

FireEye, Inc.  
Form 10-Q  
May 08, 2015

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-36067

FireEye, Inc.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

20-1548921  
(I.R.S. Employer  
Identification Number)

1440 McCarthy Blvd.  
Milpitas, CA 95035  
(408) 321-6300

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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

Edgar Filing: FireEye, Inc. - Form 10-Q

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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

The number of shares of the registrant's common stock outstanding as of April 30, 2015 was 156,330,017.

---

Table of Contents

## TABLE OF CONTENTS

	Page
<u>PART I — FINANCIAL INFORMATION</u>	
<u>Item 1.</u> <u>Financial Statements (unaudited)</u>	<u>1</u>
<u>Condensed Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014</u>	<u>1</u>
<u>Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2015 and 2014</u>	<u>2</u>
<u>Condensed Consolidated Statements of Comprehensive Loss for the Three Months Ended March 31, 2015 and 2014</u>	<u>3</u>
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2015 and 2014</u>	<u>4</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>5</u>
<u>Item 2.</u> <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>16</u>
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>27</u>
<u>Item 4.</u> <u>Controls and Procedures</u>	<u>28</u>
<u>PART II — OTHER INFORMATION</u>	
<u>Item 1.</u> <u>Legal Proceedings</u>	<u>29</u>
<u>Item 1A.</u> <u>Risk Factors</u>	<u>29</u>
<u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>51</u>
<u>Item 3.</u> <u>Defaults Upon Senior Securities</u>	<u>51</u>
<u>Item 4.</u> <u>Mine Safety Disclosures</u>	<u>51</u>
<u>Item 5.</u> <u>Other Information</u>	<u>51</u>
<u>Item 6.</u> <u>Exhibits</u>	<u>52</u>
<u>Signature</u>	<u>53</u>

---

## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

## FIREEYE, INC.

## Condensed Consolidated Balance Sheets

(In thousands, except per share data)

(Unaudited)

	March 31, 2015	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$136,776	\$146,363
Short-term investments	260,838	255,845
Accounts receivable, net of allowance for doubtful accounts of \$1,390 and \$586 at March 31, 2015 and December 31, 2014, respectively	160,095	193,182
Inventories	10,505	7,952
Deferred tax assets, current portion	21,968	25,126
Prepaid expenses and other current assets	27,457	28,669
Total current assets	617,639	657,137
Property and equipment, net	81,030	82,298
Goodwill	750,288	750,288
Intangible assets, net	249,858	261,625
Deposits and other long-term assets	7,186	7,533
<b>TOTAL ASSETS</b>	<b>\$1,706,001</b>	<b>\$1,758,881</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$28,505	\$34,057
Accrued and other current liabilities	26,060	24,596
Accrued compensation	61,876	64,551
Deferred revenue, current portion	217,211	203,877
Total current liabilities	333,652	327,081
Deferred revenue, non-current portion	161,553	148,666
Deferred tax liabilities, non-current portion	21,780	24,903
Other long-term liabilities	9,400	7,403
Total liabilities	526,385	508,053
Commitments and contingencies (NOTE 8)		
Stockholders' equity:		
Common stock, par value of \$0.0001 per share; 1,000,000 shares authorized, 156,139 shares and 152,860 shares issued and outstanding as of March 31, 2015 and December 31, 2014, respectively	16	15
Additional paid-in capital	1,980,894	1,918,546
Accumulated other comprehensive loss	(38	) (441 )
Accumulated deficit	(801,256	) (667,292 )
Total stockholders' equity	1,179,616	1,250,828
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$1,706,001</b>	<b>\$1,758,881</b>
See accompanying notes to condensed consolidated financial statements.		

Table of Contents

FIREEYE, INC.

Condensed Consolidated Statements of Operations

(In thousands, except per share data)

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Revenue:		
Product	\$40,237	\$24,252
Subscription and services	85,133	49,728
Total revenue	125,370	73,980
Cost of revenue:		
Product	15,200	10,326
Subscription and services	36,851	24,967
Total cost of revenue	52,051	35,293
Total gross profit	73,319	38,687
Operating expenses:		
Research and development	65,605	41,970
Sales and marketing	107,595	76,854
General and administrative	32,607	27,100
Total operating expenses	205,807	145,924
Operating loss	(132,488)	(107,237)
Interest income	269	45
Interest expense	—	(7)
Other expense, net	(768)	(54)
Loss before income taxes	(132,987)	(107,253)
Provision for (benefit from) income taxes	977	(6,042)
Net loss attributable to common stockholders	\$(133,964)	\$(101,211)
Net loss per share attributable to common stockholders, basic and diluted	\$(0.88)	\$(0.76)
Weighted average shares used in computing net loss per share attributable to common stockholders, basic and diluted	151,651	133,976
See accompanying notes to condensed consolidated financial statements.		

Table of Contents

FIREEYE, INC.

Condensed Consolidated Statements of Comprehensive Loss

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Net loss	\$(133,964	) \$(101,211
Change in net unrealized loss on available-for-sale investments, net of tax	403	(138
Comprehensive loss	\$(133,561	) \$(101,349
See accompanying notes to condensed consolidated financial statements.		

3

---

Table of Contents

FIREEYE, INC.

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(133,964	) \$(101,211 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	26,581	20,706
Stock-based compensation	49,875	25,194
Deferred income taxes	82	(7,518 )
Other	509	89
Changes in operating assets and liabilities, net of acquisition of business:		
Accounts receivable	32,736	15,221
Inventories	(2,554	) 1,405
Prepaid expenses and other assets	127	(2,509 )
Accounts payable	(4,219	) (12,396 )
Accrued liabilities	2,068	6,016
Accrued compensation	(2,675	) 5,703
Deferred revenue	26,221	25,207
Other long-term liabilities	1,997	1,505
Net cash used in operating activities	(3,216	) (22,588 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment and demonstration units	(12,669	) (14,187 )
Purchases of short-term investments	(39,857	) (143,522 )
Proceeds from maturities of short-term investments	34,655	—
Lease deposits	(370	) (360 )
Net cash used in investing activities	(18,241	) (158,069 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net proceeds from issuance of stock	—	445,934
Proceeds from exercise of equity awards	11,870	2,075
Net cash provided by financing activities	11,870	448,009
Net change in cash and cash equivalents	(9,587	) 267,352
Cash and cash equivalents, beginning of period	146,363	173,918
Cash and cash equivalents, end of period	\$136,776	\$441,270
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid for income taxes	\$536	\$781
<b>SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Unpaid follow-on public offering costs	\$—	\$1,639
Purchases of property and equipment and demonstration units in accounts payable and accrued liabilities	\$5,382	\$7,980
See accompanying notes to condensed consolidated financial statements.		

Table of Contents

FIREEYE, INC.

Notes to Condensed Consolidated Financial Statements

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

FireEye, Inc., with principal executive offices located in Milpitas, California, was incorporated as NetForts, Inc. on February 18, 2004, under the laws of the State of Delaware, and changed its name to FireEye, Inc. on September 7, 2005.

FireEye, Inc. and its wholly owned subsidiaries (collectively, the “Company”, “we”, “us” or “our”) is a leader in stopping advanced cyber attacks that use advanced malware, zero-day exploits, and APT (“Advanced Persistent Threat”) tactics. Our solutions supplement traditional and next-generation firewalls, Intrusion Prevention Systems (“IPS”), anti-virus, and gateways, which cannot stop advanced threats, leaving security holes in networks. We offer a solution that detects and blocks attacks across Web, email, endpoint, file and mobile threat vectors, as well as latent malware resident on file shares. Our solutions address all stages of an attack lifecycle with a signature-less engine utilizing stateful attack analysis to detect zero-day threats.

On December 30, 2013, we acquired privately held Mandiant Corporation (“Mandiant”), a leading provider of advanced endpoint security products and security incident response management solutions. The operations of Mandiant's business were integrated with our own and Mandiant's financial results were included in our consolidated financial statements as of the acquisition date.

In March 2014, we completed our follow-on public offering in which we issued and sold 5,582,215 shares of common stock at a price of \$82.00 per share. We received aggregate proceeds of \$446.5 million from the sale of shares of common stock, net of underwriters’ discounts and commissions of \$11.2 million, but before deducting offering expenses of approximately \$2.2 million. Another 8,417,785 shares were sold by certain selling stockholders, which included 796,846 shares sold pursuant to the exercise of vested outstanding options by our employees. We did not receive any of the proceeds from the sales of shares by the selling stockholders.

We sell the majority of our products, subscriptions and services to end-customers through distributors, resellers, and strategic partners, with a lesser percentage of sales directly to end-customers.

Basis of Presentation and Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of FireEye, Inc. and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), and following the requirements of the Securities and Exchange Commission (“SEC”), for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. GAAP can be condensed or omitted. These financial statements have been prepared on the same basis as our annual financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, that are necessary for a fair statement of our financial information. The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results to be expected for the year ending December 31, 2015 or for any other interim period or for any other future year. The balance sheet as of December 31, 2014 has been derived from audited consolidated financial statements at that date but does not include all of the information required by U.S. GAAP for annual consolidated financial statements.

The accompanying condensed consolidated financial statements and related financial information should be read in conjunction with the audited consolidated financial statements and the related notes thereto for the year ended December 31, 2014 included in our Annual Report on Form 10-K, which was filed with the SEC on March 2, 2015.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Such management estimates include, but are not limited to, the best estimate of



selling price for our products and services, commissions expense, future taxable income, contract manufacturer liabilities, litigation and settlement costs and other loss contingencies, fair value of our common and preferred stock, stock options and preferred stock warrant liability, and the purchase price allocation of acquired businesses. We base our estimates on historical experience and also on assumptions that we believe are reasonable. Changes in facts or circumstances may cause us to change our assumptions and estimates in future periods, and it is possible that actual results could differ from current or revised future estimates.

**Summary of Significant Accounting Policies**

There have been no significant changes to our significant accounting policies as of and for the three months ended March 31, 2015, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2014.

## Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This standard provides a single model for revenue arising from contracts with customers and supersedes current revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance is effective for us beginning in the first quarter of 2017; however, the FASB issued a proposal to have the standard take effect for reporting periods beginning after December 15, 2017 for public companies, which, if finalized, would delay the effective date to the first quarter of 2018. Early adoption as of the original effective date would be permitted. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. We are currently evaluating the impact the adoption will have on our consolidated financial statements and related disclosures.

In August 2014, the FASB issued ASU 2014-15, Disclosures of Uncertainties About an Entity's Ability to Continue as a Going Concern. This standard provides guidance on how and when reporting entities must disclose going-concern uncertainties in their financial statements. The guidance is effective for us beginning in the first quarter of 2017. Early adoption is permitted. The adoption of this standard is not expected to have an impact on our consolidated financial statements.

## 2. Fair Value Measurements

The accounting guidance for fair value measurements provides a framework for measuring fair value on either a recurring or nonrecurring basis, whereby the inputs used in our valuation techniques are assigned a hierarchical level. The following are the three levels of inputs to measure fair value:

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

Level 2: Inputs that reflect quoted prices for identical assets or liabilities in less active markets; quoted prices for similar assets or liabilities in active markets; benchmark yields, reported trades, broker/dealer quotes, inputs other than quoted prices that are observable for the assets or liabilities; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Unobservable inputs that reflect our own assumptions incorporated in valuation techniques used to measure fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

We consider an active market to be one in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis, and consider an inactive market to be one in which there are infrequent or few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers. Where appropriate, our own or the counterparty's non-performance risk is considered in measuring the fair values of assets.

The following table presents our assets measured at fair value on a recurring basis using the above input categories (in thousands):

Description	As of March 31, 2015				As of December 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash equivalents:								
Money market funds	\$ 13,321	\$—	\$—	\$ 13,321	\$ 13,069	\$—	\$—	\$ 13,069
U.S. Government agencies	—	8,500	—	8,500	—	12,950	—	12,950
Total cash equivalents	13,321	8,500	—	21,821	13,069	12,950	—	26,019
Short-term investments:								
Certificates of deposit	—	4,282	—	4,282	—	4,994	—	4,994
Corporate notes and bonds	—	144,131	—	144,131	—	142,984	—	142,984
U.S. Government agencies	—	112,425	—	112,425	—	107,867	—	107,867
Total short-term investments	—	260,838	—	260,838	—	255,845	—	255,845
Total assets measured at fair value	\$ 13,321	\$ 269,338	\$—	\$ 282,659	\$ 13,069	\$ 268,795	\$—	\$ 281,864



3. Short-Term Investments

Our investments consisted of the following available-for-sale securities (in thousands):

As of March 31, 2015						
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cash and cash equivalents	Short-term investment
Certificates of deposit	\$4,280	\$3	\$(1)	\$4,282	\$—	\$4,282
Corporate notes and bonds	144,170	16	(55)	144,131	—	144,131
U.S. Government agencies	120,926	31	(32)	120,925	8,500	112,425
Total	\$269,376	\$50	\$(88)	\$269,338	\$8,500	\$260,838
As of December 31, 2014						
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cash and cash equivalents	Short-term investment
Certificates of deposit	\$5,000	\$—	\$(6)	\$4,994	\$—	\$4,994
Corporate notes and bonds	143,215	4	(235)	142,984	—	142,984
U.S. Government agencies	121,021	1	(205)	120,817	12,950	107,867
Total	\$269,236	\$5	\$(446)	\$268,795	\$12,950	\$255,845

The following tables present the gross unrealized losses and related fair values of our investments that have been in a continuous unrealized loss position (in thousands):

As of March 31, 2015						
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Certificates of deposit	\$1,159	\$(1)	\$—	\$—	\$1,159	\$(1)
Corporate notes and bonds	81,750	(40)	22,740	(15)	104,490	(55)
U.S. Government agencies	82,925	(32)	—	—	82,925	(32)
Total	\$165,834	\$(73)	\$22,740	\$(15)	\$188,574	\$(88)
As of December 31, 2014						
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Certificates of deposit	\$3,793	\$(6)	\$—	\$—	\$3,793	\$(6)
Corporate notes and bonds	130,920	(235)	—	—	130,920	(235)
U.S. Government agencies	109,868	(205)	—	—	109,868	(205)
Total	\$244,581	\$(446)	\$—	\$—	\$244,581	\$(446)

Unrealized losses related to these investments are due to interest rate fluctuations as opposed to credit quality. In addition, we do not intend to sell, and it is not more likely than not that we would be required to sell, these investments before recovery of their cost basis. As a result, there is no other-than-temporary impairment for these investments as of March 31, 2015.

The following table summarizes the contractual maturities of our investments at March 31, 2015 (in thousands):

	Amortized Cost	Fair Value
Due within one year	\$161,047	\$161,005
Due within one to two years	108,329	108,333
Total	\$269,376	\$269,338

All available-for-sale securities have been classified as current, based on management's intent and ability to use the funds in current operations.



## 4. Property and Equipment

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

	As of March 31, 2015	As of December 31, 2014
Computer equipment and software	\$92,150	\$85,171
Leasehold improvements	37,344	34,522
Furniture and fixtures	12,286	12,022
Machinery and equipment	447	447
Total property and equipment	142,227	132,162
Less: accumulated depreciation	(61,197	) (49,864
Total property and equipment, net	\$81,030	\$82,298

Depreciation and amortization expense related to property and equipment and demonstration units during the three months ended March 31, 2015 and 2014 was \$14.3 million and \$9.7 million, respectively.

## 5. Business Combinations

On May 9, 2014, we acquired all outstanding shares of privately held nPulse Technologies, Inc. (“nPulse”), a performance leader in network forensics based in Charlottesville, Virginia. The acquisition of nPulse strengthens our position as a leader in advanced threat detection and incident response management solutions.

The total purchase consideration of \$56.6 million consisted of \$55.2 million in cash, \$0.1 million of equity awards assumed, and 54,319 shares of our common stock, with a fair value of \$1.3 million which will vest upon the achievement of milestones. The number of shares was fixed at the completion of the acquisition, and is the maximum number of shares that can vest over a period of approximately three and half years from the acquisition date.

The acquisition of nPulse was accounted for in accordance with the acquisition method of accounting for business combinations with FireEye as the accounting acquirer. We expensed the related acquisition costs of \$0.5 million in general and administrative expenses. Under the acquisition method of accounting, the total purchase consideration is allocated to the preliminary tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The total purchase price was allocated using information currently available to us. As a result, we may continue to adjust the preliminary purchase price allocation after obtaining more information regarding asset valuations, liabilities assumed, and revisions of preliminary estimates for up to a year following the acquisition date.

Total allocation of the preliminary purchase price allocation is as follows (in thousands):

	Amount
Net tangible liabilities assumed	\$(1,833
Intangible assets	24,700
Deferred tax asset	442
Deferred tax liability	(8,368
Goodwill	41,671
Total preliminary purchase price allocation	\$56,612

None of the goodwill is deductible for U.S. federal income tax purposes.

Intangible assets consist primarily of developed technology, customer relationships and in-process research and development. Developed technology intangible includes a combination of patented and unpatented technology, trade secrets, computer software and research processes that represent the foundation for the existing and planned new products and services. Customer relationships intangible relates to nPulse’s ability to sell existing, in-process and future products and services to its existing and potential customers. The in-process research and development intangible represents the estimated fair value of acquired research projects which have not reached technological feasibility at acquisition date but are expected to be developed into products and services within one year of the acquisition date. The preliminary estimated useful life and fair values of the identifiable intangible assets are as follows (in thousands):

	Preliminary Estimated Useful Life (in years)	Amount
Developed technology	6	\$10,100
Customer relationships	8	8,000
In-process research and development	N/A	6,600

Total

\$24,700

8

---

The results of operations of nPulse have been included in our condensed consolidated statements of operations from the acquisition date. Pro forma results of operations have not been presented because the acquisition was not material to our results of operations.

#### Goodwill and Purchased Intangible Assets

There were no changes in the carrying amount of goodwill for the three months ended March 31, 2015.

Purchased intangible assets consisted of the following as of the dates below (in thousands):

	As of March 31, 2015	As of December 31, 2014
Developed technology	\$78,193	\$78,193
Content	128,600	128,600
Customer relationships	75,300	75,300
Contract backlog	13,800	13,800
Trade names	12,400	12,400
Total intangible assets	308,293	308,293
Less: accumulated amortization	(58,435	) (46,668
Total net intangible assets	\$249,858	\$261,625

Amortization expense of intangible assets for the three months ended March 31, 2015 and 2014 was \$11.8 million and \$10.8 million, respectively.

The expected annual amortization expense of intangible assets as of March 31, 2015 is presented below (in thousands):

Years Ending December 31,	Amount
2015 (remaining nine months)	\$35,297
2016	46,448
2017	40,503
2018	29,346
2019	27,574
2020 and thereafter	70,690
Total	\$249,858

#### 6. Restructuring Charges

We initiated a series of business restructuring plans beginning in August 2014 to reduce our cost structure and improve efficiency, resulting in workforce reductions and the consolidation of certain real estate facilities. These activities were substantially complete as of December 31, 2014.

