

BOX INC
Form 10-Q
September 07, 2016

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 July 31, 2016

OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission File Number 001-36805

Box, Inc.

(Exact name of registrant as specified in its charter)

Delaware 20-2714444
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

900 Jefferson Ave.

Redwood City, California 94063

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(Address of principal executive offices and Zip Code)

(877) 729-4269

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of August 31, 2016, the number of shares of the registrant's Class A common stock outstanding was 53,826,455 and the number of shares of the registrant's Class B common stock outstanding was 73,941,755.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which statements involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of these words or other similar terms or 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 ability to maintain an adequate rate of revenue and billings growth and our expectations regarding such growth;
- our business plan and our ability to effectively manage our growth;
- our ability to achieve profitability and positive cash flow;
- our ability to achieve our long-term margin objectives;
- costs associated with defending intellectual property infringement and other claims;
- our ability to attract and retain end-customers;
- our ability to further penetrate our existing customer base;
- our ability to displace existing products in established markets;
- our ability to expand our leadership position as an enterprise content platform;
- our ability to timely and effectively scale and adapt our existing technology;
- our ability to innovate new products and bring them to market in a timely manner;
- our plans to further invest in our business, including investment in research and development, sales and marketing, our datacenter infrastructure and our professional services organization, and our ability to effectively manage such investments;
- our ability to expand internationally;
- the effects of increased competition in our market and our ability to compete effectively;
- the effects of seasonal trends on our operating results;
- our 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;
- 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.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

BOX, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

| | July 31, 2016 (unaudited) | January 31, 2016 |
|--|---------------------------------|------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 173,331 | \$ 185,741 |
| Marketable securities | — | 7,379 |
| Accounts receivable, net of allowance of \$3,146 and \$3,678 | 75,170 | 99,542 |
| Prepaid expenses and other current assets | 13,770 | 14,729 |
| Deferred commissions | 10,591 | 12,603 |
| Total current assets | 272,862 | 319,994 |
| Property and equipment, net | 107,093 | 120,492 |
| Intangible assets, net | 1,520 | 3,895 |
| Goodwill | 14,301 | 14,301 |
| Restricted cash | 27,128 | 27,952 |
| Other long-term assets | 9,248 | 10,854 |
| Total assets | \$ 432,152 | \$ 497,488 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 7,557 | \$ 9,862 |
| Accrued compensation and benefits | 21,089 | 35,631 |
| Accrued expenses and other current liabilities | 14,418 | 31,926 |
| Capital lease obligations | 8,077 | 4,698 |
| Deferred revenue | 166,377 | 168,051 |
| Deferred rent | 186 | 298 |
| Total current liabilities | 217,704 | 250,466 |
| Debt, non-current | 40,000 | 40,000 |
| Capital lease obligations, non-current | 10,747 | 7,316 |
| Deferred revenue, non-current | 16,627 | 18,362 |
| Deferred rent, non-current | 44,440 | 41,674 |
| Other long-term liabilities | 1,815 | 1,769 |
| Total liabilities | 331,333 | 359,587 |

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 July 31, 2016 (unaudited) and January 31, 2016, respectively

Class A common stock, par value \$0.0001 per share; 1,000,000 shares authorized, 53,697 shares

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issued and outstanding as of July 31, 2016; 1,000,000 shares authorized, 42,266 shares issued and

outstanding as of January 31, 2016

Class B common stock, par value \$0.0001 per share; 200,000 shares authorized, 73,967 shares

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issued and outstanding as of July 31, 2016; 200,000 shares authorized, 81,855 shares issued and

outstanding as of January 31, 2016;

Additional paid-in capital 911,018 871,491

Treasury stock (1,177) (1,177)

Accumulated other comprehensive loss (16) (84)

Accumulated deficit (809,018) (732,341)

Total stockholders' equity 100,819 137,901

Total liabilities and stockholders' equity \$ 432,152 \$ 497,488

See notes to condensed consolidated financial statements.

BOX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(unaudited)

| | Three Months Ended July 31, | | Six Months Ended July 31, | |
|---|--------------------------------|-------------|------------------------------|-------------|
| | 2016 | 2015 | 2016 | 2015 |
| Revenue | \$95,713 | \$73,450 | \$185,868 | \$139,071 |
| Cost of revenue | 27,602 | 20,636 | 55,461 | 37,789 |
| Gross profit | 68,111 | 52,814 | 130,407 | 101,282 |
| Operating expenses: | | | | |
| Research and development | 28,265 | 26,453 | 55,172 | 49,587 |
| Sales and marketing | 60,186 | 58,460 | 119,658 | 114,955 |
| General and administrative | 17,579 | 17,675 | 32,088 | 33,147 |
| Total operating expenses | 106,030 | 102,588 | 206,918 | 197,689 |
| Loss from operations | (37,919) | (49,774) | (76,511) | (96,407) |
| Interest expense, net | (189) | (229) | (365) | (743) |
| Other income (expense), net | 190 | (31) | 631 | (108) |
| Loss before provision for income taxes | (37,918) | (50,034) | (76,245) | (97,258) |
| Provision for income taxes | 184 | 141 | 432 | 200 |
| Net loss | \$(38,102) | \$(50,175) | \$(76,677) | \$(97,458) |
| Net loss per common share, basic and diluted | \$(0.30) | \$(0.42) | \$(0.61) | \$(0.81) |
| Weighted-average shares used to compute net loss per share, basic and diluted | 126,776 | 120,399 | 125,864 | 119,987 |

See notes to condensed consolidated financial statements.

BOX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(unaudited)

| | Three Months | | Six Months Ended | |
|--|--------------|-------------|------------------|-------------|
| | Ended | | July 31, | |
| | July 31, | 2015 | 2016 | 2015 |
| Net loss | \$ (38,102) | \$ (50,175) | \$ (76,677) | \$ (97,458) |
| Other comprehensive income (loss)*: | | | | |
| Changes in foreign currency translation adjustment | (49) | (21) | 65 | (28) |
| Net change in unrealized gain (loss) on available-for-sale investments | 1 | (9) | 3 | (7) |
| Other comprehensive income (loss)*: | (48) | (30) | 68 | (35) |
| Comprehensive loss | \$ (38,150) | \$ (50,205) | \$ (76,609) | \$ (97,493) |

*Tax effect was not material

See notes to condensed consolidated financial statements.

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BOX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

| | Three Months Ended July 31, | | Six Months Ended July 31, | |
|--|--------------------------------|-------------|------------------------------|-------------|
| | 2016 | 2015 | 2016 | 2015 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Net loss | \$(38,102) | \$(50,175) | \$(76,677) | \$(97,458) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | | |
| Depreciation and amortization | 10,721 | 9,865 | 22,805 | 19,031 |
| Stock-based compensation expense | 19,064 | 14,728 | 35,153 | 27,443 |
| Amortization of deferred commissions | 4,605 | 3,922 | 9,376 | 7,528 |
| Other | (25) | 102 | 83 | 100 |
| Changes in operating assets and liabilities, net of effects of acquisitions: | | | | |
| Accounts receivable, net | (17,555) | (15,496) | 24,372 | 127 |
| Deferred commissions | (4,149) | (5,354) | (6,406) | (8,167) |
| Prepaid expenses and other assets, current and noncurrent | 2,664 | 1,343 | 2,437 | (27,112) |
| Accounts payable | (550) | 8,602 | (284) | 8,868 |
| Accrued expenses and other liabilities | 7,484 | 2,560 | (19,214) | 1,563 |
| Deferred rent | 144 | 2,094 | 2,654 | 3,942 |
| Deferred revenue | 10,820 | 6,148 | (3,409) | 10,292 |
| Net cash used in operating activities | (4,879) | (21,661) | (9,110) | (53,843) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Purchases of marketable securities | — | (6,202) | — | (112,521) |
| Sales of marketable securities | 240 | 709 | 240 | 3,849 |
| Maturities of marketable securities | 471 | 6,653 | 7,057 | 6,653 |
| Purchases of property and equipment | (771) | (17,943) | (11,747) | (27,844) |
| Proceeds from sale of property and equipment | 72 | — | 76 | — |
| Acquisitions and purchases of intangible assets, net of cash acquired | — | (18) | — | (218) |
| Net cash provided by (used in) investing activities | 12 | (16,801) | (4,374) | (130,081) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | |
| Payment of initial public offering costs | — | (839) | — | (2,172) |
| Payment of borrowing costs | — | — | (93) | — |
| Proceeds from exercise of stock options, net of repurchases of early exercised stock options | 1,969 | 1,618 | 4,215 | 2,414 |
| Proceeds from issuances of common stock under employee stock purchase plan | — | — | 9,016 | — |
| Employee payroll taxes paid related to net share settlement of restricted stock units | (4,100) | (1,972) | (8,868) | (6,187) |
| Payments of capital lease obligations | (2,312) | (192) | (3,261) | (420) |

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| | | | | |
|--|-----------|-----------|-----------|-----------|
| Net cash provided by (used in) financing activities | (4,443) | (1,385) | 1,009 | (6,365) |
| Effect of exchange rate changes on cash and cash equivalents | (49) | (21) | 65 | (28) |
| Net decrease in cash and cash equivalents | (9,359) | (39,868) | (12,410) | (190,317) |
| Cash and cash equivalents, beginning of period | 182,690 | 179,987 | 185,741 | 330,436 |
| Cash and cash equivalents, end of period | \$173,331 | \$140,119 | \$173,331 | \$140,119 |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

| | | | | |
|---|-------|-------|-------|-------|
| Cash paid for interest, net of amounts capitalized | \$555 | \$293 | \$788 | \$652 |
| Net cash paid (received) for income taxes, net of tax refunds | (2) | 242 | 116 | 700 |

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND

FINANCING ACTIVITIES:

| | | | | |
|---|------------|---------|-------------|----------|
| Change in accrued equipment purchases | \$(2,180) | \$8,446 | \$(15,024) | \$5,648 |
| Purchases of property and equipment under capital lease | 5,562 | 2,335 | 9,910 | 4,065 |
| Change in unpaid tax related to capital lease | 628 | — | 430 | — |
| Change in unpaid taxes related to net share settlement of restricted stocks | (461) | — | — | — |
| Vesting of early exercised stock options and restricted stock | — | 40 | 11 | 80 |
| Issuance of common stock in connection with acquisitions and purchases of intangible assets | — | 5,444 | — | 6,108 |
| Change in unpaid deferred offering costs | — | (839) | — | (2,172) |

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 an enterprise content platform that enables organizations of all sizes to securely manage enterprise 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 July 31, 2016 and the condensed consolidated statements of operations, the condensed consolidated statements of comprehensive loss and the condensed consolidated statements of cash flows for the three and six months ended July 31, 2016 and 2015, respectively, are unaudited. The condensed consolidated balance sheet data as of January 31, 2016 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, 2016 (the "Form 10-K"), which was filed with the Securities and Exchange Commission (the "SEC") on March 30, 2016. The accompanying statements should be read in conjunction with the audited consolidated financial statements and related notes contained in our Form 10-K. There have been no material changes to our critical accounting policies and estimates during the six months ended July 31, 2016 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 July 31, 2016, and our results of operations, including our comprehensive loss, and our cash flows for the three and six months ended July 31, 2016 and 2015. All adjustments are of a normal recurring nature. The results for the three and six months ended July 31, 2016 are not necessarily indicative of the results to be expected for any subsequent quarter or for the fiscal year ending January 31, 2017.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make, on an ongoing basis, estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ from these estimates. Such estimates include, but are not limited to, the determination of the allowance for accounts receivable, fair value of acquired intangible assets and goodwill, useful lives of acquired intangible assets and property and equipment, best estimate of selling price included

in multiple-deliverable revenue arrangements, fair values of stock-based awards, legal contingencies, and the provision for income taxes, including related reserves, among others. Management bases its estimates on historical experience and on various other assumptions which management believes to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

Certain Risks and Concentrations

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

We sell to a broad range of customers. Our revenue is derived substantially from the United States across a multitude of industries. Accounts receivable are derived from the delivery of our services to customers primarily located in the United States. We accept and settle our accounts receivable using credit cards, electronic payments and checks. A majority of our lower dollar value invoices are settled by credit card on or near the date of the invoice. We do not require collateral from customers to secure accounts receivable. We maintain an allowance for accounts receivable based upon the expected collectability, which takes into consideration specific customer creditworthiness and current economic trends. We believe collections of our accounts receivable are reasonably assured based on the size, industry diversification, financial condition and past transaction history of our customers. As of July 31,

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

2016 and January 31, 2016, no single customer accounted for more than 10% of total accounts receivable. No single customer represented over 10% of revenue during the three and six months ended July 31, 2016 and 2015.

