

FireEye, Inc.  
Form 10-Q  
August 13, 2014

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 June 30, 2014

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 type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" 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 July 31, 2014 was 148,936,749.

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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)

	June 30, 2014	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$171,620	\$173,918
Short-term investments	292,874	—
Accounts receivable	108,039	95,772
Inventories	5,198	5,663
Deferred tax assets, current portion	21,712	14,584
Prepaid expenses and other current assets	31,879	25,230
Total current assets	631,322	315,167
Property and equipment, net	78,390	64,765
Goodwill	750,132	706,327
Intangible assets, net	284,793	281,377
Deposits and other long-term assets	10,035	8,677
<b>TOTAL ASSETS</b>	<b>\$1,754,672</b>	<b>\$1,376,313</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$36,343	\$34,128
Accrued and other current liabilities	23,273	17,677
Accrued compensation	52,728	41,625
Deferred revenue, current portion	136,808	110,535
Total current liabilities	249,152	203,965
Deferred revenue, non-current portion	95,199	76,979
Deferred tax liabilities, non-current portion	41,044	45,147
Other long-term liabilities	5,580	2,120
Total liabilities	390,975	328,211
Commitments and contingencies (NOTE 8)		
Stockholders' equity:		
Common stock, par value of \$0.0001 per share; 1,000,000 shares authorized, 148,822 shares and 137,758 shares issued and outstanding as of June 30, 2014 and December 31, 2013, respectively	15	14
Additional paid-in capital	1,805,328	1,271,590
Accumulated other comprehensive loss	(110	) —
Accumulated deficit	(441,536	) (223,502
Total stockholders' equity	1,363,697	1,048,102
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$1,754,672</b>	<b>\$1,376,313</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		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Revenue:				
Product	\$37,683	\$17,240	\$61,935	\$32,228
Subscription and services	56,806	15,982	106,534	29,410
Total revenue	94,489	33,222	168,469	61,638
Cost of revenue:				
Product	13,749	5,804	24,075	10,766
Subscription and services	27,831	4,482	52,798	6,402
Total cost of revenue	41,580	10,286	76,873	17,168
Total gross profit	52,909	22,936	91,596	44,470
Operating expenses:				
Research and development	53,408	14,016	95,378	24,078
Sales and marketing	94,591	37,594	171,445	66,163
General and administrative	31,931	10,370	59,031	17,681
Total operating expenses	179,930	61,980	325,854	107,922
Operating loss	(127,021 )	(39,044 )	(234,258 )	(63,452 )
Interest income	183	48	228	52
Interest expense	(4 )	(132 )	(11 )	(276 )
Other expense, net	(329 )	(723 )	(383 )	(2,923 )
Loss before income taxes	(127,171 )	(39,851 )	(234,424 )	(66,599 )
Provision for (benefit from) income taxes	(10,348 )	384	(16,390 )	597
Net loss attributable to common stockholders	\$(116,823 )	\$(40,235 )	\$(218,034 )	\$(67,196 )
Net loss per share attributable to common stockholders, basic and diluted	\$(0.82 )	\$(2.15 )	\$(1.58 )	\$(3.98 )
Weighted average shares used in computing net loss per share attributable to common stockholders, basic and diluted	141,895	18,704	137,939	16,877

See accompanying notes to condensed consolidated financial statements.

FIREEYE, INC.

Condensed Consolidated Statements of Comprehensive Loss

(In thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Net loss	\$(116,823 )	\$(40,235 )	\$(218,034 )	\$(67,196 )
Other comprehensive loss, net of tax:				
Change in net unrealized loss on available-for-sale investments	28	—	(110 )	—
Comprehensive loss	\$(116,795 )	\$(40,235 )	\$(218,144 )	\$(67,196 )

See accompanying notes to condensed consolidated financial statements.

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FIREEYE, INC.

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Six Months Ended	
	June 30,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(218,034 )	\$(67,196 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	42,726	7,095
Stock-based compensation expense	63,447	7,530
Deferred income taxes	(18,960 )	—
Other	183	3,017
Changes in operating assets and liabilities, net of acquisition of business:		
Accounts receivable	(11,660 )	2,052
Inventories	729	(1,168 )
Prepaid expenses and other assets	(3,084 )	(5,013 )
Accounts payable	(7,103 )	8,207
Accrued liabilities	8,747	1,310
Accrued compensation	10,834	4,949
Deferred revenue	44,193	26,180
Other long-term liabilities	3,460	338
Net cash used in operating activities	(84,522 )	(12,699 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment and demonstration units	(31,469 )	(22,055 )
Purchases of marketable securities	(302,531 )	—
Maturities of marketable securities	8,000	—
Acquisition of business, net of cash acquired	(55,058 )	—
Lease deposits	(403 )	(1,597 )
Net cash used in investing activities	(381,461 )	(23,652 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net proceeds from issuance of stock	445,280	10,318
Borrowings from line of credit	—	10,000
Repayment of term loan	—	(2,147 )
Proceeds from exercise of equity awards	18,405	4,771
Repayment of notes receivable from stockholders	—	7,294
Net cash provided by financing activities	463,685	30,236
Net change in cash and cash equivalents	(2,298 )	(6,115 )
Cash and cash equivalents, beginning of year	173,918	60,200
Cash and cash equivalents, end of year	\$ 171,620	\$ 54,085
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid for interest	\$ 11	\$ 284
Cash paid for income taxes	\$ 1,172	\$ 234
<b>SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Accrued follow-on public offering costs	\$ 984	\$ —
	\$ 11,971	\$ 7,971

Purchases of property and equipment and demonstration units in accounts payable and accrued liabilities

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 both Web and email 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.

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 paid and unpaid 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 the 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 and six months ended June 30, 2014 are not necessarily indicative of the results to be expected for the year ending December 31, 2014 or for any other interim period or for any other future year. The balance sheet as of December 31, 2013 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, 2013 included in our Annual Report on Form 10-K, which was filed with the SEC on March 3, 2014.

## 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 and six months ended June 30, 2014, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2013, except for the inclusion of a new policy related to short-term investments.

### Short-term Investments

We classify our investments in debt and equity securities as available-for-sale, and record these investments at fair value. Investments with an original maturity of three months or less at the date of purchase are considered cash equivalents, while all other investments are classified as short-term or long-term based on the nature of the investments, their maturities, and their availability for use in current operations. Unrealized gains and losses are reported as a component of other comprehensive loss. Realized gains and losses are determined based on the specific identification method, and are reflected in earnings. We regularly review our investment portfolio to identify and evaluate investments that have indicators of possible impairment. Factors considered in determining whether a loss is other-than-temporary include, but are not limited to: the length of time and extent a security's fair value has been below its cost, the financial condition and near-term prospects of the investee, the credit quality of the security's issuer, likelihood of recovery and our intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in value. For our debt instruments, we also evaluate whether we have the intent to sell the security or it is more likely than not that we will be required to sell the security before recovery of its cost basis.

Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. Fair value is calculated based on publicly available market information or other estimates determined by management. If the cost of an investment exceeds its fair value, we evaluate, among other factors, general market conditions, credit quality of debt instrument issuers, the duration and extent to which the fair value is less than cost, and whether we have plans to sell the security, or it is more likely than not that we will be required to sell the security, before recovery. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded to other income (expense) and a new cost basis in the investment is established.

### Revenue Recognition

We generate revenue from the sales of products, subscriptions and support and maintenance, and professional services through our indirect relationships with our partners as well as end customers through our direct sales force. Our products include operating system software that is integrated into the appliance hardware and is deemed essential to its functionality. As a result, we account for revenue in accordance with Accounting Standards Codification 605, Revenue Recognition, and all related interpretations as all our security appliance deliverables include proprietary operating system software, which together deliver the essential functionality of our products. Our professional service consists primarily of time and materials based contracts, and the revenue is recognized as costs are incurred at amounts represented by the agreed-upon billing amounts. Revenue from fixed-price professional services engagements are recognized under the proportional performance method of accounting.

In June 2014, we started shipping all Email Threat Prevention appliances with software which allows customers to benefit from the product without the associated subscription services. Consistent with our Web and File Threat Prevention products, revenue therefore is recognized at the time of shipment.

### 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. Early adoption is not 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.

## 2. Fair Value Measurements

## 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 June 30, 2014				As of December 31, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Cash equivalents:								
Money market funds	\$ 110,540	\$—	\$—	\$ 110,540	\$ 132,518	\$—	\$—	\$ 132,518
Commercial paper	—	2,500	—	2,500	—	—	—	—
U.S. Government agencies	—	3,500	—	3,500	—	—	—	—
Total cash equivalents	\$ 110,540	\$ 6,000	\$—	\$ 116,540	\$ 132,518	\$—	\$—	\$ 132,518
Short-term investments:								
Certificates of deposit	—	4,076	—	4,076	—	—	—	—
Commercial paper	—	2,749	—	2,749	—	—	—	—
Corporate notes and bonds	—	147,062	—	147,062	—	—	—	—
U.S. Government agencies	—	138,987	—	138,987	—	—	—	—
Total short-term investments	\$—	\$ 292,874	\$—	\$ 292,874	\$—	\$—	\$—	\$—
Total assets measured at fair value	\$ 110,540	\$ 298,874	\$—	\$ 409,414	\$ 132,518	\$—	\$—	\$ 132,518

## 3. Short-Term Investments

Our investments consisted of the following as of June 30, 2014 (in thousands):

	Available-for-Sale Securities				Cash and Cash Equivalents	Short-term investment
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value		
Certificates of deposit	\$4,080	—	\$(4 )	\$4,076	\$—	\$4,076
Commercial paper	5,248	1	—	5,249	2,500	2,749
Corporate notes and bonds	147,117	25	(80 )	147,062	—	147,062
U.S. Treasuries & U.S. Government Agencies	142,539	1	(53 )	142,487	3,500	138,987
Total	\$298,984	\$27	\$(137 )	\$298,874	\$6,000	\$292,874

The following table presents our investments that had gross unrealized losses, the duration of which was less than twelve months, as of June 30, 2014 (in thousands):

	Total Estimated Fair Value	Unrealized Loss
Certificates of deposit	\$4,076	\$(4 )
Corporate notes and bonds	96,811	(80 )
U.S. Treasuries & U.S. Government Agencies	93,817	(53 )
Total	\$194,704	\$(137 )

There were no investments with unrealized losses for twelve months or greater as of June 30, 2014.

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 June 30, 2014.

The following table summarizes the contractual maturities of our investments at June 30, 2014 (in thousands):

	Amortized Cost	Fair Value
Due within one year	\$160,586	\$160,571
Due within one to two years	138,398	138,303
Total	\$298,984	\$298,874

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 June 30, 2014	As of December 31, 2013
Computer equipment and software	\$71,127	\$57,403
Leasehold improvements	26,756	15,660
Furniture and fixtures	9,931	6,035
Machinery and equipment	447	756
Total property and equipment	108,261	79,854
Less: accumulated depreciation	(29,871)	(15,089)
Total property and equipment, net	\$78,390	\$64,765

Depreciation and amortization expense related to property and equipment and demonstration units during the three months ended June 30, 2014 and 2013 was \$10.2 million and \$3.6 million, respectively. Depreciation and amortization expense related to property and equipment and demonstration units during the six months ended June 30, 2014 and 2013 was \$19.9 million and \$6.6 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 purchase 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. 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	(8,235	)
Goodwill	41,538	
Total preliminary purchase price allocation	\$56,612	

None of the goodwill is expected to be 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

The results of operations of nPulse have been included in our condensed consolidated statements of operations from the acquisition date. Revenue and net income from nPulse through June 30, 2014 were not material. Pro forma results of operations have not been presented because the acquisition was not material to our results of operations.



On December 30, 2013, we acquired privately held Mandiant Corporation (“Mandiant”), a leading provider of advanced end point security products and security incident response management solutions.

The purchase price allocation for the acquisition of Mandiant will be finalized in calendar year 2014. The following is the total preliminary purchase price allocation of the estimated purchase consideration based on the available information as of June 30, 2014 (in thousands):

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	Amount
Net tangible assets	\$9,797
Intangible assets	276,200
Deferred tax liability	(90,105 )
Goodwill	704,898
Total preliminary purchase price allocation	\$900,790

The preliminary estimated useful life and fair values of the identifiable intangible assets as of June 30, 2014 are as follows (in thousands):

	Preliminary Estimated Useful Life (in years)	Amount
Developed technology	4 - 6	\$54,600
In-process research and development	N/A	1,400
Content	10	128,600
Customer relationships	8	65,400
Contract backlog	1 - 3	13,800
Trade names	4	12,400
Total		\$276,200

#### Goodwill and Purchased Intangible Assets

The changes in the carrying amount of goodwill for the six months ended June 30, 2014 are as follows (in thousands):

	Amount
Balance as of December 31, 2013	\$706,327
Acquisitions and adjustments	43,805
Balance as of June 30, 2014	\$750,132

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

	As of June 30, 2014	As of December 31, 2013
Developed technology	\$70,393	\$60,093
Content	128,600	128,500
Customer relationships	75,300	67,900
Contract backlog	13,800	12,600
Trade names	12,400	12,400
Total intangible assets subject to amortization	300,493	281,493
Less: accumulated amortization	(23,500 )	(1,516 )
Net intangible assets subject to amortization	276,993	279,977
In-process research and development	7,800	1,400
Total net intangible assets	\$284,793	\$281,377

Amortization expense of intangible assets for the three months ended June 30, 2014 and 2013 was \$11.2 million and \$0.3 million, respectively. Amortization expense of intangible assets for the six months ended June 30, 2014 and 2013 was \$22.0 million and \$0.5 million, respectively.