The following table sets forth a summary of restructuring activities during the three months ended March 31, 2015 (in thousands):

	Severance and related costs	Facilities costs	Total costs
Balance, December 31, 2014	\$—	\$765	\$765
Provision for restructuring charges	—	—	—
Cash payments	—	(245	) (245
Balance, March 31, 2015	\$—	\$520	\$520

The remaining restructuring balance of \$0.5 million at March 31, 2015 relates to non-cancelable lease costs, which the Company expects to pay over the terms of the related obligations through the third quarter of 2017, less sublease income.



## 7. Deferred Revenue

Deferred revenue consisted of the following as of the dates below (in thousands):

	As of March 31, 2015	As of December 31, 2014
Product, current	\$9,697	\$10,718
Subscription and services, current	207,514	193,159
Total deferred revenue, current	217,211	203,877
Product, non-current	3,950	4,891
Subscription and services, non-current	157,603	143,775
Total deferred revenue, non-current	161,553	148,666
Total deferred revenue	\$378,764	\$352,543

## 8. Commitments and Contingencies

## Leases

We lease our facilities under various non-cancelable operating leases, which expire on various dates through the year ending December 31, 2024. Rent expense is recognized using the straight-line method over the term of the lease. Rent expense, net of sublease income, was \$3.2 million and \$2.6 million for the three months ended March 31, 2015 and 2014, respectively.

The aggregate future non-cancelable minimum rental payments on our operating leases, as of March 31, 2015, are as follows (in thousands):

Years Ending December 31,	Amount
2015 (remaining nine months)	\$10,782
2016	9,706
2017	7,985
2018	5,351
2019	5,385
2020 and thereafter	11,870
Total	\$51,079

Total future non-cancelable minimum rental payments have not been reduced by future minimum sublease rentals totaling \$1.1 million.

We are party to letters of credit totaling \$1.9 million as of March 31, 2015 and December 31, 2014, issued primarily in support of operating leases at several of our facilities. These letters of credit are collateralized by a line with our bank. No amounts have been drawn against these letters of credit.

## Contract Manufacturer Commitments

Our independent contract manufacturers procure components and assemble our products based on our forecasts. These forecasts are based on estimates of future demand for our products, which are in turn based on historical trends and an analysis from our sales and product marketing organizations, adjusted for overall market conditions. In order to reduce manufacturing lead times and plan for adequate supply, we may issue forecasts and orders for components and products that are non-cancelable. As of March 31, 2015 and December 31, 2014, we had non-cancelable open orders of \$21.6 million and \$23.2 million, respectively. We are required to record a liability for firm, non-cancelable and unconditional purchase commitments with contract manufacturers and suppliers for quantities in excess of our future demand forecasts. As of March 31, 2015 we have not accrued any significant costs for such non-cancelable commitments.

## Purchase Obligations

As of March 31, 2015, we had approximately \$20.9 million of non-cancelable firm purchase commitments primarily for purchases of software and services. Amounts which the Company has received delivery of the goods or services under purchase orders outstanding at March 31, 2015, are reflected in the Condensed Consolidated Balance Sheet as accounts payable or accrued liabilities, and are excluded from the \$20.9 million.

## Litigation

We accrue for contingencies when we believe that a loss is probable and that we can reasonably estimate the amount of any such loss. We have made an assessment of the probability of incurring any such losses and whether or not those

losses are estimable.

10

---

On June 20, 2014, a purported stockholder class action lawsuit was filed in the Superior Court of California, County of Santa Clara, against the Company, the members of our Board of Directors, our Chief Financial Officer, and the underwriters of our March 2014 follow-on public offering. On July 17, 2014, a substantially similar lawsuit was filed in the same court against the same defendants. The actions were consolidated and an amended complaint was filed, alleging violations of the federal securities laws on behalf of a purported class consisting of purchasers of the Company's common stock pursuant or traceable to the registration statement and prospectus for the follow-on public offering, and seeking unspecified compensatory damages and other relief. The Company intends to defend the litigation vigorously. Based on information currently available, the Company has determined that the amount of any possible loss or range of possible loss is not reasonably estimable.

On November 24, 2014, a purported stockholder class action lawsuit was filed in the United States District Court for the Northern District of California against the Company and certain of its officers. The action is purportedly brought on behalf of a putative class of all persons who purchased or otherwise acquired the Company's securities between January 2, 2014, and November 4, 2014. The complaint seeks, among other things, compensatory damages and attorneys' fees and costs on behalf of the putative class. The Company intends to defend the litigation vigorously. Based on information currently available, the Company has determined that the amount of any possible loss or range of possible loss is not reasonably estimable.

On January 28, 2015, certain of the Company's officers and directors were named as defendants in a putative derivative action filed in the Superior Court of California, County of Santa Clara. On April 21, 2015, a substantially similar lawsuit was filed in the same court against the same defendants. The Company is named as a nominal defendant in both actions. The complaints purport to allege claims for breach of fiduciary duty and unjust enrichment. Based on information currently available, the Company has determined that the amount of any possible loss or range of possible loss is not reasonably estimable.

We are also subject to legal proceedings, claims and litigation, including intellectual property litigation, arising in the ordinary course of business. Such matters are subject to many uncertainties and outcomes, and are not predictable with assurance.

To the extent there is a reasonable possibility that a loss exceeding amounts already recognized may be incurred, and the amount of such additional loss would be material, we will either disclose the estimated additional loss or state that such an estimate cannot be made. We do not currently believe that it is reasonably possible that additional losses in connection with litigation arising in the ordinary course of business would be material.

#### Indemnification

Under the indemnification provisions of our standard sales related contracts, we agree to defend our customers against third-party claims asserting infringement of certain intellectual property rights, which may include patents, copyrights, trademarks, or trade secrets, and to pay judgments entered on such claims. Our exposure under these indemnification provisions is generally limited to the total amount paid by our customer under the agreement. However, certain agreements include indemnification provisions that could potentially expose us to losses in excess of the amount received under the agreement. In addition, we indemnify our officers, directors, and certain key employees for actions taken while they are or were serving in good faith in such capacities. Through March 31, 2015, there have been no claims under any indemnification provisions.

#### 9. Common Shares Reserved for Issuance

Under our amended and restated certificate of incorporation, we are authorized to issue 1,000,000,000 shares of common stock with a par value of \$0.0001 per share as of March 31, 2015 and December 31, 2014. Each share of common stock outstanding is entitled to one vote. The holders of common stock are also entitled to receive dividends whenever funds are legally available and when declared by the Board of Directors, subject to the prior rights of holders of all classes of convertible preferred stock outstanding. There were no shares of convertible preferred stock outstanding as of March 31, 2015 or December 31, 2014.

As of March 31, 2015 and December 31, 2014, we had reserved shares of common stock for issuance as follows (in thousands):

	As of March 31, 2015	As of December 31, 2014
Reserved under stock award plans	43,106	38,879
ESPP	4,212	2,683

Total	47,318	41,562
-------	--------	--------

10. Equity Award Plans

We have operated under our 2013 Equity Incentive Plan ("2013 Plan") since our initial public offering ("IPO") in September 2013. Our 2013 Plan provides for the issuance of restricted stock and the granting of options, stock appreciation rights, performance shares, performance units and restricted stock units to our employees, officers, directors and consultants. Awards granted under the 2013 Plan vest over the periods determined by the Board of Directors or compensation committee of the Board of Directors, generally four years, and stock options granted under the 2013 Plan expire no more than ten years after the date of grant. In the case of an incentive stock option granted to an employee who at the time of grant owns stock representing more than 10% of the total combined

voting power of all classes of stock, the exercise price shall be no less than 110% of the fair value per share on the date of grant, and the award shall expire five years from the date of grant. For options granted to any other employee, the per share exercise price shall be no less than 100% of the fair value per share on the date of grant. In the case of non-statutory stock options and options granted to consultants, the per share exercise price shall be no less than 100% of the fair value per share on the date of grant. Stock that is purchased prior to vesting is subject to our right of repurchase at any time following termination of the participant for so long as such stock remains unvested.

Approximately 19.1 million shares of our common stock were reserved for future grants as of March 31, 2015 under the 2013 Plan, including 7,642,993 shares of common stock that became available for future grants under our 2013 Plan on January 1, 2015 pursuant to provisions thereof that automatically increase the share reserve under such plan each year.

Our 2013 Employee Stock Purchase Plan ("ESPP") allows eligible employees to acquire shares of our common stock at 85% of the lower of the fair market value of our common stock on the first trading day of each offering period or on the exercise date. Our ESPP provides for annual increases in the number of shares available for issuance on the first day of each fiscal year. An aggregate of 4,211,761 shares of common stock were available for future issuance as of March 31, 2015 under our ESPP, including 1,528,598 shares of common stock that became available for future issuance under the ESPP on January 1, 2015 pursuant to the provisions thereof that automatically increase the share reserve under such plan each year.

From time to time, we also grant restricted common stock or restricted stock awards outside of our equity incentive plans to certain employees in connection with acquisitions.

#### Stock Option Activity

A summary of the activity for our stock option changes during the reporting period and a summary of information related to options vested and expected to vest and options exercisable are presented below (in thousands, except per share amounts and contractual life years):

	Options Outstanding		Weighted-Average Grant Date Fair Value (per share)	Weighted-Average Contractual Life (years)	Aggregate Intrinsic Value
	Number of Shares	Weighted-Average Exercise Price			
Balance — December 31, 2014	18,578	\$9.13		7.40	\$445,636
Granted	—	—	\$—		
Exercised	(2,634)	) 4.51			94,769
Cancelled	(541)	) 12.52			
Balance — March 31, 2015	15,403	\$9.80		7.42	\$474,031
Options vested and expected to vest — March 31, 2015	15,082	\$9.70		7.41	\$465,292
Options exercisable — March 31, 2015	7,269	\$7.32		6.82	\$238,324

#### Restricted Stock Award (RSA) and Restricted Stock Unit (RSU) Activity

A summary of the activity for our restricted common stock, RSAs and RSUs during the reporting period and a summary of information related to unvested restricted common stock, RSAs and RSUs and those expected to vest are presented below (in thousands, except per share amounts and contractual life years):

	Number of Shares	Weighted-Average Grant Date Fair Value (per share)	Weighted-Average Contractual Life (years)	Aggregate Intrinsic Value
Granted	3,080	\$36.97		
Vested	(839)	)		
Cancelled	(646)	)		

Edgar Filing: FireEye, Inc. - Form 10-Q

Unvested balance — March 31, 2015	9,936	1.65	389,976
Expected to vest — March 31, 2015	9,384	1.65	\$368,305

We issued into escrow 241,362 restricted stock awards, with an estimated fair value of \$6.4 million, for certain employees from the nPulse acquisition. These awards will be released from escrow to such employees if specified performance milestones are met within approximately three and a half years from May 2014, the acquisition date. These awards are also contingent upon the related employees' continuous employment with us, and we have determined that it is probable that such performance milestones will be met. As such, compensation expense is being recorded over the requisite service period of three and half years.

### Stock-Based Compensation

We record stock-based compensation based on the fair value of stock options on grant date using the Black-Scholes option-pricing model. We determine the fair value of shares of common stock to be issued under the ESPP using the Black-Scholes option-pricing model. The fair value of restricted stock units and restricted stock awards equals the market value of the underlying stock on the date of grant. We grant performance-based restricted stock units and restricted stock awards to certain employees which vest upon the achievement of certain performance conditions, subject to the employees' continued service relationship with us. We assess the probability of vesting at each reporting period and adjust our compensation cost based on this probability assessment. We recognize such compensation expense on a straight-line basis over the service provider's requisite service period.

During the three months ended March 31, 2015, there was no change to the assumptions used in the Black-Scholes option-pricing model to determine fair value of our common shares to be issued under the ESPP.

Stock-based compensation expense related to stock options, ESPP and restricted stock units and awards is included in the condensed consolidated statements of operations as follows (in thousands):

	Three Months Ended March 31,	
	2015	2014
Cost of product revenue	\$268	\$145
Cost of subscription and services revenue	6,378	3,420
Research and development	16,035	4,603
Sales and marketing	16,454	8,688
General and administrative	10,740	8,338
Total	\$49,875	\$25,194

As of March 31, 2015, total compensation cost related to stock-based awards not yet recognized was \$341.0 million, net of estimated forfeitures, which is expected to be amortized on a straight-line basis over the weighted-average remaining vesting period of approximately 3 years.

### 11. Income Taxes

We account for income taxes under the asset and liability method. Under this method, deferred income tax assets and liabilities are determined based upon the difference between the financial statement carrying amounts and the tax basis of assets and liabilities and are measured using the enacted tax rate expected to apply to taxable income in the years in which the differences are expected to be reversed.

We recognized a provision for income taxes of \$1.0 million for the three months ended March 31, 2015. We recognized a benefit from income taxes of \$6.0 million for the three months ended March 31, 2014. The tax provision for the three months ended March 31, 2015 is primarily due to foreign taxes and state minimum taxes. The tax benefit for the three months ended March 31, 2014 is primarily due to a decrease in the U.S. deferred tax liabilities previously established in purchase accounting due to amortization of the related intangibles and an increase in U.S. deferred tax assets primarily related to current year operating losses and stock based compensation, partially offset by foreign taxes and state minimum taxes.

### 12. Net Loss per Share

Basic net loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period, less shares subject to repurchase, and excludes any dilutive effects of employee share based awards and warrants. Diluted net income per common share is computed giving effect to all potentially dilutive common shares, including common stock issuable upon exercise of stock options, and unvested restricted common stock and stock units. As we had net losses for the three months ended March 31, 2015 and 2014, all potential common shares were determined to be anti-dilutive.

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

	Three Months Ended March 31,	
	2015	2014
Numerator:		
Net loss	\$(133,964 )	\$(101,211 )
Denominator:		
Weighted average number of shares outstanding—basic and diluted	151,651	133,976
Net loss per share—basic and diluted	\$(0.88 )	\$(0.76 )

The following outstanding options and unvested shares were excluded (as common stock equivalents) from the computation of diluted net loss per common share for the periods presented as their effect would have been antidilutive (in thousands):

	As of March 31,	
	2015	2014
Options to purchase common stock	15,403	26,625
Unvested early exercised common shares	1,959	3,793
Unvested restricted stock awards and units	9,936	4,348
ESPP shares	312	498

### 13. Employee Benefit Plan

#### 401(k) Plan

We have established a 401(k) tax-deferred savings plan (the “401(k) Plan”) which permits participants to make contributions by salary deduction pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended. In addition, until January 2015, we maintained a tax qualified plan for employees of the Mandiant subsidiary that was assumed in the Mandiant acquisition. In January 2015, the Mandiant 401(k) plan was merged into the 401(k) Plan. All participants’ interests in their deferrals are 100% vested when contributed under both 401(k) plans. We are responsible for administrative costs of the 401(k) Plan and have made no matching contributions into our 401(k) Plan since inception. The Mandiant 401(k) plan had provided for a match of 100% of the first 4% of an eligible employee’s compensation contributed. Matching contributions under the Mandiant 401(k) plan were 100% vested when made. Under both 401(k) plans, pre-tax contributions are allocated to each participant’s individual account and are then invested in selected investment alternatives according to the participants’ directions. Each 401(k) plan is intended to qualify under Sections 401(a) and 501(a) of the Code. As a tax-qualified retirement plan, contributions to each 401(k) plan and earnings on those contributions are not taxable to the employees until distributed from the 401(k) plan, and all contributions are deductible by us when made. We contributed \$0.7 million to the Mandiant 401(k) plan for the three months ended March 31, 2014.

#### 14. Segment Information

We conduct business globally and are primarily managed on a geographic basis. Our Chief Executive Officer, who is our chief operating decision maker, reviews financial information presented on a consolidated basis accompanied by information about revenue by geographic region for purposes of allocating resources and evaluating financial performance. There are no segment managers who are held accountable for operations, operating results, and plans for levels, components, or types of products or services below the consolidated unit level. Accordingly, we are considered to be in a single reportable segment and operating unit structure.

Revenue by geographic region based on the billing address is as follows (in thousands):

	Three Months Ended March 31,	
	2015	2014
Revenue:		
United States	\$89,189	\$55,728
EMEA	16,792	9,245
APAC	13,721	6,327
Other	5,668	2,680
Total revenue	\$125,370	\$73,980





Long lived assets by geographic region based on physical location is as follows (in thousands):

	As of March 31, 2015	As of December 31, 2014
Property and Equipment, net:		
United States	\$63,030	\$66,807
International	18,000	15,491
Total property and equipment, net	\$81,030	\$82,298

For the three months ended March 31, 2015, one distributor and one reseller represented 13% and 11%, respectively, of the Company's total revenue. For the three months ended March 31, 2014, no customer represented 10% or more of the Company's total revenue. As of March 31, 2015, one reseller and one distributor represented 12% and 10%, respectively, of the Company's net accounts receivable balance. As of December 31, 2014, one distributor represented 15% of the Company's net accounts receivable balance.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K filed with the SEC on March 2, 2015. The following discussion and analysis 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. These statements include, but are not limited to, statements regarding:

- beliefs and objectives for future operations, financial condition and prospects, including trends in revenue and other financial metrics;
- our business plan and our ability to effectively manage our growth and associated investments;
- our ability to timely and effectively scale and adapt our existing technology;
- our ability to pursue opportunities in new and existing markets;
- our ability to innovate new products and bring them to market in a timely manner;
- our ability to expand internationally;
- our ability to further penetrate our existing customer base;
- our expectations concerning renewal rates for subscriptions and services by existing customers;
- cost of revenue, including changes in costs associated with production, manufacturing and customer support;
- operating expenses, including changes in research and development, sales and marketing, and general and administrative expenses;
- our expectations concerning relationships with third parties, including channel partners and logistics providers;
- our expectations concerning investments in our product development organization and in the development of our sales and marketing teams;
- economic and industry trends or trend analysis;
- the effects of seasonal trends on our results of operations;
- the attraction and retention of qualified employees and key personnel;
- future acquisitions of or investments in complementary companies, products, subscriptions or technologies; and
- the sufficiency of our existing cash and investments to meet our cash needs for at least the next 12 months

as well as other statements regarding our future operations, financial condition and prospects, and business strategies. Forward-looking statements generally can be identified by words such as “anticipates,” “believes,” “estimates,” “expects,” “intends,” “plans,” “predicts,” “projects,” “will be,” “will continue,” “will likely result,” and similar expressions. These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties, which could cause our actual results to differ materially from those reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Quarterly Report on Form 10-Q, and in particular, the risks discussed under the caption “Risk Factors” in Item 1A of Part II of this Quarterly Report on Form 10-Q and those discussed in other documents we file with the SEC. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

### Overview

We provide comprehensive cybersecurity solutions for detecting, preventing and resolving advanced cyber-attacks that evade legacy signature-based security products. To address the shortcomings of legacy security solutions, we developed a new threat prevention platform based on our purpose-built, virtual machine-based detection engine, MVX. Our comprehensive platform combines our MVX virtualized execution engine and our cloud-based threat intelligence network to identify previously unknown threats and protect organizations at all stages of the attack lifecycle and across all primary threat vectors, including Web, email, file, endpoint and mobile. We have developed products to address each of these vectors: Network Threat Prevention Platform (NX Series), Email Threat Prevention Platform (EX Series), File Content Security (FX Series), Endpoint Threat Prevention Platform (HX Series) and Mobile Threat Prevention (MX Series). Each of these products requires a mandatory subscription agreement that provides access to our Dynamic Threat Intelligence Cloud (DTI) which distributes updated intelligence throughout the network to provide real-time detection of advanced attacks. We also offer optional subscription services that provide

additional support and functionality. In addition to these product and subscription offerings, we offer professional services, including incident response services. Our approach to cybersecurity represents a paradigm shift in how IT security has been conducted since the earliest days of the information technology

industry, and we believe it is imperative for organizations to invest in this new approach to protect their critical assets from the global pandemic of cybercrime, cyber-espionage and cyber-warfare.