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

Geographic Locations

Revenue attributed to the United States was 83% and 80% for the three months ended July 31, 2016 and 2015, respectively, and for the six months ended July 31, 2016 and 2015, respectively. No other country outside of the United States comprised 10% or greater of our revenue for all periods presented.

Substantially all of our net assets are located in the United States. As of July 31, 2016 and January 31, 2016, property and equipment located in the United States was 99.5% and 99.3%, respectively.

Prior Period Reclassifications

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

Initial Public Offering

In January 2015 we completed our initial public offering (IPO) in which we issued and sold 14,375,000 shares of Class A common stock, including 1,875,000 shares to cover an over-allotment option, at a public offering price of \$14.00 per share. We received net proceeds of \$187.2 million after deducting underwriting discounts and commissions of \$14.1 million but before deducting offering costs of \$5.7 million, of which \$2.9 million and \$588,000, respectively, was paid in the years ended January 31, 2015 and 2014, and the remaining \$2.2 million was paid after January 31, 2015. In addition, in connection with our IPO:

- We authorized a new class of Class A common stock and a new class of Class B common stock.
- All 17,051,820 shares of our then-outstanding common stock were reclassified into an equivalent number of shares of our Class B common stock.
- All 76,238,097 shares of our then-outstanding redeemable convertible preferred stock other than our Series F redeemable convertible preferred stock were converted and reclassified into an equivalent number of shares of our Class B common stock.
- 7,500,000 shares of our then-outstanding Series F redeemable convertible preferred stock were converted and reclassified into 11,904,759 shares of our Class B common stock. Included in this amount were incremental shares issued in accordance with the contractual conversion rights of our Series F redeemable convertible preferred stock. The additional shares resulted in a beneficial conversion feature, and we recorded a \$2.3 million deemed dividend to Series F redeemable convertible preferred stockholders upon the IPO.

- We issued 85,354 shares of Series A redeemable convertible preferred stock upon the net exercise of our Series A redeemable convertible preferred stock warrant, which occurred immediately prior to the completion of our IPO. These shares were converted and reclassified into an equivalent number of shares of our Class B common stock. As a result, we reclassified our redeemable convertible preferred stock warrant liability balance to additional-paid-in capital upon IPO.
- We reclassified \$5.7 million of deferred issuance costs previously recorded in other long-term assets as an offset to the proceeds from our IPO.

Recently Issued Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-13, Financial Instruments- Credit Losses. ASU 2016-13 changes the accounting of credit losses on financial instruments and other commitments. The standard also modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

with credit deterioration since their origination. The new standard is effective for us beginning February 1, 2020 with early adoption permitted. We are currently evaluating the impact of the provisions of this new standard on our consolidated financial statements.

In April 2016, the FASB issued ASU 2016-09, Compensation- Stock Compensation. ASU 2016-09 changes the accounting for certain aspects of share-based payments to employees. The new guidance requires excess tax benefits and tax deficiencies to be recorded in the income statement. In addition, cash flows related to excess tax benefits will no longer be separately classified as a financing activity apart from other income tax cash flows. The standard also allows entities to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting, clarifies that all cash payments made on an employee's behalf for withheld shares should be presented as a financing activity on the cash flow statement, and provides an accounting policy election to account for forfeitures as they occur. The new standard is effective for us beginning February 1, 2017 with early adoption permitted. We are currently evaluating the impact of the provisions of this new standard on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. ASU 2016-02 requires lessees to put most leases on their balance sheet while recognizing expense in a manner similar to existing accounting. The new accounting guidance is effective for our fiscal year beginning February 1, 2019 and early adoption is permitted. We are currently evaluating the impact of the provisions of this new standard on our consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The update addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 is effective for our fiscal year beginning February 1, 2018. Early adoption is permitted only for certain portions of the ASU related to financial liabilities. We are currently evaluating the impact of the provisions of this new standard on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. The standard provides principles for recognizing revenue for the transfer of promised goods or services to customers with the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the FASB issued subsequent ASUs, which serve to clarify certain aspects of ASU 2014-09. The standard will be effective for us beginning February 1, 2018, at which time we may adopt the new standard under either the full retrospective method or the modified retrospective method. Early adoption is permitted. We are currently evaluating the impact of the provisions of this new standard on our consolidated financial statements.

Note 2. Fair Value Measurements

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

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

We measure marketable securities and restricted cash at fair value on a recurring basis. We classify these assets within Level 1 or Level 2 because they are valued using either quoted market prices for identical assets or inputs other than quoted prices which are directly or indirectly observable in the market, including readily-available pricing sources for the identical underlying security which may not be actively traded. As of July 31, 2016, we had no marketable securities in our investment portfolio.

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

The following tables set forth the fair value of our financial assets measured at fair value on a recurring basis as of July 31 and January 31, 2016, using the above input categories (in thousands):

| | July 31, 2016 | | | |
|--|---------------|-----------------|------------|-----------------|
| | Level | | Level | Fair |
| | 1 | Level 2 | 3 | Value |
| Assets | | | | |
| Restricted cash: | | | | |
| Certificates of deposit | \$— | \$26,968 | \$— | \$26,968 |
| Money market funds | 160 | — | — | 160 |
| Total assets measured at fair value | \$160 | \$26,968 | \$— | \$27,128 |

| | January 31, 2016 | | | |
|--|------------------|-----------------|------------|-----------------|
| | Level | | Level | Fair |
| | 1 | Level 2 | 3 | Value |
| Assets | | | | |
| Marketable securities: | | | | |
| Corporate debt securities | \$— | \$5,559 | \$— | \$5,559 |
| Asset-backed securities | — | 1,820 | — | 1,820 |
| Restricted cash: | | | | |
| Certificates of deposit | — | 26,968 | — | 26,968 |
| Money market funds | 984 | — | — | 984 |
| Total assets measured at fair value | \$984 | \$34,347 | \$— | \$35,331 |

Note 3. Balance Sheet Components

Prepaid Expenses and Other Current Assets

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

| | July 31, 2016 | January 31, 2016 |
|---|------------------|------------------------|
| Prepaid expenses | \$11,032 | \$8,410 |
| Tenant incentives receivable under our headquarters | — | 3,024 |

| | | |
|---|----------|----------|
| lease in Redwood City | | |
| Other current assets | 2,738 | 3,295 |
| Total prepaid expenses and other current assets | \$13,770 | \$14,729 |

Property and Equipment, Net

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

| | July 31, 2016 | January 31, 2016 |
|-----------------------------------|------------------|------------------------|
| Servers | \$117,948 | \$111,015 |
| Leasehold improvements | 63,930 | 68,082 |
| Computer hardware and software | 10,676 | 11,009 |
| Furniture and fixtures | 12,649 | 12,485 |
| Construction in progress | 8,415 | 4,808 |
| Total property and equipment | 213,618 | 207,399 |
| Less: accumulated depreciation | (106,525) | (86,907) |
| Total property and equipment, net | \$107,093 | \$120,492 |

As of July 31, 2016, the gross carrying amount of property and equipment included \$19.4 million of servers and \$5.7 million of construction in progress acquired under capital leases, and the accumulated depreciation of property and equipment acquired under these capital leases was \$5.4 million. As of January 31, 2016, the gross carrying amount of property and equipment included \$13.9

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

million of servers and \$1.2 million of construction in progress acquired under capital leases, and the accumulated depreciation of property and equipment acquired under these capital leases was \$2.4 million.

Depreciation expense related to property and equipment was \$9.8 million and \$8.4 million for the three months ended July 31, 2016 and 2015, respectively, and \$20.4 million and \$16.4 million for the six months ended July 31, 2016 and 2015, respectively. Included in these amounts was depreciation expense for servers acquired under capital leases in the amount of \$1.6 million and \$0.4 million for the three months ended July 31, 2016 and 2015, respectively, and \$2.9 million and \$0.6 million for the six months ended July 31, 2016 and 2015, respectively. Construction in progress primarily consists of servers, networking equipment and storage infrastructure being provisioned in our third party datacenter hosting facilities as well as leasehold improvements. In addition, the amounts of interest capitalized to property and equipment were immaterial for the three and six months ended July 31, 2016 and 2015.

Note 4. Acquisitions

Verold, Inc.

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

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

Other Acquisitions

During fiscal year 2016, we purchased and licensed certain assets of two other companies for an aggregate purchase price of \$0.8 million. We accounted for these transactions as business combinations. In allocating the purchase consideration based on estimated fair values, we recorded \$0.3 million of developed technology and \$0.4 million of goodwill. Goodwill for these acquisitions is deductible for U.S. income tax purposes. Developed technology is being amortized on a straight-line basis over an estimated useful life of two years. These acquisitions are expected to enhance our Box service by leveraging the acquired companies' technologies, along with gaining access to their key talent. Aggregate transaction costs related to these acquisitions were immaterial.

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

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

Note 5. Goodwill and Intangible Assets

There was no goodwill activity during the three and six months ended July 31, 2016.

Intangible assets consisted of the following (in thousands):

| | Weighted | | | | |
|----------------------|----------------|-------|----------|--------------|--------------|
| | Average Useful | | Gross | Accumulated | Net Carrying |
| | Life (1) | | Value | Amortization | Value |
| July 31, 2016 | | | | | |
| Developed technology | 2.5 | years | \$14,273 | \$ (13,009) | \$ 1,264 |
| Trade name and other | 6.9 | years | 1,201 | (945) | 256 |
| Intangibles, net | | | \$15,474 | \$ (13,954) | \$ 1,520 |
| January 31, 2016 | | | | | |
| Developed technology | 2.5 | years | \$14,273 | \$ (10,711) | \$ 3,562 |
| Trade name and other | 6.9 | years | 1,201 | (868) | 333 |
| Intangibles, net | | | \$15,474 | \$ (11,579) | \$ 3,895 |

(1) From the date of acquisition

Intangible amortization expense was \$0.9 million and \$1.5 million for the three months ended July 31, 2016 and 2015, respectively, and \$2.4 million and \$2.7 million for the six months ended July 31, 2016 and 2015, respectively. Amortization of acquired technology is included in cost of revenue and amortization for trade names is included in general and administrative expenses in the consolidated statements of operations. As of July 31, 2016, expected amortization expense for intangible assets was as follows (in thousands):

| | |
|--------------------------|---------|
| Years ending January 31: | |
| Remainder of 2017 | \$977 |
| 2018 | 519 |
| 2019 | 23 |
| 2020 | 1 |
| 2021 and thereafter | — |
| | \$1,520 |

Note 6. Commitments and Contingencies

Letters of Credit

As of July 31, 2016 and January 31, 2016, we had letters of credit in the aggregate amount of \$27.0 million in connection with our facility leases. These letters of credit are collateralized by certificates of deposit held by us in the amount of \$27.0 million and \$27.0 million, respectively. Refer to Note 2 for additional details.

Leases

We have entered into various non-cancellable operating lease agreements for certain of our offices and datacenters with lease periods expiring primarily between fiscal years 2017 and 2029. Certain of these arrangements have free or escalating rent payment provisions and optional renewal clauses. We are also committed to pay a portion of the actual operating expenses under certain of these lease agreements. These operating expenses are not included in the table below.

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

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

As of July 31, 2016, future minimum lease payments under non-cancellable capital and operating leases are as follows (in thousands):

| | Capital | Operating Leases, net of |
|---|----------|-----------------------------|
| Years ending January 31: | Leases | Sublease Income |
| Remainder of 2017 | \$4,233 | \$ 9,565 |
| 2018 | 8,306 | 22,019 |
| 2019 | 5,987 | 25,264 |
| 2020 | 819 | 29,334 |
| 2021 | — | 29,076 |
| Thereafter | — | 172,840 |
| Total minimum lease payments | \$19,345 | \$ 288,098 |
| Less: amount representing interest | (521) | |
| Present value of minimum lease payments | \$18,824 | |

In fiscal year 2016, we signed subleases for three floors of our headquarters and in the six months ended July 31, 2016, we signed a sublease for one floor of our San Francisco building. These subleases have terms ranging from 19 to 37 months that will expire in fiscal 2018 and 2019, respectively. Non-cancellable sublease proceeds for the years ending January 31, 2017, 2018, and 2019 of \$3.5 million, \$6.1 million and \$4.2 million, respectively, are included in the table above.