The expected annual amortization expense of intangible assets as of June 30, 2014 is presented below (in thousands):

Years Ending December 31,	Intangible Assets
2014 (remaining six months)	\$22,955
2015	45,114
2016	44,496
2017	38,553
2018	27,608
2019 and thereafter	98,267
Total intangible assets subject to amortization	276,993
Total intangible assets with indefinite lives	7,800
Total	\$284,793

#### Out of Period Adjustments

During the three months ended March 31, 2014, we made adjustments to correct errors related to the purchase of Mandiant, which resulted in an increase in additional paid-in capital of \$3.1 million, an increase in intangible assets of approximately \$0.7 million, a decrease in current liabilities of \$0.2 million and an increase in goodwill of approximately \$2.2 million. Because these errors, both individually and in the aggregate, were not material to any of the prior years' financial statements and the impact of correcting these errors in the current period is not material to the March 31, 2014 condensed consolidated financial statements, we recorded the correction of these errors in the March 31, 2014 condensed consolidated financial statements. The impact of correcting these errors is also not material to the June 30, 2014 condensed consolidated financial statements.

#### 6. Deferred Revenue

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

	As of June 30, 2014	As of December 31, 2013
Product, current	\$12,871	\$13,823
Subscription and services, current	123,937	96,712
Total deferred revenue, current	136,808	110,535
Product, non-current	7,361	6,711
Subscription and services, non-current	87,838	70,268
Total deferred revenue, non-current	95,199	76,979
Total deferred revenue	\$232,007	\$187,514

#### 7. Credit Facility

We are able to borrow up to \$25.0 million under a revolving line of credit facility. There were no amounts borrowed during the six months ended June 30, 2014. The maturity date for the revolving line of credit facility is December 31, 2014. Borrowings under the line of credit are collateralized by all of our assets, excluding intellectual property. The availability of borrowings under the line of credit is subject to certain borrowing base limitations around our outstanding accounts receivable. As of June 30, 2014 and December 31, 2013, there were no amounts outstanding under the revolving line of credit.

#### 8. Commitments and Contingencies

##### Leases

We lease our facilities under various non-cancelable operating leases, which expire through the year ending May 2025. Rent expense is recognized using the straight-line method over the term of the lease. Rent expense was \$2.7 million and \$0.9 million for the three months ended June 30, 2014 and 2013, respectively. Rent expense was \$5.3 million and \$1.5 million for the six months ended June 30, 2014 and 2013, respectively.

The aggregate future non-cancelable minimum rental payments on our operating leases as of June 30, 2014 is presented below (in thousands):

Years Ending December 31,	Amount
2014 (remaining six months)	\$4,533
2015	10,114
2016	7,954
2017	6,934
2018	3,727
2019 and thereafter	13,007
Total	\$46,269

We are party to letters of credit totaling \$0.9 million as of June 30, 2014 and December 31, 2013 issued 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 June 30, 2014 and December 31, 2013, we had non-cancellable open orders of \$21.1 million and \$16.7 million, respectively. We are required to record a liability for firm, noncancelable, and unconditional purchase commitments with contract manufacturers and suppliers for quantities in excess of our future demand forecasts. To date we have not been required to accrue any costs for such noncancelable commitments.

#### Purchase Obligations

As of June 30, 2014, we had approximately \$10.8 million of non-cancellable firm purchase commitments primarily for purchases of software and services.

#### 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.

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 complaints allege 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 seek 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.

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 while they are serving in good faith in such capacities. Through June 30, 2014, there have been no claims under any indemnification provisions.

## 9. Common Shares Reserved for Issuance

Under our amended and restated certificate of incorporation, we were authorized to issue 1,000,000,000 shares of common stock with a par value of \$0.0001 per share as of June 30, 2014 and December 31, 2013. Each share of common stock 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 June 30, 2014 or December 31, 2013.

As of June 30, 2014 and December 31, 2013, we had reserved shares of common stock for issuance as follows (in thousands):

	As of June 30, 2014	As of December 31, 2013
Reserved under stock award plans	42,205	40,226
Warrants to purchase common stock	—	312
ESPP	3,273	2,500
Total	45,478	43,038

## 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. A total of 14.0 million shares of our common stock was reserved for future grants as of June 30, 2014 under the 2013 Plan.

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 beginning in 2014. As of June 30, 2014, an aggregate of 3,272,660 shares of common stock were available for future issuance under our ESPP, including 1,377,575 shares of common stock that became available under the ESPP on January 1, 2014 pursuant to the provisions of the ESPP 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 periods and a summary of information related to options exercisable, vested, and expected to vest are presented below (in thousands, except per share amounts):

	Options Outstanding			Weighted-Average Contractual Life (years)	Aggregate Intrinsic Value
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Grant Date Fair Value Per Share		
Balance— December 31, 2013	27,422	\$ 5.82		8.30	\$ 1,036,224
Granted	667	73.14	\$ 73.14		
Exercised	(4,165 )	2.39			176,702
Cancelled	(670 )	8.18			
Assumed in acquisition	63	18.35			
Balance— June 30, 2014	23,317	\$ 8.33		7.95	\$ 773,148
Options vested and expected to vest—June 30, 2014	22,591	\$ 8.18		7.92	\$ 751,732
Options exercisable—June 30, 2014	8,437	\$ 3.07		6.81	\$ 316,243

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

A summary of restricted stock awards and restricted stock units are presented below (in thousands, except per share amounts):

	Number of Shares	Weighted-Average Grant Date Fair Value Per Share	Weighted-Average Contractual Life (years)	Aggregate Intrinsic Value
Granted	4,184	\$ 48.05		
Vested	(677 )			
Cancelled/forfeited	(149 )			
Unvested balance —June 30, 2014	6,960		1.97	282,272
Expected to vest—June 30, 2014	6,416		1.97	\$ 260,164

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 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. These restricted stock awards are reflected within amounts granted in the table above.

## Stock-Based Compensation

We record stock-based compensation based on fair value of stock options on grant date using the Black-Scholes option-pricing model. We determine the fair value of common shares 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 granted 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 the probability assessment. We recognize such compensation expense on a straight-line basis over the service provider's requisite service period.

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The following table summarizes the assumptions used in the Black-Scholes option-pricing model to determine fair value of our stock options:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Fair value of common stock	\$27.89-\$33.39	\$7.93-\$9.68	\$27.89-\$75.87	\$6.05-\$10.63
Risk-free interest rate	1.82%	0.62%-1.69%	1.82%-1.96%	0.6% - 1.7%
Expected term (in years)	6	4 - 6	6	4 - 6
Volatility	51%	51% - 54%	51% - 53%	51% - 54%
Dividend yield	—%	—%	—%	—%

The following table summarizes the assumptions used in the Black-Scholes option-pricing model to determine fair value of our common shares to be issued under the ESPP:

	Three Months Ended June 30,	
	2014	2013
Fair value of common stock	\$23.02	N/A
Risk-free interest rate	0.05% - 0.09%	N/A
Expected term (in years)	0.5 - 1.0	N/A
Volatility	45.0%	N/A
Dividend yield	—%	N/A

Stock-based compensation expense is included in costs and expenses as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Cost of product revenue	\$236	\$73	\$381	\$136
Cost of subscription and services revenue	3,605	401	7,025	568
Research and development	7,803	1,118	12,406	2,075
Sales and marketing	15,923	1,254	24,611	2,094
General and administrative	10,686	1,432	19,024	2,657
Total	\$38,253	\$4,278	\$63,447	\$7,530

As of June 30, 2014, total compensation cost related to stock-based awards not yet recognized was \$338.4 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 three 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.