#### First Quarter Fiscal 2015 Highlights

Revenue: First quarter revenue was \$125.4 million. Total revenue included product revenue of \$40.2 million and subscription and services revenue of \$85.1 million. Subscription and services revenue includes product subscriptions, support and maintenance and professional services.

Deferred revenue: Deferred revenue totaled \$378.8 million at the end of the first quarter, an increase of \$166.0 million from the end of the first quarter of 2014. Current deferred revenue was \$217.2 million, an increase of \$95.8 million from the end of the first quarter of 2014. Total current deferred revenue included \$9.7 million in deferred product revenue and \$207.5 million in deferred subscription, support and services revenue. Non-current deferred revenue was \$161.6 million, an increase of \$70.3 million from the end of the first quarter of 2014. Non-current deferred revenue included \$3.9 million of deferred product revenues and \$157.6 million of deferred subscription, support and services revenue.

Net loss: First quarter net loss was \$134.0 million, or \$0.88 per share, based on approximately 152 million weighted average shares outstanding. This compares to a net loss of \$101.2 million, or \$0.76 per share, based on approximately 134 million weighted average shares outstanding, in the first quarter of 2014. First quarter 2014 net loss included a discrete tax benefit of \$7.2 million related to the acquisition of Mandiant.

Cash flow from operations: First quarter cash flow from operations was negative \$3.2 million, compared to negative \$22.6 million in the first quarter of 2014. Purchases of property and equipment and demonstration units totaled \$12.7 million in the first quarter of 2015, compared to \$14.2 million in the first quarter of 2014.

#### Our Business Model

We generate revenue from sales of our products, subscriptions and services. Our product revenue consists primarily of revenue from the sale of our threat prevention platform of vector-specific appliances and cloud-based security solutions, consisting of Network Threat Prevention, Email Threat Prevention, Endpoint Threat Prevention, File Content Security and Mobile Threat Prevention. We also offer security management products including our Central Management System and our Threat Analytics Platform, and security forensics products including our Forensic Analysis System, Network Forensics Platform and Investigation Analysis System. We offer this portfolio as a complete solution to protect customers from the next generation of cyber-attacks at all stages of the attack lifecycle and across all primary threat vectors, including web, email, file, endpoint and mobile. Because the typical customer has more web entry points to protect than email and file entry points, customers that purchase our threat prevention portfolio generally purchase more Network Threat Prevention appliances than any other appliance. As a result, Network Threat Prevention accounts for the largest portion of our threat prevention product revenue. In addition, because most malicious attacks occur through the web threat vector, smaller customers and customers who do not have the budget to purchase the full threat prevention portfolio often only purchase Network Threat Prevention. While we have experienced steady growth in sales of our Email Threat Prevention appliance since its introduction in 2011, these sales have not contributed as quickly to the growth in our overall product revenue because prior to June 2014, revenue associated with Email Threat Prevention was recognized ratably over the longer of the contractual term or the estimated period the customer was expected to benefit from the product. Beginning in June 2014, we started shipping all Email Threat Prevention appliances with software that allows customers to benefit from the product without the associated subscription services. As a result, revenue from sales of Email Threat Prevention appliances is now being recognized at the time of shipment, consistent with our other product offerings. We have also experienced steady growth in sales of our Endpoint Threat Prevention and Mobile Threat Prevention appliances which we began offering early in 2014. We introduced our File Content Security appliance in the second quarter of 2012. To date, revenue from our File Content Security appliances represents an insignificant percentage of our product revenue.

We require customers to purchase a subscription to our DTI cloud and support and maintenance services when they purchase any part of our product portfolio. Our customers generally purchase these subscriptions and services for a one or three year term, and revenue from such subscriptions is recognized ratably over the subscription period. Sales of these subscriptions and services have increased our deferred revenue. As of March 31, 2015 and December 31, 2014, our total deferred revenue was \$378.8 million and \$352.5 million, respectively. Amortization of this growing deferred revenue has increased our subscription and services revenue as a percentage of total revenue. For the three

months ended March 31, 2015 and 2014, subscription and services revenue as a percentage of total revenue was 68% and 67%, respectively. While most of the growth in our subscription and services revenue during such periods relates to the amortization of the initial subscription and services agreements, renewals of such agreements have also contributed to this growth. Our renewal rate for subscriptions expiring in the 12 months ended March 31, 2015 was in excess of 90%, and we expect to maintain high renewal rates in the future due to the significant value we believe these subscriptions and services add to the efficacy of our product portfolio.

We have also begun to offer FireEye-as-a-Service, which includes our Network Platform and Endpoint Security Platform solutions, managed by our security experts through our security operations centers around the world.

Revenue from this service is recognized ratably over the period the service is provided. In addition to our product and subscription services, we offer professional services, including

incident response and related consulting services for our customers who have experienced a cyber-security breach, or require assistance assessing the vulnerability of their networks. We also offer training services to educate customers in the implementation and use and functionality of our products, and other professional services to assist as technical resources. Revenue from these services is recognized as delivered.

#### Key Business Metrics

We monitor the key business metrics set forth below to help us evaluate growth trends, establish budgets, measure the effectiveness of our sales and marketing efforts, and assess operational efficiencies. We discuss revenue and gross margin below under “Components of Operating Results.” Deferred revenue, billings, net cash flow provided by (used in) operating activities, and free cash flow are discussed immediately below the following table.

	Three Months Ended or As of March 31,			
	2015	2014		
	(Dollars in thousands)			
Product revenue	\$40,237	\$24,252		
Subscription and services revenue	85,133	49,728		
Total revenue	\$125,370	\$73,980		
Year-over-year percentage increase	69	% 160		%
Gross margin percentage	58	% 52		%
Deferred revenue, current	\$217,211	\$121,420		
Deferred revenue, non-current	\$161,553	\$91,302		
Billings (non-GAAP)	\$151,591	\$99,188		
Net cash used in operating activities	\$(3,216)	\$(22,588)	)	)
Free cash flow (non-GAAP)	\$(15,885)	\$(36,775)	)	)

Deferred revenue. Our deferred revenue consists of amounts that have been invoiced but have not yet been recognized as revenue as of the period end. The majority of our deferred revenue consists of the unamortized balance of revenue from subscriptions to our DTI cloud, Managed Defense offerings and support and maintenance contracts. Because invoiced amounts for subscriptions and services can be for multiple years, we classify our deferred revenue as current or non-current depending on when we expect to recognize the related revenue. If the deferred revenue is expected to be recognized within 12 months, it is classified as current. Otherwise, the deferred revenue is classified as non-current. We monitor our deferred revenue balance because it represents a significant portion of revenue to be recognized in future periods.

Billings. Billings is a non-GAAP financial metric that we define as revenue recognized in accordance with generally accepted accounting principles, or GAAP, plus the change in deferred revenue from the beginning to the end of the period. We consider billings to be a useful metric for management and investors as a supplement to GAAP measures because billings drive deferred revenue, which is an important indicator of the health and visibility of trends in our business and represents a significant percentage of revenue. However, it is important to note that 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. A reconciliation of billings to revenue, the most directly comparable financial measure calculated and presented in accordance with GAAP, is provided below:

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Revenue	\$125,370	\$73,980
Add: Deferred revenue, end of period	378,764	212,722
Less: Deferred revenue, beginning of period	352,543	187,514
Billings ( non-GAAP)	\$151,591	\$99,188

Net cash provided by (used in) operating activities. We monitor net cash provided by (used in) operating activities as a measure of our overall business performance. Our net cash provided by (used in) operating activities is driven in large part by sales of our products and from up-front payments for both subscriptions and support and maintenance services.

Monitoring net cash provided by (used in) operating activities enables us to analyze our financial performance without the non-cash effects of certain items such as depreciation, amortization, and stock-based compensation costs, thereby allowing us to better understand and manage the cash needs of our business.

18

---



Free cash flow. Free cash flow is a non-GAAP financial measure we define as net cash provided by (used in) operating activities, the most directly comparable GAAP financial measure, less purchases of property and equipment and demonstration units. We consider free cash flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated by our business that, after the purchases of property and equipment and demonstration units, can be used by us for strategic opportunities, including investing in our business, making strategic acquisitions and strengthening our balance sheet if and when generated. However, it is important to note that other companies, including companies in our industry, may not use free cash flow, may calculate free cash flow differently, or may use other financial measures to evaluate their performance, all of which could reduce the usefulness of free cash flow as a comparative measure. A reconciliation of free cash flow to cash flow provided by (used in) operating activities is provided below:

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Cash flow used in operating activities	\$(3,216	) \$(22,588
Less: purchase of property and equipment and demonstration units	12,669	14,187
Free cash flow (non-GAAP)	\$(15,885	) \$(36,775

#### Factors Affecting our Performance

**Market Adoption.** We rely on market education to raise awareness of today's next-generation cyber attacks, articulate the need for our virtual machine-based security solution and, in particular, the reasons to purchase our products. Our prospective customers often do not have a specific portion of their IT budgets allocated for products that address the next generation of advanced cyber attacks. We invest heavily in sales and marketing efforts to increase market awareness, educate prospective customers and drive adoption of our solution. This market education is critical to creating new IT budget dollars or allocating IT budget dollars across enterprises and governments for next-generation threat protection solutions, and in particular, our platform. Our investment in market education has also increased awareness of us and our solution in international markets. However, we believe that we will need to invest additional resources in targeted international markets to drive increased awareness and market adoption. The degree to which prospective customers recognize the mission critical need for next-generation threat protection solutions, and subsequently allocate budget dollars for our platform, will drive our ability to acquire new customers and increase renewals and follow-on sales opportunities, which, in turn, will affect our future financial performance.

**Sales Productivity.** Our sales organization consists of a direct sales team, made up of field and inside sales personnel, and indirect channel sales teams to support our channel partner sales. We utilize a direct-touch sales model whereby we work with our channel partners to secure prospects, convert prospects to customers, and pursue follow-on sales opportunities. To date, we have primarily targeted large enterprise and government customers, who typically have sales cycles from three to nine months, but can be more than a year. We have also recently expanded our inside sales teams to pursue customers in the small and medium enterprise, or SME, market.

Our growth strategy contemplates increased sales and marketing investments internationally. Newly hired sales and marketing resources will require several months to establish prospect relationships and drive overall sales productivity. In addition, sales teams in certain international markets will face local markets that have not had significant market education about the advanced security threats that our platform addresses. All of these factors will influence the timing and overall levels of sales productivity, impacting the rate at which we will be able to convert prospects to sales and drive revenue growth.

**Renewal Rates.** New or existing customers that purchase one of our appliances are required to purchase a one or three year subscription to our DTI cloud and support and maintenance services. New or existing customers that purchase one of our Forensic Analysis System or Central Management System appliances are required to purchase support and maintenance services for a term of one or three years.

We believe our renewal rate is an important metric to measure the long-term value of customer agreements and our ability to retain our customers. We calculate our renewal rate by dividing the number of renewing customers that were due for renewal in any rolling 12 month period by the number of customers that were due for renewal in that same rolling 12 month period. Our renewal rate for subscription and service agreements expiring in the 12 months ended March 31, 2015 and 2014 was in excess of 90%. These high renewal rates are primarily attributable to the incremental

value added to our appliances by our DTI cloud subscriptions and support and maintenance services. As DTI cloud subscriptions and support and maintenance services represented 50% and 45% of our total revenue during the three months ended March 31, 2015 and 2014, respectively, we expect our ability to maintain high renewal rates for these subscriptions and services to have a material impact on our future financial performance.

Follow-On Sales. After the initial sale to a new customer, we focus on expanding our relationship with such customer to sell additional products, subscriptions and services. To grow our revenue, it is important that our customers make additional purchases of our products, subscriptions and services. Sales to our existing customer base can take the form of incremental sales of appliances, subscriptions and services, either to deploy our platform into additional parts of their network or to protect additional threat vectors. Our opportunity to expand our customer relationships through follow-on sales will increase as we add new customers, broaden our product portfolio to

support more threat vectors, add new services, increase network performance and enhance functionality. Follow-on sales lead to increased revenue over the lifecycle of a customer relationship and can significantly increase the return on our sales and marketing investments. With some of our most significant customers, we have realized follow-on sales that were multiples of the value of their initial purchases.

#### Components of Operating Results

##### Revenue

We generate revenue from the sales of our products, subscriptions and services. As discussed further in “Critical Accounting Policies and Estimates—Revenue Recognition” under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2014 filed with the SEC on March 2, 2015, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured.

**Product revenue.** Our product revenue is generated from sales of our appliances which we recognize at the time of shipment, provided that all other revenue recognition criteria have been met.

**Subscription and services revenue.** Subscription and services revenue is generated primarily from our DTI cloud, FireEye-as-a-Service, support and maintenance services and other professional services. Our DTI cloud subscription is determined as a percentage of the price of the related appliance. We recognize revenue from subscriptions and support and maintenance services over the one or three year contract term, as applicable. Professional services revenue, which includes incident response, is generally offered on a time-and-material basis and is recognized as the services are delivered.

##### Cost of Revenue

Our total cost of revenue consists of cost of product revenue and cost of subscription and services revenue. Personnel costs associated with our operations and global customer support organizations consist of salaries, benefits, bonuses and stock-based compensation. Overhead costs consist of certain facilities, depreciation and information technology costs.

**Cost of product revenue.** Cost of product revenue primarily consists of costs paid to our third-party contract manufacturers for our appliances and personnel and other costs in our manufacturing operations department. Our cost of product revenue also includes product testing costs, allocated costs and shipping costs. We expect our cost of product revenue to increase as our product revenue increases.

**Cost of subscription and services revenue.** Cost of subscription and services revenue consists of personnel costs for our global customer support and services organization and allocated costs. We expect our cost of subscription and services revenue to increase as our customer base grows and as we hire additional professional services personnel.

##### Gross Margin

Gross margin, or gross profit as a percentage of revenue, has been and will continue to be affected by a variety of factors, including the average sales price of our products, subscriptions and services, manufacturing costs, the mix of products sold, and the mix of revenue among products, subscriptions and services. We expect our gross margin to fluctuate over time depending on these factors.

##### Operating Expenses

Our operating expenses consist of research and development, sales and marketing and general and administrative expense. Personnel costs are the most significant component of operating expenses and consist of salaries, benefits, bonuses, stock-based compensation and, with regard to sales and marketing expense, sales commissions. Operating expenses also include overhead costs consisting of certain facilities, depreciation and information technology costs.

**Research and development.** Research and development expense consists primarily of personnel costs and allocated overhead. Research and development expense also includes prototype related expenses. We expect research and development expense to continue to increase in absolute dollars as we continue to invest in our research and product development efforts to enhance our product capabilities, address new threat vectors and access new customer markets, although such expense may fluctuate as a percentage of total revenue.

**Sales and marketing.** Sales and marketing expense consists primarily of personnel costs, incentive commission costs and allocated overhead. We expense commission costs as incurred. Sales and marketing expense also includes costs for market development programs, promotional and other marketing activities, travel, office equipment, depreciation of proof-of-concept evaluation units and outside consulting costs. We expect sales and marketing expense to continue

to increase in absolute dollars as we increase the size of our sales and marketing organizations and expand our international operations, although such expense may fluctuate as a percentage of total revenue.

General and administrative. General and administrative expense consists of personnel costs, professional services and allocated overhead. General and administrative personnel include our executive, finance, human resources, facilities and legal organizations. Professional services consist primarily of legal, auditing, accounting and other consulting costs. We expect general

20

---

and administrative expense to continue to increase in absolute dollars as we have recently incurred, and expect to continue to incur, additional general and administrative expenses as we grow our operations and comply with public company regulations, including higher legal, corporate insurance, and accounting expenses.

#### Interest Income

Interest income consists of interest earned on our cash and cash equivalent and investment balances. We have historically invested our cash in money-market funds and other short-term, high-quality securities. We expect interest income to vary each reporting period depending on our average investment balances during the period, types and mix of investments, and market interest rates.

#### Interest Expense

Interest expense is primarily a result of financed purchases of property and equipment.

#### Other Expense, Net

Other expense, net includes gains or losses on the disposal of fixed assets, foreign currency re-measurement gains and losses and foreign currency transaction gains and losses. We expect other expense, net to fluctuate depending on foreign exchange rate movements.

#### Provision for (Benefit from) Income Taxes

Provision for (benefit from) income taxes consists primarily of federal and state income taxes in the United States and income taxes in certain foreign jurisdictions in which we conduct business. Income in certain countries may be taxed at statutory tax rates that are lower than the U.S. statutory tax rate. As a result, our overall effective tax rate over the long term may be lower than the U.S. federal statutory tax rate due to a larger proportion of net income which was subject to foreign income tax rates that are lower than the U.S. federal statutory rate.

#### Results of Operations

The following table summarizes our results of operations for the periods presented and as a percentage of our total revenue for those periods. The period-to-period comparison of results is not necessarily indicative of results for future periods.

	Three Months Ended March 31,			
	2015	% of total Revenue	2014	% of total Revenue
	Amount		Amount	
	(Dollars In thousands)			
Revenue:				
Product	\$40,237	32	\$24,252	33
Subscription and services	85,133	68	49,728	67
Total revenue	125,370	100	73,980	100
Cost of revenue:				
Product	15,200	12	10,326	14
Subscription and services	36,851	30	24,967	34
Total cost of revenue	52,051	42	35,293	48
Total gross profit	73,319	58	38,687	52
Operating expenses:				
Research and development	65,605	52	41,970	57
Sales and marketing	107,595	86	76,854	104
General and administrative	32,607	26	27,100	36
Total operating expenses	205,807	164	145,924	197
Operating loss	(132,488 )	(106 )	(107,237 )	(145 )
Interest income	269	—	45	—
Interest expense	—	—	(7 )	—
Other expense, net	(768 )	—	(54 )	—
Loss before income taxes	(132,987 )	(106 )	(107,253 )	(145 )
Provision for (benefit from) income taxes	977	1	(6,042 )	(8 )
Net loss attributable to common stockholders	\$(133,964 )	(107 )%	\$(101,211 )	(137 )%



Edgar Filing: FireEye, Inc. - Form 10-Q

Comparison of the Three Months Ended March 31, 2015 and 2014

Revenue

	Three Months Ended March 31, 2015		2014		Change			
	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	%		
(Dollars in thousands)								
Revenue:								
Product	\$40,237	32	% \$24,252	33	% \$15,985	66	%	
Subscription and services	85,133	68	49,728	67	35,405	71		
Total revenue	\$125,370	100	% \$73,980	100	% \$51,390	69	%	
Revenue by geographic region:								
United States	\$89,189	71	% \$55,728	75	% \$33,461	60	%	
EMEA	16,792	13	9,245	12	7,547	82		
APAC	13,721	11	6,327	9	7,394	117		
Other	5,668	5	2,680	4	2,988	111		
Total revenue	\$125,370	100	% \$73,980	100	% \$51,390	69	%	

Product revenue increased by \$16.0 million, or 66%, during the three months ended March 31, 2015 compared to the three months ended March 31, 2014. The increase in product revenue was primarily driven by growth in our installed base of customers, which grew from approximately 2,000 as of March 31, 2014 to approximately 3,500 as of March 31, 2015, as well as follow-on purchases from customers expanding their initial deployments of our product portfolio. Our Network Threat Prevention product continued to account for the largest portion of our product revenue as customers that purchase our product portfolio generally purchase more Network Threat Prevention appliances than our other appliances, reflecting the fact that their networks typically have more Web entry points than email, file, endpoint or mobile entry points to protect.