We recognize rent expense under our operating leases on a straight-line basis. Rent expense totaled \$4.2 million and \$5.6 million, net of sublease income of \$1.7 million and \$0.1 million for the three months ended July 31, 2016 and 2015, respectively and rent expense totaled \$8.6 million and \$9.3 million, net of sublease income of \$3.2 million and \$0.3 million for the six months ended July 31, 2016 and 2015, respectively.

Purchase Obligations

As of July 31, 2016, future payments under non-cancellable contractual purchases, which relate primarily to datacenter operations and sales and marketing activities, are as follows (in thousands):

| | |
|--------------------------|-----------|
| Years ending January 31: | |
| Remainder of 2017 | \$ 14,061 |
| 2018 | 5,603 |
| 2019 | 1,350 |

\$21,014

Legal Matters

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

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

On September 19, 2014, in a related action, Open Text S.A. v. Alfresco Software Ltd., et al., Case No. 13-cv-04843-JD, the Court granted the Alfresco Defendants' motion to dismiss with prejudice the asserted claims of the Dialog Patents, finding the asserted claims of the Dialog Patents patent ineligible under 35 U.S.C. § 101. On January 20, 2015, the Court entered an Order granting our motion for judgment on the pleadings as to the asserted patent claims of the Groupware Patents. The Court found that the asserted

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

patent claims of the Groupware Patents are invalid because they claim non-patentable subject matter. As a result of the Court's January 20, 2015 order and other pretrial orders, the lawsuit was narrowed to four total claims across the three remaining File Synchronization Patents accusing the Company's Box Edit feature and Box Android application.

Trial commenced on February 2, 2015. On February 13, 2015, the jury returned a verdict, finding the asserted claims of the File Synchronization patents infringed and were not invalid. The jury awarded damages in favor of Open Text in a lump sum and fully paid-up royalty in the amount of \$4.9 million. The Court found no willful infringement of the asserted claims and foreclosed Open Text's request for a permanent injunction since the jury returned a lump-sum award. On February 19, 2015, Open Text filed a notice of appeal to the United States Court of Appeals for the Federal Circuit from the Court's Order granting our motion for judgment of invalidity of the Groupware Patents. On March 9, 2015, Open Text filed a first amended notice of appeal from additional orders by the Court. On August 19, 2015, following a July 1, 2015 hearing in which portions of the jury's verdict were challenged, the Court entered judgment in favor of Open Text with respect to infringement of the asserted claims of the File Synchronization patents in the amount of approximately \$4.9 million plus pre-judgment interest, and with respect to validity of the asserted claims of the File Synchronization patents. The Court also entered judgment in our favor with respect to invalidity of the asserted claims of the Groupware Patents, and no willful infringement with respect to the asserted claims of the File Synchronization patents. We filed a notice of appeal on August 28, 2015, challenging a number of findings in the final judgment entered on August 19, 2015, including the jury's finding that the Synchronization Patents were infringed and not invalid.

While we continued to defend the lawsuit vigorously and continued to believe we have valid defense to Open Text's claims, we considered the issuance of the verdict a recognized subsequent event that provided additional evidence about conditions existed as of January 31, 2015. Accordingly, we accrued \$4.9 million of settlement payment as of January 31, 2015, and recorded an expense in the amount of \$3.9 million for the year ended January 31, 2015, in relation to the portion of the settlement amount attributable to prior periods. The portion of the settlement amount attributable to future periods is recorded as an asset as of January 31, 2015. This asset is being amortized over an estimated useful life of 14 months, and the amortization expense was \$0.9 million for the year ended January 31, 2016. In addition, as a result of the July 1, 2015 hearing, we deemed the claim for interest on the legal verdict amount to be probable and estimable for the first time. As such, we accrued additional expenses in the aggregate amount of \$0.7 million during the year ended January 31, 2016, in relation to the interest on the legal verdict amount.

On March 31, 2016, Open Text and the Company entered into a Confidential Settlement and Release Agreement (the "Settlement Agreement"), which fully settled the lawsuit and resulted in a full dismissal of the case against the Company. In connection with such settlement, the Company paid an amount equal to \$3.75 million in total to Open Text, and the Company's obligation to pay the jury award amount of approximately \$4.9 million and all pre- and post-judgment interest was terminated. The parties agreed to drop all appeals pending in connection with the litigation and each agreed to certain standard mutual releases related to the subject matter of the suit. The settlement has no impact on the Groupware Patent and Dialog Patent claims that were found to be invalid by the Court during the litigation against the Company and against Alfresco Software. We recorded the settlement payment of \$3.75 million, reversed previous settlement accruals and interest of \$5.6 million, and recorded \$0.1 million in recurring amortization for the asset, resulting in net income of \$1.7 million in our condensed consolidated statement of operations for the six months ended July 31, 2016.

In addition to the litigation discussed above, from time to time, we are a party to litigation and subject to claims that arise in the ordinary course of business. We investigate these claims as they arise, and accrue estimates for resolution of 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 July 31, 2016.

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

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

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 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

In August 2013, we entered into a two-year \$100.0 million secured revolving credit facility (August 2013 Facility). The August 2013 Facility is denominated in U.S. dollars and, depending on certain conditions, each borrowing is subject to a floating interest rate equal to the London Interbank Offer Rate (LIBOR) plus 3.0% or the Alternate Base Rate (ABR) plus 2.0%. In addition, there is a commitment fee of 0.5% on outstanding unused commitment amount. At closing, we drew \$34.0 million at 3.4% (six month LIBOR plus 3.0%) which we used to repay the outstanding Hercules loans and the related early payoff and end of term fees, as well as for other general corporate purposes. In July 2014, we drew an additional \$12.0 million under the credit facility at 3.3% (six month LIBOR plus 3.0%). In September 2014, we paid down \$6.0 million and amended the credit facility to reduce our borrowing capacity from \$100.0 million to \$75.0 million and extend the facility through August 2016. Concurrently and in conjunction with the execution of our new headquarters lease in September 2014, letters of credit in the aggregate amount of \$25.0 million were issued under the credit facility. These letters of credit reduce our total borrowing capacity under the credit facility and are subject to interest at 3.25% per annum. As of January 31, 2015, the outstanding borrowings under the credit facility were \$40 million and our remaining borrowing capacity under the credit facility was \$10.0 million.

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

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

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

\$40.0 million maturing in December 2017.

The December 2015 Facility is denominated in U.S. dollars and, depending on certain conditions, each borrowing is subject to a floating interest rate equal to either the prime rate plus a spread of 0.25% to 2.75% or a reserve adjusted LIBOR rate (based on one, three or six-month interest periods) plus a spread of 1.25% to 3.75%. Although no minimum deposit is required for the December 2015 Facility, we are eligible for the lowest interest rate if we maintain at least \$40 million in deposits with the lender. In addition, there is an annual fee of 0.2% on the total commitment amount. At closing, we drew \$40.0 million at 1.82% (six month LIBOR plus 1.25%) which we used repay the outstanding principal balance under the August 2013 Facility. Borrowings under the December 2015 Facility are collateralized by substantially all of our assets in the United States. It also contains various covenants, including covenants related to the delivery of financial and other information, the maintenance of quarterly financial covenants, as well as customary limitations on dispositions, mergers or consolidations and other corporate activities. As of July 31, 2016, we were in compliance with all financial covenants.

In connection with the above credit facilities, we incurred interest expense, net of capitalized interest costs, of \$0.2 million and \$0.4 million during the three months ended July 31, 2016 and 2015, respectively, and \$0.4 million and \$1.1 million during the six months ended July 31, 2016 and 2015, respectively. Interest expense also includes amortization of issuance costs, unused commitment fees and fees on letters of credit which are recognized over the related term of the borrowing.

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

Note 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 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 (2006 Plan) or 2011 Equity Incentive Plan (2011 Plan) that are cancelled or repurchased subsequent to the 2015 Plan's effective date will be returned to the pool of shares reserved for issuance under the 2015 Plan. Awards granted under the 2015 Plan may be (i) incentive stock options, (ii) nonstatutory stock options, (iii) restricted stock units, (iv) restricted stock awards or (v) stock appreciation rights, as determined by our board of directors at the time of grant. Options and restricted stock units generally vest 25% one year from the vesting commencement date and (a) in the case of options, 1/48th per month thereafter, and (b) in the case of restricted stock units, 1/16th per quarter thereafter. As of July 31, 2016, 18,203,062 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. Except for the initial offering period, the 2015 ESPP provides for 24-month offering periods beginning March 16 and September 16 of each year, and each offering period will consist of four six-month purchase periods.

On each purchase date, eligible employees will purchase our stock at a price per share equal to 85% of the lesser of (1) the fair market value of our stock on the offering date or (2) the fair market value of our stock on the purchase date. In the event the price is lower on the last day of any purchase price period, in addition to using that price as the basis for that purchase period, the offering period resets and the new lower price becomes the new offering price for a new 24 month offering period. As of July 31, 2016, 3,138,536 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:

| Shares Subject to Options Outstanding | Weighted-Average Weighted- Average Exercise | Remaining Contractual Life | Aggregate |
|---------------------------------------|---|-------------------------------|-----------|
|---------------------------------------|---|-------------------------------|-----------|

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| | Shares | Price | (Years) | Intrinsic Value (in thousands) |
|---|--------------|---------|---------|--------------------------------------|
| Balance as of January 31, 2016 | 15,634,518 | \$ 6.92 | 7.12 | \$ 82,541 |
| Options granted | 468,136 | 11.99 | | |
| Option exercised | (1,676,632) | 2.51 | | |
| Options forfeited/cancelled | (1,162,383) | 13.05 | | |
| Balance as of July 31, 2016 | 13,263,639 | \$ 7.12 | 6.76 | \$ 75,120 |
| Vested and expected to vest as of July 31, 2016 | 13,096,353 | \$ 7.06 | 6.74 | \$ 74,772 |
| Exercisable as of July 31, 2016 | 9,529,567 | \$ 5.40 | 6.25 | \$ 67,350 |

The aggregate intrinsic value of options vested and expected to vest and exercisable as of July 31, 2016 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 six months ended July 31, 2016 and 2015 was \$15.4 million and \$11.3 million, respectively. The aggregate estimated fair value of stock options granted to employees that vested during the six months ended July 31, 2016 and 2015 was \$9.6 million and \$9.8 million, respectively. The weighted-average grant date fair value of options granted to employees during the six months ended July 31, 2016 and 2015 was \$5.10 and \$7.56 per share, respectively.

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

As of July 31, 2016, there was \$18.7 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 2.26 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, 2016 | 8,204,968 | \$ 15.54 |
| Granted | 4,644,607 | 12.19 |
| Vested, net of shares withheld for employee | | |
| payroll taxes | (1,012,038) | 16.37 |
| Forfeited/cancelled, including shares withheld for | | |
| employee payroll taxes | (2,166,582) | 15.38 |
| Unvested balance - July 31, 2016 | 9,670,955 | \$ 13.88 |

As of July 31, 2016, there was \$122.3 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 2.87 years.

Restricted Stock Awards

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

| | Number of Restricted Stock Outstanding | Weighted- Average Grant Date Fair Value |
|-------------------------------------|---|---|
| Unvested balance - January 31, 2016 | 30,607 | \$ 11.38 |

Vested, net of shares withheld for employee

| | | |
|--|-----------|----------|
| payroll taxes | (15,920) | 11.21 |
| Forfeited/cancelled, including shares withheld for | | |
| employee payroll taxes | (2,783) | 9.77 |
| Unvested balance - July 31, 2016 | 11,904 | \$ 11.99 |

As of July 31, 2016, unrecognized stock-based compensation expense related to outstanding restricted stock granted to employees that is expected to be recognized over a weighted-average period of 0.80 year was immaterial.

