these modifications and enhancements or in bringing them to market in a timely fashion. Furthermore, modifications to existing platforms or technologies will increase our research and development expenses. Any failure of our services to operate effectively with existing or future network platforms and technologies could reduce the demand for our services, result in customer dissatisfaction and adversely affect our business.

Actual or perceived security vulnerabilities in our services or any breaches of our security controls and unauthorized access to our or a customer's data could harm our business and operating results.

The services we offer involve the storage of large amounts of our customers' sensitive and proprietary information across a broad spectrum of industries. Additionally, we collect and store certain sensitive and proprietary information in the operation of our business, including trade secrets, employee data, and other confidential data. Cyberattacks and other malicious internet-based activity continue to increase in frequency and in magnitude generally, and cloud-based content collaboration services have been targeted in the past. These increasing threats are being driven by a variety of sources including nation-state sponsored espionage and hacking activities, industrial espionage, organized crime, sophisticated organizations and hacking groups and individuals. These sources can also implement social engineering techniques to induce our partners, users, employees or customers to disclose passwords or other sensitive information or take other actions to gain access to our data or our users' data. Hackers that acquire user account information at other companies can attempt to use that information to compromise the accounts of personnel, or our users' accounts if an account shares the same sensitive information such as passwords. In addition, because the Box service is configured by administrators and users to select their default settings, the third-party integrations they enable, and their privacy and permissions settings, this may lead to an administrator or user intentionally or inadvertently configuring settings to share their sensitive data. For example, a Box user can choose to share the content they store in Box with third-parties by creating a link that can be customized to be accessible by anyone with the link. While this feature is designed to be used for a variety of legitimate use cases in which a user wishes to share non-sensitive content with a broad or public audience, if a user were to intentionally or inadvertently configure a setting that allowed public access to their sensitive data, that data could be discovered and accessed by an unintended third party. As we increase our customer base and our brand becomes more widely known and recognized, and as our service is used in more heavily regulated industries where there may be a greater concentration of sensitive and protected data, such as healthcare, government, life sciences, and financial services, we may become more of a target for these malicious third parties.

If our security measures are or are believed to be inadequate or breached as a result of third-party action, employee negligence, error or malfeasance, product defects, social engineering techniques, improper user configuration or otherwise, and this results in, or is believed to result in, the disruption of the confidentiality, integrity or availability of our data or our customers' data, we could incur significant liability to various parties, including our customers and to individuals or organizations whose information is being stored by our customers, and our business may suffer and our reputation or competitive position may be damaged. Techniques used to obtain unauthorized access to, or to sabotage, systems or networks, are constantly evolving and generally are not recognized until launched against a target. Therefore, we may be unable to anticipate these techniques, react in a timely manner, or implement adequate preventive measures, and we may face delays in our detection or remediation of, or other responses to, security breaches and other security-related incidents. We also expect to incur significant costs in an effort to detect and prevent security breaches and other security-related incidents, and we may face increased costs and requirements to expend substantial resources in the event of an actual or perceived security breach or other security-related incident. Additionally, our service providers may suffer, or be perceived to suffer, data security breaches or other incidents that may compromise data stored or processed for us that may give rise to any of the foregoing.

Our customer contracts often include (i) specific obligations that we maintain the availability of the customer's data through our service and that we secure customer content against unauthorized access or loss, and (ii) provisions whereby we indemnify our customers for third-party claims asserted against them that result from our failure to maintain the availability of their content or securing the same from unauthorized access or loss. While our customer contracts contain limitations on our liability in connection with these obligations and indemnities, if an actual or perceived security breach occurs, the market perception of the effectiveness of our security measures could be harmed, we could be subject to indemnity or damage claims in certain customer contracts, and we could lose future sales and customers, any of which could harm our business and operating results. Furthermore, while our errors and omissions insurance policies include liability coverage for certain of these matters, if we experienced a widespread security breach or other incident that impacted a significant number of our customers to whom we owe indemnity obligations, we could be subject to indemnity claims or other damages that exceed our insurance coverage. 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 any 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.

Our sales to government entities are subject to a number of additional challenges and risks.

We sell to U.S. federal and state and foreign government customers, and we may increase sales to government entities in the future. Sales to government entities are subject to a number of additional challenges and risks. Selling to government entities can be highly competitive, expensive and time consuming, often requiring significant upfront time and expense without any assurance that these efforts will generate a sale. Government certification requirements may change, or we may lose one or more government certifications, and in doing so restrict our ability to sell into the government sector until we have attained revised certifications. Government demand and payment for our products and services are affected by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our solutions. An extended federal government shutdown resulting from budgetary decisions may limit or delay federal government spending on our solutions and adversely affect our revenue. Government entities may also have statutory, contractual or other legal rights to terminate contracts with us for convenience or due to a default, and any such termination may adversely affect our future operating results.

As a substantial portion of our sales efforts are increasingly focused on cloud content management use cases and are targeted at enterprise and highly-regulated customers, our sales cycles may become longer and more expensive, we may encounter greater pricing pressure and implementation and customization challenges, and we may have to delay revenue recognition for more complicated transactions, all of which could harm our business and operating results.

As a substantial portion of our sales efforts are increasingly focused on cloud content management use cases and are targeted at enterprise and highly-regulated customers, we face greater costs, longer sales cycles and less predictability in the completion of some of our sales. In this market segment, the customer's decision to use our services may be an enterprise-wide decision, in which case these types of sales require us to provide greater levels of customer education regarding the uses and benefits of our services, as well as education regarding security, privacy, and data protection laws and regulations, especially for those customers in more heavily regulated industries or those with significant international operations. In addition, larger enterprises may demand more customization, integration and support services, and features. As a result of these factors, these sales opportunities may require us to devote greater sales support and professional services resources to these customers, which could increase our costs, lengthen our sales cycle and leave fewer sales support and professional services resources for other customers. Professional services may also be performed by a third party or a combination of our own staff and a third party. Our strategy is to work with third parties to increase the breadth of capability and depth of capacity for delivery of these services to our customers. If a customer is not satisfied with the quality or interoperability of our services with their own IT environment, we could incur additional costs to address the situation, which could adversely affect our margins. Moreover, any customer dissatisfaction with our services could damage our ability to encourage broader adoption of our services by that customer. In addition, any negative publicity resulting from such situations, regardless of its accuracy, may further damage our business by affecting our ability to compete for new business with current and prospective customers.

Privacy concerns and laws or other domestic or foreign regulations may reduce the effectiveness of our services and harm our business.

Users can use our services to store identifying information or information that otherwise is considered personal information. Federal, state and foreign government bodies and agencies have adopted or are considering adopting laws and regulations regarding the collection, use and disclosure of personal information obtained from consumers and other individuals. Foreign data protection, privacy, consumer protection and other laws and regulations, particularly in Europe, are often more restrictive than those in the United States. The costs of compliance with, and other burdens imposed by, such laws and regulations that are applicable to our business or the businesses of our customers may limit the use and adoption of our services and reduce overall demand for them.