Subscription and service revenue increased by \$35.4 million, or 71%, during the three months ended March 31, 2015 compared to the three months ended March 31, 2014. This increase is comprised of an increase in subscription revenue of \$20.6 million, an increase in support and maintenance revenue of \$8.3 million and an increase in professional services revenue of \$6.5 million. The increase in subscription revenue of \$20.6 million and the increase in support and maintenance revenue of \$8.3 million is primarily due to an increase in initial customer purchases of \$21.1 million and an increase in the amortization of deferred subscription and support and maintenance revenue related to renewals of \$7.8 million during the three months ended March 31, 2015 compared to the three months ended March 31, 2014. Given our high renewal rate and increasing base of customers, we expect revenue from the amortization of deferred subscription and services revenue related to renewals to increase as a percentage of our total revenue from deferred subscription and services revenue. Our renewal rate for subscription and services agreements expiring in the 12 months ended March 31, 2015 was in excess of 90%.

Our international revenue increased \$17.9 million, or 98%, during the three months ended March 31, 2015 compared to the three months ended March 31, 2014, which reflects our increasing international market presence.

Cost of Revenue and Gross Margin

	Three Months Ended March 31, 2015		2014		Change			
	Amount	Gross Margin	Amount	Gross Margin	Amount	%		
(Dollars in thousands)								
Cost of revenue:								
Product	\$15,200		\$10,326		\$4,874	47	%	
Subscription and services	36,851		24,967		11,884	48	%	
Total cost of revenue	\$52,051		\$35,293		\$16,758	47	%	
Gross margin:								
Product		62	%	57	%			

Edgar Filing: FireEye, Inc. - Form 10-Q

Subscription and services	57	%	50	%
Total gross margin	58	%	52	%

22

---



The cost of product revenue increased \$4.9 million, or 47%, during the three months ended March 31, 2015 compared to the three months ended March 31, 2014. The increase in cost of product revenue was driven primarily by an increase in product revenue.

The cost of subscription and services revenue increased \$11.9 million, or 48%, during the three months ended March 31, 2015 compared to the three months ended March 31, 2014. The increase in cost of subscription and services revenue was primarily driven by a \$5.5 million increase in personnel costs, of which \$3.0 million was related to stock-based compensation charges, as a result of a 5% increase in headcount. Additionally, \$5.0 million of the increase was driven by greater IT costs to support departmental expansion and \$1.4 million of the increase was due to higher data hosting services.

Gross margin increased for the three months ended March 31, 2015 compared to the three months ended March 31, 2014, driven by the growth in subscription revenue from the amortization of deferred revenue and lower costs per unit for our Network Threat Prevention and Email Threat Prevention appliances, which are the most significant contributors to the increase in product revenues.

#### Operating Expenses

	Three Months Ended March 31, 2015		2014		Change			
	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	%		
(Dollars in thousands)								
Operating expenses:								
Research and development	\$65,605	52	% \$41,970	57	% \$23,635	56	%	
Sales and marketing	107,595	86	76,854	104	30,741	40		
General and administrative	32,607	26	27,100	36	5,507	20		
Total operating expenses	\$205,807	164	% \$145,924	197	% \$59,883	41	%	
Includes stock-based compensation expense of:								
Research and development	\$16,035		\$4,603					
Sales and marketing	16,454		8,688					
General and administrative	10,740		8,338					
Total	\$43,229		\$21,629					

#### Research and Development

Research and development expense increased \$23.6 million, or 56%, during the three months ended March 31, 2015 compared to the three months ended March 31, 2014. The increase was primarily driven by a \$21.8 million increase in personnel costs, of which \$11.4 million was related to stock-based compensation charges, largely as a result of a 55% increase in headcount to support continued investment in our future product and service offerings.

Additionally, \$1.7 million of the increase was driven by higher facility and IT costs to support departmental expansion.

#### Sales and Marketing

Sales and marketing expense increased \$30.7 million, or 40%, during the three months ended March 31, 2015 compared to the three months ended March 31, 2014. The increase was primarily driven by a \$21.5 million increase in personnel costs, of which \$7.8 million was related to stock-based compensation charges, largely as a result of a 29% increase in headcount, as well as a \$5.9 million increase in commissions associated with higher sales. In addition \$2.6 million of the increase was driven by higher facility and IT costs to support departmental expansion.

#### General and Administrative

General and administrative expense increased \$5.5 million, or 20%, during the three months ended March 31, 2015 compared to the three months ended March 31, 2014. The increase was primarily driven by a \$4.0 million increase in personnel costs, of which \$2.4 million was related to stock-based compensation charges, largely as a result of a 19% increase in headcount. In addition \$0.9 million of the increase was driven by higher facility and IT costs to support departmental expansion.



Interest Income

	Three Months Ended March 31,		Change	
	2015	2014	Amount	%
Interest income	\$269	\$45	\$224	498 %

Interest income increased for the three months ended March 31, 2015 compared to the three months ended March 31, 2014 due to higher interest rates and higher average balances in our cash and cash equivalents and investments.

Interest Expense

	Three Months Ended March 31,		Change	
	2015	2014	Amount	%
Interest expense	\$—	\$(7 )	\$(7 )	(100 )%

Interest expense decreased for the three months ended March 31, 2015 compared to the three months ended March 31, 2014 due to no interest-bearing financial obligations in the current period.

Other Expense, Net

	Three Months Ended March 31,		Change	
	2015	2014	Amount	%
Other expense, net	\$(768 )	\$(54 )	\$714	1,322 %

The increase in other expense, net during the three months ended March 31, 2015 compared to the three months ended March 31, 2014 was primarily due to foreign currency transaction losses caused by unfavorable changes in foreign currency exchange rates.

Provision for (Benefit from) Income Taxes

	Three Months Ended March 31,	
	2015	2014
Provision for (benefit from) income taxes	\$977	\$(6,042 )
Effective tax rate (benefit) provision	(0.73 )%	5.63 %

The provision for income taxes for the three months ended March 31, 2015 is primarily due to foreign taxes and state minimum income taxes. The change from a benefit from income taxes to a provision for income taxes during the three months ended March 31, 2015 compared to the three months ended March 31, 2014 was primarily due to the fact that we no longer have deferred tax liabilities in excess of our deferred tax assets which would be available as a source of income for purposes of determining our valuation allowance. We continue to maintain a full valuation allowance on all of our U.S. and Singapore-based deferred tax assets to the extent that deferred tax liabilities are not available as a source of income as of March 31, 2015.

Liquidity and Capital Resources

	As of March 31, 2015	As of December 31, 2014
Cash and cash equivalents	\$136,776	\$146,363

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Cash used in operating activities	\$(3,216)	) \$(22,588 )
Cash used in investing activities	(18,241	) (158,069 )
Cash provided by financing activities	11,870	448,009
Net increase (decrease) in cash and cash equivalents	\$(9,587	) \$267,352

As of March 31, 2015, our cash and cash equivalents of \$136.8 million were held for working capital, capital expenditures, investment in technology and business acquisition purposes, of which approximately \$40.6 million was held outside of the United States. We consider the undistributed earnings of our foreign subsidiaries as of March 31, 2015 to be indefinitely reinvested outside the United States on the basis of estimates that future domestic cash generation will be sufficient to meet future domestic cash needs and our plan for reinvestment of our foreign subsidiaries' undistributed earnings.

In March 2014, we completed our follow-on public offering in which we issued and sold 5,582,215 shares of common stock at a price of \$82.00 per share. We received aggregate proceeds of \$446.5 million from the sale of shares of common stock, net of underwriters' discounts and commissions of \$11.2 million, but before deducting offering expenses of approximately \$2.2 million. Another 8,417,785 shares were sold by certain selling stockholders, which included 796,846 shares sold pursuant to the exercise of vested outstanding options by our employees. We did not receive any of the proceeds from the sales of shares by the selling stockholders.

We believe that our existing cash and cash equivalents, short-term investments and any cash inflow from operations will be sufficient to meet our anticipated cash needs, including cash we will consume for operations, for at least the next 12 months. Our future capital requirements will depend on many factors, including our growth rate, the timing and extent of spending to support development efforts, the expansion of sales and marketing activities, the introduction of new and enhanced product and service offerings, and the continuing market acceptance of our products. In the event that additional financing is required from outside sources, we may not be able to raise such financing 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.

#### Operating Activities

During the three months ended March 31, 2015, our operating activities used cash of \$3.2 million. We incurred a net loss of \$134.0 million, which included net non-cash expenses of \$77.0 million, primarily consisting of stock-based compensation charges and depreciation and amortization expense. Our net change in operating assets and liabilities provided cash of \$53.7 million, primarily sourced from accounts receivable for \$32.7 million resulting from increased collections, and deferred revenue for \$26.2 million as a result of increases in sales of subscriptions and support and maintenance services, partially offset by the use of cash related to current liabilities of \$4.8 million primarily related to the timing of payments to vendors and employees.

During the three months ended March 31, 2014, our operating activities used cash of \$22.6 million. We incurred a net loss of \$101.2 million, which included net non-cash expenses of \$38.5 million, primarily consisting of stock-based compensation charges, depreciation and amortization expense, and deferred tax benefit. Our net change in operating assets and liabilities provided cash of \$40.2 million, primarily sourced from deferred revenue for \$25.2 million as a result of increases in sales of subscriptions and support and maintenance services and accounts receivable for \$15.2 million resulting from increased collections.

#### Investing Activities

Cash used in investing activities during the three months ended March 31, 2015 was \$18.2 million, primarily for capital expenditures to purchase property and equipment and demonstration units, as well as net purchases of marketable securities.

Cash used in investing activities during the three months ended March 31, 2014 was \$158.1 million, primarily for the purchase of marketable securities to invest a portion of the significant cash received from our follow-on public offering and, to a lesser extent, capital expenditures to purchase property and equipment and demonstration units.

#### Financing Activities

Edgar Filing: FireEye, Inc. - Form 10-Q

During the three months ended March 31, 2015, financing activities provided \$11.9 million in cash due to proceeds from the exercise of employee stock options.

During the three months ended March 31, 2014, financing activities provided \$448.0 million in cash, primarily from net proceeds of \$445.9 million from our follow-on public offering, and proceeds of \$2.1 million from the exercise of employee stock options.

Contractual Obligations and Commitments

See Note 8 Commitments and Contingencies contained in the "Notes to Condensed Consolidated Financial Statements" in Item 1 of Part I of this Quarterly Report on Form 10-Q.

**Off-Balance Sheet Arrangements**

As of March 31, 2015, we did not have any relationships with unconsolidated entities or financial partnerships, such as structured finance or special purpose entities, that were established for the purpose of facilitating off-balance sheet arrangements or other purposes.

**Critical Accounting Policies and Estimates**

Our condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Actual results may differ from these estimates. To the extent that there are material differences between these estimates and our actual results, our future financial statements will be affected.

There have been no changes to any significant accounting policies described in our Annual Report on Form 10-K filed with the SEC on March 2, 2015.

**Recent Accounting Pronouncements**

See Note 1 Description of Business and Summary of Significant Accounting Policies contained in the "Notes to Condensed Consolidated Financial Statements" in Item 1 of Part I of this Quarterly Report on Form 10-Q for a full description of the recent accounting pronouncements and our expectation of their impact, if any, on our results of operations and financial conditions.

---

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Exchange Risk

Our sales contracts are primarily denominated in U.S. dollars. A portion of our operating expenses are incurred outside the United States and are denominated in foreign currencies and are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Indian Rupee, British Pound Sterling, Japanese Yen and Euro. Additionally, fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our statement of operations. The effect of a hypothetical 10% adverse change in foreign exchange rates on monetary assets and liabilities at March 31, 2015 would not be material to our financial condition or results of operations. To date, foreign currency transaction gains and losses and exchange rate fluctuations have not been material to our financial statements, and we have not engaged in any foreign currency hedging transactions.

As our international operations continue to grow, our risks associated with fluctuations in currency rates will become greater, and we will continue to reassess our approach to managing this risk. In addition, currency fluctuations or a weakening U.S. dollar can increase the costs of our international expansion, and the currently strengthening U.S. dollar could slow international demand as products and services priced in U.S. dollars become more expensive.

Interest Rate Risk

We had cash and cash equivalents and investments of \$397.6 million as of March 31, 2015, consisting of bank deposits, money market funds, certificates of deposit and bonds issued by corporate institutions and U.S. government agencies. Such interest-earning instruments carry a degree of interest rate risk. To date, fluctuations in interest income have not been significant.

We do not enter into investments for trading or speculative purposes and have not used any derivative financial instruments to manage our interest rate risk exposure. We have not been exposed to material risks due to changes in interest rates. A hypothetical 10% change in interest rates during any of the periods presented would not have had a material impact on our financial statements.

#### Item 4. Controls and Procedures

##### Limitations on Effectiveness of Controls

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

##### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2015. The term "disclosure controls and procedures," as defined in Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Based on our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2015, our disclosure controls and procedures were effective at the reasonable assurance level.

##### Changes in Internal Control over Financial Reporting

There were no changes 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 quarter ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

The information set forth under the "Litigation" subheading in Note 8 Commitments and Contingencies contained in the "Notes to Condensed Consolidated Financial Statements" in Item 1 of Part I of this Quarterly Report on Form 10-Q is incorporated herein by reference.

### Item 1A. Risk Factors

Our operations and financial results are subject to various risks and uncertainties including those described below. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, also may become important factors that affect us. Please see page 16 of this Quarterly Report on Form 10-Q for a discussion of forward-looking statements that are qualified by these risk factors. If any of the following risks or others not specified below materialize, our business, financial condition and results of operations could be materially adversely affected. In that case, the trading price of our common stock could decline.

#### Risks Related to Our Business and Our Industry

If the IT security market does not continue to adopt our virtual machine-based security platform, our sales will not grow as quickly as anticipated, or at all, and our business, results of operations and financial condition would be harmed.

We are seeking to disrupt the IT security market with our virtual machine-based security platform. Our platform interoperates with but does not replace most signature-based IT security products. Enterprises and governments that use signature-based security products, such as firewalls, intrusion prevention systems, or IPS, anti-virus, or AV, and Web and messaging gateways, for their IT security may be hesitant to purchase our virtual machine-based security platform if they believe that signature-based products are more cost effective, provide substantially the same functionality as our platform or provide a level of IT security that is sufficient to meet their needs. Currently, most enterprises and governments have not allocated a fixed portion of their budgets to protect against next-generation advanced cyber attacks. As a result, to expand our customer base, we need to convince potential customers to allocate a portion of their discretionary budgets to purchase our platform. However, even if we are successful in doing so, any future deterioration in general economic conditions may cause our customers to cut their overall IT spending, and such cuts may fall disproportionately on products and services like ours, for which no fixed budgetary allocation has been made. If we do not succeed in convincing customers that our platform should be an integral part of their overall approach to IT security and that a fixed portion of their annual IT budgets should be allocated to our platform, our sales will not grow as quickly as anticipated, or at all, which would have an adverse impact on our business, results of operations and financial condition.

Even if there is significant demand for virtual machine-based security solutions like ours, if our competitors include functionality that is, or is perceived to be, better than or equivalent to that of our platform in signature-based or other products that are already generally accepted as necessary components of an organization's IT security architecture, we may have difficulty increasing the market penetration of our platform. Furthermore, even if the functionality offered by other IT security providers is different and more limited than the functionality of our platform, organizations may elect to accept such limited functionality in lieu of adding products from additional vendors like us.

If enterprises and governments do not continue to adopt our virtual machine-based security platform for any of the reasons discussed above or for other reasons not contemplated, our sales would not grow as quickly as anticipated, or at all, and our business, results of operations and financial condition would be harmed.

If we fail to effectively manage our growth, our business, financial condition and results of operations would be harmed.

Our headcount increased from more than 1,600 employees as of December 31, 2013 to approximately 2,600 employees as of March 31, 2015. We expect our headcount to continue to grow rapidly. In addition, our number of end-customers increased from more than 1,900 to approximately 3,500 over the same period. This rapid growth has placed significant demands on our management and our operational and financial infrastructure. To improve our infrastructure, we continue to enhance our enterprise resource planning system, including revenue recognition and management software, and implement and enhance additional systems. There is no assurance that we will be able to successfully scale improvements to our enterprise resource planning system or implement or scale improvements to

our other systems, processes and controls in a manner that keeps pace with our growth or that such systems, processes and controls will be effective in preventing or detecting errors, omissions or fraud.

As part of our efforts to improve our internal systems, processes and controls, we have licensed technology from third parties. The support services available for such third-party technology is outside of our control and may be negatively affected by consolidation in the software industry. In addition, if we do not receive adequate support for the software underlying our systems, processes and controls, our ability to provide products and services to our customers in a timely manner may be impaired, which may cause us to lose customers, limit us to smaller deployments of our platform or increase our technical support costs.

To manage this growth effectively, we must continue to improve our operational, financial and management systems and controls by, among other things:

- effectively attracting, training and integrating a large number of new employees, particularly members of our sales and management teams;
- further improving our key business applications, processes and IT infrastructure, including our data centers, to support our business needs;
- enhancing our information and communication systems to ensure that our employees and offices around the world are well coordinated and can effectively communicate with each other and our growing base of channel partners and customers;
- improving our internal control over financial reporting and disclosure controls and procedures to ensure timely and accurate reporting of our operational and financial results; and
- appropriately documenting and testing our IT systems and business processes.

These and other improvements in our systems and controls will require significant capital expenditures and the allocation of valuable management and employee resources. If we fail to implement these improvements effectively, our ability to manage our expected growth, ensure uninterrupted operation of key business systems and comply with the rules and regulations applicable to public reporting companies would be impaired, and our business, financial condition and results of operations would be harmed.

Our limited operating history makes it difficult to evaluate our current business and prospects and may increase the risk that we will not be successful.

We were founded in 2004, and our first commercially successful product was shipped in 2008. Since then, we have continued to expand our platform, both organically and through acquisitions, including through the addition of Mandiant's endpoint threat detection, response and remediation products; advanced threat intelligence capabilities; and incident response and security consulting services. The majority of our revenue growth began in 2010. Our limited operating history and our acquisition of Mandiant in December 2013 make it difficult to evaluate our current business and prospects and plan for and model our future growth. We have encountered and will continue to encounter risks and uncertainties frequently encountered by rapidly growing companies in developing markets.

