

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

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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.

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## 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.		

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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.		

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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.		

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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.		

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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

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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.

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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
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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	\$			