These U.S. federal and state and foreign laws and regulations, which can be enforced by private parties or governmental entities, are constantly evolving and can be subject to significant change. A number of new laws coming into effect and/or proposals pending before federal, state and foreign legislative and regulatory bodies could affect our business. For example, the European Commission has enacted a General Data Protection Regulation (GDPR) that became effective in May 2018, superseding prior EU data protection legislation, imposing more stringent EU data protection requirements, and providing for greater penalties for noncompliance of up to the greater of 20 million euros or four percent of a company's global revenue. The GDPR imposes significant obligations on companies regarding the handling of personal data. If we are unable to develop and offer services that meet our legal duties or help our customers meet their obligations under the GDPR or other laws or regulations relating to privacy, data protection, or information security, we may experience reduced demand for our services and become subject to significant fines and penalties, all of which would harm our business. Although U.S. and EU authorities reached agreement in 2016, regarding a means for legitimizing personal data transfers from the European Economic Area (EEA) to the United States under EU data protection law, the EU-U.S. Privacy Shield, it is facing mounting legal challenges. It is unclear what effect these challenges to the EU-U.S. Privacy Shield will have and whether it or the related Swiss-EU Privacy Shield will continue to function as an appropriate means for us to legitimize personal data transfers from the EEA or Switzerland to the U.S. Additionally, in 2018, the State of California enacted the California Consumer Privacy Act (CCPA), that will, among other things, require covered companies to provide new disclosures to California consumers, and afford such consumers new abilities to opt-out of certain sales of personal information, when it goes into effect on January 1, 2020. The CCPA has been amended on multiple occasions, and it is the subject of proposed regulations issued by the California Attorney General in October 2019. Aspects of the CCPA and its interpretation and enforcement remain unclear. We cannot fully predict the impact of the CCPA on our business or operations, but it may require us to modify our data processing practices and policies and to incur substantial costs and expenses in an effort to comply. There also have been a number of recent legislative proposals in the United States, at both the federal and state level, that would impose new obligations in areas such as privacy and liability for copyright infringement by third parties. In June 2016, the United Kingdom voted to leave the European Union, commonly referred to as "Brexit," which could also lead to further legislative and regulatory changes. The UK Data Protection Act that substantially implements the GDPR became law in May 2018. It remains unclear, however, how United Kingdom data protection laws or regulations will develop in the medium to longer term and how data transfers to and from the United Kingdom will be regulated. In addition, some countries are considering or have enacted legislation requiring local storage and processing of data that could increase the cost and complexity of delivering our services.

These existing and proposed laws and regulations can be costly to comply with, can delay or impede the development or adoption of our products and services, reduce the overall demand for our products and services, increase our operating costs, require significant management time and attention, slow the pace at which we close (or prevent us from closing) sales transactions. Additionally, any actual or alleged noncompliance with these laws and regulations could result in negative publicity and subject us to investigations, claims or other remedies, including demands that we modify or cease existing business practices, and expose us to significant fines, penalties and other damages.

Furthermore, government agencies may seek to access sensitive information that our users upload to Box, or restrict users' access to Box. Laws and regulations relating to government access and restrictions are evolving, and compliance with such laws and regulations could limit adoption of our services by users and create burdens on our business. Moreover, regulatory investigations into our compliance with privacy-related laws and regulations could increase our costs and divert management attention.

If we are not able to satisfy data protection, security, privacy, and other government- and industry-specific requirements, our growth could be harmed.

There are a number of data protection, security, privacy and other government- and industry-specific requirements, including those that require companies to notify individuals of data security incidents involving certain types of personal data. Security compromises experienced by our competitors, by our customers or by us may lead to public disclosures, which could harm our reputation, erode customer confidence in the effectiveness of our security measures, negatively impact our ability to attract new customers, or cause existing customers to elect not to renew their agreements with us. In addition, some of the industries we serve have industry-specific requirements relating to compliance with certain security and regulatory standards, such as GxP and FedRAMP, and those required by HIPAA, FINRA, and the HITECH Act. As we expand into new industry verticals and regions, we will likely need to comply with these and other new requirements to compete effectively. If we cannot adequately comply or if we incur a violation of one or more of these requirements, our growth could be adversely impacted, and we could incur significant liability and our reputation and business could be harmed.

Because we recognize revenue from subscriptions for our services over the term of the subscription, downturns or upturns in new business may not be immediately reflected in our operating results.

We generally recognize revenue from customers ratably over the terms of their subscription agreements, which are typically one year, although we also offer our services for terms ranging from one month to three years or more. As a result, most of the revenue we report in each quarter is the result of subscription agreements entered into during prior quarters. Consequently, a decline in new or renewed subscriptions in any one quarter may not be reflected in our revenue results for that quarter. However, any such decline will negatively affect our revenue in future quarters. Accordingly, the effect of significant downturns in sales, our failure to achieve our internal sales targets, a decline in the market acceptance of our services, or potential decreases in our retention rate may not be fully reflected in our operating results until future periods. Our subscription model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from additional sales must be recognized over the applicable subscription term.

Our platform must integrate with a variety of operating systems and software applications that are developed by others, and if we are unable to ensure that our solutions interoperate with such systems and applications, our service may become less competitive, and our operating results may be harmed.

We offer our services across a variety of operating systems and through the internet. We are dependent on the interoperability of our platform with third-party mobile devices, tablets, desktop and mobile operating systems, as well as web browsers that we do not control. Any changes in such systems, devices or web browsers that degrade the functionality of our services or give preferential treatment to competitive services could adversely affect usage of our services. In order for us to deliver high quality services, it is important that these services work well with a range of operating systems, networks, infrastructure, devices, web browsers and standards that we do not control. In addition, because a substantial number of our users access our services through mobile devices, we are particularly dependent on the interoperability of our services with mobile devices and mobile operating systems. We may not be successful in developing relationships with key participants in the mobile industry or in developing services that operate effectively with these operating systems, networks, infrastructure, devices, web browsers and standards. In the event that it is difficult for our users to access and use our services, our user growth may be harmed, and our business and operating results could be adversely affected.

If we are unable to attract new customers or expand deployments with existing customers at rates that are consistent with our expectations, our future revenue and operating results could be adversely impacted.

In order for us to improve our operating results and continue to grow our business, it is important that we continue to attract new customers and expand deployment of our solutions and products with existing customers. To the extent we are successful in increasing our customer base, we could incur increased losses because costs associated with new customers are generally incurred up front, while revenue is recognized ratably over the term of our subscription services. Alternatively, to the extent we are unsuccessful in increasing our customer base, we could also incur increased losses as costs associated with marketing programs and new products intended to attract new customers would not be offset by incremental revenue and cash flow. Furthermore, if our customers do not expand their deployment of our services or purchase new products from us, our revenue may grow more slowly than we expect. All of these factors could negatively impact our future revenue and operating results.

Our quarterly results may fluctuate significantly and may not fully reflect the underlying performance of our business.

Our quarterly operating results, including the levels of our revenue, billings, gross margin, profitability, cash flow, deferred revenue, unrecognized revenue and remaining performance obligations, may vary significantly in the future, and period-to-period comparisons of our operating results may not be meaningful. Accordingly, the results of any one quarter should not be relied upon as an indication of future performance. Our quarterly financial results may fluctuate as a result of a variety of factors, many of which are outside of our control and, as a result, may not fully reflect the underlying performance of our business. Fluctuations in quarterly results may negatively impact the value of our Class A common stock. Factors that may cause fluctuations in our quarterly financial results include, but are not limited to:

- our ability to attract new customers;
- our ability to convert users of our limited free version to paying customers;
- the addition or loss of large customers, including through acquisitions or consolidations;
- changes in our retention rate;
- the timing of revenue recognition;
- the impact on billings of shifting our focus to annual (rather than multi-year) payment frequencies from our customers;
- the amount and timing of operating expenses related to the maintenance and expansion of our business, operations and infrastructure;
- network or service outages, internet disruptions, the availability of our service, security breaches or perceived security breaches and vulnerabilities;
- general economic, industry and market conditions;
- increases or decreases in the number of features or capabilities in our services or pricing changes upon any renewals of customer agreements;
- changes in our go-to-market strategies and/or pricing policies and/or those of our competitors;
- seasonal variations in our billings results and sales of our services, which have historically been highest in the fourth quarter of our fiscal year;
- the timing and success of new services and product introductions by us and our competitors or any other change in the competitive dynamics of our industry, including consolidation or new entrants among competitors, customers or strategic partners;
- changes in usage or adoption rates of the internet and content management services, including outside the United States;
- the success of our strategic partnerships, including the performance of our resellers; and
- the timing of expenses related to the development or acquisition of technologies or businesses and potential future charges for impairment of goodwill from acquired companies.