Our benefit (expense) for income taxes for the three months ended June 30, 2014 and 2013 reflects an effective tax rate of 8.14% and (0.96)%, respectively. Our benefit (expense) for income taxes for the six months ended June 30, 2014 and 2013 reflects an effective tax rate of 6.99% and (0.90)%, respectively. The tax benefit for the three and six month periods ended June 30, 2014 is primarily due to an increase in U.S. deferred tax assets primarily related to current year operating losses and stock-based compensation for which no U.S. valuation allowance is required. The

valuation allowance is not required because of the recording of a deferred tax liability on the acquisition-related intangibles during the three months ended June 30, 2014. In addition the tax benefit was due to reduction in U.S. deferred tax liabilities previously established in purchase accounting, partially offset by foreign and state income tax expense. The tax expense for the three and six months ended June 30, 2013 is primarily due to foreign and state income tax expense.

## 12. Net Loss per Share

Basic 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 potential 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 and six months ended June 30, 2014 and 2013, 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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Numerator:				
Net loss	\$(116,823 )	\$(40,235 )	\$(218,034 )	\$(67,196 )
Denominator:				
Weighted average number of shares outstanding—basic and diluted	141,895	18,704	137,939	16,877
Net loss per share—basic and diluted	\$(0.82 )	\$(2.15 )	\$(1.58 )	\$(3.98 )

The following outstanding options, unvested shares, warrants, and convertible preferred stock 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 June 30,	
	2014	2013
Options to purchase common stock	23,317	20,433
Unvested early exercised common shares	3,308	5,662
Unvested restricted stock awards and units	6,960	2,081
Convertible preferred stock	—	74,221
Warrants to purchase convertible preferred stock	—	616
ESPP shares	137	—

## 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. We maintain the 401(k) Plan that provides our eligible employees other than Mandiant employees with an opportunity to save for retirement on a tax-advantaged basis. In addition, we maintain a tax qualified plan for employees of the Mandiant subsidiary that was assumed in the Mandiant acquisition. All participants’ interests in their deferrals are 100% vested when contributed under both 401(k) plans. We have made no matching contributions into our 401(k) plan since inception. The Mandiant 401(k) plan provides for a match of 100% of the first 4% of an eligible employee’s compensation contributed. Matching contributions under the Mandiant 401(k) plan are 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. Our contributions to the Mandiant 401(k) plan were \$0.7 million

and \$1.4 million for the three and six months ended June 30, 2014, respectively.

#### 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. We have one business activity, and 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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue:				
United States	\$69,636	\$24,618	\$125,364	\$45,358
EMEA	14,678	4,415	23,923	8,415
APAC	6,621	2,890	12,948	5,824
Other	3,554	1,299	6,234	2,041
Total revenue	\$94,489	\$33,222	\$168,469	\$61,638

Substantially all of our assets were attributable to operations in the United States as of June 30, 2014 and December 31, 2013.

## 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 3, 2014. 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:

- our 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 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;

- 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 a comprehensive solution of products and services for detecting, preventing and resolving advanced cybersecurity threats. We have invented a purpose-built, virtual machine-based security platform that provides real-time protection to enterprises and governments worldwide against the next generation of cyber attacks. The core of our purpose-built, virtual machine-based security platform is our virtual execution engine, to which we refer as our MVX engine, which identifies and protects against known and unknown threats that existing signature-based technologies are unable to detect.

We released our first product, the Web Threat Prevention appliance, in 2008. Our Web Threat Prevention appliance is designed to analyze and block advanced attacks via the Web. Since that time, we have continued to enhance our product portfolio, releasing our Email Threat Prevention appliance in 2011 and our File Threat Prevention appliance in 2012. Our Email and File Threat Prevention products address advanced threats that are introduced through email attachments and file shares. Due to the scale of our customer deployments and our customers' desire for deeper analysis of potential malicious software, we also provide management and analysis appliances, specifically our Central Management System and our Forensic Analysis System. We support and enhance the functionality of our products through our Dynamic Threat Intelligence, or DTI, cloud, a subscription service that offers global threat intelligence sharing and provides a closed-loop system that leverages the network effects of a globally distributed, automated threat analysis network.

We primarily market and sell our virtual machine-based security platform to Global 2000 companies in a broad range of industries and governments worldwide. As of June 30, 2014, we had approximately 2,500 end-customers across 65 countries, including 150 of the Fortune 500.

We have experienced rapid growth over the last several years, increasing our revenue at a compound annual growth rate of 139% from 2010 to 2013. We have also increased our number of employees from 1,678 as of December 31, 2013 to 2,386 as of June 30, 2014, largely as a result of our continued investment in research and development and sales and marketing and the associated expansion of our workforce in those functions. We expect to continue scaling our organization to meet the needs of our customers and to pursue opportunities in new and existing markets. We intend to continue to invest in the development of our sales and marketing teams, with a particular focus on expanding our network of international channel partners, hiring key sales and marketing personnel and carrying out associated marketing activities in key geographies. As of June 30, 2014, we were selling our solutions to end-customers in 65 countries, and we expect revenue from international sales to grow as a percentage of our overall revenue. We intend to continue to invest in our product development organization to enhance the functionality of our existing platform, introduce new products and subscriptions, and build upon our technology leadership. Due to our continuing investments to scale our business, particularly internationally, reorganize our corporate structure for improved tax efficiency, pursue new opportunities, enhance our product functionality, introduce new products and build upon our technology leadership in advance of, and in preparation for, our expected increase in sales and expansion of our customer base, we are continuing to incur expenses in the near term for which we may not realize any long-term benefit. As a result, we are presently generating large losses, and do not expect to be profitable for the foreseeable future. Furthermore, our cash used in operating activities has also been material in recent quarters.

During the three months ended June 30, 2014 and 2013, our revenue was \$94.5 million and \$33.2 million, respectively, representing year-over-year growth of 184%. During the six months ended June 30, 2014 and 2013, our revenue was \$168.5 million and \$61.6 million, respectively, representing year-over-year growth of 173%. Our net losses were \$116.8 million and \$40.2 million for the three months ended June 30, 2014 and 2013, respectively, and \$218.0 million and \$67.2 million for the six months ended June 30, 2014 and 2013, respectively. During the three months ended June 30, 2014, approximately 74%, 7% and 16% of our revenue came from the United States, Asia Pacific and Japan (APAC), and Europe the Middle East and Africa (EMEA), respectively. During the six months ended June 30, 2014, approximately 74%, 8% and 14% of our revenue came from the United States, APAC, and

EMEA, respectively. During the three months ended June 30, 2013, approximately 74%, 9% and 13%, and of our revenue came from the United States, APAC and EMEA, respectively. During the six months ended June 30, 2013, approximately 74%, 9% and 14% of our revenue came from the United States, APAC and EMEA, respectively.