If our assumptions regarding these risks and uncertainties are incorrect or change in response to changes in the IT security market, our results of operations and financial results could differ materially from our plans and forecasts. Although we have experienced rapid growth for the past several years, there is no assurance that such growth will continue. Any success we may experience in the future will depend in large part on our ability to, among other things:

- maintain and expand our customer base and the ways in which customers use our products and services;
- expand revenue from existing customers through increased or broader use of our products and services within their organizations;
- convince customers to allocate a fixed portion of their annual IT budgets to our products and services;
- improve the performance and capabilities of our platform through research and development;
- effectively expand our business domestically and internationally, which will require that we rapidly expand our sales force and service professionals and fill key management positions, particularly internationally; and
- successfully compete with other companies that currently provide, or may in the future provide, solutions like ours that protect against next-generation advanced cyber attacks.

If we are unable to achieve our key objectives, including the objectives listed above, our business and results of operations will be adversely affected and the fair market value of our common stock could decline.

Real or perceived defects, errors or vulnerabilities in our products or services, the misconfiguration of our products, the failure of our products or services to block malware or prevent a security breach, or the failure of customers to take action on attacks identified by our products could harm our reputation and adversely impact our business, financial position and results of operations.

Because our products and services are complex, they have contained and may contain design or manufacturing defects or errors that are not detected until after their deployment. Our products also provide our customers with the ability to customize a multitude of settings, and it is possible that a customer could misconfigure our products or otherwise fail to configure our products in an optimal manner. Such defects and misconfigurations of our products could cause our products or services to be vulnerable to security attacks, cause them to fail to secure networks and detect and block threats, or temporarily interrupt the networking traffic of our customers. In addition, because the techniques used by computer hackers to access or sabotage networks change frequently and generally are not recognized until launched against a target, there is a risk that an advanced attack could emerge that our products and services are unable to detect or prevent. Moreover, as our products and services are adopted by an increasing number of enterprises and governments, it is possible that the individuals and organizations behind advanced malware attacks will begin to focus on finding ways to defeat our products and services. If this happens, our networks, products, services and subscriptions could be targeted by attacks specifically designed to disrupt our business and undermine the perception that our products and services are capable of providing superior IT security, which, in turn, could have a serious impact on our reputation as a provider of virtual machine-based security solutions. Any breach or perceived security breaches of our network could materially and adversely affect our business, financial condition and results of operations.

If any of our customers becomes infected with malware after using our products or services, such customer could be disappointed with our products and services, regardless of whether our products or services blocked the theft of any of such customer's data or would have blocked such theft if configured properly. Similarly, if our products detect attacks against a customer but the customer has not permitted our products to block the theft of customer data, customers and the public may erroneously believe that our products were not effective. For any security breaches against customers that use our services, such as customers that have hired us to monitor their networks and endpoints through our own or our co-branded security operation centers, breaches against those customers may result in customers and the public believing that our products and services failed. Furthermore, if any enterprises or governments that are publicly known to use our products or services are the subject of an advanced cyber attack that becomes publicized, our other current or potential customers may look to our competitors for alternatives to our products and services. Real or perceived security breaches of our customers' networks could cause disruption or damage to their networks or other negative consequences and could result in negative publicity to us, damage to our reputation, declining sales, increased expenses and customer relations issues.

Furthermore, our products and services may fail to detect or prevent malware, viruses, worms or similar threats for any number of reasons, including our failure to enhance and expand our products and services to reflect industry trends, new technologies and new operating environments, the complexity of the environment of our clients and the sophistication of malware, viruses and other threats. In addition, from time to time, firms test our products against other security products. Our products may fail to detect or prevent threats in any particular test for a number of reasons, including misconfiguration. To the extent potential customers, industry analysts or testing firms believe that the occurrence of a failure to detect or prevent any particular threat is a flaw or indicates that our products or services do not provide significant value, our reputation and business could be harmed. Failure to keep pace with technological changes in the IT security industry and changes in the threat landscape could adversely affect our ability to protect against security breaches and could cause us to lose customers.

Any real or perceived defects, errors or vulnerabilities in our products and services, or any other failure of our products and services to detect an advanced threat, could result in:

- a loss of existing or potential customers or channel partners;
- delayed or lost revenue and harm to our financial condition and results of operations;
- a delay in attaining, or the failure to attain, market acceptance;
- the expenditure of significant financial and product development resources in efforts to analyze, correct, eliminate, or work around errors or defects, to address and eliminate vulnerabilities, or to identify and ramp up production with

alternative third-party manufacturers;  
• an increase in warranty claims, or an increase in the cost of servicing warranty claims, either of which would adversely affect our gross margins;  
• harm to our reputation or brand; and  
• litigation, regulatory inquiries, or investigations that may be costly and further harm our reputation.

31

---

If we do not effectively expand and train our direct sales force, we may be unable to add new customers or increase sales to our existing customers, and our business will be adversely affected.

We continue to be substantially dependent on our direct sales force to obtain new customers and increase sales with existing customers. There is significant competition for sales personnel with the skills and technical knowledge that we require. Our ability to achieve significant revenue growth will depend, in large part, on our success in recruiting, training and retaining sufficient numbers of sales personnel to support our growth, particularly in international markets. New hires require significant training and may take significant time before they achieve full productivity. Our recent hires and planned hires may not become productive as quickly as we expect, and we may be unable to hire or retain sufficient numbers of qualified individuals in the markets where we do business or plan to do business. In addition, because we continue to grow rapidly, a large percentage of our sales force is new to our company. If we are unable to hire and train a sufficient number of effective sales personnel, or the sales personnel we hire are not successful in obtaining new customers or increasing sales to our existing customer base, our business will be adversely affected.

Recent and 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 platform and grow our business in response to changing technologies, customer demands and competitive pressures. In some circumstances, we may decide to do so through the acquisition of complementary businesses and technologies rather than through internal development, including, for example, our 2013 acquisition of Mandiant Corporation, or Mandiant, a provider of advanced endpoint security products and security incident response solutions and our 2014 acquisition of nPulse Technologies, or nPulse. The identification of suitable acquisition candidates can be difficult, time-consuming and costly, and we may not be able to successfully complete acquisitions that we target in the future. The risks we face in connection with acquisitions, including our acquisitions of Mandiant and nPulse, 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;
- integration of product and service offerings;
- retention of key employees from the acquired company;
- changes in relationships with strategic partners as a result of product acquisitions or strategic positioning resulting from the acquisition;
- 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 sufficiently effective controls, procedures and policies;
- financial reporting, revenue recognition or other financial or control deficiencies of the acquired company that we don't adequately address and that cause our reported results to be incorrect;
- 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 equity securities. For example, in December 2013, we issued approximately 16.9 million shares of common stock and assumed options to purchase approximately 4.6 million shares of our common stock in connection with our acquisition of Mandiant, and in May 2014, we issued 295,681 shares of common stock and assumed options to purchase 63,490 shares of common stock in connection with our acquisition of nPulse. There is also a risk that future acquisitions will result in 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.

Fluctuating economic conditions make it difficult to predict revenue for a particular period, and a shortfall in revenue may harm our operating results.

Our revenue depends significantly on general economic conditions and the demand for products in the IT security market. Economic weakness, customer financial difficulties, and constrained spending on IT security may result in decreased revenue and earnings. Such factors could make it difficult to accurately forecast our sales and operating results and could negatively affect our

ability to provide accurate forecasts to our contract manufacturers and manage our inventory purchases, contract manufacturer relationships and other costs and expenses. In addition, concerns regarding the impact of the U.S. federal sequestration on the IT budgets of various agencies of the U.S. government, as well as continued budgetary challenges in the United States and Europe and geopolitical turmoil in many parts of the world have and may continue to put pressure on global economic conditions and overall spending on IT security. General economic weakness may also lead to longer collection cycles for payments due from our customers, an increase in customer bad debt, restructuring initiatives and associated expenses, and impairment of investments. Furthermore, the continued weakness and uncertainty in worldwide credit markets, including the sovereign debt situation in certain countries in the European Union, may adversely impact the ability of our customers to adequately fund their expected capital expenditures, which could lead to delays or cancellations of planned purchases of our platform.

Uncertainty about future economic conditions also makes it difficult to forecast operating results and to make decisions about future investments. Future or continued economic weakness for us or our customers, failure of our customers and markets to recover from such weakness, customer financial difficulties, and reductions in spending on IT security could have a material adverse effect on demand for our platform and consequently on our business, financial condition and results of operations.

Our results of operations are likely to vary significantly from period to period, which could cause the trading price of our common stock to decline.

Our results of operations have varied significantly from period to period, and we expect that our results of operations will continue to vary as a result of a number of factors, many of which are outside of our control and may be difficult to predict, including:

- our ability to attract new and retain existing customers;
- the budgeting cycles, seasonal buying patterns and purchasing practices of customers;
- the timing of shipments of our products and length of our sales cycles;
- changes in customer or reseller requirements or market needs;
- changes in the growth rate of the IT security market, particularly the market for threat protection solutions like ours that target next-generation advanced cyber attacks;
- the timing and success of new product and service introductions by us or our competitors or any other change in the competitive landscape of the IT security market, including consolidation among our customers or competitors;
- the level of awareness of IT security threats, particularly advanced cyber attacks, and the market adoption of our platform;
- deferral of orders from customers in anticipation of new products or product enhancements announced by us or our competitors;
- our ability to successfully expand our business domestically and internationally;
- reductions in customer renewal rates for our subscriptions;
- decisions by organizations to purchase IT security solutions from larger, more established security vendors or from their primary IT equipment vendors;
- changes in our pricing policies or those of our competitors;
  - any disruption in, or termination of, our relationship with channel partners;
- our inability to fulfill our customers' orders due to supply chain delays or events that impact our manufacturers or their suppliers;
- insolvency or credit difficulties confronting our customers, affecting their ability to purchase or pay for our products, subscriptions and services, or confronting our key suppliers, particularly our sole source suppliers, which could disrupt our supply chain;
- the cost and potential outcomes of existing and future litigation, including, without limitation, the purported stockholder class action lawsuits described under the "Litigation" subheading in Note 8 Commitments and Contingencies contained in the "Notes to Condensed Consolidated Financial Statements" in Item 1 of Part I of this Quarterly Report on Form 10-Q;
- seasonality in our business;
- general economic conditions, both domestic and in our foreign markets;



future accounting pronouncements or changes in our accounting policies or practices;

33

---

- the amount and timing of operating costs and capital expenditures related to the expansion of our business;
- a change in our mix of products, subscriptions and services; and
- increases or decreases in our expenses caused by fluctuations in foreign currency exchange rates.

Any of the above factors, individually or in the aggregate, may result in significant fluctuations in our financial and other operating results from period to period. As a result of this variability, our historical results of operations should not be relied upon as an indication of future performance. Moreover, this variability and unpredictability could result in our failure to meet our operating plan or the expectations of investors or analysts for any period. If we fail to meet such expectations for these or other reasons, the market price of our common stock could fall substantially, and we could face costly lawsuits, including securities class action suits.

We have had operating losses each year since our inception, and may not achieve or maintain profitability in the future.

We have incurred operating losses each year since 2004, including net losses of \$134.0 million and \$101.2 million during the three months ended March 31, 2015 and 2014, respectively. We expect our operating expenses to increase in the future as we expand our sales and marketing efforts and continue to invest in research and development of our technologies. These efforts may be more costly than we expect, and we may not be able to increase our revenue to offset our increased operating expenses. Our revenue growth may slow or our revenue may decline for a number of other reasons, including reduced demand for our platform, increased competition, a decrease in the growth or size of the IT security market, particularly the market for solutions that target the next generation of advanced cyber attacks, or any failure to capitalize on growth opportunities. Any failure to increase our revenue as we grow our business could prevent us from achieving or, if achieved, maintaining profitability. If we are unable to meet these risks and challenges as we encounter them, our business, financial condition and results of operations may suffer.

In addition, we may have difficulty achieving profitability under U.S. GAAP, due to stock-based compensation, intangible amortization and other non-cash charges.

We expect our revenue growth rate to decline.

From the year ended December 31, 2010 to the year ended December 31, 2014, our revenue grew from \$11.8 million to \$425.7 million, which represents a compounded annual growth rate of approximately 145%. We expect that, to the extent our revenue increases to higher levels, our revenue growth rate will decline, and we may not be able to generate sufficient revenue to achieve or maintain profitability. We also expect our costs to increase in future periods, which could negatively affect our future operating results if our revenue does not increase. In particular, we expect to continue to expend substantial financial and other resources on:

- research and development related to our platform, including investments in our research and development team;
- sales and marketing, including a significant expansion of our sales organization, particularly in international markets;
- international expansion of our business;
- expansion of our professional services organization; and
- general administration expenses, including legal and accounting expenses related to being a public company.

These investments may not result in increased revenue or growth in our business. If we are unable to increase our revenue at a rate sufficient to offset the expected increase in our costs, our business, financial position and results of operations will be harmed, and we may not be able to achieve or maintain profitability over the long term.

Seasonality may cause fluctuations in our revenue.

We believe there are significant seasonal factors that may cause us to record higher revenue in some quarters compared with others. We believe this variability is largely due to our customers' budgetary and spending patterns, as many customers spend the unused portions of their discretionary budgets prior to the end of their fiscal years. For example, we have historically recorded our highest level of revenue in our fourth quarter, which we believe corresponds to the fourth quarter of a majority of our customers. Similarly, we have historically recorded our second-highest level of revenue in our third quarter, which corresponds to the fourth quarter of U.S. federal agencies and other customers in the U.S. federal government. Our rapid growth rate over the last couple years may have made seasonal fluctuations more difficult to detect. If our rate of growth slows over time, seasonal or cyclical variations in our operations may become more pronounced, and our business, results of operations and financial position may be adversely affected.

We face intense competition and could lose market share to our competitors, which could adversely affect our business, financial condition and results of operations.

The market for security products and services is intensely competitive and characterized by rapid changes in technology, customer requirements, industry standards and frequent new product introductions and improvements. We anticipate continued challenges from current competitors, which in many cases are more established and enjoy greater resources than us, as well as by new entrants into the industry. If we are unable to anticipate or effectively react to these competitive challenges, our competitive position could weaken, and we could experience a decline in our growth rate or revenue that could adversely affect our business and results of operations.

Our competitors and potential competitors include large networking vendors such as Cisco Systems, Inc. and Juniper Networks, Inc. that may emulate or integrate virtual-machine features similar to ours into their own products; large companies such as Intel, IBM, and HP that have acquired large IT security specialist vendors in recent years and have the technical and financial resources and broad customer bases needed to bring competitive solutions to the market; independent IT security vendors such as Sourcefire (which was acquired by Cisco Systems, Inc.) and Palo Alto Networks that offer products that claim to perform similar functions to our platform; small and large companies that offer point solutions that compete with some of the features present in our platform; and other providers of incident response services. Other IT providers offer, and may continue to introduce, security features that compete with our platform, either in stand-alone security products or as additional features in their network infrastructure products. Many of our existing competitors have, and some of our potential competitors could have, substantial competitive advantages such as:

• greater name recognition, longer operating histories and larger customer bases;

• larger sales and marketing budgets and resources;

• broader distribution and established relationships with channel and distribution partners and customers;

• greater customer support resources;

• greater resources to make acquisitions;

• lower labor and research and development costs;

• larger and more mature intellectual property portfolios; and

• substantially greater financial, technical and other resources.

In addition, some of our larger competitors have substantially broader product offerings and may be able to leverage their relationships with distribution partners and customers based on other products or incorporate functionality into existing products to gain business in a manner that discourages users from purchasing our products, subscriptions and services, including by selling at zero or negative margins, product bundling or offering closed technology platforms. Potential customers may also prefer to purchase from their existing suppliers rather than a new supplier regardless of product performance or features. As a result, even if the features of our platform are superior, customers may not purchase our products. In addition, new innovative start-up companies, and larger companies that are making significant investments in research and development, may invent similar or superior products and technologies that compete with our platform. Our current and potential competitors may also establish cooperative relationships among themselves or with third parties that may further enhance their resources. If we are unable to compete successfully, or if competing successfully requires us to take costly actions in response to the actions of our competitors, our business, financial condition and results of operations could be adversely affected.

Our sales cycles can be long and unpredictable, and our sales efforts require considerable time and expense. As a result, our sales, billings and revenue are difficult to predict and may vary substantially from period to period, which may cause our results of operations to fluctuate significantly.

Our results of operations may fluctuate, in part, because of the resource intensive nature of our sales efforts, the length and variability of our sales cycle and the short-term difficulty in adjusting our operating expenses. Our results of operations depend in part on sales to large organizations. The length of our sales cycle, from proof of concept to delivery of and payment for our platform, is typically three to nine months but can be more than a year. To the extent our competitors develop products that our prospective customers view as equivalent to ours, our average sales cycle may increase. Because the length of time required to close a sale varies substantially from customer to customer, it is difficult to predict exactly when, or even if, we will make a sale with a potential customer. As a result, large individual sales have, in some cases, occurred in quarters subsequent to or in advance of those we anticipated, or have not occurred at all. We are billing an increasing number of large deals and the loss or delay of one or more of these large transactions in a quarter could impact our results of operations for that quarter and any future quarters for which revenue from that transaction is delayed. Furthermore, some sales (such as product sales) generally result in immediate recognition of revenue, while other sales, such as product subscription sales, require the recognition of revenue over periods of one year or longer typically. As a result of these factors, it is difficult for us to forecast our revenue accurately in any quarter based on our internal forecasts of billings. Because a substantial portion of our expenses are relatively fixed in the short term, our results of operations will suffer if our revenue falls below our or

analysts' expectations in a particular quarter, which could cause the price of our common stock to decline.

If we are unable to sell additional products, subscriptions and services, as well as renewals of our subscriptions and services, to our customers, our future revenue and operating results will be harmed.

Our future success depends, in part, on our ability to expand the deployment of our platform with existing customers by selling them additional products, subscriptions and services. This may require increasingly sophisticated and costly sales efforts and may not result in additional sales. In addition, the rate at which our customers purchase additional products, subscriptions and services depends on a number of factors, including the perceived need for additional IT security as well as general economic conditions. If our efforts to sell additional products, subscriptions and services to our customers are not successful, our business may suffer.

Further, existing customers that purchase our platform have no contractual obligation to renew their subscriptions and support and maintenance services after the initial contract period, and given our limited operating history, we may not be able to accurately predict our renewal rates. Our customers' renewal rates may decline or fluctuate as a result of a number of factors, including the level of their satisfaction with our platform, our customer support, customer budgets and the pricing of our platform compared with the products and services offered by our competitors. If our customers renew their subscriptions, they may renew for shorter contract lengths or on other terms that are less economically beneficial to us. We cannot assure you that our customers will renew their subscriptions, and if our customers do not renew their subscriptions or renew on less favorable terms, our revenue may grow more slowly than expected, not grow at all, or even decline.

We also depend on our installed customer base for future support and maintenance revenue. We offer our support and maintenance agreements for terms that generally range between one and five years. If customers choose not to renew their support and maintenance agreements or seek to renegotiate the terms of their support and maintenance agreements prior to renewing such agreements, our revenue may decline.

Reliance on shipments at the end of each quarter could cause our revenue for the applicable period to fall below expected levels.