If we fail to effectively manage our technical operations infrastructure, our customers may experience service outages and delays in the deployment of our services, which may adversely affect our business.

We have experienced significant growth in the number of users and the amount of data that our operations infrastructure supports. We seek to maintain sufficient excess capacity in our operations infrastructure to meet the needs of all of our customers. We also seek to maintain excess capacity to facilitate the rapid provisioning of new customer deployments and the expansion of existing customer deployments. In addition, we need to properly manage our technological operations infrastructure in order to support version control, changes in hardware and software parameters and the evolution of our services. However, the provision of new hosting infrastructure requires significant lead-time. We have experienced, and may in the future experience, website disruptions, incidents of data corruption, service outages and other performance problems. These problems may be caused by a variety of factors, including infrastructure changes, changes to our core services architecture, changes to our infrastructure necessitated by legal and compliance requirements governing the storage and transmission of data, human or software errors, viruses, security attacks, fraud, spikes in customer usage, primary and redundant hardware or connectivity failures, dependent data center and other service provider failures and denial of service issues. In some instances, we may not be able to identify the cause or causes of these performance problems within an acceptable period of time, which may harm our reputation and operating results. Furthermore, if we encounter any of these problems in the future, our customers may lose access to important data or experience data corruption or service outages that may subject us to financial penalties, other liabilities and customer losses. If our operations infrastructure fails to keep pace with increased sales, customers may experience delays as we seek to obtain additional capacity, which could adversely affect our reputation and our business.

Interruptions or delays in service from our third-party data center hosting facilities and cloud computing and hosting providers could impair the delivery of our services and harm our business.

We currently store and process our customers' information within multiple third-party data center hosting facilities located in Las Vegas, Nevada and in third-party cloud computing and hosting facilities inside and outside of the United States. As part of our current disaster recovery arrangements, our production environment and metadata related to our customers' data is currently replicated in near real time in a facility located in Las Vegas, Nevada. In addition, all of our customers' data is typically replicated on a third-party storage platform located inside and outside of the United States. These facilities may be located in areas prone to natural disasters and may experience events such as earthquakes, floods, fires, power loss, telecommunications failures and similar events. They may also be subject to break-ins, sabotage, intentional acts of vandalism, cyber-attacks and similar misconduct. Any damage to, or failure of, our systems generally, or those of the third-party cloud computing and hosting providers, could result in interruptions in our service. Interruptions in our service may reduce our revenue, cause us to issue credits or pay penalties, cause customers to terminate their subscriptions and adversely affect our renewal rate and our ability to attract new customers. In addition, we may not have adequate insurance coverage to compensate for losses from a major interruption. Our business will also be harmed if our customers and potential customers believe our service is unreliable. Despite precautions taken at these facilities, the occurrence of a natural disaster, an act of terrorism, an armed conflict, a decision to close the facilities without adequate notice or other unanticipated problems at these facilities could result in lengthy interruptions in our service or cause us to not comply with certification requirements. Even with the disaster recovery arrangements, we have never performed a full live failover of our services and, in an actual disaster, we could learn our recovery arrangements are not sufficient to address all possible scenarios and our service could be interrupted for a longer period than expected. For example, in September 2019, a modification to a perimeter network configuration caused an internal routing problem which led to all Box services being temporarily unavailable. As we continue to add data centers, increase our dependence on third-party cloud computing and hosting providers, and add capacity in our existing data centers, we may move or transfer our data and our customers' data. In particular, as part of our hybrid cloud infrastructure strategy, we intend to migrate our primary data centers in fiscal year 2020 to significantly lower cost regions in order to continue to optimize infrastructure efficiency and to support the growth in our paying customers. While this migration was substantially completed by the end of the third quarter of fiscal year 2020, additional migration activities continue. Despite precautions taken during any of these data center moves and data transfers, any unsuccessful data transfers may impair the delivery of our service and could materially and adversely disrupt our operations and our service delivery to our customers, which could result in contractual penalties or damage claims from customers. In addition, changes to our data center infrastructure could occur over a period longer than planned, could require greater than expected investment and other internal and external resources and could cause us to incur increased costs as we operate multiple data center facilities. It may also take longer to realize the intended favorable benefits from any data center infrastructure migrations and improvements than expected, and disruptions or unexpected costs may continue to occur while we enhance our data center infrastructure.

If we overestimate or underestimate our data center capacity requirements, our operating results could be adversely affected.

Only a small percentage of our customers that are organizations currently use our service as a way to organize all of their internal files. In particular, larger organizations and enterprises typically use our service to connect people and their most important information so that they are able to get work done more efficiently. However, over time, we may experience an increase in customers that look to Box as their complete cloud content management solution. The costs associated with leasing and maintaining our data centers already constitute a significant portion of our capital and operating expenses. We continuously evaluate our short- and long-term data center capacity requirements to ensure adequate capacity for new and existing customers while minimizing unnecessary excess capacity costs. If we overestimate the demand for our cloud content management services and therefore secure excess data center capacity, or if we are unable to meet our contractual minimum commitments, our operating margins could be reduced. If we underestimate our data center capacity requirements, we may not be able to service the expanding needs of new and existing customers and may be required to limit new customer acquisition, which would impair our revenue growth. Furthermore, regardless of our ability to appropriately manage our data center capacity requirements, an increase in the number of organizations, in particular large businesses and enterprises, that use our service as a larger component of their content storage requirements, could result in lower gross and operating margins or otherwise have an adverse impact on our financial condition and operating results.

We depend on highly skilled personnel to grow and operate our business, and if we are unable to hire, retain and motivate our personnel, we may not be able to grow effectively.

Our future success depends upon our continued ability to identify, hire, develop, motivate and retain highly skilled personnel, representing diverse backgrounds, experiences, and skill sets, including senior management, engineers, designers, product managers, sales representatives, and customer support representatives. Our ability to execute efficiently is dependent upon contributions from our employees, including our senior management team and, in particular, Aaron Levie, our co-founder, Chairman and Chief Executive Officer. In addition, occasionally, there may be changes in our senior management team that may be disruptive to our business. For example, we recently announced the appointment of Mark Wayland as our Chief Revenue Officer. If our senior management team,

including any new hires that we may make, fails to work together effectively and to execute on our plans and strategies on a timely basis, our business could be harmed.

Our growth strategy also depends on our ability to expand our organization with highly skilled personnel. Identifying, recruiting, training and integrating qualified individuals will require significant time, expense and attention. In addition to hiring new employees, we must continue to focus on retaining our best employees, as well as a diverse and inclusive work environment that enables all of our employees to prosper. Competition for highly skilled personnel is intense, particularly in the San Francisco Bay Area, where our headquarters is located. We may need to invest significant amounts of cash and equity to attract and retain new employees, and we may never realize returns on these investments. Changes to U.S. immigration and work authorization laws and regulations, including those that restrain the flow of technical and professional talent, can be significantly affected by political forces and levels of economic activity. Our international expansion and our business in general may be materially adversely affected if legislative or administrative changes to immigration or visa laws and regulations impair our hiring processes and goals or projects involving personnel who are not citizens of the country where the work is to be performed.

If we are not able to effectively add and retain employees, our ability to achieve our strategic objectives will be adversely impacted, and our business will be harmed.