In December 2013, we acquired privately held Mandiant Corporation, or Mandiant, the leading provider of advanced endpoint security products and security incident response management solutions. The results of operations of Mandiant have been included in our consolidated statements of operations since December 30, 2013, the acquisition date. The addition of Mandiant's products, subscriptions and professional services offerings has increased our product, subscription and services revenue, as we compare operations for the three and six months ended June 30, 2014 to the three and six months ended June 30, 2013. The addition of Mandiant personnel, facilities and other expenses has increased our cost of sales and operating expenses, as we compare operations for the three and six months ended June 30, 2014 to the three and six months ended June 30, 2013. Our results for the three and six months ended June 30, 2014 are discussed below under "Results of Operations".

We believe that the growth of our business and our short and long term success are dependent upon many factors, including our ability to extend our technology leadership, grow our base of end-customers, expand channel leverage, expand deployment of our platform within existing end-customers, and focus on end-customer satisfaction. While these areas present significant opportunities for us, they also pose challenges and risks that we must successfully address in order to sustain the growth of our business and improve our operating results.

We have experienced rapid growth and increased demand for our products over the last few years. To manage any future growth effectively, we must continue to improve and expand our information technology and financial infrastructure, our operating and administrative systems and controls, and our ability to manage headcount, capital, and processes in an efficient manner. Additionally, we face intense competition in our market, and to succeed, we need to innovate and offer products that are differentiated from existing infrastructure products, as well as effectively hire, retain, train, and motivate qualified personnel and senior management. If we are unable to successfully address these challenges, our business, operating results, and prospects could be adversely affected.

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 paid and unpaid 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.

For a description of factors that may impact our future performance, see the disclosure below under "–Factors Affecting our Performance."

#### 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 portfolio of software-based appliances, consisting of our Web Threat Prevention, Email Threat Prevention and File Threat Prevention, as well as sales of our Forensic Analysis System and Central Management System appliances. We offer this portfolio as a complete solution to protect the various entry points of a customer's network from the next generation of cyber attacks. Because the typical customer's network has more Web entry points to protect than email and file entry points, customers that purchase our threat prevention portfolio generally purchase more Web Threat Prevention appliances than Email or File Threat Prevention appliances. As a result, Web 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 Web Threat Prevention. We introduced our Email Threat Prevention and File Threat Prevention appliances in 2011 and 2012, respectively. While both do not yet represent a significant percentage of our product revenue, they continue to grow at a steady pace.

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 June 30, 2014 and December 31, 2013, our total deferred revenue was \$232.0 million and \$187.5 million, respectively. For the three months ended June 30, 2014 and 2013, subscription and services revenue as a percentage of total revenue was 60% and 48%, respectively. For the six months ended June 30, 2014 and 2013, subscription and services revenue as a percentage of total revenue was 63% and 48%, respectively. Our subscription and services revenue as a percentage of total revenue for the three and six months ended June 30, 2014 increased over the comparative periods in the prior year as a result of sales of professional services, including our Incident Response offering, and subscriptions, including our Managed Defense offering. Subscription and services revenue as a percentage of total revenue has also increased as a result of

amortization of our growing deferred revenue resulting from larger sales of subscription and services and growth in our installed base. A large contributing factor to the growth in our subscription and services revenue 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 subscription and services agreements expiring in the 12 months ended June 30, 2014 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.

## 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		Six Months Ended or as of		
	June 30, 2014	2013	June 30, 2014	2013	
	(Dollars in thousands)				
Product revenue	\$37,683	\$17,240	\$61,935	\$32,228	
Subscription and services revenue	56,806	15,982	106,534	29,410	
Total revenue	\$94,489	\$33,222	\$168,469	\$61,638	
Year-over-year percentage increase	184	% 108	% 173	% 107	%
Gross margin percentage	56	% 69	% 54	% 72	%
Deferred revenue, current	136,808	55,726	136,808	55,726	
Deferred revenue, non-current	95,199	46,859	95,199	46,859	
Billings (non-GAAP)	113,775	45,013	212,963	87,817	
Net cash used in operating activities	(61,934 )	(18,156 )	(84,522 )	(12,699 )	
Free cash flow (non-GAAP)	\$(79,216 )	\$(34,039 )	\$(115,991 )	\$(34,754 )	

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 the corresponding GAAP measure, 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		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
	(in thousands)			
Revenue	\$94,489	\$33,222	\$168,469	\$61,638
Add: Deferred revenue, end of period	232,007	102,585	232,007	102,585
Less: Deferred revenue, beginning of period	212,721	90,794	187,513	76,406
Billings ( non-GAAP)	\$113,775	\$45,013	\$212,963	\$87,817

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.

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. 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		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
	(In thousands)			
Cash flow used in operating activities	\$(61,934 )	\$(18,156 )	\$(84,522 )	\$(12,699 )
Less: purchase of property and equipment and demonstration units	17,282	15,883	31,469	22,055
Free cash flow (non-GAAP)	\$(79,216 )	\$(34,039 )	\$(115,991 )	\$(34,754 )

### 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 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 six months. 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 international regions will face local markets that have not had significant market education about advanced security threats that our platform addresses. All of these factors will influence 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 minimum of a one-year subscription to our DTI cloud as well as support and maintenance services. New or existing customers that purchase one of our Central Management System appliances are required to purchase support and maintenance services for a minimum of one year.

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 rolling

12 month period. Our renewal rate for subscription and service agreements expiring in the 12 months ended June 30, 2014 and 2013 was approximately 90%. These high renewal rates are primarily attributable to the incremental value added to our appliances by our product subscriptions and support and maintenance services. As product subscriptions and support and maintenance services represented 43% and 47% of our total revenue during the six months ended June 30, 2014 and 2013, 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 platform. 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, 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 our year ended December 31, 2013 filed with the SEC on March 3, 2014, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured.

Our total revenue consists of the following:

**Product revenue.** Our product revenue is generated from sales of our Web Threat Prevention, Email Threat Prevention and File Threat Prevention appliances, as well as our Forensic Analysis System and Control Management System appliances. In June 2014, we started shipping all Email Threat Prevention appliances with software which allows customers to benefit from the product without the associated subscription services. Consistent with our Web and File Threat Prevention products, revenue therefore is recognized at the time of shipment. From June 2014, we recognize product revenue on all appliances 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 and support and maintenance 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 contract term. Professional services revenue is recognized upon delivery or completion of performance. Our professional service consists primarily of time and materials based contracts, and the revenue is recognized as costs are incurred at amounts represented by the agreed-upon billing amounts. Revenue from fixed-price professional services engagements are recognized under the proportional performance method of accounting.

### 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 professional services and customer support organizations consist of salaries, benefits, bonuses and stock-based compensation. Overhead costs consist of certain facilities, depreciation, benefits, 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 professional services and customer support organizations and related allocated costs to each organization. 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, is affected by a variety of factors, including the average sales price of our products, subscriptions and services, personnel costs, 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 the factors described above.