In addition, in connection with our fiscal 2015 acquisitions, we issued 344,667 shares of restricted stock awards with a weighted-average grant date fair value of \$12.96 per share. These restricted stock awards were separately authorized by our board of directors, and did not reduce the number of shares available for future issuance under our equity incentive plans.

As of July 31, 2016, there was \$1.4 million of unrecognized stock-based compensation expense related to outstanding restricted stock awards granted outside of the equity incentive plans that is expected to be recognized over a weighted-average period of 1.20 years. In addition, there were 220,207 unvested shares as of July 31, 2016.

As of July 31, 2016, there was \$0.5 million of unrecognized stock-based compensation related to 42,137 shares of contingently issuable and unvested common stock for certain bonus awards given in connection with our fiscal 2016 and 2015 acquisitions that is expected to be recognized over a weighted-average period of 0.92 year.

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

2015 ESPP and Other

As of July 31, 2016, there was \$11.4 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.

Stock-Based Compensation

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

| | Three Months Ended | | Six Months Ended | |
|--------------------------------|--------------------|----------|------------------|----------|
| | July 31, | | July 31, | |
| | 2016 | 2015 | 2016 | 2015 |
| Cost of revenue | \$1,830 | \$1,041 | \$3,342 | \$1,892 |
| Research and development | 7,348 | 6,303 | 13,872 | 11,566 |
| Sales and marketing | 6,416 | 4,742 | 11,646 | 9,025 |
| General and administrative | 3,470 | 2,642 | 6,293 | 4,960 |
| Total stock-based compensation | \$19,064 | \$14,728 | \$35,153 | \$27,443 |

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 | | Six Months Ended | |
|-------------------------------------|--------------------|-------------|------------------|-------------|
| | July 31, | | July 31, | |
| | 2016 | 2015 | 2016 | 2015 |
| Employee Stock Options | | | | |
| Expected term (in years) | 5.5 - 6.0 | 5.5 - 6.1 | 5.5 - 6.0 | 5.5 - 6.1 |
| Risk-free interest rate | 1.3% - 1.5% | 1.8% - 1.9% | 1.3% - 1.5% | 1.6% - 1.9% |
| Volatility | 43% | 42% - 43% | 43% | 42% - 44% |
| Dividend yield | 0% | 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 | 0.5% - 0.9% | 0.2% - 0.7% | 0.5% - 0.9% | 0.2% - 0.7% |
| Volatility | 46% - 60% | 39% - 41% | 46% - 60% | 39% - 41% |
| 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. Prior to our IPO in January 2015, our board of directors considered numerous objective and subjective factors to determine the fair value of our common stock at each grant date. These factors included, but were not limited to, (i) contemporaneous valuations of our common stock performed by unrelated third-party specialists; (ii) the prices for our redeemable convertible preferred stock sold to outside investors; (iii) the rights, preferences and privileges of our redeemable convertible preferred stock relative to our common stock; (iv) the lack of marketability of our common stock; (v) developments in the business; and (vi) the likelihood of achieving a liquidity event, such as an IPO or a merger or acquisition, given prevailing market conditions.

Subsequent to the completion of our IPO, 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.

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

Expected Volatility. Since we do not have sufficient trading history of our common stock, the expected volatility was derived from the historical stock volatilities of several unrelated public companies within the same industry that we consider to be comparable to our business over a period equivalent to the expected term of the stock option grants and 2015 ESPP purchase rights.

Risk-free Interest Rate. The risk-free rate that we use is based on U.S. Treasury zero-coupon issues with remaining terms similar to the expected term on the options.

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

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, employee stock purchase plan, repurchasable shares 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 dilutive 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 July 31, | | | |
|-------------------|-----------------------------|------------|------------|-------------|
| | 2016 | | 2015 | |
| | Class A | Class B | Class A | Class B |
| Numerator: | | | | |
| Net loss | \$(15,305) | \$(22,797) | \$(9,391) | \$(40,784) |

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Denominator:

| | | | | |
|---|-----------|-----------|-----------|-----------|
| Weighted-average number of shares outstanding—basic | | | | |
| and diluted | 50,925 | 75,851 | 22,535 | 97,864 |
| Net loss per share—basic and diluted | \$(0.30) | \$(0.30) | \$(0.42) | \$(0.42) |

| | | | | |
|--|---------------------------|---------|---------|---------|
| | Six Months Ended July 31, | | | |
| | 2016 | | 2015 | |
| | Class A | Class B | Class A | Class B |

Numerator:

| | | | | |
|----------|------------|------------|------------|------------|
| Net loss | \$(28,983) | \$(47,694) | \$(15,396) | \$(82,062) |
|----------|------------|------------|------------|------------|

Denominator:

| | | | | |
|---|-----------|-----------|-----------|-----------|
| Weighted-average number of shares outstanding—basic | | | | |
| and diluted | 47,575 | 78,289 | 18,941 | 100,956 |
| Net loss per share—basic and diluted | \$(0.61) | \$(0.61) | \$(0.81) | \$(0.81) |

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

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 | | Six Months | |
|---|----------------|--------|----------------|--------|
| | Ended July 31, | | Ended July 31, | |
| | 2016 | 2015 | 2016 | 2015 |
| Options to purchase common stock | 13,782 | 17,079 | 14,338 | 17,080 |
| Restricted stock units | 10,218 | 7,189 | 9,305 | 6,434 |
| Employee stock purchase plan | 2,906 | 3,108 | 2,891 | 3,079 |
| Repurchasable shares from early-exercised options and unvested restricted stock | 346 | 607 | 370 | 628 |
| Contingently issuable common stock | 80 | 142 | 84 | 151 |
| | 27,332 | 28,125 | 26,988 | 27,372 |

Note 10. Income Taxes

Utilization of the net operating loss carryforwards and credits may be subject to substantial annual limitation due to the ownership change limitations provided by Section 382 of the Internal Revenue Code of 1986, as amended, and similar state provisions. The annual limitation may result in the expiration of net operating losses and credits before utilization.

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 file tax returns in the United States 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 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 and in Canada starting with the year ended January 31, 2015, and in Sweden, Netherlands, and Australia starting with the year ended January 31, 2016. These tax years remain open to examination.

We believe that we have provided adequate reserves for our income tax uncertainties in all open tax years. We do not expect our gross unrecognized tax benefits to change significantly over the next 12 months.

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 consolidated financial statements.

Note 12. Subsequent Events

On August 30, 2016, we entered into an agreement pursuant to which certain members of the team from Wagon Analytics, Inc. (“Wagon”), a data analysis solutions company, would join our team for approximately \$2.0 million in cash and Class A common shares. The transaction with Wagon helps accelerate our innovation in analytics and advances our strategic efforts. We expect the transaction to close in the three months ended October 31, 2016. The final purchase accounting for the transaction was not complete at the time this Form 10-Q was filed with the SEC, and as such, certain disclosures required by ASC Topic 805 — Business Combinations have not been made herein.

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 an enterprise content platform that enables organizations of all sizes to securely manage enterprise content while allowing easy, secure access and sharing of this content from anywhere, on any device. With our Software-as-a-Service (SaaS) cloud-based 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 internal policies and industry regulations. Our platform enables people to securely view, share and collaborate on content, across multiple file formats and media types, without having to open a desktop application or download the content to their mobile device. The software 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.

We were founded and publicly launched our platform in 2005 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. In 2006, we introduced a free version of our product in order to rapidly grow our user base, and we surpassed one million registered users by July 2007. As users began to bring our solution into the workplace, we learned that businesses were eager for a solution to empower user-friendly content sharing and collaboration in a secure, manageable way. Starting in 2007, we began enhancing our platform to serve businesses and large enterprises, which meant expanding our business functionality with features such as our administrative console, identity integration, activity reporting and full-text search. To further satisfy the requirements of IT departments in large organizations, we began to invest heavily in enhancing the security of our platform. Also in 2007, we began to build an enterprise sales team. The continual evolution of our platform features allowed our sales team to sell into increasingly larger organizations. To empower users to work securely from anywhere, we built native applications for all major mobile platforms. The introduction of our iPad application in 2010 further accelerated enterprise adoption of our platform. In 2012, we introduced our Box OneCloud platform and our Box Embed framework to encourage developers and independent software vendors (ISVs) to build powerful applications that connect to Box, furthering the reach of the Box service. We continued to innovate by expanding our offerings to include 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; Box Zones, which gives global customers the ability to store their data locally in certain regions; Box Accelerator, which improves upload speeds for our global customers; and Box Platform, which further enables customers and partners to build enterprise apps using the Box Platform. In recent years, we have expanded our global presence, opening our first international office in London in 2012, followed by Paris and Tokyo in 2013. In 2014, we launched Box for Industries to accelerate business transformation in every major industry and we continued to expand our international presence further. We also opened offices in Amsterdam and Stockholm in 2015.

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 ratably over the term of the subscription period.

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 Box 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. Our user base includes over 48 million registered users. We define a registered user as a Box account that has been provisioned to a unique user ID. As of July 31, 2016, over 13% of our registered users were paying users who register as part of a larger enterprise or business account or by using a personal account. We currently have over 66,000 paying organizations, and our solution is offered in 22 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; or (iv) organizations may purchase our Box Platform service to create custom business applications for their own 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 heavily 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 significant investments in both our datacenter infrastructure to meet the needs of our growing user base and our professional services (Box Consulting) organization 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 six months ended July 31, 2016 and 2015, our revenue was \$185.9 million, and \$139.1 million, respectively, representing year-over-year growth of 34%, and our net losses were \$76.7 million and \$97.5 million, respectively. For the six months ended July 31, 2016 and 2015, revenue from non-U.S. customers represented 17% and 20% of our revenue, respectively. Box is headquartered in Redwood City, California and operates offices in California, New York, Texas, Amsterdam, London, Paris, Stockholm and Tokyo.

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 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 significant portion of which is expensed upfront and the remaining portion of which is expensed over the length of the non-cancellable subscription term, and marketing costs, which are expensed as incurred. Due to our subscription model, we recognize revenue ratably over the term of the subscription period, which commences when all of the revenue recognition criteria have been met. 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 what stage of the customer phase they are in. 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, other than the 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 these key metrics 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 our 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 our institutional investors and the analyst community to help them analyze the health of our business.

| | Three Months Ended | | Six Months Ended | |
|-------------------------------|--------------------|----------|------------------|-----------|
| | July 31, | | July 31, | |
| | 2016 | 2015 | 2016 | 2015 |
| Billings (in thousands) | \$106,533 | \$79,598 | \$182,459 | \$149,363 |
| Billings growth rate | 34 | % 45 | % 22 | % 50 |
| Free cash flow (in thousands) | (7,962) | (39,796) | (24,118) | (57,107) |
| Retention rate (period end) | 115 | % 121 | % 115 | % 121 |

Billings

Billings represent our revenue plus the change in deferred revenue in the period. Billings we record in any particular period reflect sales to new customers plus subscription renewals and expansion within existing 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 elects 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 elects to be invoiced annually or more frequently, only the amount billed for such period will be included in billings.

We calculate billings for a period by adding changes in deferred revenue in that period to revenue. Billings help investors better understand our sales activity for a particular period, which is not necessarily reflected in our revenue as a result of the fact that we recognize subscription revenue ratably over the subscription term. We consider billings a significant performance measure and after adjusting for any shifts in relative payment frequencies, a leading indicator of future revenue. We monitor billings to manage our business, make planning decisions, evaluate our performance and allocate resources. We believe that billings offers 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 and deferred revenue, both of which are financial measures calculated in accordance with GAAP.

Billings increased 22% in the six months ended July 31, 2016 over six months ended July 31, 2015. The increase in billings was primarily driven by the addition of new customers with larger initial deployments and expansion of the number of users within existing customers. For the six months ended July 31, 2016, our year-over-year billings growth rate was adversely impacted by increased focus on annual payment frequency and increased seasonality in our business.