As a result of customer buying patterns and the efforts of our sales force and channel partners to meet or exceed their sales objectives, we have historically received a substantial portion of sales orders and generated a substantial portion of revenue during the last few weeks and days of each quarter. A significant interruption in our IT systems, which manage critical functions such as order processing, revenue recognition, financial forecasts, inventory and supply chain management, and trade compliance reviews, or our supply chain could result in delayed order fulfillment and decreased revenue for that quarter. If expected revenue at the end of any quarter is delayed for any reason, including the failure of anticipated purchase orders to materialize, our logistics or channel partners' inability to ship products prior to quarter-end to fulfill purchase orders received near the end of the quarter, our failure to manage inventory to meet demand, our inability to release new products on schedule, any failure of our systems related to order review and processing, or any delays in shipments based on trade compliance requirements, our revenue for that quarter could fall below our expectations and the estimates of market analysts, which could adversely impact our business and results of operations and cause a decline in the trading price of our common stock.

If we do not accurately anticipate and respond promptly to changes in our customers' technologies, business plans or security needs, our competitive position and prospects could be harmed.

Many of our customers operate in markets characterized by rapidly changing technologies and business plans, which require them to add numerous network access points and adapt to increasingly complex IT networks, incorporating a variety of hardware, software applications, operating systems and networking protocols. As their technologies and business plans grow more complex, we expect these customers to face new and increasingly sophisticated methods of attack. We face significant challenges in ensuring that our platform effectively identifies and responds to these advanced and evolving attacks without disrupting our customers' network performance. As a result of the continued rapid innovations in the technology industry, including the rapid growth of smart phones, tablets and other devices, the trend of "bring your own device" in enterprises, and the rapidly evolving Internet of Things ("IOT"), we expect the networks of our customers to continue to change rapidly and become more complex.

We have identified a number of new products and enhancements to our platform that we believe are important to our continued success in the IT security market. There can be no assurance that we will be successful in developing and marketing, on a timely basis, such new products or enhancements or that our new products or enhancements will adequately address the changing needs of the marketplace. In addition, some of our new products and enhancements may require us to develop new hardware architectures that involve complex, expensive and time-consuming research and development processes. Although the market expects rapid introduction of new products and enhancements to respond to new threats, the development of these products and enhancements is difficult and the timetable for commercial release and availability is uncertain, as there can be significant time lags between initial beta releases and the commercial availability of new products and enhancements. We may experience unanticipated delays in the availability of new products and enhancements to our platform and fail to meet customer expectations with respect to the timing of such availability. If we do not quickly respond to the rapidly changing and rigorous needs of our customers by developing, releasing and making available on a timely basis new products and enhancements to our

platform that can adequately respond to advanced threats and our customers' needs, our competitive position and business prospects will be harmed. Furthermore, from time to time, we or our competitors may announce new products with capabilities or technologies that could have the potential to replace or shorten the life cycles of our existing products. There can be no assurance that announcements of new products will not cause customers to defer purchasing our existing products.

Additionally, the process of developing new technology is expensive, complex and uncertain. The success of new products and enhancements depends on several factors, including appropriate component costs, timely completion and introduction, differentiation of new products and enhancements from those of our competitors, and market acceptance. To maintain our competitive position, we must continue to commit significant resources to developing new products or enhancements to our platform before knowing whether these investments will be cost-effective or achieve the intended results. There can be no assurance that we will successfully identify new product opportunities, develop and bring new products or enhancements to market in a timely manner, or achieve market acceptance

of our platform, or that products and technologies developed by others will not render our platform obsolete or noncompetitive. If we expend significant resources on researching and developing products or enhancements to our platform and such products or enhancements are not successful, our business, financial position and results of operations may be adversely affected.

Disruptions or other business interruptions that affect the availability of our Dynamic Threat Intelligence, or DTI, cloud or other cloud-based products and services we offer or may offer could adversely impact our customer relationships as well as our overall business.

When a customer purchases one or more of our threat prevention appliances, it must also purchase a subscription to our DTI cloud for a term of either one or three years. Our DTI cloud enables global sharing of threat intelligence uploaded by any of our customers' cloud-connected FireEye appliances. We also offer additional cloud-based platforms such as our Email Threat Prevention, Mobile Threat Prevention and Threat Analytics Platforms and provide security solutions through our own and our co-branded security operation centers.

Our customers depend on the continuous availability of our DTI and other cloud-based products and services. Our cloud-based products and services are vulnerable to damage or interruption from a variety of sources, including damage or interruption caused by fire, earthquake, power loss, telecommunications or computer systems failure, cyber attack, human error, terrorist acts and war. Our data centers and networks may experience technical failures and downtime, may fail to distribute appropriate updates, or may fail to meet the increased requirements of a growing customer base, any of which could temporarily or permanently expose our customers' networks, leaving their networks unprotected against the latest security threats or, in the case of technical failures and downtime of security operation centers, all security threats.

In addition, there may also be system or network interruptions if new or upgraded systems are defective or not installed properly. Moreover, interruptions in our subscription updates could result in a failure of our DTI cloud to effectively update customers' hardware products and thereby leave our customers more vulnerable to attacks.

Interruptions or failures in our service delivery could cause customers to terminate their subscriptions with us, could adversely affect our renewal rates, and could harm our ability to attract new customers. Our business would also be harmed if our customers believe that our DTI cloud or other cloud-based products and services are unreliable.

In addition, we provide our cloud-based products and services through third-party data center hosting facilities located in the United States and other countries. While we control and have access to our servers and all of the components of our network that are located in our data centers, we do not control the operation of these facilities. The owners of the data center facilities have no obligation to renew their agreements with us on commercially reasonable terms, or at all. If we are unable to renew these agreements on commercially reasonable terms, or if one of our data center operators is acquired, we may be required to transfer our servers and other infrastructure to new data center facilities, and we may incur significant costs and possible service interruption in connection with doing so.

If we are unable to maintain successful relationships with our channel partners and technology alliance partners, or if our channel partners or technology alliance partners fail to perform, our ability to market, sell and distribute our platform will be limited, and our business, financial position and results of operations will be harmed.

In addition to our direct sales force, we rely on our indirect channel partners to sell and support our platform. We derive a substantial portion of our revenue from sales of our products through our indirect channel, and we expect that sales through channel partners will continue to be a significant percentage of our revenue. We also partner with our technology alliance partners to design go-to-market strategies that combine our platform with products or services provided by our technology alliance partners.

Our agreements with our channel partners and our technology alliance partners are generally non-exclusive, meaning our partners may offer customers products from several different companies, including products that compete with ours. If our channel partners do not effectively market and sell our platform, choose to use greater efforts to market and sell their own products or those of our competitors, or fail to meet the needs of our customers, our ability to grow our business and sell our platform may be adversely affected. Our channel partners and technology alliance partners may cease marketing our platform with limited or no notice and with little or no penalty, and new channel partners require extensive training and may take several months or more to achieve productivity. The loss of a substantial number of our channel partners, our possible inability to replace them, or the failure to recruit additional channel partners could materially and adversely affect our results of operations. In addition, sales by channel partners are more



likely than direct sales to involve collectability concerns, particularly in developing markets. Our channel partner structure could also subject us to lawsuits or reputational harm if, for example, a channel partner misrepresents the functionality of our platform to customers or violates applicable laws or our corporate policies.

Our ability to achieve revenue growth in the future will depend in part on our success in maintaining successful relationships with our channel partners, and in training our channel partners to independently sell and deploy our platform. If we are unable to maintain our relationships with these channel partners or otherwise develop and expand our indirect sales channel, or if our channel partners fail to perform, our business, financial position and results of operations could be adversely affected.

We rely on our management team and other key employees and will need additional personnel to grow our business, and the loss of one or more key employees or our inability to attract and retain qualified personnel, including members for our board of directors, could harm our business.

Our future success is substantially dependent on our ability to attract, retain and motivate the members of our management team and other key employees throughout our organization, including key employees obtained through our recent acquisition of Mandiant, and recent additions to our Worldwide Sales management team. Competition for highly skilled personnel is intense, especially in the San Francisco Bay Area and the Washington D.C. Area, where we have a substantial presence and need for highly skilled personnel. We may not be successful in attracting or retaining qualified personnel to fulfill our current or future needs. Our competitors may be successful in recruiting and hiring members of our management team or other key employees, including key employees obtained through our acquisition of Mandiant, and it may be difficult for us to find suitable replacements on a timely basis, on competitive terms, or at all. Also, to the extent we hire employees from mature public companies with significant financial resources, we may be subject to allegations that such employees have been improperly solicited, or that they have divulged proprietary or other confidential information or that their former employers own such employees' inventions or other work product. In addition, we believe that it is important to establish and maintain a corporate culture that facilitates the maintenance and transfer of institutional knowledge within our organization and also fosters innovation, teamwork, a passion for customers and a focus on execution. Our Chief Executive Officer, our President, our Senior Vice President of Worldwide Sales, our Senior Vice President of Engineering and certain other key members of our management and finance teams have only been working together for a relatively short period of time. If we are not successful in integrating these key employees into our organization, such failure could delay or hinder our product development efforts and the achievement of our strategic objectives, which could adversely affect our business, financial condition and results of operations.

Our employees, including our executive officers, work for us on an "at-will" basis, which means they may terminate their employment with us at any time. We do not maintain key person life insurance policies on any of our key employees. If one or more of our key employees resigns or otherwise ceases to provide us with their service, our business could be harmed.

Our current research and development efforts may not produce successful products or enhancements to our platform that result in significant revenue, cost savings or other benefits in the near future, if at all.

We must continue to dedicate significant financial and other resources to our research and development efforts if we are to maintain our competitive position. However, developing products and enhancements to our platform is expensive and time consuming, and there is no assurance that such activities will result in significant new marketable products or enhancements to our platform, design improvements, cost savings, revenue or other expected benefits. If we spend significant resources on research and development and are unable to generate an adequate return on our investment, our business and results of operations may be materially and adversely affected.

If we are unable to increase sales of our platform to large organizations while mitigating the risks associated with serving such customers, our business, financial position and results of operations may suffer.

Our growth strategy is dependent, in part, upon increasing sales of our platform to large enterprises and governments. Sales to large customers involve risks that may not be present (or that are present to a lesser extent) with sales to smaller entities. These risks include:

- increased purchasing power and leverage held by large customers in negotiating contractual arrangements with us;
- more stringent or costly requirements imposed upon us in our support service contracts with such customers, including stricter support response times and penalties for any failure to meet support requirements;
- more complicated implementation processes;
- longer sales cycles and the associated risk that substantial time and resources may be spent on a potential customer that ultimately elects not to purchase our platform or purchases less than we hoped;
- closer relationships with, and dependence upon, large technology companies who offer competitive products; and
- more pressure for discounts and write-offs.

In addition, because security breaches with respect to larger, high-profile enterprises are likely to be heavily publicized, there is increased reputational risk associated with serving such customers. If we are unable to increase

sales of our platform to large enterprise and government customers while mitigating the risks associated with serving such customers, our business, financial position and results of operations may suffer.

38

---

Because we depend on a limited number of manufacturers to build the appliances used in our platform, we are susceptible to manufacturing delays and pricing fluctuations that could prevent us from shipping customer orders on time, or on a cost-effective basis, which may result in the loss of sales and customers.

We depend on a limited number of third-party manufacturers, primarily Flextronics Telecom Systems, Ltd., as sole source manufacturers for our appliances used in our platform. Our reliance on third-party manufacturers reduces our control over the manufacturing process and exposes us to risks, including reduced control over quality assurance, product costs, product supply and timing. Any manufacturing disruption by these third-party manufacturers could severely impair our ability to fulfill orders on time. If we are unable to manage our relationships with these third-party manufacturers effectively, or if these manufacturers suffer delays or disruptions for any reason, experience increased manufacturing lead-times, capacity constraints or quality control problems in their manufacturing operations, or fail to meet our future requirements for timely delivery, our ability to ship products to our customers would be severely impaired, and our business and results of operations would be harmed.

In addition, our reliance on third-party manufacturers exposes us to the risk that certain minerals, known as “conflict minerals,” that are contained in our products have originated in the Democratic Republic of the Congo or an adjoining country. As a result of the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the SEC adopted disclosure requirements for public companies whose products contain conflict minerals that are necessary to the functionality or production of such products. We have incurred and expect to incur additional costs to comply with the disclosure requirements, including costs related to determining the source of the conflict minerals used in our products. Moreover, the implementation of these new requirements could adversely affect the sourcing, availability and pricing of materials used in the manufacture of our products to the extent that there may be only a limited number of suppliers offering “conflict free” minerals that can be used in our products. There can be no assurance that we will be able to obtain such minerals in sufficient quantities or at competitive prices. We may also encounter customers who require that all of the components of our products be certified as conflict free. If we are not able to meet customer requirements, such customers may choose to not purchase our products, which could impact our sales. Our third-party manufacturers typically fulfill our supply requirements on the basis of individual orders. We are subject to a risk of supply shortages and changes in pricing terms because we do not have long-term contracts with our third-party manufacturers that guarantee capacity, the continuation of particular pricing terms or the extension of credit limits. Our contract with our primary manufacturer permits it to terminate such contract at its convenience, subject to prior notice requirements. Any production interruptions for any reason, such as a natural disaster, epidemic, capacity shortages, or quality problems at one of our manufacturing partners would negatively affect sales of our products and adversely impact our business and results of operations.

We may be unable to protect our intellectual property adequately, which could harm our business, financial condition and results of operations.

We believe that our intellectual property is an essential asset of our business. We rely on a combination of patent, copyright, trademark and trade secret laws, as well as confidentiality procedures and contractual provisions, to establish and protect our intellectual property rights in the United States and abroad. The efforts we have taken to protect our intellectual property may not be sufficient or effective, and our trademarks, copyrights and patents may be held invalid or unenforceable. For example, a third party is contesting the validity of claims of two of our United States patents in Inter Partes Reviews by the U.S. Patent and Trademark Office. Any U.S. or other patents issued to us may not be sufficiently broad to protect our proprietary technologies, and given the costs of obtaining patent protection, we may choose not to seek patent protection for certain of our proprietary technologies. We may not be effective in policing unauthorized use of our intellectual property, and even if we do detect violations, litigation may be necessary to enforce our intellectual property rights. Any enforcement efforts we undertake, including litigation, could be time-consuming and expensive, could divert management’s attention and may result in a court determining that our intellectual property rights are unenforceable. If we are not successful in cost-effectively protecting our intellectual property rights, our business, financial condition and results of operations could be harmed.

Claims by others that we infringe their proprietary technology or other rights could harm our business.

Technology companies frequently enter into litigation based on allegations of patent infringement or other violations of intellectual property rights. In addition, patent holding companies seek to monetize patents they have purchased or otherwise obtained. As we face increasing competition and gain an increasingly higher profile, the possibility of

intellectual property rights claims against us grows. From time to time, third parties have asserted, and we expect that third parties will continue to assert, claims of infringement of intellectual property rights against us. For example, we are currently a party to suits by both a practicing and non-practicing entity alleging, among other things, patent infringement, each of which are in the early stages of litigation. Third parties may in the future also assert claims against our customers or channel partners, whom our standard license and other agreements obligate us to indemnify against claims that our products infringe the intellectual property rights of third parties. While we intend to increase the size of our patent portfolio, many of our competitors and others may now and in the future have significantly larger and more mature patent portfolios than we have. In addition, future litigation may involve patent holding companies or other patent owners who have no relevant product offerings or revenue and against whom our own patents may therefore provide little or no deterrence or protection. Any claim of intellectual property infringement by a third party, even a claim without merit, could cause us to incur substantial costs

defending against such claim, could distract our management from our business and could require us to cease use of such intellectual property. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by the discovery process.

Although third parties may offer a license to their technology or other intellectual property, the terms of any offered license may not be acceptable, and the failure to obtain a license or the costs associated with any license could cause our business, financial condition and results of operations to be materially and adversely affected. In addition, some licenses may be non-exclusive, and therefore our competitors may have access to the same technology licensed to us. If a third party does not offer us a license to its technology or other intellectual property on reasonable terms, or at all, we could be enjoined from continued use of such intellectual property. As a result, we may be required to develop alternative, non-infringing technology, which could require significant time (during which we could be unable to continue to offer our affected products, subscriptions or services), effort, and expense and may ultimately not be successful. Furthermore, a successful claimant could secure a judgment or we may agree to a settlement that prevents us from distributing certain products, providing certain subscriptions or performing certain services or that requires us to pay substantial damages, royalties or other fees. Any of these events could harm our business, financial condition and results of operations.

We incorporate technology from third parties into our products, and our inability to obtain or maintain rights to the technology could harm our business.

We incorporate technology from third parties into our products. We cannot be certain that our suppliers and licensors are not infringing the intellectual property rights of third parties or that the suppliers and licensors have sufficient rights to the technology in all jurisdictions in which we may sell our products. Some of our agreements with our suppliers and licensors may be terminated for convenience by them. If we are unable to obtain or maintain rights to any of this technology because of intellectual property infringement claims brought by third parties against our suppliers and licensors or against us, or if we are unable to continue to obtain such technology or enter into new agreements on commercially reasonable terms, our ability to develop and sell products, subscriptions and services containing such technology could be severely limited, and our business could be harmed. Additionally, if we are unable to obtain necessary technology from third parties, including certain sole suppliers, we may be forced to acquire or develop alternative technology, which may require significant time, cost and effort and may be of lower quality or performance standards. This would limit and delay our ability to offer new or competitive products and increase our costs of production. If alternative technology cannot be obtained or developed, we may not be able to offer certain functionality as part of our products, subscriptions and services. As a result, our margins, market share and results of operations could be significantly harmed.

Our products and subscriptions contain third-party open source software components, and failure to comply with the terms of the underlying open source software licenses could restrict our ability to sell our products and subscriptions. Our products and subscriptions contain software modules licensed to us by third-party authors under "open source" licenses. The use and distribution of open source software may entail greater risks than the use of third-party commercial software, as open source licensors generally do not provide warranties or other contractual protections regarding infringement claims or the quality of the code. Some open source licenses contain requirements that we make available source code for modifications or derivative works we create based upon the type of open source software we use. If we combine our proprietary software with open source software in a certain manner, we could, under certain open source licenses, be required to release the source code of our proprietary software to the public. This would allow our competitors to create similar products with lower development effort and time and ultimately could result in a loss of sales for us.

Although we monitor our use of open source software to avoid subjecting our products and subscriptions to conditions, the terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that these licenses could be construed in ways that could impose unanticipated conditions or restrictions on our ability to commercialize products and subscriptions incorporating such software. Moreover, we cannot assure you that our processes for controlling our use of open source software in our products and subscriptions will be effective. From time to time, we may face claims from third parties asserting 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. If we are held to have breached the terms of an open source software license, we could be required to seek licenses from third parties to continue offering our products on terms that are not economically feasible, to re-engineer our products, to discontinue the sale of our products if re-engineering could not be accomplished on a timely or cost-effective basis, or to make generally available, in source code form, our proprietary code, any of which could adversely affect our business, results of operations and financial condition.