#### 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 and stock-based compensation and, with regard to sales and marketing expense, sales commissions. Operating expenses also include overhead costs for facilities, IT and depreciation.

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 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 as a public company, including higher legal, corporate insurance, and accounting expenses.

#### Interest Income

Interest income consists of interest earned on our cash, cash equivalents and investments. We have historically invested our cash in money-market funds and other short-term, investment-grade 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 historically has consisted of interest on our outstanding debt.

#### Other Expense, Net

Other expense, net historically has consisted of the change in fair value of our preferred stock warrant liability. Upon the completion of our initial public offering, the preferred stock warrant liability was reclassified into stockholders' equity, at which time it was no longer subject to fair value accounting. Other factors impacting other expense, net include 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 June 30,				
	2014		2013		
	Amount	% of total revenue	Amount	% of total revenue	
	(Dollars In thousands)				
Revenue:					
Product	\$37,683	40	% \$17,240	52	%
Subscription and services	56,806	60	% 15,982	48	%
Total revenue	94,489	100	% 33,222	100	%
Cost of revenue:					
Product	13,749	15	% 5,804	17	%
Subscription and services	27,831	29	% 4,482	14	%
Total cost of revenue	41,580	44	% 10,286	31	%
Total gross profit	52,909	56	% 22,936	69	%
Operating expenses:					
Research and development	53,408	57	% 14,016	42	%
Sales and marketing	94,591	100	% 37,594	113	%
General and administrative	31,931	34	% 10,370	32	%
Total operating expenses	179,930	191	% 61,980	187	%
Operating loss	(127,021 )	(135 )	% (39,044 )	(118 )	%
Interest income	183	—	% 48	—	%
Interest expense	(4 )	—	% (132 )	—	%
Other expense, net	(329 )	—	% (723 )	(2 )	%
Loss before income taxes	(127,171 )	(135 )	% (39,851 )	(120 )	%
Provision for (benefit from) income taxes	(10,348 )	(11 )	% 384	1	%
Net loss attributable to common stockholders	\$(116,823 )	(124 )	% \$(40,235 )	(121 )	%

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	Six Months Ended June 30, 2014		2013			
	Amount	% of total revenue	Amount	% of total revenue		
(Dollars In thousands)						
Revenue:						
Product	\$61,935	37	% \$32,228	52	%	
Subscription and services	106,534	63	% 29,410	48	%	
Total revenue	168,469	100	% 61,638	100	%	
Cost of revenue:						
Product	24,075	14	% 10,766	18	%	
Subscription and services	52,798	32	% 6,402	10	%	
Total cost of revenue	76,873	46	% 17,168	28	%	
Total gross profit	91,596	54	% 44,470	72	%	
Operating expenses:						
Research and development	95,378	56	% 24,078	39	%	
Sales and marketing	171,445	102	% 66,163	107	%	
General and administrative	59,031	35	% 17,681	29	%	
Total operating expenses	325,854	193	% 107,922	175	%	
Operating loss	(234,258 )	(139	)% (63,452 )	(103	)%	
Interest income	228	—	% 52	—	%	
Interest expense	(11 )	—	% (276 )	—	%	
Other expense, net	(383 )	—	% (2,923 )	(5	)%	
Loss before income taxes	(234,424 )	(139	)% (66,599 )	(108	)%	
Provision for (benefit from) income taxes	(16,390 )	(10	)% 597	1	%	
Net loss attributable to common stockholders	(218,034 )	(129	)% (67,196 )	(109	)%	

Comparison of the Three Months Ended June 30, 2014 and 2013

Revenue

	Three Months Ended June 30, 2014		2013		Change			
	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	%		
(Dollars in thousands)								
Revenue:								
Product	\$37,683	40	% \$17,240	52	% \$20,443	119	%	
Subscription and services	56,806	60	% 15,982	48	% 40,824	255	%	
Total revenue	\$94,489	100	% \$33,222	100	% \$61,267	184	%	
Revenue by geographic region:								
United States	\$69,636	74	% \$24,618	74	% \$45,018	183	%	
EMEA	14,678	16	% 4,415	13	% 10,263	232	%	
APAC	6,621	7	% 2,890	9	% 3,731	129	%	
Other	3,554	3	% 1,299	4	% 2,255	174	%	
Total revenue	\$94,489	100	% \$33,222	100	% \$61,267	184	%	

Product revenue increased by \$20.4 million, or 119%, during the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The increase in product revenue is attributable to growth in our installed base of customers, which grew from approximately 1,000 as of June 30, 2013 to approximately 2,500 as of June 30, 2014. Additionally, product sales resulting from our acquisition of Mandiant, which was completed in December 2013, and

follow-on purchases from customers expanding their initial deployments of our product portfolio also contributed to this increase in product revenue. Our Web Threat Prevention product continued to account for the largest portion of our product revenue as customers that purchase our portfolio generally purchase more Web Threat Prevention appliances than Email Threat Prevention or File Threat Prevention appliances, reflecting the fact that their networks typically have more Web entry points than email or file entry points to protect. The increase in product revenue from the inclusion of Mandiant is primarily attributable to revenue from the HX Endpoint Threat Prevention Platform.

Subscription and service revenue increased by \$40.8 million, or 255%, during the three months ended June 30, 2014 compared to the three months ended June 30, 2013. This increase is comprised of an increase in professional services revenue of \$16.6 million, an increase in subscription revenue of \$18.4 million and an increase in support and maintenance revenue of \$5.8 million. The increase in professional services revenue of \$16.6 million for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013 is primarily due to professional services revenue from the inclusion of Mandiant. The increase from subscription revenue of \$18.4 million and the increase in support and maintenance revenue of \$5.8 million for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013 is primarily from initial customer purchases of \$14.2 million, including subscription revenue from the inclusion of Mandiant for the three months ended June 30, 2014. Additionally, there was an increase of \$9.7 million in amortization of deferred subscription and support and maintenance revenue related to renewals for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013. 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 June 30, 2014 was in excess of 90%.

Our international revenue increased \$16.2 million, or 189%, during the three months ended June 30, 2014 compared to the three months ended June 30, 2013, which reflects our increasing international market presence.

#### Cost of Revenue and Gross Margin

	Three Months Ended June 30,		Change		
	2014	2013		Amount	%
	Amount	Amount			
(Dollars in thousands)					
Cost of revenue:					
Product	\$13,749	\$5,804	\$7,945	137	%
Subscription and services	27,831	4,482	23,349	521	%
Total cost of revenue	\$41,580	\$10,286	\$31,294	304	%
Gross margin:					
Product		64	%	66	%
Subscription and services		51	%	72	%
Total gross margin		56	%	69	%

The cost of product revenue increased \$7.9 million, or 137%, during the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The increase in cost of product revenue was driven primarily by an increase in product revenue and the amortization of intangible assets obtained in our recent acquisition of Mandiant.