For the remainder of fiscal year 2017, we expect to continue focusing on standardizing on annual payment frequencies which, over time, we anticipate will mitigate fluctuations in billings which are not correlated to future revenue. This shift will not alter related revenue recognition or the related growth rates of revenue; however, to the extent we see a relatively lower percentage of multi-year pre-payments as a result, this shift will naturally cause billings growth to decelerate faster than we would expect revenue growth for the year to decelerate. 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. Therefore, while billings continue to be a key business metric for us, we expect the relationship between billings and revenue in the remainder of fiscal year 2017 to be different from the correlation in more recent years and, therefore, past results are not expected to be indicative of future results, particularly in the quarterly periods throughout the year. Specifically, we expect our billings growth rate to decelerate faster than we expect revenue growth rates to decelerate.

Free Cash Flow

We define free cash flow as cash used in operating activities less purchases of property and equipment, principal payments of capital lease obligations, and other items that did not or are not expected to require cash settlement and which 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. Historically, these items have included restricted cash used to guarantee a significant letter of credit for our Redwood City headquarters. 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 cash used in 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.

Retention Rate

We calculate our retention rate as of a period end by starting with the annual contract value (ACV) from customers with contract value of \$5,000 or more as of 12 months prior to such period end (Prior Period ACV) and a subscription term of at least 12 months. We then calculate ACV from these same customers as of the current period end (Current Period ACV). Finally, we divide the aggregate Current Period ACV for the trailing 12 month period by the aggregate Prior Period ACV for the trailing 12 month period 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 six months ended July 31, 2016. 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 115% and 121% as of July 31, 2016 and 2015, 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% for enterprise customers of the Prior Period ACV. Our retention rates consistently exceeded 100% and were primarily attributable to an increase in user expansion, from both enterprise and small and medium business customers. We believe our investments in product, Customer Success, and Box Consulting are driving our strong customer retention results. As we penetrate customer accounts, we expect our rate of growth in expansion to trend down over time but our retention rate to remain above 100% for the foreseeable future.

Calculation of Billings

To provide investors with additional information regarding our financial results, we have disclosed in the table above and within this report billings, a key financial metric. We have provided below a calculation of billings starting with revenue, the most directly comparable GAAP financial measure. We consider billings, after adjusting for any shifts in relative payment frequencies, a significant performance measure and a leading indicator of future revenue. Billings also help investors better understand our sales activity for a particular period, which is not necessarily reflected in our revenue as a result of the fact that we recognize subscription revenue ratably over the subscription term. We monitor billings to manage our business, make planning decisions, evaluate our performance and allocate resources.

Our use of billings has the following 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 revenue is recognized ratably over the term of the subscription or premier support services. When we invoice customers more frequently than their subscription period, amounts not yet invoiced will not be reflected in deferred revenue or billings. 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.

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

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------|------------------|-----------|
| | July 31, 2016 | 2015 | July 31, 2016 | 2015 |
| GAAP revenue | \$95,713 | \$73,450 | \$185,868 | \$139,071 |
| Deferred revenue, end of period | 183,004 | 130,349 | 183,004 | 130,349 |
| Less: deferred revenue, beginning of period | (172,184) | (124,201) | (186,413) | (120,057) |
| Billings | \$106,533 | \$79,598 | \$182,459 | \$149,363 |

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Components of Results of Operations

Revenue

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

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

Subscription and premier support revenue is recognized ratably over the contract term beginning on the later of the date the service is provisioned to the customer and the date all other revenue recognition criteria have been met. Our subscription and support 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. We typically invoice our customers at the beginning of the term, in multiyear, annual, quarterly or monthly installments. Amounts that have been invoiced are initially recorded as deferred revenue and are recognized ratably over the invoice period. Amounts that have not been invoiced are not reflected in deferred revenue.

Professional services revenue is recognized as the services are rendered for time and material contracts, and using the proportional performance method over the period the services are performed for fixed price contracts. Professional services revenue was not material 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 cloud-based services to our paying customers, including employee compensation and related expenses for datacenter operations, customer support and professional services personnel, payments to outside infrastructure service providers, depreciation of servers and equipment, security services and other tools, as well as amortization of acquired technology. 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. We expect our cost of revenue to increase in dollars and may increase as a percentage of revenue as we continue to invest in our datacenter operations and customer support 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, adding enterprise grade features, functionality and security, and enhancing the ease of use of our cloud-based services. We expect our research and development expense to increase in dollars but decrease as a percentage of revenue over time, as we continue to invest in our future products and services.

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 datacenter and customer support costs related to providing our cloud-based services to our free users. We market and sell our cloud-based 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 we increase the size of our sales and marketing organization 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 and 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, litigation, accounting, temporary services, 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 incur additional costs related to operating as a publicly-traded company including systems, audit, legal, regulatory and other related fees.

Interest Expense, Net

Interest expense, net consists of interest expense and interest income. Interest expense consists of interest charges for our line of credit, fees on our letter of credit, and the amortization of capitalized debt issuance costs. Interest income consists of interest earned on our cash, cash equivalents, marketable securities, and restricted cash. We have historically invested our cash in overnight deposits and short term, investment-grade corporate debt, and asset backed securities. As of July 31, 2016, we had no marketable securities in our investment portfolio.

Other Income (Expense), Net

Other income (expense), net consists primarily of gains and losses from foreign currency transactions and other income (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, offset, when applicable, by the tax benefit recognized from the release of our valuation allowance in connection with certain acquisitions.

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 | | Six Months Ended | |
|---|--------------------|-------------|------------------|-------------|
| | July 31, 2016 | 2015 | July 31, 2016 | 2015 |
| | (in thousands) | | (in thousands) | |
| Consolidated Statements of Operations Data: | | | | |
| Revenue | \$95,713 | \$73,450 | \$185,868 | \$139,071 |
| Cost of revenue(1)(2) | 27,602 | 20,636 | 55,461 | 37,789 |
| Gross profit | 68,111 | 52,814 | 130,407 | 101,282 |
| Operating expenses: | | | | |
| Research and development(2) | 28,265 | 26,453 | 55,172 | 49,587 |
| Sales and marketing(2) | 60,186 | 58,460 | 119,658 | 114,955 |
| General and administrative(1)(2) | 17,579 | 17,675 | 32,088 | 33,147 |
| Total operating expenses | 106,030 | 102,588 | 206,918 | 197,689 |
| Loss from operations | (37,919) | (49,774) | (76,511) | (96,407) |
| Interest expense, net | (189) | (229) | (365) | (743) |
| Other income (expense), net | 190 | (31) | 631 | (108) |
| Loss before provision for income taxes | (37,918) | (50,034) | (76,245) | (97,258) |
| Provision for income taxes | 184 | 141 | 432 | 200 |
| Net loss | \$(38,102) | \$(50,175) | \$(76,677) | \$(97,458) |
| Net loss per common share, basic and diluted | \$(0.30) | \$(0.42) | \$(0.61) | \$(0.81) |
| Weighted-average shares used to compute net loss per share, basic and diluted | 126,776 | 120,399 | 125,864 | 119,987 |

(1) Includes intangible assets amortization as follows:

| | Three Months Ended | | Six Months Ended | |
|--------------------------------------|--------------------|---------|------------------|---------|
| | July 31, 2016 | 2015 | July 31, 2016 | 2015 |
| | (in thousands) | | (in thousands) | |
| Cost of revenue | \$878 | \$1,472 | \$2,298 | \$2,579 |
| General and administrative | 38 | 39 | 77 | 78 |
| Total intangible assets amortization | \$916 | \$1,511 | \$2,375 | \$2,657 |

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

| | Three Months Ended | | Six Months Ended | |
|--------------------------------|--------------------|----------|------------------|----------|
| | July 31, 2016 | 2015 | July 31, 2016 | 2015 |
| | (in thousands) | | (in thousands) | |
| Cost of revenue | \$1,830 | \$1,041 | \$3,342 | \$1,892 |
| Research and development | 7,348 | 6,303 | 13,872 | 11,566 |
| Sales and marketing | 6,416 | 4,742 | 11,646 | 9,025 |
| General and administrative | 3,470 | 2,642 | 6,293 | 4,960 |
| Total stock-based compensation | \$19,064 | \$14,728 | \$35,153 | \$27,443 |

| | Three Months Ended July 31, 2016 | | Six Months Ended July 31, 2015 | |
|--|---|--------|---|--------|
| Percentage of Revenue: | | | | |
| Revenue | 100 % | 100 % | 100 % | 100 % |
| Cost of revenue(1)(2) | 29 | 28 | 30 | 27 |
| Gross profit | 71 | 72 | 70 | 73 |
| Operating expenses: | | | | |
| Research and development(2) | 30 | 36 | 30 | 36 |
| Sales and marketing(2) | 63 | 80 | 64 | 82 |
| General and administrative(1)(2) | 18 | 24 | 17 | 24 |
| Total operating expenses | 111 | 140 | 111 | 142 |
| Loss from operations | (40) | (68) | (41) | (69) |
| Interest expense, net | — | — | — | (1) |
| Other income (expense), net | — | — | — | — |
| Loss before provision for income taxes | (40) | (68) | (41) | (70) |
| Provision for income taxes | — | — | — | — |
| Net loss | (40)% | (68)% | (41)% | (70)% |

(1) Includes intangible assets amortization as follows:

| | Three Months Ended July 31, 2016 | | Six Months Ended July 31, 2015 | |
|--------------------------------------|--|-----|---|-----|
| Cost of revenue | 1 % | 2 % | 1 % | 2 % |
| General and administrative | — | — | — | — |
| Total intangible assets amortization | 1 % | 2 % | 1 % | 2 % |

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

| | Three Months Ended July 31, 2016 | | Six Months Ended April 30, 2015 | |
|--------------------------------|--|------|--|------|
| Cost of revenue | 2 % | 1 % | 2 % | 1 % |
| Research and development | 8 | 9 | 7 | 8 |
| Sales and marketing | 7 | 6 | 6 | 6 |
| General and administrative | 4 | 4 | 3 | 4 |
| Total stock-based compensation | 21 % | 20 % | 18 % | 19 % |

Comparison of the Three Months Ended July 31, 2016 and 2015

Revenue

| Three Months Ended July 31, | | | | |
|-----------------------------------|----------|--------------|-------------|------|
| 2016 | 2015 | \$ Change | % Change | |
| (dollars in thousands) | | | | |
| Revenue | \$95,713 | \$73,450 | \$22,263 | 30 % |

Revenue was \$95.7 million for the three months ended July 31, 2016, compared to \$73.5 million for the three months ended July 31, 2015, representing an increase of \$22.3 million, or 30%. The increase in revenue was primarily driven by an increase in subscription services. The increase in subscription services was due to the addition of new customers, as the number of paying organizations increased by more than 32% from July 31, 2015 to 2016. Also in this period, we experienced increased renewals from, and expansion within, existing customers as they broadened their deployment of our product offerings, as reflected in our retention rate of 115% as of July 31, 2016.

Cost of Revenue

| | Three Months Ended July 31, | | | |
|-----------------------|-----------------------------------|----------|--------------|-------------|
| | 2016 | 2015 | \$ Change | % Change |
| | (dollars in thousands) | | | |
| Cost of revenue | \$27,602 | \$20,636 | \$6,966 | 34 % |
| Percentage of revenue | 29 % | 28 % | | |

Cost of revenue was \$27.6 million, or 29% of revenue, for the three months ended July 31, 2016, compared to \$20.6 million, or 28% of revenue, for the three months ended July 31, 2015, representing an increase of \$7.0 million, or 34%. The increase in absolute dollars was primarily due to an increase of \$1.0 million in employee and related costs and an increase of \$0.8 million in stock-based compensation expense primarily driven by the increase in headcount in our datacenter operations, customer support, and Box Consulting functions. Headcount in these functions grew from 218 employees as of July 31, 2015 to 232 employees as of July 31, 2016. In addition, there was an increase of \$1.5 million in datacenter service costs, an increase of \$0.9 million in depreciation of our server equipment, an increase of \$0.6 million in outside agency consulting services and an increase in investments for our growing paid users. The increase was partially offset by a \$0.6 million decrease in the amortization of certain intangible assets which reached the end of their estimated useful life. Cost of revenue as a percentage of revenue increased 1 point year-over-year primarily due to our continued investments in our data-center infrastructure and Box Consulting to support our expected growth in paying customers and new products.