We may be sued by third parties for alleged infringement of their proprietary rights.

There is considerable patent and other intellectual property development activity in our industry. Our success depends on our not infringing upon the valid intellectual property rights of others. Our competitors, as well as a number of other entities, including non-practicing entities, and individuals, may own or claim to own intellectual property relating to our industry.

From time to time, certain other third parties have claimed that we are infringing upon their intellectual property rights, and we may be found to be infringing upon such rights. In addition, we cannot assure you that actions by other third parties alleging infringement by us of third-party patents will not be asserted or prosecuted against us. In the future, others may claim that our services and underlying technology infringe or violate their intellectual property rights. However, we may be unaware of the intellectual property rights that others may claim cover some or all of our technology or services. Any claims or litigation could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, prevent us from offering our services, or require that we comply with other unfavorable terms. We may also be obligated to indemnify our customers or business partners or pay substantial settlement costs, including royalty payments, in connection with any such claim or litigation and to obtain licenses, modify services, or refund fees, which could be costly. Even if we were to prevail in such a dispute, any litigation regarding our intellectual property could be costly and time consuming and divert the attention of our management and key personnel from our business operations. During the course of any litigation, we may make announcements regarding the results of hearings and motions, and other interim developments. If securities analysts or investors regard these announcements as negative, the market price of our Class A common stock may decline.

Any failure to protect our intellectual property rights could impair our ability to protect our proprietary technology and our brand.

Our success and ability to compete depend in part on our intellectual property. We primarily rely on copyright, trade secret and trademark laws, trade secret protection and confidentiality or license agreements with our employees, customers, partners and others to protect our intellectual property rights. However, the steps we take to protect our intellectual property rights may be inadequate. We may not be able to obtain any further patents, and our pending applications may not result in the issuance of patents. We may also have to expend significant resources to obtain additional patents as we expand our international operations.

In order to protect our intellectual property rights, we may be required to spend significant resources to monitor and protect these rights. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming and distracting to management and may result in the impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights. Accordingly, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property. Our failure to secure, protect and enforce our intellectual property rights could materially adversely affect our brand and adversely impact our business.

Our services contain open source software, and we license some of our software through open source projects, which may pose particular risks to our proprietary software, products, and services in a manner that could have a negative impact on our business.

We use open source software in our services and will use open source software in the future. In addition, we regularly contribute software source code to open source projects under open source licenses or release internal software projects under open source licenses, and anticipate doing so in the future. The terms of many open source licenses to which we are subject have not been interpreted by U.S. or foreign courts, and there is a risk that open source software licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to provide or distribute our services. Additionally, we may from time to time face claims from third parties claiming ownership of, or demanding release of, the open source software or derivative works that we developed using such software, which could include our proprietary source code, or otherwise seeking to enforce the terms of the applicable open source license. These claims could result in litigation and could require us to make our software source code freely available, purchase a costly license or cease offering the implicated services unless and until we can re-engineer them to avoid infringement. This re-engineering process could require significant additional research and development resources, and we may not be able to complete it successfully. In addition to risks related to license requirements, use of certain open source software can lead to greater risks than use of third-party commercial software, as open source code may contain bugs or other defects and open source licensors generally do not provide warranties or controls on the functionality or origin of software. Additionally, because any software source code we contribute to open source projects is publicly available, our ability to protect our intellectual property rights with respect to such software source code may be limited or lost entirely, and we are unable to prevent our competitors or others from using such contributed software source code. Any of these risks could be difficult to eliminate or manage, and, if not addressed, could have a negative effect on our business, financial condition and operating results.

We rely on third parties for certain financial and operational services essential to our ability to manage our business. A failure or disruption in these services could materially and adversely affect our ability to manage our business effectively.

We rely on third parties for certain essential financial and operational services. Traditionally, the vast majority of these services have been provided by large enterprise software vendors who license their software to customers. However, we receive many of these services on a subscription basis from various software-as-a-service companies that are smaller and have shorter operating histories than traditional software vendors. Moreover, these vendors provide their services to us via a cloud-based model instead of software that is installed on our premises. We depend upon these vendors to provide us with services that are always available and are free of errors or defects that could cause disruptions in our business processes, and any failure by these vendors to do so, or any disruptions in networks or the availability of the internet, would adversely affect our ability to operate and manage our operations.

We are subject to governmental export controls that could impair our ability to compete in international markets due to licensing requirements and economic sanctions programs that subject us to liability if we are not in full compliance with applicable laws.

Certain of our services are subject to export controls, including the U.S. Department of Commerce's Export Administration Regulations and various economic and trade sanction regulations administered by the U.S. Treasury Department's Office of Foreign Assets Controls. The provision of our products and services must comply with these laws. The U.S. export control laws and U.S. economic sanctions laws include prohibitions on the sale or supply of certain products and services to U.S. embargoed or sanctioned countries, governments, persons and entities and also require authorization for the export of encryption items. In addition, various countries regulate the import of certain encryption technology, including through import permitting and licensing requirements, and have enacted laws that could limit our ability to distribute our services or could limit our customers' ability to implement our services in those countries.

Although we take precautions to prevent our services from being provided in violation of such laws, our solutions may have been in the past, and could in the future be, provided inadvertently in violation of such laws, despite the precautions we take. If we fail to comply with these laws, we and our employees could be subject to civil or criminal penalties, including the possible loss of export privileges, monetary penalties, and, in extreme cases, imprisonment of responsible employees for knowing and willful violations of these laws. We may also be adversely affected through penalties, reputational harm, loss of access to certain markets, or otherwise.

Changes in tariffs, sanctions, international treaties, export/import laws and other trade restrictions or trade disputes may delay the introduction and sale of our services in international markets, prevent our customers with international operations from deploying our services or, in some cases, prevent the export or import of our services to certain countries, governments, persons or entities altogether. Any change in export or import regulations, economic sanctions or related laws, shift in the enforcement or scope of existing regulations, or change in the countries, governments, persons or technologies targeted by such regulations, could result in decreased use of our services, or in our decreased ability to export or sell our services to existing or potential customers with international operations. Any decrease in the use of our services or limitation on our ability to export or sell our services would likely adversely affect our business, financial condition and operating results.

We provide service level commitments under our subscription agreements. If we fail to meet these contractual commitments, we could be obligated to provide credits or refunds for prepaid amounts related to unused subscription services or face subscription terminations, which could adversely affect our revenue. Furthermore, any failure in our delivery of high-quality customer support services may adversely affect our relationships with our customers and our financial results.

Our subscription agreements with customers provide certain service level commitments. If we are unable to meet the stated service level commitments or suffer periods of downtime that exceed the periods allowed under our customer agreements, we may be obligated to provide these customers with service credits which could significantly impact our revenue in the period in which the downtime occurs and the credits could be due. For example, in September 2019, a modification to a perimeter network configuration caused an internal routing problem which led to all Box services being temporarily unavailable. We could also face subscription terminations, which could significantly impact both our current and future revenue. Any extended service outages could also adversely affect our reputation, which would also impact our future revenue and operating results.

Our customers depend on our customer success organization to resolve technical issues relating to our services. We may be unable to respond quickly enough to accommodate short-term increases in customer demand for support services. Increased customer demand for these services, without corresponding revenue, could increase costs and adversely affect our operating results. In addition, our sales process is highly dependent on the ease of use of our services, on our reputation and on positive recommendations from our existing customers. Any failure to maintain high-quality customer support, or a market perception that we do not maintain high-quality support, could adversely affect our reputation and our ability to sell our services to existing and prospective customers.

Our services are becoming increasingly mission-critical for our customers and if these services fail to perform properly or if we are unable to scale our services to meet the needs of our customers, our reputation could be adversely affected, our market share could decline and we could be subject to liability claims.