The cost of subscription and services revenue increased \$23.3 million, or 521%, during the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The increase in cost of subscription and services revenue was primarily driven by increasing personnel costs in customer support and professional services during the three months ended June 30, 2014, including a 475% increase in headcount driven primarily by the inclusion of the professional services organization acquired from Mandiant.

Gross margin decreased for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The decrease in product gross margin was driven primarily by the amortization of intangible assets obtained in our recent acquisition of Mandiant. The decrease in subscription and services gross margin was driven primarily by our increased investment in customer support personnel, international professional services personnel and infrastructure

and by the amortization of intangible assets obtained in our recent acquisition of Mandiant.



## Operating Expenses

	Three Months Ended June 30, 2014		2013		Change				
	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	%			
(Dollars in thousands)									
Operating expenses:									
Research and development	\$53,408	57	%	\$14,016	42	%	\$39,392	281	%
Sales and marketing	94,591	100	%	37,594	113	%	56,997	152	%
General and administrative	31,931	34	%	10,370	32	%	21,561	208	%
Total operating expenses	\$179,930	191	%	\$61,980	187	%	\$117,950	190	%
Includes stock-based compensation expense of:									
Research and development	\$7,803			\$1,118					
Sales and marketing	15,923			1,254					
General and administrative	10,686			1,432					
Total	\$34,412			\$3,804					

## Research and Development

Research and development expense increased \$39.4 million, or 281%, during the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The increase was primarily driven by a \$27.6 million increase in personnel costs, largely as a result of a 159% increase in headcount, including the acquisition of Mandiant personnel, to support continued investment in our future product and service offerings. Additionally, overhead allocations increased by \$7.5 million, primarily driven by higher facility and IT costs to support departmental expansion.

## Sales and Marketing

Sales and marketing expense increased \$57.0 million, or 152%, during the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The increase was primarily driven by a \$39.5 million increase in personnel costs, largely as a result of a 104% increase in headcount, including the acquisition of Mandiant personnel, as well as greater commissions associated with higher sales. Additionally, overhead allocations increased by \$6.7 million, primarily driven by higher facility and IT costs to support departmental expansion, as well as a greater labor distribution from professional services involved in pre-sales activities.

## General and Administrative

General and administrative expense increased \$21.6 million, or 208%, during the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The increase was primarily driven by a \$14.9 million increase in personnel costs, largely as a result of a 131% increase in headcount, including the acquisition of Mandiant personnel. Additionally, the increase was primarily driven by a \$2.7 million increase in costs for professional services, including legal, accounting and recruiting services, and a \$1.5 million increase in overhead allocations primarily driven by higher facility and IT costs to support departmental expansion.

## Interest Income

	Three Months Ended June 30,		Change				
	2014	2013	Amount	%			
(Dollars in thousands)							
Interest income	\$183	\$48	\$135	281	%		

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Interest income increased for the three months ended June 30, 2014 compared to the three months ended June 30, 2013 due to interest earned on higher average balances in our cash and cash equivalents and investments.

Interest Expense

	Three Months Ended		Change	
	June 30, 2014	2013	Amount	%
	(Dollars in thousands)			
Interest expense	\$(4 )	\$(132 )	\$(128 )	(97 )%

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Interest expense decreased for the three months ended June 30, 2014 compared to the three months ended June 30, 2013 due to lower bank borrowings for the three months ended June 30, 2014.

Other Expense, Net

	Three Months Ended June 30,		Change	
	2014	2013	Amount	%
	(Dollars in thousands)			
Other expense, net	\$(329 )	\$(723 )	\$(394 )	(54 )%

The decrease in other expense, net for the three months ended June 30, 2014 compared to the three months ended June 30, 2013 was primarily due to the absence of any expense for the fair value revaluation of our preferred stock warrant liability which we incurred during the three months ended June 30, 2013. Upon closing of our IPO in September 2013, the preferred stock warrants were converted to common stock warrants, and the warrant liability was then reclassified to stockholders' equity. Subsequently, we no longer record any mark-to-market changes in the fair value of these warrants, and as such, there was no change in fair value of warrants during the three months ended June 30, 2014.

Provision for (Benefit from) Income Taxes

	Three Months Ended June 30,		Change	
	2014	2013	Amount	%
	(Dollars in thousands)			
Provision for (benefit from) income taxes	\$(10,348 )	\$384	\$(10,732 )	(2,795 )%
Effective tax rate (benefit)/provision	(8 )%	1 %		

The tax benefit for the three months ended June 30, 2014 is primarily due to an increase in U.S. deferred tax assets primarily related to current year operating losses and stock-based compensation for which no U.S. valuation allowance is required. The valuation allowance is not required because of the recording of a deferred tax liability on the acquisition-related intangibles during the three months ended June 30, 2014. In addition the tax benefit was due to reduction in U.S. deferred tax liabilities previously established in purchase accounting, partially offset by foreign and state income tax expense. The tax expense for the three months ended June 30, 2013 is primarily due to foreign and state income tax expense.

Comparison of the Six Months Ended June 30, 2014 and 2013

Revenue

	Six Months Ended June 30, 2014		2013		Change	
	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	%
	(Dollars in thousands)					
Revenue:						
Product	\$61,935	37 %	\$32,228	52 %	\$29,707	92 %
Subscription and services	106,534	63 %	29,410	48 %	77,124	262 %
Total revenue	\$168,469	100 %	\$61,638	100 %	\$106,831	173 %
Revenue by geographic region:						
United States	\$125,364	74 %	\$45,358	74 %	\$80,006	176 %

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EMEA	23,923	14	%	8,415	14	%	15,508	184	%
APAC	12,948	8	%	5,824	9	%	7,124	122	%
Other	6,234	4	%	2,041	3	%	4,193	205	%
Total revenue	\$168,469	100	%	\$61,638	100	%	\$106,831	173	%

Product revenue increased by \$29.7 million, or 92%, during the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The increase in product revenue is attributable to growth in our installed base of customers, which grew from

approximately 1,000 as of June 30, 2013 to approximately 2,500 as of June 30, 2014. Additionally, product sales resulting from our acquisition of Mandiant, which was completed in December 2013, and follow-on purchases from customers expanding their initial deployments of our product portfolio also contributed to this increase in product revenue. Our Web Threat Prevention product continued to account for the largest portion of our product revenue as customers that purchase our portfolio generally purchase more Web Threat Prevention appliances than Email Threat Prevention or File Threat Prevention appliances, reflecting the fact that their networks typically have more Web entry points than email or file entry points to protect.

Subscription and service revenue increased by \$77.1 million, or 262%, during the six months ended June 30, 2014 compared to the six months ended June 30, 2013. This increase is comprised of an increase in professional services revenue of \$32.4 million, an increase in subscription revenue of \$33.2 million and an increase in support and maintenance revenue of \$11.5 million. The increase in professional services revenue of \$32.4 million for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013 is primarily due to professional services revenue from the inclusion of Mandiant. The increase from subscription revenue of \$33.2 million and the increase in support and maintenance revenue of \$11.5 million for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013 is primarily from an increase in initial customer purchases of \$26.1 million, including subscription revenue from the inclusion of Mandiant. Additionally, there was an increase of \$18.0 million in amortization of deferred subscription and support and maintenance revenue related to renewals for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013. 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 June 30, 2014 was in excess of 90%.