Research and Development

| | Three Months Ended July 31, | | | |
|--------------------------|-----------------------------------|----------|--------------|-------------|
| | 2016 | 2015 | \$ Change | % Change |
| | (dollars in thousands) | | | |
| Research and development | \$28,265 | \$26,453 | \$1,812 | 7 % |
| Percentage of revenue | 30 % | 36 % | | |

Research and development expenses were \$28.3 million, or 30% of revenue, for the three months ended July 31, 2016, compared to \$26.5 million, or 36% of revenue, for the three months ended July 31, 2015, representing an increase of \$1.8 million, or 7%. The increase in absolute dollars was primarily due to an increase of \$1.3 million in allocated costs attributable mainly to increased facilities and infrastructure costs and an increase of \$1.0 million in stock-based compensation expense primarily due to the timing of key new hires in the platform and engineering functions during the year ended January 31, 2016. The increase was partially offset by a decrease in employee and related costs of \$0.8 million as our headcount decreased from 302 employees as of July 31, 2015 to 274 as of July 31, 2016. Despite an increase in absolute dollars spent, research and development expense as a percentage of revenue decreased 6 points

year over year. While we continued to invest in our product and service offerings and develop new products to further differentiate our offerings, we were able to do so at a lower percentage of revenue year over year as our revenue growth outpaced our research and development spending.

Sales and Marketing

| | Three Months Ended July 31, | | \$ | % |
|-----------------------|-----------------------------------|----------|---------|--------|
| | 2016 | 2015 | Change | Change |
| | (dollars in thousands) | | | |
| Sales and marketing | \$60,186 | \$58,460 | \$1,726 | 3 % |
| Percentage of revenue | 63 % | 80 % | | |

Sales and marketing expenses were \$60.2 million, or 63% of revenue, for the three months ended July 31, 2016, compared to \$58.5 million, or 80% of revenue, for the three months ended July 31, 2015, representing an increase of \$1.7 million, or 3%. The increase in absolute dollars was primarily due to an increase of \$1.9 million in employee and related costs and an increase of \$1.7 million in stock-based compensation expense primarily driven by the increase in headcount from 581 employees as of July 31, 2015 to 607 employees as of July 31, 2016 and the timing of key new hires in the sales function. In addition, there was an increase of \$1.3 million in allocated costs attributable mainly to increased facilities and infrastructure costs. The increase was partially offset by a \$2.8 million decrease in datacenter and customer support costs to support our free users and a \$0.2 million decrease in marketing events. Sales and marketing expenses as a percentage of revenue decreased 17 points year over year due to improved marketing efficiency, as our sales and marketing expenses are generally higher for acquiring new customers versus expansions or renewals of existing

customer subscriptions, and a decrease in cost to support our free users. 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 expect that sales and marketing expenses will decrease as a percentage of revenue. We continue to invest aggressively to capture our large market opportunity and capitalize on our competitive position, while growing our productivity and efficiency to achieve our long-term margin objectives.

General and Administrative

| | Three Months Ended July 31, | | | |
|----------------------------|-----------------------------|----------|-----------|----------|
| | 2016 | 2015 | \$ Change | % Change |
| | (dollars in thousands) | | | |
| General and administrative | \$17,579 | \$17,675 | \$(96) | (1)% |
| Percentage of revenue | 18 | % 24 | % | |

General and administrative expenses were \$17.6 million, or 18% of revenue, for the three months ended July 31, 2016, compared to \$17.7 million, or 24% of revenue, for the three months ended July 31, 2015, representing a decrease of \$0.1 million, or 1%. The decrease in absolute dollars was primarily due to a decrease of \$1.2 million in litigation related expenses mainly attributable to the settlement agreement reached with Open Text in the three months ended April 30, 2016 and a decrease of \$0.4 million in outside consulting services. The decrease was partially offset by an increase in employee and related costs of \$1.0 million and an increase in stock-based compensation expense of \$0.8 million as we increased our general and administrative headcount from 213 employees as of July 31, 2015 to 230 employees as of July 31, 2016.

Comparison of the Six Months Ended July 31, 2016 and 2015

Revenue

| | Six Months Ended July 31, | | | |
|---------|---------------------------|-----------|-----------|----------|
| | 2016 | 2015 | \$ Change | % Change |
| | (dollars in thousands) | | | |
| Revenue | \$185,868 | \$139,071 | \$46,797 | 34 % |

Revenue was \$185.9 million for the six months ended July 31, 2016, compared to \$139.1 million for the six months ended July 31, 2015, representing an increase of \$46.8 million, or 34%. The increase in revenue was primarily driven by an increase in subscription services. The increase in subscription services was due to the addition of new customers, as the number of paying organizations increased by more than 32% from July 31, 2015 to 2016. Also in this period, we experienced increased renewals from, and expansion within, existing customers as they broadened their deployment of our product offerings, as reflected in our retention rate of 115% as of July 31, 2016.

Cost of Revenue

| | Six Months Ended July 31, | | | |
|-----------------------|------------------------------|----------|--------------|-------------|
| | 2016 | 2015 | \$ Change | % Change |
| | (dollars in thousands) | | | |
| Cost of revenue | \$55,461 | \$37,789 | \$17,672 | 47 % |
| Percentage of revenue | 30 % | 27 % | | |

Cost of revenue was \$55.5 million, or 30% of revenue, for the six months ended July 31, 2016, compared to \$37.8 million, or 27% of revenue, for the six months ended July 31, 2015, representing an increase of \$17.7 million, or 47%. The increase in absolute dollars was primarily due to an increase of \$2.9 million in employee and related costs and an increase of \$1.5 million in stock-based compensation expense primarily driven by the increase in headcount in our datacenter operations, customer support, and in our Box Consulting functions. Headcount in these functions grew from 218 employees as of July 31, 2015 to 232 employees as of July 31, 2016. In addition, there was an increase of \$4.1 million in datacenter service costs, an increase of \$2.5 million in depreciation of our server equipment, an increase of \$1.3 million in enterprise subscription software expenses, an increase of \$0.7 million in outside agency consulting services, and an increase in investments for our growing paid users. Cost of revenue as a percentage of revenue increased 3 points year-over-year primarily due to our continued investments in our data center infrastructure and Box Consulting to support our expected growth in paying customers and new products.

Research and Development

| | Six Months Ended July 31, | | \$ Change | % Change | |
|--------------------------|------------------------------|----------|--------------|-------------|---|
| | 2016 | 2015 | | | |
| | (dollars in thousands) | | | | |
| Research and development | \$55,172 | \$49,587 | \$5,585 | 11 | % |
| Percentage of revenue | 30 | % 36 | % | | |

Research and development expenses were \$55.2 million, or 30% of revenue, for the six months ended July 31, 2016, compared to \$49.6 million, or 36% of revenue, for the six months ended July 31, 2015, representing an increase of \$5.6 million, or 11%. The increase in absolute dollars was primarily due to an increase of \$3.1 million in allocated costs attributable mainly to increased facilities and infrastructure costs and an increase of \$2.3 million in stock-based compensation expense primarily due to the timing of key new hires in the platform and engineering functions during fiscal year 2016. Despite an increase in absolute dollars spent, research and development expense as a percentage of revenue decreased 6 points year over year. While we continued to invest in our product and service offerings and develop new products and further differentiate our offerings, we were able to do so at a lower percentage of revenue year over year as our revenue growth outpaced our research and development spending.

Sales and Marketing

| | Six Months Ended July 31, | | \$ Change | % Change | |
|-----------------------|------------------------------|-----------|--------------|-------------|---|
| | 2016 | 2015 | | | |
| | (dollars in thousands) | | | | |
| Sales and marketing | \$119,658 | \$114,955 | \$4,703 | 4 | % |
| Percentage of revenue | 64 | % 82 | % | | |

Sales and marketing expenses were \$119.7 million, or 64% of revenue, for the six months ended July 31, 2016, compared to \$115.0 million, or 82% of revenue, for the six months ended July 31, 2015, representing an increase of \$4.7 million, or 4%. The increase in absolute dollars was primarily due to an increase of \$2.7 million in allocated costs attributable mainly to increased facilities and infrastructure costs, an increase of \$4.7 million in employee and related costs, and an increase of \$2.6 million in stock-based compensation expense primarily driven by the increase in headcount from 581 employees as of July 31, 2015 to 607 employees as of July 31, 2016 and the timing of key new hires in the sales function. The increase was partially offset by a \$4.6 million decrease in datacenter and customer support costs to support our free users and a \$1.0 million decrease in marketing events. Sales and marketing expenses as a percentage of revenue decreased 18 points year over year due to improved marketing efficiency, as our sales and marketing expenses are generally higher for acquiring new customers versus expansions or renewals of existing customer subscriptions, and a decrease in cost to support our free users. 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 expect that sales and marketing expenses will decrease as a percentage of revenue. We continue to

invest aggressively to capture our large market opportunity and capitalize on our competitive position, while growing our productivity and efficiency to achieve our long-term margin objectives.

General and Administrative

| | Six Months Ended July 31, | | | |
|----------------------------|------------------------------|----------|--------------|----------|
| | 2016 | 2015 | \$ Change | % Change |
| | (dollars in thousands) | | | |
| General and administrative | \$32,088 | \$33,147 | \$(1,059) | (3)% |
| Percentage of revenue | 17 | % 24 | % | |

General and administrative expenses were \$32.1 million, or 17% of revenue, for the six months ended July 31, 2016, compared to \$33.1 million, or 24% of revenue, for the six months ended July 31, 2015, representing a decrease of \$1.1 million, or 3%. The decrease in absolute dollars was primarily due to a decrease of \$4.0 million in litigation related expenses mainly attributable to the settlement agreement reached with Open Text in the three months ended April 30, 2016 and a decrease of \$0.9 million in outside consulting services. This was partially offset by an increase in employee and related costs of \$3.4 million as we increased our general and administrative headcount from 213 employees as of July 31, 2015 to 230 employees as of July 31, 2016.

Liquidity and Capital Resources

| | Six Months Ended July 31, | |
|---|------------------------------|-------------|
| | 2016 | 2015 |
| | (in thousands) | |
| Net cash used in operating activities | \$(9,110) | \$(53,843) |
| Net cash used in investing activities | (4,374) | (130,081) |
| Net cash provided by (used in) financing activities | 1,009 | (6,365) |

As of July 31, 2016, we had cash and cash equivalents of \$173.3 million. Our cash and cash equivalents are comprised primarily of overnight cash deposits. We have generated significant operating losses and negative cash flows from operations as reflected in our accumulated deficit and consolidated statements of cash flows. We may continue to incur operating losses and negative cash flows from operations in the future and may require additional capital resources to execute strategic initiatives to grow our business.

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 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, 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.

In December 2015, we entered into a new revolving credit facility (December 2015 Facility). The December 2015 Facility provides for a revolving loan facility in the amount of up to \$40.0 million maturing in December 2017. The December 2015 Facility is denominated in U.S. dollars and, depending on certain conditions, each borrowing is subject to a floating interest rate equal to either the prime rate plus a spread of 0.25% to 2.75% or a reserve adjusted LIBOR rate (based on one, three or six-month interest periods) plus a spread of 1.25% to 3.75%. Although no minimum deposit is required for the December 2015 Facility, we are eligible for the lowest interest rate if we maintain at least \$40 million in deposits with the lender. In addition, there is an annual fee of 0.2% on the total commitment amount. At closing, we drew \$40.0 million at 1.82% (six month LIBOR plus 1.25%) which we used to repay the outstanding principal balance under the August 2013 Facility. Borrowings under the December 2015 Facility are collateralized by substantially all of our assets in the United States. It also contains various covenants, including covenants related to the delivery of financial and other information, the maintenance of quarterly financial covenants, as well as customary limitations on dispositions, mergers or consolidations and other corporate activities.