Our core services and our expanded offerings such as Box KeySafe, Box Governance, Box Zones, Box Platform, Box Relay and Box Shield are becoming increasingly mission-critical to our customers' internal and external business operations, as well as their ability to comply with legal requirements, regulations, and standards such as GxP, FINRA, HIPAA, and FedRAMP. These services and offerings are inherently complex and may contain material defects or errors. Any defects either in functionality or that cause interruptions in the availability of our services, as well as user error, could result in:

- loss or delayed market acceptance and sales;
- breach of contract or warranty claims;
- issuance of sales credits or refunds for prepaid amounts related to unused subscription services;
- loss of customers;
- diversion of development and customer service resources; and
- harm to our reputation.

The costs incurred in correcting any material defects or errors might be substantial and could adversely affect our operating results. Further, our errors and omissions insurance may be inadequate or may not be available in the future on acceptable terms, or at all. In addition, our insurance may not cover all claims made against us and defending a lawsuit, regardless of its merit, could be costly and divert management's attention.

Because of the large amount of data that we collect and manage, it is possible that hardware failures, software errors, errors in our systems, or by third party service providers, user errors, or internet outages could result in data loss or corruption that our customers regard as significant. Furthermore, the availability or performance of our services could be adversely affected by a number of factors, including customers' inability to access the internet, the failure of our network or software systems, security breaches or variability in customer traffic for our services. We have been required and, in the future, may be required to issue credits or refunds for prepaid amounts related to unused services or otherwise be liable to our customers for damages they may incur resulting from some of these events. In addition to potential liability, if we experience interruptions in the availability of our services, our reputation could be adversely affected, which could result in the loss of customers. For example, our customers access our services through their internet service providers. If a service provider fails to provide sufficient capacity to support our services or otherwise experiences service outages, such failure could interrupt our customers' access to our services, adversely affect their perception of our services' reliability and consequently reduce our revenue.

Furthermore, we will need to ensure that our services can scale to meet the needs of our customers, particularly as we continue to focus on larger enterprise customers. If we are not able to provide our services at the scale required by our customers, potential customers may not adopt our solution and existing customers may not renew their agreements with us.

If the prices we charge for our services are unacceptable to our customers, our operating results will be harmed.

As the market for our services matures, or as new or existing competitors introduce new products or services that compete with ours, we may experience pricing pressure and be unable to renew our agreements with existing customers or attract new customers at prices that are consistent with our pricing model and operating budget. If this were to occur, it is possible that we would have to change our pricing model or reduce our prices, which could harm our revenue, gross margin and operating results.

Sales to customers outside the United States or with international operations expose us to risks inherent in international sales.

A key element of our growth strategy is to expand our international operations and develop a worldwide customer base. To date, we have not realized a substantial portion of our revenue from customers outside of the United States. Operating in international markets requires significant resources and management attention and will subject us to regulatory, economic, geographic, social, and political risks that are different from those in the United States. Because of our limited experience with international operations and significant differences between international and U.S. markets, our international expansion efforts may not be successful in creating demand for our services outside of the United States or in effectively selling subscriptions to our services in all of the international markets we enter. In addition, we will face specific risks in doing business internationally that could adversely affect our business, including:

- the need to localize and adapt our services for specific countries, including translation into foreign languages and associated expenses;
- laws (and changes to such laws) relating to privacy, data protection and data transfer that, among other things, could require that customer data be stored and processed in a designated territory;
- difficulties in staffing and managing foreign operations;
- different pricing environments, longer sales cycles and longer accounts receivable payment cycles and collections issues;
- new and different sources of competition;
- weaker protection for intellectual property and other legal rights than in the United States and practical difficulties in enforcing intellectual property and other rights outside of the United States;
- laws and business practices favoring local competitors, including economic tariffs;
- changes in the geopolitical environment, the perception of doing business with U.S. based companies, and changes in regulatory requirements that impact our operating strategies, access to global markets or hiring;
- compliance challenges related to the complexity of multiple, conflicting and changing governmental laws and regulations, including employment, tax, privacy and data protection laws and regulations;
- increased financial accounting and reporting burdens and complexities;
- restrictions on the transfer of funds;
- reliance on third party resellers and other parties;
- adverse tax consequences; and
- unstable regional, economic, social and political conditions.

We sell our services and incur operating expenses in various currencies. Therefore, fluctuations in the value of the U.S. dollar and foreign currencies may impact our operating results when translated into U.S. dollars. We currently manage our exchange rate risk by matching foreign currency assets with payables and by maintaining minimal non-U.S. dollar cash reserves, but we do not have any other hedging programs in place to limit the risk of exchange rate fluctuation. In the future, however, to the extent our foreign currency exposures become more material, we may elect to deploy normal and customary hedging practices designed to more proactively mitigate such exposure. We cannot be certain such practice will ultimately be available and/or effective at mitigating all foreign currency risk to which we are exposed. If we are unsuccessful in detecting material exposures in a timely manner, our deployed hedging strategies are not effective, or there are no hedging strategies available for certain exposures that are prudent given the risks associated and the potential mitigation of the underlying exposure achieved, our operating results or financial position could be adversely affected in the future.

We are also monitoring developments related to Brexit, which could have significant implications for our business. Brexit could lead to economic and legal uncertainty, including significant volatility in global stock markets and currency exchange rates, and differing laws and regulations as the United Kingdom determines which European Union laws to replace or replicate. Any of these effects of Brexit, among others, could adversely affect our operations, especially in the United Kingdom, and our financial results.

Failure to adequately expand our direct sales force and successfully maintain our online sales experience will impede our growth.

We will need to continue to expand and optimize our sales infrastructure in order to grow our customer base and our business. We plan to continue to expand our direct sales force, both domestically and internationally. Identifying and recruiting qualified personnel and training them requires significant time, expense and attention. Our business may be adversely affected if our efforts to expand and train our direct sales force do not generate a corresponding increase in revenue. If we are unable to hire, develop and retain talented sales personnel or if new direct sales personnel are unable to achieve desired productivity levels in a reasonable period of time, we may not be able to realize the intended benefits of this investment or increase our revenue.

We maintain our Box website to efficiently service our high volume, low dollar customer transactions and certain customer inquiries. Our goal is to continue to evolve this online experience so it effectively serves the increasing and changing needs of our growing customer base. If we are unable to maintain the effectiveness of our online solution to meet the future needs of our online customers and to eliminate fraudulent transactions occurring in this channel, we could see reduced online sales volumes as well as a decrease in our sales efficiency, which could adversely affect our results of operations.

If we are unable to maintain and promote our brand, our business and operating results may be harmed.

We believe that maintaining and promoting our brand is critical to expanding our customer base. Maintaining and promoting our brand will depend largely on our ability to continue to provide useful, reliable and innovative services, which we may not do successfully. We may introduce new features, products, services or terms of service that our customers do not like, which may negatively affect our brand and reputation. Additionally, the actions of third parties may affect our brand and reputation if customers do not have a positive experience using third-party apps or other services that are integrated with Box. Maintaining and enhancing our brand may require us to make substantial investments, and these investments may not achieve the desired goals. If we fail to successfully promote and maintain our brand or if we incur excessive expenses in this effort, our business and operating results could be adversely affected.

Our growth depends in part on the success of our strategic relationships with third parties.