We rely on revenue from subscriptions and service contracts, and because we recognize revenue from subscriptions and service contracts over the term of the relevant subscription or service period, downturns or upturns in sales are not immediately reflected in full in our results of operations.

Subscription and services revenue accounts for a significant portion of our total revenue, comprising 68% and 67% for the three months ended March 31, 2015 and 2014, respectively. Sales of new or renewal subscription and service contracts may decline or fluctuate as a result of a number of factors, including customers' level of satisfaction with our products and subscriptions, the actual or perceived efficacy of our security solutions, the prices of our products and subscriptions, the prices of products and subscriptions

offered by our competitors or reductions in our customers' spending levels. If our sales of new or renewal subscription and service contracts decline, our revenue and revenue growth may decline and adversely affect our business. In addition, we recognize subscription and service revenue ratably over the term of the relevant service period, which is generally between one to five years. As a result, much of the subscription and service revenue we report each quarter is derived from subscription and service contracts that we sold in prior quarters. Consequently, a decline in new or renewed subscription or service contracts in any one quarter will not be fully reflected in revenue in that quarter but will negatively affect our revenue in future quarters. Accordingly, the effect of significant downturns in new or renewed sales of our subscriptions or services is not reflected in full in our results of operations until future periods. Also, it is difficult for us to rapidly increase our subscription revenue through additional sales in any period, as revenue from new and renewal subscription contracts must be recognized ratably over the applicable service period. Furthermore, any increases in the average term of subscriptions contracts would result in revenue for those subscription contracts being recognized over longer periods of time.

U.S. federal, state and local government sales are subject to a number of challenges and risks that may adversely impact our business.

Sales to U.S. federal, state, and local governmental agencies have accounted for, and may in the future account for, a significant portion of our revenue. Sales to such government entities are subject to the following risks:

- selling to governmental agencies can be highly competitive, expensive and time consuming, often requiring significant upfront time and expense without any assurance that such efforts will generate a sale;

- government certification requirements applicable to our products may change and, in doing so, restrict our ability to sell into the U.S. federal government sector until we have attained the revised certification;

- government demand and payment for our products and services may be impacted by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our products and services;

- we sell our platform to governmental agencies through our indirect channel partners, and these agencies may have statutory, contractual or other legal rights to terminate contracts with our distributors and resellers for convenience or due to a default, and any such termination may adversely impact our future results of operations;

- governments routinely investigate and audit government contractors' administrative processes, and any unfavorable audit could result in the government refusing to continue buying our platform, which would adversely impact our revenue and results of operations, or institute fines or civil or criminal liability if the audit were to uncover improper or illegal activities; and

- governments may require certain products to be manufactured in the United States and other relatively high-cost manufacturing locations, and we may not manufacture all products in locations that meet these requirements, affecting our ability to sell these products to governmental agencies.

Our ability to maintain customer satisfaction depends in part on the quality of our professional service organization and technical and other support services, including the quality of the support provided on our behalf by certain channel partners. Failure to maintain high-quality customer support could have a material adverse effect on our business, financial condition and results of operations.

Once our platform is deployed within our customers' networks, our customers depend on our technical and other support services, as well as the support of our channel partners, to resolve any issues relating to the implementation and maintenance of our platform. If we or our channel partners do not effectively assist our customers in deploying our platform, succeed in helping our customers quickly resolve post-deployment issues, or provide effective ongoing support, our ability to sell additional products, subscriptions or services as part of our platform to existing customers would be adversely affected and our reputation with potential customers could be damaged. Many larger organizations have more complex networks and require higher levels of support than smaller customers. If we fail to meet the requirements of our larger customers, it may be more difficult to execute on our strategy of upselling and cross selling with these customers. Additionally, if our channel partners do not effectively provide support to the satisfaction of our customers, we may be required to provide this level of support to those customers, which would require us to hire additional personnel and to invest in additional resources. We are also in the process of expanding our professional services organization. It can take significant time and resources to recruit, hire, and train qualified technical support and professional services employees. We may not be able to hire such resources fast enough to keep up with demand,



particularly when the sales of our platform exceed our internal forecasts. To the extent that we or our channel partners are unsuccessful in hiring, training, and retaining adequate support resources, our ability and the ability of our channel partners to provide adequate and timely support to our customers will be negatively impacted, and our customers' satisfaction with our platform will be adversely affected. Additionally, to the extent that we need to rely on our sales engineers to provide post-sales support while we are ramping our professional services organization, our sales productivity will be negatively impacted, which would harm our results of operations.

The sales prices of our products, subscriptions and services may decrease, which may reduce our gross profits and adversely impact our financial results.

The sales prices for our products, subscriptions and services may decline for a variety of reasons, including competitive pricing pressures, discounts, a change in our mix of products and subscriptions, anticipation of the introduction of new products or subscriptions, or promotional programs. Competition continues to increase in the market segments in which we participate, and we expect competition to further increase in the future, thereby leading to increased pricing pressures. Larger competitors with more diverse product and service offerings may reduce the price of products or subscriptions that compete with ours or may bundle them with other products and subscriptions. Additionally, although we price our products and subscriptions worldwide in U.S. dollars, currency fluctuations in certain countries and regions may negatively impact actual prices that partners and customers are willing to pay in those countries and regions, or the effective prices we realize in our reporting currency. Furthermore, we anticipate that the sales prices and gross profits for our products will decrease over product life cycles. We cannot assure you that we will be successful in developing and introducing new offerings with enhanced functionality on a timely basis, or that our new product and subscription offerings, if introduced, will enable us to maintain our prices and gross profits at levels that will allow us to maintain positive gross margins and achieve profitability.

Managing the supply of our products and their components is complex. Insufficient supply and inventory may result in lost sales opportunities or delayed revenue, while excess inventory may harm our gross margins.

Our third-party manufacturers procure components and build our products based on our forecasts, and we generally do not hold inventory for a prolonged period of time. These forecasts are based on estimates of future demand for our products, which are in turn based on historical trends and analyses from our sales and marketing organizations, adjusted for overall market conditions. In order to reduce manufacturing lead times and plan for adequate component supply, from time to time we may issue forecasts for components and products that are non-cancelable and non-returnable.

Our inventory management systems and related supply chain visibility tools may be inadequate to enable us to make accurate forecasts and effectively manage the supply of our products and product components. Supply management remains an area of increasing focus as we balance the need to maintain supply levels that are sufficient to ensure competitive lead times against the risk of obsolescence because of rapidly changing technology and customer requirements. If we ultimately determine that we have excess supply, we may have to reduce our prices and write-down inventory, which in turn could result in lower gross margins. Alternatively, insufficient supply levels may lead to shortages that result in delayed revenue or loss of sales opportunities altogether as potential customers turn to competitors' products that may be readily available. Additionally, any increases in the time required to manufacture or ship our products could result in supply shortfalls. If we are unable to effectively manage our supply and inventory, our results of operations could be adversely affected.

Because some of the key components in our products come from limited sources of supply, we are susceptible to supply shortages or supply changes, which could disrupt or delay our scheduled product deliveries to our customers and may result in the loss of sales and customers.

Our platform relies on key components, including a motherboard and chassis, which our third-party manufacturers purchase on our behalf from a sole source provider. The manufacturing operations of some of our component suppliers are geographically concentrated in Asia, which makes our supply chain vulnerable to regional disruptions. A localized health risk affecting employees at these facilities, such as the spread of a pandemic influenza, could impair the total volume of components that we are able to obtain, which could result in substantial harm to our results of operations. Similarly, a fire, flood, earthquake, tsunami or other disaster, condition or event such as political instability, terrorist act, civil unrest or a power outage that adversely affects any of these component suppliers' facilities could significantly affect our ability to obtain the components needed for our products, which could result in a substantial loss of sales and revenue and a substantial harm to our results of operations.

We do not have volume purchase contracts with any of our component suppliers, and they could cease selling to us at any time. In addition, our component suppliers change their selling prices frequently in response to market trends, including industry-wide increases in demand, and because we do not have contracts with these suppliers, we are susceptible to price fluctuations related to raw materials and components. If we are unable to pass component price increases along to our customers or maintain stable pricing, our gross margins and results of operations could be

negatively impacted. If we are unable to obtain a sufficient quantity of these components in a timely manner for any reason, sales of our products could be delayed or halted or we could be forced to expedite shipment of such components or our products at dramatically increased costs, which would negatively impact our revenue and gross margins. Additionally, poor quality in any of the sole-sourced components in our products could result in lost sales or lost sales opportunities. If the quality of the components does not meet our or our customers' requirements, if we are unable to obtain components from our existing suppliers on commercially reasonable terms, or if any of our sole source providers cease to remain in business or continue to manufacture such components, we could be forced to redesign our products and qualify new components from alternate suppliers. The resulting stoppage or delay in selling our products and the expense of redesigning our products could result in lost sales opportunities and damage to customer relationships, which would adversely affect our business and results of operations.

Our failure to adequately protect personal information could have a material adverse effect on our business. A wide variety of provincial, state, national, and international laws and regulations apply to the collection, use, retention, protection, disclosure, transfer and other processing of personal data. These data protection and privacy-related laws and regulations are evolving and may result in ever-increasing regulatory and public scrutiny and escalating levels of enforcement and sanctions. Our failure to comply with applicable laws and regulations, or to protect such data, could result in enforcement action against us, including fines, imprisonment of company officials and public censure, claims for damages by customers and other affected individuals, damage to our reputation and loss of goodwill (both in relation to existing customers and prospective customers), any of which could have a material adverse effect on our operations, financial performance and business. Evolving and changing definitions of personal data and personal information within the European Union, the United States, and elsewhere, especially relating to classification of IP addresses, machine identification, location data and other information, may limit or inhibit our ability to operate or expand our business, including limiting technology alliance partners that may involve the sharing of data. Even the perception of privacy concerns, whether or not valid, may harm our reputation, inhibit adoption of our products by current and future customers, or adversely impact our ability to attract and retain workforce talent. If the general level of advanced cyber attacks declines, or is perceived by our current or potential customers to have declined, our business could be harmed.

Our business is substantially dependent on enterprises and governments recognizing that advanced cyber-attacks are pervasive and are not effectively prevented by legacy security solutions. High visibility attacks on prominent enterprises and governments have increased market awareness of the problem of advanced cyber attacks and help to provide an impetus for enterprises and governments to devote resources to protecting against advanced cyber attacks, such as testing our platform, purchasing it, and broadly deploying it within their organizations. If advanced cyber attacks were to decline, or enterprises or governments perceived that the general level of advanced cyber attacks have declined, our ability to attract new customers and expand our offerings within existing customers could be materially and adversely affected. A reduction in the threat landscape could increase our sales cycles and harm our business, results of operations and financial condition.

Our technology alliance partnerships expose us to a range of business risks and uncertainties that could have a material adverse impact on our business and financial results.

We have entered, and intend to continue to enter, into technology alliance partnerships with third parties to support our future growth plans. Such relationships include technology licensing, joint technology development and integration, research cooperation, co-marketing activities and sell-through arrangements. We face a number of risks relating to our technology alliance partnerships that could prevent us from realizing the desired benefits from such partnerships on a timely basis or at all, which, in turn, could have a negative impact on our business and financial results.

Technology alliance partnerships require significant coordination between the parties involved, particularly if a partner requires that we integrate its products with our products. This could involve a significant commitment of time and resources by our technical staff and their counterparts within our technology alliance partner. The integration of products from different companies may be more difficult than we anticipate, and the risk of integration difficulties, incompatible products and undetected programming errors or defects may be higher than the risks normally associated with the introduction of new products. It may also be more difficult to market and sell products developed through technology alliance partnerships than it would be to market and sell products that we develop on our own. Sales and marketing personnel may require special training, as the new products may be more complex than our other products. We invest significant time, money and resources to establish and maintain relationships with our technology alliance partners, but we have no assurance that any particular relationship will continue for any specific period of time. Generally, our agreements with these technology alliance partners are terminable without cause with no or minimal notice or penalties. If we lose a significant technology alliance partner, we could lose the benefit of our investment of time, money and resources in the relationship. In addition, we could be required to incur significant expenses to develop a new strategic alliance or to determine and implement an alternative plan to pursue the opportunity that we targeted with the former partner.

If our estimates or judgments relating to our critical accounting policies are based on assumptions that change or prove to be incorrect, our results of operations could fall below our publicly announced guidance or the expectations

of securities analysts and investors, resulting in a decline in our stock price.

The preparation of financial statements in conformity with generally accepted accounting principles, or GAAP, requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as provided in the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” the results of which form the basis for making judgments about the carrying values of assets, liabilities, equity, revenue and expenses that are not readily apparent from other sources. Our results of operations may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our results of operations

to fall below our publicly announced guidance or the expectations of securities analysts and investors, resulting in a decline in our stock price. Significant assumptions and estimates used in preparing our condensed consolidated financial statements include those related to assets, liabilities, revenue, expenses and related disclosures.

We are exposed to the credit risk of some of our distributors and resellers and to credit exposure in weakened markets, which could result in material losses.

Most of our sales are on an open credit basis. Although we have programs in place that are designed to monitor and mitigate these risks, we cannot assure you these programs will be effective in reducing our credit risks, especially as we expand our business internationally. If we are unable to adequately control these risks, our business, results of operations and financial condition could be harmed.

Our failure to raise additional capital or generate the significant capital necessary to expand our operations and invest in new products could reduce our ability to compete and could harm our business.

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges, including the need to develop new products and enhancements to our platform, improve our operating infrastructure or acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional equity financing, our stockholders may experience significant dilution of their ownership interests and the per share value of our common stock could decline. Furthermore, if we engage in debt financing, the holders of debt would have priority over the holders of common stock, and we may be required to accept terms that restrict our ability to incur additional indebtedness. We may also be required to take other actions that would otherwise be in the interests of the debt holders and force us to maintain specified liquidity or other ratios, any of which could harm our business, results of operations, and financial condition. If we need additional capital and cannot raise it on acceptable terms, we may not be able to, among other things:

- develop or enhance our products and subscriptions;
- continue to expand our sales and marketing and research and development organizations;
- acquire complementary technologies, products or businesses;
- expand operations, in the United States or internationally;
- hire, train and retain employees; or
- respond to competitive pressures or unanticipated working capital requirements.

Our failure to do any of these things could harm our business, financial condition and results of operations.

If our products do not effectively interoperate with our customers' IT infrastructure, installations could be delayed or cancelled, which would harm our business.

Our products must effectively interoperate with our customers' existing or future IT infrastructure, which often has different specifications, utilizes multiple protocol standards, deploys products from multiple vendors, and contains multiple generations of products that have been added over time. As a result, when problems occur in a network, it may be difficult to identify the sources of these problems. If we find errors in the existing software or defects in the hardware used in our customers' infrastructure or problematic network configurations or settings, we may have to modify our software or hardware so that our products will interoperate with our customers' infrastructure. In such cases, our products may be unable to provide significant performance improvements for applications deployed in our customers' infrastructure. These issues could cause longer installation times for our products and could cause order cancellations, either of which would adversely affect our business, results of operations and financial condition. In addition, government and other customers may require our products to comply with certain security or other certifications and standards. If our products are late in achieving or fail to achieve compliance with these certifications and standards, or our competitors achieve compliance with these certifications and standards, we may be disqualified from selling our products to such customers, or may otherwise be at a competitive disadvantage, either of which would harm our business, results of operations, and financial condition.

Failure to comply with governmental laws and regulations could harm our business.

Our business is subject to regulation by various U.S. federal, state, local and foreign governments. In certain jurisdictions, these regulatory requirements may be more stringent than those in the United States. Noncompliance with applicable regulations or requirements could subject us to investigations, sanctions, mandatory product recalls, enforcement actions, disgorgement of profits, fines, damages, civil and criminal penalties, injunctions or other

collateral consequences. If any governmental sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation, our business, results of operations, and financial condition could be materially adversely affected. In addition, responding to any action will likely result in a significant diversion of management's attention and resources and an increase in professional fees. Enforcement actions and sanctions could harm our business, reputation, results of operations and financial condition.

We generate a significant amount of revenue from sales to resellers, distributors and customers outside of the United States, and we are therefore subject to a number of risks associated with international sales and operations.

We have a limited history of marketing, selling, and supporting our platform internationally. As a result, we must hire and train experienced personnel to staff and manage our foreign operations. To the extent that we experience difficulties in recruiting, training, managing, and retaining international employees, particularly managers and other members of our international sales team, we may experience difficulties in sales productivity in, or market penetration of, foreign markets. We also enter into strategic distributor and reseller relationships with companies in certain international markets where we do not have a local presence. If we are not able to maintain successful strategic distributor relationships with our international channel partners or recruit additional channel partners, our future success in these international markets could be limited. Business practices in the international markets that we serve may differ from those in the United States and may require us to include non-standard terms in customer contracts, such as extended payment or warranty terms. To the extent that we enter into customer contracts in the future that include non-standard terms related to payment, warranties, or performance obligations, our results of operations may be adversely impacted.

Additionally, our international sales and operations are subject to a number of risks, including the following:

- greater difficulty in enforcing contracts and managing collections, as well as longer collection periods;
- higher costs of doing business internationally, including costs incurred in establishing and maintaining office space and equipment for our international operations;
- fluctuations in exchange rates between the U.S. dollar and foreign currencies in markets where we do business;
- management communication and integration problems resulting from cultural and geographic dispersion;

risks associated with trade restrictions and foreign legal requirements, including any importation, certification, and localization of our platform that may be required in foreign countries;

greater risk of unexpected changes in regulatory practices, tariffs, and tax laws and treaties;

compliance with anti-bribery laws, including, without limitation, compliance with the U.S. Foreign Corrupt Practices Act of 1977, as amended, the U.S. Travel Act and the UK Bribery Act 2010, violations of which could lead to significant fines, penalties and collateral consequences for our company;

heightened risk of unfair or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements that may impact financial results and result in restatements of, or irregularities in, financial statements;

the uncertainty of protection for intellectual property rights in some countries;

general economic and political conditions in these foreign markets;

foreign exchange controls or tax regulations that might prevent us from repatriating cash earned outside the United States;

political and economic instability in some countries; and

double taxation of our international earnings and potentially adverse tax consequences due to changes in the tax laws of the United States or the foreign jurisdictions in which we operate.

These and other factors could harm our ability to generate future international revenue and, consequently, materially impact our business, results of operations and financial condition.

We are exposed to fluctuations in currency exchange rates, which could negatively affect our financial condition and results of operations.

Our sales contracts are denominated in U.S. dollars, and therefore our revenue is not subject to foreign currency risk.

However, a strengthening of the U.S. dollar could increase the real cost of our products, subscriptions and services to our customers outside of the United States, which could adversely affect our financial condition and results of operations. In addition, we are incurring an increasing portion of our operating expenses outside the United States. These expenses are denominated in foreign currencies and are subject to fluctuations due to changes in foreign currency exchange rates. We do not currently hedge against the risks associated with currency fluctuations but may do so in the future.

We are subject to governmental export and import controls that could subject us to liability or impair our ability to compete in international markets.