Operating Activities

For the six months ended July 31, 2016, cash used in operating activities was \$9.1 million, or \$5.3 million after excluding a \$3.8 million payment related to a legal settlement. The primary factor affecting our operating cash flows during this period was our net loss of \$76.7 million, partially offset by the non-cash charges of \$67.4 million and

changes in our operating assets and liabilities of \$0.2 million. Non-cash charges consisted primarily of \$35.2 million for stock-based compensation, \$22.8 million for depreciation and amortization of our property and equipment and intangible assets, and \$9.4 million for amortization of deferred commissions. The primary drivers of the changes in operating assets and liabilities were a \$24.4 million decrease in accounts receivable, a \$2.7 million increase in deferred rent, and a \$2.4 million decrease in prepaid expenses and other assets, partially offset by a \$19.5 million decrease in accounts payable, accrued expenses and other liabilities, a \$6.4 million increase in deferred commissions, and a \$3.4 million decrease in deferred revenue. The decrease in accounts receivable was primarily due to increasing seasonality of our business, as billings decreased from \$220.0 million for the six months ended January 31, 2016 to \$182.5 million for the six months ended July 31, 2016. The decrease in deferred revenue was primarily driven by increasing seasonality in our sales cycle and our continued focus on annual payment durations over multi-year prepayments. The increase in deferred commissions was due to additions and expanded deployment with paying customers in the six months ended July 31, 2016. The decrease in accounts payable, accrued expenses and other liabilities was primarily attributable to a decrease in capital expenditures for the six months ended July 31, 2016.

Investing Activities

Cash used in investing activities of \$4.4 million for the six months ended July 31, 2016 was primarily due to \$11.7 million of capital expenditures, including \$9.4 million related to our new Redwood City headquarters, partially offset by \$7.3 million of proceeds from sales and maturities of marketable securities.

Financing Activities

Cash provided by financing activities of \$1.0 million for the six months ended July 31, 2016 was primarily due to \$9.0 million of proceeds from issuances of common stock under the 2015 ESPP and \$4.2 million of proceeds from exercise of stock options, partially offset by \$8.9 million of employee payroll taxes paid related to net share settlement of restricted stock units and \$3.3 million of payments of capital lease obligations.

Contractual Obligations and Commitments

The following summarizes our contractual obligations and commitments as of July 31, 2016:

| | Total | Payments Due by Period | | | |
|---|------------------|------------------------|------------------|-----------------|-------------------|
| | | Less Than 1 Year | 1-3 Years | 3-5 Years | More Than 5 Years |
| Debt(1) | \$41,004 | \$767 | \$40,237 | \$— | \$— |
| Operating lease obligations, net of sublease income amounts (2) | 288,098 | 19,775 | 51,953 | 58,385 | 157,985 |
| Capital leases(3) | 19,345 | 8,425 | 10,920 | — | — |
| Purchase obligations(4) | 21,014 | 18,302 | 2,712 | — | — |
| Total | \$369,461 | \$47,269 | \$105,822 | \$58,385 | \$157,985 |

(1) Includes interest and unused commitment fee on our line of credit.

(2) Includes operating lease obligations for our buildings and certain data centers. As of July 31, 2016, we anticipated receiving sublease income of \$13.8 million over the next three years from tenants in certain of our leased building facilities. The amounts set forth in the table above are net of these sublease income amounts.

(3) Includes obligations related to our datacenter hardware.

(4) Purchase obligations relate primarily to datacenter operations and sales and marketing activities.

Off-Balance Sheet Arrangements

Through July 31, 2016, 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 consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these 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.

There have been no material changes to our critical accounting policies and estimates during the six months ended July 31, 2016 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, 2016.

Recent Accounting Pronouncement

See Part I, Item 1. Financial Statements—Note 2. Summary of Significant Accounting Policies 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 loss, non-GAAP operating margin, non-GAAP net loss, non-GAAP net 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 loss and operating margin

We define non-GAAP operating loss as operating loss excluding expenses related to stock-based compensation (SBC), intangible assets amortization, and as applicable, other special items. We specifically identify other adjusting items in our reconciliation of GAAP to Non-GAAP financial measures. Non-GAAP operating margin is defined as non-GAAP operating loss divided by revenue. Although stock-based compensation is an important aspect of the compensation of Box's 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 stock-based compensation 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 certain litigation because they are considered by management to be special items outside our core operating results.

Non-GAAP net loss, and net loss per share

We define non-GAAP net loss as net loss excluding expenses related to SBC, intangible assets amortization and as applicable, other special items. We specifically identify other adjusting items in our reconciliation of GAAP to Non-GAAP financial measures. We define non-GAAP net loss per share as non-GAAP net loss divided by the weighted average outstanding shares. We exclude these special items, including expenses related to certain litigation, because they are considered by management to be outside our core operating results.

Free Cash Flow

We define free cash flow as cash provided by (used in) operating activities less purchases of property and equipment, principal payments of capital lease obligations, and other items that did not or are not expected to require cash settlement and which 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. Historically, these items have included restricted cash used to guarantee a significant letter of credit for our Redwood City headquarters. 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 cash used in 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 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 expense, if we did not pay a portion of compensation in the form of stock-based 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 six months ended July 31, 2016 and 2015 are as follows (in thousands, except per share data and percentages):

| | Three Months Ended July 31, | | Six Months Ended July 31, | |
|--|--------------------------------|-------------|------------------------------|-------------|
| | 2016 (in thousands) | 2015 | 2016 (in thousands) | 2015 |
| GAAP operating loss | \$(37,919) | \$(49,774) | \$(76,511) | \$(96,407) |
| Stock-based compensation | 19,064 | 14,728 | 35,153 | 27,443 |
| Intangible assets amortization | 916 | 1,511 | 2,375 | 2,657 |
| Expenses related to a legal verdict(1) | — | 792 | (1,664) | 978 |
| Non-GAAP operating loss | \$(17,939) | \$(32,743) | \$(40,647) | \$(65,329) |
| GAAP operating margin | (40)% | (68)% | (41)% | (69)% |
| Stock-based compensation | 20 | 20 | 19 | 20 |
| Intangible assets amortization | 1 | 2 | 1 | 2 |
| Expenses related to a legal verdict(1) | — | 1 | (1) | — |
| Non-GAAP operating margin | (19)% | (45)% | (22)% | (47)% |
| GAAP net loss | \$(38,102) | \$(50,175) | \$(76,677) | \$(97,458) |
| Stock-based compensation | 19,064 | 14,728 | 35,153 | 27,443 |
| Intangible assets amortization | 916 | 1,511 | 2,375 | 2,657 |
| Expenses related to a legal verdict(1) | — | 792 | (1,664) | 978 |
| Non-GAAP net loss | \$(18,122) | \$(33,144) | \$(40,813) | \$(66,380) |
| GAAP net loss per share, basic and diluted | \$(0.30) | \$(0.42) | \$(0.61) | \$(0.81) |
| Stock-based compensation | 0.15 | 0.13 | 0.28 | 0.24 |
| Intangible assets amortization | 0.01 | 0.01 | 0.02 | 0.02 |
| Expenses related to a legal verdict(1) | — | — | (0.01) | — |
| Non-GAAP net loss per share, basic and diluted | \$(0.14) | \$(0.28) | \$(0.32) | \$(0.55) |
| Weighted-average shares outstanding, basic and diluted | 126,776 | 120,399 | 125,864 | 119,897 |
| GAAP net cash used in operating activities | \$(4,879) | \$(21,661) | \$(9,110) | \$(53,843) |
| Restricted cash used to guarantee a letter of credit for Redwood City Headquarters | — | — | — | 25,000 |
| Purchases of property and equipment | (771) | (17,943) | (11,747) | (27,844) |
| Payments of capital lease obligations | (2,312) | (192) | (3,261) | (420) |
| Free cash flow | \$(7,962) | \$(39,796) | \$(24,118) | \$(57,107) |

(1)Included in general and administrative expenses in the consolidated statements of operations.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We had cash and cash equivalents and restricted cash of \$200.5 million as of July 31, 2016. Our cash equivalents and restricted cash primarily consist of overnight deposits, certificates of deposit, and money market funds. All restricted cash is recorded at its estimated fair value. 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.

In December 2015, we entered into a revolving credit facility (December 2015 Facility) in the amount of up to \$40.0 million maturing in December 2017. The December 2015 Facility is denominated in U.S. dollars and, depending on certain conditions, each borrowing is subject to a floating interest rate equal to either the prime rate plus a spread of 0.25% to 2.75% or a reserve adjusted LIBOR rate (based on one, three or six-month interest periods) plus a spread of 1.25% to 3.75%. Although no minimum deposit is required for the December 2015 Facility, we are eligible for the lowest interest rate if we maintain at least \$40 million in deposits with the lender.

Interest rate risk also reflects our exposure to movements in interest rates associated with the December 2015 Facility. As of July 31, 2016, we had total debt outstanding with a carrying amount of \$40 million which approximates fair value. A hypothetical 10% increase or decrease in interest rates after July 31, 2016 would not have a material impact on the fair value of our outstanding debt.

Foreign Currency Risk

Our sales contracts are denominated predominantly in U.S. dollars and, to a lesser extent, British Pounds, Euros, Japanese Yen, Australian Dollars, and Canadian Dollars. Consequently, our customer billings denominated in foreign currency are subject to foreign currency exchange risk. 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. Additionally, fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our statement of operations. To date we have managed our foreign currency risk by maintaining offsetting assets and liabilities and minimizing non-USD 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. There were no significant foreign exchange gains or losses in the six months ended July 31, 2016 and 2015.

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 (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 July 31, 2016.

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 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 \$202.9 million in our fiscal year ended January 31, 2016, \$168.2 million in our fiscal year ended January 31, 2015, \$168.6 million in our fiscal year ended January 31, 2014, and \$76.7 million in the six months ended July 31, 2016. As of July 31, 2016, we had an accumulated deficit of \$809.0 million. 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 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 datacenter 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.

We have a limited operating history, which makes it difficult to predict our future operating results.

We were incorporated and introduced our first service in 2005. As a result of our limited operating history, our ability to accurately forecast our future operating results is limited and subject to a number of uncertainties. We have encountered, and will continue to encounter, risks and uncertainties frequently experienced by growing companies in rapidly changing industries, such as the risks and uncertainties described herein. If our assumptions regarding these risks and uncertainties (which we use to plan our business) are incorrect or change due to changes in our markets, or if we do not address these risks and uncertainties successfully, our operating and financial results could differ materially from our expectations, and our business could suffer.

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-based enterprise content management and collaboration 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 name recognition, substantially longer operating histories, larger marketing budgets and significantly greater resources than we do. Our competitors include, but are not

limited to, Microsoft, Google, Dropbox, Citrix and EMC. 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, 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. As a result, 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 these reasons, we may not be able to compete successfully against our current and future competitors.

If the cloud-based enterprise content management and collaboration market declines or develops more slowly than we expect, our business could be adversely affected.

The cloud-based enterprise content management and collaboration market 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-based enterprise content management and collaboration solution, our success will depend to a substantial extent on the widespread adoption of cloud computing in general and of cloud-based content collaboration 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 a cloud-based enterprise content management and collaboration 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 of customer data, disruptions in delivery 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 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 a period of rapid growth in our operations and employee headcount. In particular, we grew from 973 employees as of January 31, 2014 to 1,343 employees as of July 31, 2016, and significantly increased 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 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, and our reporting systems and procedures. Failure to effectively manage 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 has historically been high, some of our customers have elected not to renew their subscriptions with us.

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, 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 or renew on less favorable terms, 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-based enterprise content 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 provide successful enhancements, new features and modifications to our 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 have recently introduced 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 Accelerator, which improves upload speeds for our global customers, and Box Governance, which gives customers a better way to comply with regulatory policies, satisfy e-discovery requests and effectively manage sensitive business information. The success of enhancements, new features or services depends on several factors, including the timely completion, introduction and market acceptance of such enhancements, features or services. Failure in this regard may significantly impair our revenue growth. 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 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 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 industry spectrum. Cyber attacks 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 through a variety of sources including nation-state sponsored espionage and hacking activities, industrial espionage, organized crime and hacking groups and individuals. 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 such as healthcare, government, and financial services where there may be a greater concentration of sensitive and protected data, we may become more of a target for these malicious third parties. For example, we have announced several high profile customers including the U.S. Department of Justice.

If our security measures are or are believed to be breached as a result of third-party action, employee negligence, error or malfeasance, product defects or otherwise, and this results in, or is believed to result in, the disruption of the confidentiality, integrity or availability of our customers' data, we could incur significant liability to our customers and to individuals or organizations whose information is being stored by our customers, and our business may suffer and our reputation may be damaged. Techniques used to obtain unauthorized access to, or to sabotage, systems or networks, change frequently 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. 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. 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 these matters, if we experienced a widespread security breach that impacted a significant number of our customers for whom we have these indemnity obligations, we could be subject to indemnity claims that exceed such coverage.