In order to grow our business, we anticipate that we will continue to depend on our relationships with third parties, such as alliance partners, resellers, distributors, system integrators and developers. For example, we have entered into agreements with partners such as AT&T, IBM, Microsoft and Google to market, resell, integrate with or endorse our services. Identifying partners and resellers, and negotiating and documenting relationships with them, requires significant time and resources. Also, we depend on our ecosystem of system integrators, partners and developers to create applications that will integrate with our platform or permit us to integrate with their product offerings. Our competitors may be effective in providing incentives to third parties to favor their products or services, or to prevent or reduce subscriptions to our services. In some cases, we also compete directly with our partners' product offerings, and if these partners stop reselling or endorsing our services or impede our ability to integrate our services with their products, our business and operating results could be adversely affected. In addition, acquisitions of our partners by our competitors could result in a decrease in the number of current and potential customers, as our partners may no longer facilitate the adoption of our services by potential customers.

If we are unsuccessful in establishing or maintaining our relationships with third parties, or realizing the anticipated benefits from such partnerships, our ability to compete in the marketplace or to grow our revenue could be impaired and our operating results may suffer. Even if we are successful, we cannot assure you that these relationships will result in increased customer usage of our services or increased revenue.

Furthermore, if our partners and resellers fail to perform as expected, our reputation may be harmed and our business and operating results could be adversely affected.

We depend on our ecosystem of system integrators, partners and developers to create applications that will integrate with our platform or to allow us to integrate with their products.

We depend on our ecosystem of system integrators, partners and developers to create applications that will integrate with our platform and to allow us to integrate with their products. This presents certain risks to our business, including:

- we cannot provide any assurance that these third-party applications and products meet the same quality standards that we apply to our own development efforts, and to the extent that they contain bugs or defects, they may create disruptions in our customers' use of our services or negatively affect our brand;
- we do not currently provide support for software applications developed by our partner ecosystem, and users may be left without support and potentially cease using our services if these system integrators and developers do not provide adequate support for their applications;
- we cannot provide any assurance that we will be able to successfully integrate our services with our partners' products or that our partners will continue to provide us the right to do so; and
- these system integrators, partners and developers may not possess the appropriate intellectual property rights to develop and share their applications.

Many of these risks are not within our control to prevent, and our brand may be damaged if these applications do not perform to our users' satisfaction and that dissatisfaction is attributed to us.

Our company culture has contributed to our success, and if we cannot maintain this culture as we grow, we could lose the innovation, creativity and teamwork fostered by our culture, and our business may be harmed.

We believe that our culture has been and will continue to be a key contributor to our success. We expect to continue to hire additional employees as we expand our business. If we do not continue to develop our company culture or maintain our core values as we grow and evolve both in the United States and abroad, we may be unable to foster the innovation, creativity and teamwork we believe we need to support our growth.

Future acquisitions and investments could disrupt our business and harm our financial condition and operating results.

Our success will depend, in part, on our ability to expand our services and grow our business in response to changing technologies, customer demands, and competitive pressures. In some circumstances, we may choose to do so through the acquisition of complementary businesses, teams of employees, and technologies rather than through internal development. For example, the team from Progressly, a workflow automations company, joined us in May 2018, and employees from Butter.ai, a cloud-based intelligent search company, joined us in July 2018. The identification of suitable acquisition candidates can be difficult, time-consuming and costly, and we may not be able to successfully complete or integrate identified acquisitions. The risks we face in connection with acquisitions include:

- diversion of management time and focus from operating our business to addressing acquisition integration challenges;
- coordination of research and development and sales and marketing functions;
- retention of key employees from the acquired company;
- cultural challenges associated with integrating employees from the acquired company into our organization;
- integration of the acquired company's accounting, management information, human resources and other administrative systems, as well as the acquired operations, technology and rights into our offerings, and any unanticipated expenses related to such integration;
- the need to implement or improve controls, procedures, and policies at a business that prior to the acquisition may have lacked effective controls, procedures and policies;
- liability for activities of the acquired company before the acquisition, including intellectual property infringement claims, violations of laws, commercial disputes, tax liabilities and other known and unknown liabilities;
- completing the transaction and achieving the anticipated benefits of the acquisition within the expected timeframe or at all;
- unanticipated write-offs, expenses, charges or risks associated with the transaction; and

- litigation or other claims in connection with the acquired company, including claims from terminated employees, customers, former stockholders or other third parties, which may differ from or be more significant than the risks our business faces.

Our failure to address these risks or other problems encountered in connection with our past or future acquisitions and investments could cause us to fail to realize the anticipated benefits of these acquisitions or investments, cause us to incur unanticipated liabilities, and harm our business generally. Future acquisitions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, amortization expenses, incremental operating expenses or the write-off of goodwill, any of which could harm our financial condition or operating results.

We may require additional capital to support our operations or the growth of our business, and we cannot be certain that this capital will be available on reasonable terms when required, or at all.

On occasion, we may need additional financing to operate or grow our business. Our ability to obtain additional financing, if and when required, will depend on investor and lender demand, our operating performance, the condition of the capital markets and other factors. We cannot guarantee that additional financing will be available to us on favorable terms when required, or at all. If we raise additional funds through the issuance of equity, equity-linked or debt securities, those securities may have rights, preferences or privileges senior to the rights of our Class A common stock, and our existing stockholders may experience dilution. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support the operation or growth of our business could be significantly impaired and our operating results may be harmed.

Financing agreements we are party to or may become party to may contain operating and financial covenants that restrict our business and financing activities.

Our existing credit agreement contains certain operating and financial restrictions and covenants that may restrict our and our subsidiaries' ability to, among other things, incur indebtedness, grant liens on our assets, make loans investments, consummate certain merger and consolidation transactions, dispose of assets and enter into affiliate transactions, subject in each case to customary exceptions. We are also required to comply with a minimum liquidity covenant and a maximum leverage ratio. These restrictions and covenants, as well as those contained in any future financing agreements that we may enter into, may restrict our ability to finance our operations, engage in, expand or otherwise pursue our business activities and strategies. Our ability to comply with these covenants may be affected by events beyond our control, and breaches of these covenants could result in a default under the credit agreement and any future financial agreements that we may enter into and under other arrangements containing cross-default provisions. If not waived, defaults could cause our outstanding indebtedness under our credit agreement and any future financing agreements that we may enter into to become immediately due and payable, and permit our lenders to terminate their lending commitments and to foreclose upon any collateral securing such indebtedness.

Adverse economic conditions may negatively impact our business.

Our business depends on the overall demand for cloud content management services and on the economic health of our current and prospective customers. The United States and other key international economies have experienced cyclical downturns from time to time that have resulted in a significant weakening of the economy, more limited availability of credit, a reduction in business confidence and activity, and other difficulties that may affect one or more of the industries to which we sell our services. Uncertainty about economic conditions in the United States, Europe, Japan and other key markets for our services could cause customers to delay or reduce their information technology spending. This could result in reductions in sales of our services, longer sales cycles, reductions in subscription duration and value, slower adoption of new technologies and increased price competition. Any of these events would likely have an adverse effect on our business, operating results and financial position. In addition, there can be no assurance that cloud content management and collaboration spending levels will increase following any recovery.

Changes in laws and regulations related to the internet or changes in the internet infrastructure itself, or disruption in access to the internet or critical services on which the internet depends, may diminish the demand for our services, and could have a negative impact on our business.

The future success of our business depends upon the continued use and availability of the internet as a primary medium for commerce, communication and business services. Federal, state or foreign government bodies or agencies have in the past adopted, and may in the future adopt, laws or regulations affecting the use of the internet as a commercial medium. The adoption of any laws or regulations that could adversely affect the growth, popularity or use of the internet, including laws or practices limiting internet neutrality, could decrease the demand for, or the usage of, our products and services, increase our cost of doing business, adversely affect our operating results, and require us to modify our services in order to comply with these changes. In addition, government agencies or private organizations may begin to impose taxes, fees or other charges for accessing the internet or commerce conducted via the internet. These laws or charges could limit the growth of internet-related commerce or communications generally, or result in reductions in the demand for internet-based services such as ours.