Our products are subject to U.S. export controls, specifically the Export Administration Regulations and economic sanctions enforced by the Office of Foreign Assets Control. We incorporate standard encryption algorithms into our products, which, along with the underlying technology, may be exported outside of the U.S. only with the required export authorizations, including by license, license exception or other appropriate government authorizations, which may require the filing of an encryption registration and

45

---

classification request. Furthermore, U.S. export control laws and economic sanctions prohibit the shipment of certain products and services to countries, governments, and persons targeted by U.S. sanctions. While we have taken precautions to prevent our products and services from being exported in violation of these laws, in certain instances in the past we shipped our encryption products prior to obtaining the required export authorizations and/or submitting the required requests, including a classification request and request for an encryption registration number, resulting in an inadvertent violation of U.S. export control laws. As a result, in February 2013, we filed a Voluntary Self Disclosure with the U.S. Department of Commerce's Bureau of Industry and Security, or BIS, concerning these potential violations. In June 2013, BIS notified us that it had completed its review of this matter and closed its review with the issuance of a warning letter. No monetary penalties were assessed. Even though we take precautions to ensure that our channel partners comply with all relevant regulations, any failure by our channel partners to comply with such regulations could have negative consequences, including reputational harm, government investigations and penalties. In addition, various countries regulate the import of certain encryption technology, including through import permit and license requirements, and have enacted laws that could limit our ability to distribute our products or could limit our customers' ability to implement our products in those countries. Changes in our products or changes in export and import regulations may create delays in the introduction of our products into international markets, prevent our customers with international operations from deploying our products globally or, in some cases, prevent the export or import of our products to certain countries, governments or persons altogether. Any change in export or import regulations, economic sanctions or related legislation, 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 products by, or in our decreased ability to export or sell our products to, existing or potential customers with international operations. Any decreased use of our products or limitation on our ability to export or sell our products would likely adversely affect our business, financial condition and results of operations.

Our business is subject to the risks of earthquakes, fire, power outages, floods and other catastrophic events, and to interruption by man-made problems such as terrorism.

A significant natural disaster, such as an earthquake, a fire, a flood, or significant power outage could have a material adverse impact on our business, results of operations, and financial condition. Our corporate headquarters and servers hosting our cloud services are located in California, a region known for seismic activity. In addition, natural disasters could affect our supply chain, manufacturing vendors, or logistics providers' ability to provide materials and perform services such as manufacturing products or assisting with shipments on a timely basis. In the event that our or our service providers' information technology systems or manufacturing or logistics abilities are hindered by any of the events discussed above, shipments could be delayed, resulting in missed financial targets, such as revenue and shipment targets, for a particular quarter. In addition, acts of terrorism and other geo-political unrest could cause disruptions in our business or the business of our supply chain, manufacturers, logistics providers, partners, or customers or the economy as a whole. Any disruption in the business of our supply chain, manufacturers, logistics providers, partners or end-customers that impacts sales at the end of a fiscal quarter could have a significant adverse impact on our financial results. All of the aforementioned risks may be further increased if the disaster recovery plans for us and our suppliers prove to be inadequate. To the extent that any of the above should result in delays or cancellations of customer orders, or the delay in the manufacture, deployment or shipment of our products, our business, financial condition and results of operations would be adversely affected.

If we fail to comply with environmental requirements, our business, financial condition, results of operations and reputation could be adversely affected.

We are subject to various environmental laws and regulations including laws governing the hazardous material content of our products and laws relating to the collection and recycling of electrical and electronic equipment. Examples of these laws and regulations include the European Union, or EU, Restrictions on the Use of certain Hazardous Substances in Electronic Equipment Directive and the EU Waste Electrical and Electronic Equipment Directive as well as the implementing legislation of the EU member states. Similar laws and regulations have been passed or are pending in China, South Korea and Japan and may be enacted in other regions, including in the United States, and we are, or may in the future be, subject to these laws and regulations.

Our failure to comply with past, present, and future laws could result in reduced sales of our products, substantial product inventory write-offs, reputational damage, penalties, and other sanctions, any of which could harm our

business and financial condition. We also expect that our products will be affected by new environmental laws and regulations on an ongoing basis. To date, our expenditures for environmental compliance have not had a material impact on our results of operations or cash flows, and although we cannot predict the future impact of such laws or regulations, they will likely result in additional costs and may increase penalties associated with violations or require us to change the content of our products or how they are manufactured, which could have a material adverse effect on our business, results of operations and financial condition.

The enactment of legislation implementing changes in the U.S. taxation of international business activities or the adoption of other tax reform policies could materially impact our financial position and results of operations.

Recent changes to U.S. tax laws, including limitations on the ability of taxpayers to claim and utilize foreign tax credits and the deferral of certain tax deductions until earnings outside of the United States are repatriated to the United States, as well as changes to U.S. tax laws that may be enacted in the future, could impact the tax treatment of our foreign earnings. Due to expansion of our

international business activities, any changes in the U.S. taxation of such activities may increase our worldwide effective tax rate and adversely affect our financial condition and operating results.

If we do not achieve increased tax benefits as a result of our new corporate structure, our operating results and financial condition may be negatively impacted.

We generally conduct our international operations through wholly-owned subsidiaries and report our taxable income in various jurisdictions worldwide based upon our business operations in those jurisdictions. In 2013, we completed the reorganization of our corporate structure and intercompany relationships to more closely align our corporate organization with the expansion of our international business activities. Although we anticipate achieving a reduction in our overall effective tax rate in the future as a result of this new corporate structure, we may not realize any benefits. Our intercompany relationships are subject to complex transfer pricing regulations administered by taxing authorities in various jurisdictions. The relevant taxing authorities may disagree with our determinations as to the income and expenses attributable to specific jurisdictions. If such a disagreement were to occur, and our position were not sustained, we could be required to pay additional taxes, interest and penalties, which could result in one-time tax charges, higher effective tax rates, reduced cash flows and lower overall profitability of our operations. In addition, if the intended tax treatment of our new corporate structure is not accepted by the applicable taxing authorities, changes in tax law negatively impact the structure or we do not operate our business consistent with the structure and applicable tax laws and regulations, we may fail to achieve any tax advantages as a result of the new corporate structure, and our future operating results and financial condition may be negatively impacted.

We could be subject to additional tax liabilities.

We are subject to U.S. federal, state, local and sales taxes in the United States and foreign income taxes, withholding taxes and transaction taxes in numerous foreign jurisdictions. Significant judgment is required in evaluating our tax positions and our worldwide provision for taxes. During the ordinary course of business, there are many activities and transactions for which the ultimate tax determination is uncertain. In addition, our tax obligations and effective tax rates could be adversely affected by changes in the relevant tax, accounting and other laws, regulations, principles and interpretations, including those relating to income tax nexus, by recognizing tax losses or lower than anticipated earnings in jurisdictions where we have lower statutory rates and higher than anticipated earnings in jurisdictions where we have higher statutory rates, by changes in foreign currency exchange rates, or by changes in the valuation of our deferred tax assets and liabilities. We may be audited in various jurisdictions, and such jurisdictions may assess additional taxes, sales taxes and value-added taxes against us. Although we believe our tax estimates are reasonable, the final determination of any tax audits or litigation could be materially different from our historical tax provisions and accruals, which could have a material adverse effect on our operating results or cash flows in the period or periods for which a determination is made.

Our ability to use our net operating losses to offset future taxable income may be subject to certain limitations.

In general, under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its pre-change net operating losses, or NOLs, to offset future taxable income. Our existing NOLs may be subject to limitations arising from previous ownership changes. Future changes in our stock ownership, some of which are outside of our control, could result in an ownership change under Section 382 of the Code and adversely affect our ability to utilize our NOLs in the future. Furthermore, our ability to utilize NOLs of companies that we may acquire in the future may be subject to limitations. There is also a risk that due to regulatory changes, such as suspensions on the use of NOLs, or other unforeseen reasons, our existing NOLs could expire or otherwise be unavailable to offset future income tax liabilities. For these reasons, we may not be able to utilize a material portion of the NOLs reflected on our balance sheet, even if we attain profitability.

#### Risks Related to Ownership of Our Common Stock

If securities or industry analysts do not publish research or reports about our business, or publish inaccurate or unfavorable research reports about our business, our share price and trading volume could decline.

The trading market for our common stock, to some extent, depends on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. If one or more of the analysts who cover us should downgrade our shares or change their opinion of our shares, industry sector or products, our share price would likely decline. If one or more of these analysts ceases coverage of our company or

fails to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

We may fail to meet our publicly announced guidance or other expectations about our business and future operating results, which would cause our stock price to decline.

We have provided and may continue to provide guidance about our business and future operating results. In developing this guidance, our management must make certain assumptions and judgments about our future performance. Furthermore, analysts and investors may develop and publish their own projections of our business, which forms a consensus about our future performance. Our business results may vary significantly from such guidance or the consensus due to a number of factors, many of which are outside

of our control, and which could adversely affect our operations and operating results. Furthermore, if we make downward revisions of our previously announced guidance, or if our publicly announced guidance of future operating results fails to meet expectations of securities analysts, investors or other interested parties, the price of our common stock would decline.

The price of our common stock has been and may continue to be volatile, and the value of your investment could decline.

The trading price of our common stock has been volatile since our initial public offering, and is likely to continue to be volatile. Since the date of our initial public offering, the price of our common stock has ranged from \$24.81 to \$97.35 through April 30, 2015, and the last reported sale price on April 30, 2015 was \$41.30. The trading price of our common stock may fluctuate widely in response to various factors, some of which are beyond our control. These factors include:

- announcements of new products, services or technologies, commercial relationships, acquisitions or other events by us or our competitors;
- changes in how customers perceive the effectiveness of our platform in protecting against advanced cyber attacks or other reputational harm;
- publicity concerning cyber attacks in general or high profile cyber attacks against specific organizations;
- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of technology and/or growth companies in general and of companies in the IT security industry in particular;
- fluctuations in the trading volume of our shares or the size of our public float;
- actual or anticipated changes or fluctuations in our results of operations;
- whether our results of operations, and in particular, our revenue growth rates, meet the expectations of securities analysts or investors;
- actual or anticipated changes in the expectations of investors or securities analysts, whether as a result of our forward-looking statements, our failure to meet such expectation or otherwise;
- litigation involving us, our industry, or both;
- regulatory developments in the United States, foreign countries or both;
- general economic conditions and trends;
- major catastrophic events;
- sales of large blocks of our common stock; or
- departures of key personnel.

In addition, if the market for technology stocks or the stock market in general experiences a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, results of operations or financial condition. The trading price of our common stock might also decline in reaction to events that affect other companies in our industry even if these events do not directly affect us. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. The price of our common stock has been highly volatile since our IPO in September 2013, and beginning in June 2014, several law suits alleging violations of securities laws were filed against us, our directors and certain of our executive officers. This and any future securities litigation could result in substantial costs and divert our management's attention and resources from our business. This could have a material adverse effect on our business, results of operations and financial condition.

Sales of substantial amounts of our common stock in the public markets, or sales of our common stock by our executive officers and directors under Rule 10b5-1 plans, could adversely affect the market price of our common stock.

Sales of a substantial number of shares of our common stock in the public market, or the perception that such sales could occur, could adversely affect the market price of our common stock and may make it more difficult for you to sell your common stock at a time and price that you deem appropriate. In addition, certain of our executive officers and directors have adopted, and other executive officers and directors may in the future adopt, written plans, known as "Rule 10b5-1 Plans," under which they have contracted, or may in the future contract, with a broker to sell shares of our common stock on a periodic basis to diversify their assets and investments. Sales made by our executive officers and

directors pursuant to Rule 10b5-1, regardless of the amount of such sales, could adversely affect the market price of our common stock.

48

---

The issuance of additional stock in connection with financings, acquisitions, investments, our stock incentive plans or otherwise will dilute all other stockholders.

Our amended and restated certificate of incorporation authorizes us to issue up to 1,000,000,000 shares of common stock and up to 100,000,000 shares of preferred stock with such rights and preferences as may be determined by our board of directors. Subject to compliance with applicable rules and regulations, we may issue shares of common stock or securities convertible into our common stock from time to time in connection with a financing, acquisition, investment, our stock incentive plans or otherwise. For example, in December 2013, we issued approximately 16.9 million shares of common stock and assumed options to purchase approximately 4.6 million shares of our common stock in connection with our acquisition of Mandiant, and in May 2014, we issued 295,681 shares of common stock and assumed options to purchase 63,490 shares of our common stock in connection with our acquisition of nPulse Technologies. Any future issuances could result in substantial dilution to our existing stockholders and cause the trading price of our common stock to decline.

We do not intend to pay dividends for the foreseeable future.

We have never declared or paid any dividends on our common stock. We intend to retain any earnings to finance the operation and expansion of our business, and we do not anticipate paying any cash dividends in the future. As a result, you may only receive a return on your investment in our common stock if the market price of our common stock increases.

The requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain qualified board members.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the listing requirements of the NASDAQ Stock Market and other applicable securities rules and regulations. Compliance with these rules and regulations has increased and will continue to increase our legal and financial compliance costs, has made and will continue to make some activities more difficult, time-consuming or costly, and has increased and will continue to increase demand on our systems and resources. Among other things, the Exchange Act requires that we file annual, quarterly and current reports with respect to our business and results of operations and maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could harm our business and results of operations. Although we have already hired additional employees to comply with these requirements, we may need to hire even more employees in the future, which will increase our costs and expenses. Because we are no longer an "emerging growth company" as defined in the JOBS Act, we are subject to the independent auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, enhanced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. While we were able to determine in our management's report for fiscal 2014 that our internal control over financial reporting is effective, as well as provide an unqualified attestation report from our independent registered public accounting firm to that effect, we have and will continue to consume management resources and incur significant expenses for Section 404 compliance on an ongoing basis. In the event that our Chief Executive Officer, Chief Financial Officer, or independent registered public accounting firm determines in the future that our internal control over financial reporting is not effective as defined under Section 404, we could be subject to one or more investigations or enforcement actions by state or federal regulatory agencies, stockholder lawsuits or other adverse actions requiring us to incur defense costs, pay fines, settlements or judgments and causing investor perceptions to be adversely affected and potentially resulting in a decline in the market price of our stock.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs, and making some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest



resources to comply with evolving laws, regulations, and standards, and this investment will increase our general and administrative expense and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations, and standards are unsuccessful, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

We also expect that being a public company and these new rules and regulations will make it more expensive for us to obtain and maintain director and officer liability insurance, and in the future, we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified executive officers and members of our board of directors, particularly to serve on our audit committee and compensation committee.

In addition, as a result of our disclosure obligations as a public company, we have reduced strategic flexibility and are under pressure to focus on short-term results, which may adversely impact our ability to achieve long-term profitability.

We are obligated to maintain proper and effective internal control over financial reporting. We may not complete our analysis of our internal control over financial reporting in a timely manner, or this internal control may not be determined to be effective, which may adversely affect investor confidence in our company and, as a result, the value of our common stock.

We are required, pursuant to the Exchange Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. This assessment will need to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting, as well as a statement that our auditors have issued an attestation report on our internal controls.

While we were able to determine in our management's report for fiscal 2014 that our internal control over financial reporting is effective, as well as provide an unqualified attestation report from our independent registered public accounting firm to that effect, we may not be able to complete our evaluation, testing, and any required remediation in a timely fashion or our independent registered public accounting firm may not be able to formally attest to the effectiveness of our internal control over financial reporting in the future. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting that we are unable to remediate before the end of the same fiscal year in which the material weakness is identified, we will be unable to assert that our internal controls are effective. If we are unable to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to attest to the effectiveness of our internal controls or determine we have a material weakness in our internal controls, we could lose investor confidence in the accuracy and completeness of our financial reports, which would cause the price of our common stock to decline.

Our charter documents and Delaware law could discourage takeover attempts and lead to management entrenchment. Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that could delay or prevent a change in control of our company. These provisions could also make it difficult for stockholders to elect directors who are not nominated by the current members of our board of directors or take other corporate actions, including effecting changes in our management. These provisions include:

- a classified board of directors with three-year staggered terms, which could delay the ability of stockholders to change the membership of a majority of our board of directors;
- the ability of our board of directors to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquiror;
- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of our board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- the requirement that a special meeting of stockholders may be called only by our board of directors, the chairperson of our board of directors, our Chief Executive Officer or our President (in the absence of a Chief Executive Officer), which could delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors;
- the requirement for the affirmative vote of holders of at least 66 2/3% of the voting power of all of the then outstanding shares of the voting stock, voting together as a single class, to amend the provisions of our amended and restated certificate of incorporation relating to the management of our business (including our classified board structure) or certain provisions of our amended and restated bylaws, which may inhibit the ability of an acquiror to effect such amendments to facilitate an unsolicited takeover attempt;
- the ability of our board of directors to amend the bylaws, which may allow our board of directors to take additional actions to prevent an unsolicited takeover and inhibit the ability of an acquiror to amend the bylaws to facilitate an unsolicited takeover attempt; and

advance notice procedures with which stockholders must comply to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror's own slate of directors or otherwise attempting to obtain control of us.

50

---

In addition, as a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law, which may prohibit large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us for a specified period of time.

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

(a) Sales of Unregistered Securities

None.

(b) Use of Proceeds from Public Offering of Common Stock

Our initial public offering of common stock was effected through Registration Statements on Form S-1 (File Nos. 333-190338 and 333-191275), which were declared or became effective on September 19, 2013. There has been no material change in the use of proceeds from our initial public offering as described in our final prospectus filed with the SEC pursuant to Rule 424(b) and other periodic reports previously filed with the SEC.

(c) Issuer Purchases of Equity Securities

The table below provides information with respect to repurchases of unvested shares of our common stock made pursuant our 2008 Stock Plan.

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
January 1 - January 31, 2015	6,355	\$0.57	—	—
February 1 - February 28, 2015	—	—	—	—
March 1 - March 31, 2015	—	—	—	—
Total	6,355	\$0.57	—	—

Under our 2008 Stock Plan, certain participants may exercise options prior to vesting, subject to a right of a (1) repurchase by us. All shares in the above table were shares repurchased as a result of us exercising this right and not pursuant to a publicly announced plan or program.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No. Description of Exhibit

10.1†	Offer Letter between the Registrant and Kimberly Alexy, dated December 12, 2014 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, Commission File No. 001-36067, filed on January 8, 2015)
31.1	Rule 13a-14(a) / 15(d)-14(a) Certification of Principal Executive Officer
31.2	Rule 13a-14(a) / 15(d)-14(a) Certification of Principal Financial Officer
32.1*	Section 1350 Certifications
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

\* Furnished herewith.

† Indicates a management contract or compensatory plan or arrangement.

SIGNATURE

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.

FIREEYE, INC.

Dated: May 8, 2015

By: /s/ Michael J. Sheridan  
Michael J. Sheridan  
Senior Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer and duly  
authorized signatory)

53

---

EXHIBIT INDEX

Exhibit No. Description of Exhibit

10.1†	Offer Letter between the Registrant and Kimberly Alexy, dated December 12, 2014 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, Commission File No. 001-36067, filed on January 8, 2015)
31.1	Rule 13a-14(a) / 15(d)-14(a) Certification of Principal Executive Officer
31.2	Rule 13a-14(a) / 15(d)-14(a) Certification of Principal Financial Officer
32.1*	Section 1350 Certifications
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

\* Furnished herewith.

† Indicates a management contract or compensatory plan or arrangement.