As a substantial portion of our sales efforts are increasingly targeted at enterprise customers, our sales cycle may become increasingly lengthier 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 targeted at enterprise 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 individual customers, which could increase our costs, lengthen our sales cycle and divert our own sales and professional services resources to a smaller number of larger customers. Meanwhile, this would potentially require us to delay revenue recognition on some of these transactions until the technical or implementation requirements have been met. 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 personal or identifying information. However, 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 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 that becomes effective in May 2018 and will supersede current EU data protection legislation, impose more stringent EU data protection requirements, and provide for greater penalties for noncompliance. Additionally, in October 2015, the European Court of Justice invalidated the U.S.-EU Safe Harbor framework that had been in place since 2000, which allowed companies to meet certain European legal requirements for the transfer of personal data from the European Economic Area to the United States. While other adequate legal mechanisms to lawfully transfer such data remain, the invalidation of the U.S.-EU Safe Harbor framework may result in different European data protection regulators applying differing standards for the transfer of personal data, which could result in increased regulation, cost of compliance and limitations on data transfer for us and our customers. Although U.S. and EU authorities reached a political agreement on February 2, 2016, regarding a new potential means for legitimizing personal data transfers from the EEA to the United States, the EU-U.S. Privacy Shield, it is unclear whether the EU-U.S. Privacy Shield will be formally implemented and whether the EU-U.S. Privacy Shield will function as an appropriate means for us to legitimize personal data transfers from the EEA to the U.S. Similarly, there 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 held a referendum in which voters approved an exit from the European Union, commonly referred to as “Brexit,” which could also lead to further legislative and regulatory changes. In addition, some countries are considering 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, could expose us to significant penalties for non-compliance, can delay or impede the development or adoption of our products and services, reduce

the overall demand for our services, result in negative publicity, increase our operating costs, require significant management time and attention, slow the pace at which we close (or prevent us from closing) sales transactions, and subject us to claims or other remedies, including fines or demands that we modify or cease existing business practices.

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 FedRAMP, and those required by the HIPAA, FINRA, and the HITECH Act. As we expand into new verticals and regions, we will likely need to comply with these and other new requirements to compete effectively. If we cannot comply or if we incur a violation in one or more of these requirements, our growth could be adversely impacted, and we could incur significant liability.

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 and market acceptance of our services, and potential changes 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 new customers 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, 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, 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 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, 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.

We cannot accurately predict new subscription or expansion rates and the impact these rates may have on our future revenue and operating results.

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 solution 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, our revenue may grow more slowly than we expect. All of these factors can 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 and deferred revenue, 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 versions to paying customers;
- the addition or loss of large customers, including through acquisitions or consolidations;
- our retention rate;

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- 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 outages or security breaches;
- general economic, industry and market conditions;
- increases or decreases in the number of features 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. We expect this trend to continue (and possibly be even more pronounced) for the fiscal year ending January 31, 2017;
- the timing and success of new services and service 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; 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.

One of our marketing strategies is to offer a limited free version of our service, and we may not be able to realize the benefits of this strategy.

We offer a limited version of our service to users free of charge in order to promote additional usage, brand and product awareness, and adoption. Some users never convert from a free version to a paid version of our service. Our marketing strategy also depends in part on persuading users who use the free version of our service to convince decision-makers to purchase and deploy our service within their organization. To the extent that these users do not become, or lead others to become, paying customers, we will not realize the intended benefits of this marketing strategy, and our ability to grow our business and revenue may be harmed.

If we fail to effectively manage our technical operations infrastructure, our customers may experience service outages and delays in the further 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, 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 do not accurately predict our infrastructure requirements, our existing customers may experience service outages that may subject us to financial penalties, financial 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 revenue.

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

We currently store our customers' information within two third-party datacenter hosting facilities located in Northern California and in third-party cloud computing and hosting facilities outside of the United States. As part of our current disaster recovery arrangements, our production environment and metadata about all of 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 replicated on a third-party storage platform located in the U.S. Northwest region. These facilities are located in seismically active regions prone to earthquakes and are also vulnerable to damage or interruption from floods, fires, power loss, telecommunications failures and similar events. They may also be

subject to break-ins, sabotage, intentional acts of vandalism 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. 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, a decision to close the facilities without adequate notice or other unanticipated problems at these facilities could result in lengthy interruptions in our service. 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. As we continue to add datacenters, increase our dependence on third-party cloud computing and hosting providers, and add capacity in our existing datacenters, we may move or transfer our data and our customers' data. Despite precautions taken during this process, any unsuccessful data transfers may impair the delivery of our service. Further, as we continue to grow and scale our business to meet the needs of our customers, additional burdens may be placed on our hosting and computing facilities. In particular, a rapid expansion of our business could cause our network or systems to fail.

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 content storage 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-based storage service and therefore secure excess data center capacity, 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 will depend upon our continued ability to identify, hire, develop, motivate and retain highly skilled personnel, 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. 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. Many of our employees may be able to receive significant proceeds from sales of our equity in the public markets, which may reduce their

motivation to continue to work for us. Competition for highly skilled personnel is intense, particularly in the San Francisco Bay Area, where our headquarters are 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. 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. For example, we recently settled a lawsuit brought against us by Open Text S.A. that had gone to trial and was pending appeal.

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 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. As of July 31, 2016, we had 30 issued patents in the U.S., 16 issued patents in Great Britain, 2 issued patents in Canada, and 104 pending patent applications in the U.S. and 12 pending patent applications internationally. 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 have issued patents and pending patent applications outside the U.S., and we may 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 could 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.

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. As a result, we depend upon these vendors providing 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 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 sanctions 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 our services, or changes in export, sanctions and import laws, 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 decreased 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 focus on product innovation and user engagement rather than short-term operating results.

We focus heavily on developing and launching new and innovative products and features, as well as on improving the user experience for our services. We also focus on growing the number of Box 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. We prioritize innovation and the experience for users on our platform, as well as the growth of our user base, over short-term operating results. We frequently make product and service decisions that may reduce our short-term operating results if we believe that the decisions are consistent with our goals to improve the user experience and to develop innovative features that we feel our users desire. These decisions may not be consistent with the short-term expectations of investors and may not produce the long-term benefits that we expect.

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. 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 they 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 and Box Platform 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 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 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.

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The costs incurred in correcting any material defects or errors might be substantial and could adversely affect our operating results.

Because of the large amount of data that we collect and manage, it is possible that hardware failures, errors in our systems or user errors 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 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.

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 policy may not cover all claims made against us, and defending a lawsuit, regardless of its merit, could be costly and divert management's attention.

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 the United States. Operating in international markets requires significant resources and management attention and will subject us to regulatory, economic, geographic 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 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;
- 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;

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- adverse tax consequences; and
- unstable regional, economic 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-USD cash reserves, but 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 which 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 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, 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, distributors, system integrators and developers. For example, we have entered into agreements with partners such as AT&T, IBM, Microsoft and Salesforce 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.

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If we are unsuccessful in establishing or maintaining our relationships with third parties, 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. From January 31, 2012 to July 31, 2016, we increased the size of our workforce by 974 employees, and we expect to continue to hire as we expand. 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 internationally, we may be unable to foster the innovation, creativity and teamwork we believe we need to support our growth.

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 licensors generally do not provide warranties or controls on the 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.

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 and technologies rather than through internal development, including, for example, our acquisitions of Verold, a cloud-based 3D model viewer and editor to make it easy for businesses to create engaging and immersive content experiences for the web and mobile, Subspace, a company that helps IT departments enable employee productivity with secure collaboration and access to data on any device, and MedXT, a company with technology that allows us to display medical images (DICOM) files in an online and mobile viewer. The identification of suitable acquisition candidates can be difficult, time-consuming and costly, and we may not be able to successfully complete 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;
- 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;
- unanticipated write-offs or charges; and
- litigation or other claims in connection with the acquired company, including claims from terminated employees, customers, former stockholders or other third parties.

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, including the prohibition of the incurrence of certain indebtedness and liens, the prohibition of certain investments, restrictions

against certain merger and consolidation transactions, certain restrictions against the disposition of assets and the requirement to maintain a minimum amount of current assets. 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. 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.

Adverse economic conditions may negatively impact our business.

Our business depends on the overall demand for enterprise content management and collaboration 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 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 enterprise 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 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 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. Changes in these laws or regulations could 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.

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” and similar malicious programs, and the internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure. If the use of the internet is adversely affected by these issues, demand for our services could suffer.

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

Our services incorporate certain third-party software obtained under 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 new services introductions, result in a failure of our services, and injure our reputation. 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 the requirements of 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 will 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. 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 will be required to include in our periodic reports that will be filed 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.

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

As of January 31, 2016, we had U.S. federal net operating loss carryforwards of approximately \$423.7 million, state net operating loss carryforwards of approximately \$392.3 million, and foreign net operating loss carryforwards of approximately \$125.6 million. Under Sections 382 and 383 of Internal Revenue Code of 1986, as amended (Code), 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, 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 income 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, 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.

Risks Related to Ownership of Our Class A Common Stock

The dual class structure of our common stock has the effect of concentrating voting control with those stockholders who held our capital stock prior to the completion of our initial public offering, including our executive officers, employees and directors and their affiliates, which limits your ability to influence the outcome of important transactions, including a change in control.

Our Class B common stock has 10 votes per share, and our Class A common stock has one vote per share. Stockholders who held shares of our Class B common stock as of July 31, 2016, including our executive officers, employees and directors and their affiliates, collectively held approximately 93.2% of the voting power of our outstanding capital stock as of such date. Because of the ten-to-one voting ratio between our Class B common stock and Class A common stock, the holders of our Class B common stock collectively continue to control a majority of the combined voting power of our capital stock and therefore are able to control all matters submitted to our stockholders for approval so long as the shares of our Class B common stock represent at least 9.1% of all outstanding shares of our Class A common stock and Class B common stock. These holders of our Class B common stock may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. This concentrated control may have the effect of delaying, preventing or deterring a change in control of our company, could deprive our stockholders of an opportunity to receive a premium for their capital stock as part of a sale of our company and might ultimately affect the market price of our Class A common stock.

Transfers by holders of our Class B common stock will generally result in those shares converting into shares of our Class A common stock, subject to limited exceptions, such as certain transfers effected for estate planning or charitable purposes. The conversion of shares of our Class B common stock into shares of our Class A common stock will have the effect, over time, of increasing the relative voting power of those holders of Class B common stock who retain their shares in the long term. If, for example, Messrs. Levie, Levin and Smith retain a significant portion of their holdings of our Class B common stock for an extended period of time, they could control a significant portion of the voting power of our capital stock for the foreseeable future. As board members, Messrs. Levie, Levin and Smith each owe a fiduciary duty to our stockholders and must act in good faith and in a manner they reasonably believe to be in the best interests of our stockholders. As stockholders, Messrs. Levie, Levin and Smith are entitled to vote their shares in their own interests, which may not always be in the interests of our stockholders generally.

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:

- creating 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 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;
- controlling the procedures for the conduct and scheduling of board directors and stockholder meetings; and
- authorizing two classes of common stock, as discussed above.

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 July 31, 2015 through July 31, 2016, the closing price of our Class A common stock ranged from \$9.12 per share to \$16.33 per share. In addition to the factors discussed in this “Risk Factors” section and elsewhere in this Quarterly Report on 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;
- 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. This litigation, if instituted against us, could result in substantial costs and a diversion of our management’s attention and resources.

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

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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).

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: September 7, 2016.

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)

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 | XBRL Instance Document. | | | |
| 101.SCH | XBRL Taxonomy Schema Linkbase Document. | | | |
| 101.DEF | XBRL Taxonomy Definition Linkbase Document. | | | |
| 101.CAL | XBRL Taxonomy Calculation Linkbase Document. | | | |
| 101.LAB | XBRL Taxonomy Labels Linkbase Document. | | | |
| 101.PRE | XBRL Taxonomy Presentation Linkbase 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.