For example, in December 2017, the Federal Communications Commission voted to repeal the “net neutrality” rules and return to a “light-touch” regulatory framework. However, the repeal has not yet taken effect and a number of parties have already stated their intent to appeal this order; thus, the future impact of such repeal and any challenge thereto remains uncertain. The rules were designed to ensure that all online content is treated the same by internet service providers and other companies that provide broadband services. Should the repeal of net neutrality rules take effect, access to or demand for our services could be hindered, we could incur greater operating expenses, and our business and results of operations.

In addition, the use of the internet and, in particular, the cloud as a business tool could be adversely affected due to delays in the development or adoption of new standards and protocols to handle increased demands of internet activity, security, reliability, cost, ease of use, accessibility, and quality of service. The performance of the internet and its acceptance as a business tool have been adversely affected by “viruses,” “worms”, “denial of service attacks” and similar malicious activity. The internet has also experienced a variety of outages, disruptions and other delays as a result of this malicious activity targeted at critical internet infrastructure. These service disruptions could diminish the overall attractiveness to existing and potential customers of services that depend on the internet and could cause demand for our services to suffer.

We employ third-party software for use in or with our services, and the inability to maintain licenses to this software, or errors in the software, could result in increased costs, or reduced service levels, which would adversely affect our business.

Our services incorporate certain third-party software obtained under open source licenses or licenses from other companies. We anticipate that we will continue to rely on such third-party software and development tools in the future. Although we believe that there are commercially reasonable alternatives to the third-party software we currently license, this may not always be the case, or it may be difficult or costly to replace. In addition, integration of the software used in our services with new third-party software may require significant work and require substantial investment of our time and resources. Also, to the extent that our services depend upon the successful operation of third-party software in conjunction with our software, any undetected errors or defects in this third-party software could prevent the deployment or impair the functionality of our services, delay the introduction of new services introductions, result in a failure of our services, and injure our reputation. For example, we discovered that a bug in a third-party software library we use in our services caused a very small subset of certain files uploaded during a short period of time (from mid-December 2017 to early January 2018) to be stored in a partially-corrupted state. Our use of additional or alternative third-party software would require us to enter into additional license agreements with third parties.

If we fail to maintain an effective system of disclosure controls and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable regulations could be impaired.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, the Sarbanes-Oxley Act and the listing standards of the New York Stock Exchange (NYSE). We expect that compliance with these rules and regulations will continue to increase our legal, accounting and financial compliance costs, make some activities more difficult, time consuming and costly, and place significant strain on our personnel, systems and resources.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures, and internal control over financial reporting. We are continuing to develop and refine our disclosure controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file with the SEC is properly recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. We are also continuing to improve our internal control over financial reporting. We have expended, and anticipate that we will continue to expend, significant resources in order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting.

Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business, including increased complexity resulting from our international expansion. Further, weaknesses in our disclosure controls or our internal control over financial reporting may be discovered in the future. Additionally, to the extent that we acquire other businesses, the acquired company may not have a sufficiently robust system of internal controls and we may uncover new deficiencies. Any failure to develop or maintain effective controls, or any difficulties encountered in their implementation or improvement, could harm our operating results or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements for prior periods. Any failure to implement and maintain effective internal control over financial reporting could also adversely affect the results of management reports and independent registered public accounting firm audits of our internal control over financial reporting that we are required to include in our periodic reports that we file with the SEC. Ineffective disclosure controls and procedures, and internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information, which would likely have a negative effect on the market price of our Class A common stock. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on the NYSE.

Any failure to maintain effective disclosure controls and internal control over financial reporting could have a material and adverse effect on our business and operating results, and cause a decline in the market price of our Class A common stock.

Failure to comply with anti-bribery, anti-corruption, and anti-money laundering laws could subject us to penalties and other adverse consequences.

We are subject to the Foreign Corrupt Practices Act, or the FCPA, the U.K. Bribery Act and other anti-corruption, anti-bribery and anti-money laundering laws in various jurisdictions both domestic and abroad. In addition to our own sales force, we also leverage third parties to sell our products and services and conduct our business abroad. We and our third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities and may be held liable for the corrupt or other illegal activities of these third-party business partners and intermediaries, our employees, representatives, contractors, channel partners, and agents, even if we do not explicitly authorize such activities. While we have policies and procedures to address compliance with such laws, we cannot assure you that our employees and agents will not take actions in violation of our policies or applicable law, for which we may be ultimately held responsible. Any violation of the FCPA or other applicable anti-bribery, anti-corruption laws, and anti-money laundering laws could result in whistleblower complaints, adverse media coverage, investigations, loss of export privileges, severe criminal or civil sanctions, or suspension or debarment from U.S. government contracts, all of which may have an adverse effect on our reputation, business, operating results and prospects.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

As of January 31, 2019, we had U.S. federal net operating loss carryforwards of approximately \$692.3 million, state net operating loss carryforwards of approximately \$713.2 million, and foreign net operating loss carryforwards of approximately \$268.0 million. Under Sections 382 and 383 of Internal Revenue Code of 1986, as amended, if a corporation undergoes an “ownership change,” the corporation’s ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes, such as research tax credits, to offset its post-change income and taxes may be limited. In general, an “ownership change” occurs if there is a cumulative change in our ownership by “5% shareholders” that exceeds 50 percentage points over a rolling three-year period. Similar rules may apply under state tax laws. We have in the past experienced an ownership change which has impacted our ability to fully realize the benefit of these net operating loss carryforwards. If we experience additional ownership changes as a result of future transactions in our stock, then we may be further limited in our ability to use our net operating loss carryforwards and other tax assets to reduce taxes owed on the net taxable income that we earn. Any such limitations on the ability to use our net operating loss carryforwards and other tax assets could adversely impact our business, financial condition and operating results.

Tax laws or regulations could be enacted or changed and existing tax laws or regulations could be applied to us or to our customers in a manner that could increase the costs of our services and adversely impact our business.

The application of federal, state, local and international tax laws to services provided electronically is unclear and continuously evolving. Income, sales, use or other tax laws, statutes, rules, regulations or ordinances could be enacted or amended at any time, such as the Tax Act in the United States, possibly with retroactive effect, and could be applied solely or disproportionately to services provided over the internet. These enactments or amendments could adversely affect our sales activity due to the inherent cost increase the taxes would represent and ultimately result in a negative impact on our operating results and cash flows.

In addition, existing tax laws, statutes, rules, regulations or ordinances could be interpreted or applied adversely to us, possibly with retroactive effect, which could require us or our customers to pay additional tax amounts, as well as require us or our customers to pay fines or penalties, as well as interest for past amounts. If we are unsuccessful in collecting such taxes due from our customers, we could be held liable for such costs, thereby adversely impacting our operating results and cash flows.

We may be subject to additional tax liabilities.

We are subject to income, sales, use, value added and other taxes in the United States and other countries in which we conduct business, and such laws and rates vary by jurisdiction. Certain jurisdictions in which we do not collect sales, use, value added or other taxes on our sales may assert that such taxes are applicable, which could result in tax assessments, penalties and interest, and we may be required to collect such taxes in the future. Significant judgment is required in determining our worldwide provision for income taxes. These determinations are highly complex and require detailed analysis of the available information and applicable statutes and regulatory materials. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different from our historical tax practices, provisions and accruals. If we receive an adverse ruling as a result of an audit, or we unilaterally determine that we have misinterpreted provisions of the tax regulations to which we are subject, there could be a material effect on our tax provision, net loss or cash flows in the period or periods for which that determination is made. In addition, liabilities associated with taxes are often subject to an extended or indefinite statute of limitations period. Therefore, we may be subject to additional tax liability (including penalties and interest) for a particular year for extended periods of time.

Our reported financial results may be adversely affected by changes in accounting principles generally accepted in the United States.

Generally accepted accounting principles (GAAP) in the United States are subject to interpretation by the Financial Accounting Standards Board (FASB), the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change. For example, in February 2016, the FASB issued accounting standards update No. 2016-02, which requires lessees to record most leases on their balance sheet while recognizing expense in a manner similar to current lease accounting guidance. ASU 2016-02 states that a lessee would recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. The new accounting guidance is effective for us beginning February 1, 2019. In addition, were we to change our critical accounting estimates, including the timing of recognition of subscription revenue and other revenue sources, our results of operations could be significantly impacted. These or other changes in accounting principles could adversely affect our financial results. See Part I, Item 1. Financial Statements—Note 1 for information regarding the effect of new accounting pronouncements on our financial statements. Any difficulties in implementing these pronouncements could cause us to fail to meet our financial reporting obligations, which could result in regulatory discipline and harm investors' confidence in us.

Risks Related to Ownership of Our Class A Common Stock

Anti-takeover provisions contained in our amended and restated certificate of incorporation and amended and restated bylaws, as well as provisions of Delaware law, could impair a takeover attempt.

Our amended and restated certificate of incorporation, amended and restated bylaws and Delaware law contain provisions which could have the effect of rendering more difficult, delaying or preventing an acquisition deemed undesirable by our board of directors. Among other things, our amended and restated certificate of incorporation and amended and restated bylaws include provisions:

- authorizing a classified board of directors whose members serve staggered three-year terms;
- authorizing “blank check” preferred stock, which could be issued by our board of directors without stockholder approval and may contain voting, liquidation, dividend and other rights superior to our Class A common stock;
- limiting the liability of, and providing indemnification to, our directors and officers;
- limiting the ability of our stockholders to call and bring business before special meetings;
- requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors; and
- controlling the procedures for the conduct and scheduling of board directors and stockholder meetings.

These provisions, alone or together, could delay or prevent hostile takeovers and changes in control or changes in our management.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which prevents certain stockholders holding more than 15% of our outstanding capital stock from engaging in certain business combinations without approval of the holders of at least two-thirds of our outstanding common stock not held by such stockholder.

Any provision of our amended and restated certificate of incorporation, amended and restated bylaws or Delaware law that has the effect of delaying, preventing or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our capital stock, and could also affect the price that some investors are willing to pay for our Class A common stock.

The market price of our Class A common stock has been and may continue to be volatile, and you could lose all or part of your investment.

The market price of our Class A common stock has been and may continue to be subject to wide fluctuations in response to various factors, some of which are beyond our control and may not be related to our operating performance. For example, from November 1, 2018 through October 31, 2019, the closing price of our Class A common stock ranged from \$13.03 per share to \$24.88 per share. In addition to the factors discussed in this “Risk Factors” section and elsewhere in this Form 10-Q, factors that could cause fluctuations in the market price of our Class A common stock include the following:

- price and volume fluctuations in the overall stock market from time to time;
- volatility in the market prices and trading volumes of technology stocks;
- changes in operating performance and stock market valuations of other technology companies generally or those in our industry in particular;
- sales of shares of our Class A common stock by us or our stockholders;
- failure of securities analysts to maintain coverage and/or to provide accurate consensus results of us, changes in financial estimates by securities analysts who follow us, or our failure to meet these estimates or the expectations of investors;
- the financial projections we may provide to the public, any changes in those projections or our failure to meet those projections;
- announcements by us or our competitors of new products or services;
- the public’s reaction to our press releases, other public announcements and filings with the SEC;
- rumors and market speculation involving us or other companies in our industry;
- actual or anticipated changes in our operating results or fluctuations in our operating results;
- actual or anticipated developments in our business, our competitors’ businesses or the competitive landscape generally;
- litigation involving us, our industry or both, or investigations by regulators into our operations or those of our competitors;
- developments or disputes concerning our intellectual property or other proprietary rights;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidelines, interpretations or principles;
- actions instituted by activist shareholders or others;
- any significant change in our management; and
- general economic conditions and slow or negative growth of our markets.

In addition, in the past, following periods of volatility in the overall market and the market price of a particular company’s securities, securities class action litigation has often been instituted against these companies. We are currently subject to securities litigation, which is described in Part II, Item 1. Legal Proceedings. This or any future securities litigation could result in substantial costs and a diversion of our management’s attention and resources.

Our business could be negatively affected as a result of activist shareholders.

Responding to actions by activist shareholders could be costly and time-consuming, disrupt our operations and divert the attention of management and our employees. Additionally, perceived uncertainties as to our future direction as a result of shareholder activism or changes to the composition of our board of directors may lead to the perception of a change in the direction of our business or other instability, which may be exploited by our competitors, cause concern to our current or potential customers, and make it more difficult to attract and retain qualified personnel. If customers choose to delay, defer or reduce transactions with us or do business with our competitors instead of us, then our business, financial condition and operating results would be adversely affected. In addition, our share price could experience periods of increased volatility as a result of shareholder activism.

If securities or industry analysts do not publish or cease publishing research or reports about us, our business, our market or our competitors, or if they adversely change their recommendations regarding our Class A common stock, the market price of our Class A common stock and trading volume could decline.

The trading market for our Class A common stock is influenced, to some extent, by the research and reports that securities or industry analysts publish about us, our business, our market or our competitors. If any of the analysts who cover us adversely change their recommendations regarding our Class A common stock or provide more favorable recommendations about our competitors, the market price of our Class A common stock would likely decline. If any of the analysts who may cover us were to cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause the market price of our Class A common stock or trading volume to decline.

We do not expect to declare any dividends in the foreseeable future.

We do not anticipate declaring any cash dividends to holders of our Class A common stock in the foreseeable future. Consequently, investors may need to rely on sales of our Class A common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking cash dividends should not purchase shares of our Class A common stock.

Items 2, 3, 4 and 5 are not applicable and have been omitted.

Item 6. EXHIBITS

The documents listed in the Exhibit Index of this Quarterly Report on Form 10-Q are incorporated by reference or are filed with this Quarterly Report on Form 10-Q, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K).

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
32.1*	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101.INS	Inline XBRL Instance Document.				
101.SCH	Inline XBRL Taxonomy Schema Linkbase Document.				
101.DEF	Inline XBRL Taxonomy Definition Linkbase Document.				
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document.				
101.LAB	Inline XBRL Taxonomy Labels Linkbase Document.				
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document.				
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)				

* The certifications attached as Exhibit 32.1 that accompany this Quarterly Report on Form 10-Q, are deemed furnished and not filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Box, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

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.

Date: December 6, 2019

BOX, INC.

By: /s/ Aaron Levie
Aaron Levie
Chairman and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Dylan Smith
Dylan Smith
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Aaron Levie, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Box, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 6, 2019

By: /s/ Aaron Levie
Name: Aaron Levie
Title: Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Dylan Smith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Box, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 6, 2019

By: /s/ Dylan Smith
Name: Dylan Smith
Title: Chief Financial Officer

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Aaron Levie, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Box, Inc. for the fiscal quarter ended October 31, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Box, Inc.

Date: December 6, 2019

By: /s/ Aaron Levie
Name: Aaron Levie
Title: Chief Executive Officer

I, Dylan Smith, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Box, Inc. for the fiscal quarter ended October 31, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Box, Inc.

Date: December 6, 2019

By: /s/ Dylan Smith
Name: Dylan Smith
Title: Chief Financial Officer