Our international revenue increased \$26.8 million, or 165%, during the six months ended June 30, 2014 compared to the six months ended June 30, 2013, which reflects our increasing international market presence.

#### Cost of Revenue and Gross Margin

	Six Months Ended June 30,		Change		
	2014	2013		Amount	%
	Amount	Gross Margin	Amount	Gross Margin	
	(Dollars in thousands)				
Cost of revenue:					
Product	\$24,075		\$10,766		124 %
Subscription and services	52,798		6,402		725 %
Total cost of revenue	\$76,873		\$17,168		348 %
Gross margin:					
Product		61 %		67 %	
Subscription and services		50 %		78 %	
Total gross margin		54 %		72 %	

The cost of product revenue increased \$13.3 million, or 124%, during the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The increase in cost of product revenue was driven primarily by an increase in product revenue and the amortization of intangible assets obtained in our recent acquisition of Mandiant.

The cost of subscription and services revenue increased \$46.4 million, or 725%, during the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The increase in cost of subscription and services revenue was primarily driven by increasing personnel costs in customer support and professional services during the six months ended June 30, 2014, including a 475% increase in headcount driven primarily by the inclusion of the professional

services organization acquired from Mandiant.

Gross margin decreased for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The decrease in product gross margin was driven by the amortization of intangible assets obtained in our recent acquisition of Mandiant. The decrease in subscription and services gross margin was driven primarily by our increased investment in customer support personnel and infrastructure and by the amortization of intangible assets obtained in our recent acquisition of Mandiant.

## Operating Expenses

	Six Months Ended June 30, 2014		2013		Change				
	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	%			
(Dollars in thousands)									
Operating expenses:									
Research and development	\$95,378	56	%	\$24,078	39	%	\$71,300	296	%
Sales and marketing	171,445	102	%	66,163	107	%	105,282	159	%
General and administrative	59,031	35	%	17,681	29	%	41,350	234	%
Total operating expenses	\$325,854	193	%	\$107,922	175	%	\$217,932	202	%
Includes stock-based compensation expense of:									
Research and development	\$12,406			\$2,075					
Sales and marketing	24,611			2,094					
General and administrative	19,024			2,657					
Total	\$56,041			\$6,826					

## Research and Development

Research and development expense increased \$71.3 million, or 296%, during the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The increase was primarily driven by a \$49.7 million increase in personnel costs, largely as a result of a 159% increase in headcount, including the acquisition of Mandiant personnel, to support continued investment in our future product and service offerings. Additionally, overhead allocations increased by \$14.1 million, driven by higher facility and IT costs to support departmental expansion.

## Sales and Marketing

Sales and marketing expense increased \$105.3 million, or 159%, during the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The increase was primarily driven by a \$67.7 million increase in personnel costs, largely as a result of a 104% increase in headcount, including the acquisition of Mandiant personnel, as well as greater commissions associated with higher sales. In addition, overhead allocations increased by \$13.6 million, driven by higher facility and IT costs to support departmental expansion, and amortization of intangibles increased by \$6.1 million from customer relationship and trademark intangibles obtained in our recent acquisition of Mandiant.

## General and Administrative

General and administrative expense increased \$41.4 million, or 234%, during the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The increase was primarily driven by a \$27.6 million increase in personnel costs, largely as a result of a 131% increase in headcount, including the acquisition of Mandiant personnel. Additionally, the increase was driven by a \$5.5 million increase in costs for professional services, including legal, audit, and tax services, and a \$3.1 million increase in overhead allocations, driven by higher facility and IT costs to support departmental expansion.

## Interest Income

	Six Months Ended June 30,		Change			
	2014	2013	Amount	%		
(Dollars in thousands)						
Interest income	\$228	\$52	\$176	338	%	

Interest income increased for the six months ended June 30, 2014 compared to the six months ended June 30, 2013 due to interest earned on higher average balances in our cash and cash equivalents and investments.

Interest Expense

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	Six Months Ended June 30,		Change	
	2014	2013	Amount	%
Interest expense	(Dollars in thousands)			
	\$(11 )	\$(276 )	\$(265 )	(96 )%

Interest expense decreased for the six months ended June 30, 2014 compared to the six months ended June 30, 2013 due to lower bank borrowings for the six months ended June 30, 2014.

Other Expense, Net

	Six Months Ended June 30,		Change	
	2014	2013	Amount	%
Other expense, net	(Dollars in thousands)			
	\$(383 )	\$(2,923 )	\$(2,540 )	(87 )%

The decrease in other expense, net for the six months ended June 30, 2014 compared to the six months ended June 30, 2013 was primarily due to the absence of any expense for the fair value revaluation of our preferred stock warrant liability which we incurred during the six months ended June 30, 2013. Upon closing of our IPO in September 2013, the preferred stock warrants were converted to common stock warrants, and the warrant liability was then reclassified to stockholders' equity. Subsequently, we no longer record any mark-to-market changes in the fair value of these warrants, and as such, there was no change in fair value of warrants during the six months ended June 30, 2014.

Provision for (Benefit from) Income Taxes

	Six Months Ended June 30,		Change	
	2014	2013	Amount	%
Provision for (benefit from) income taxes	(Dollars in thousands)			
	\$(16,390 )	\$597	\$(16,987 )	(2,845 )%
Effective tax rate (benefit)/provision	(7 )%	1 %		

The tax benefit for the six months ended June 30, 2014 is primarily due to an increase in U.S. deferred tax assets primarily related to current year operating losses and stock-based compensation for which no U.S. valuation allowance is required. The valuation allowance is not required because of the recording of a deferred tax liability on the acquisition-related intangibles during the three months ended June 30, 2014. In addition the tax benefit was due to reduction in U.S. deferred tax liabilities previously established in purchase accounting, partially offset by foreign and state income tax expense. The tax expense for the six months ended June 30, 2013 is primarily due to foreign and state income tax expense.

Liquidity and Capital Resources

	As of June 30, 2014	As of December 31, 2013
		(In thousands)
Cash and cash equivalents	\$171,620	\$173,918
	Six Months Ended June 30,	
	2014	2013
	(In thousands)	
Cash used in operating activities	\$(84,522 )	\$(12,699 )

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Cash used in investing activities	(381,461	) (23,652	)
Cash provided by financing activities	463,685	30,236	)
Net increase in cash and cash equivalents	\$(2,298	) \$(6,115	)

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As of June 30, 2014, our cash and cash equivalents of \$171.6 million were held for working capital, capital expenditures, investment in technology and business acquisition purposes, of which approximately \$23.1 million was held outside of the United States and is not presently available to fund domestic operations and obligations. If we were to repatriate cash held outside of the United States, it could be subject to U.S. income taxes, less any previously paid foreign income taxes. We have no current plans to repatriate this cash.

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 paid and unpaid offering expenses of approximately \$2.2 million.

In May 2014, we acquired privately held nPulse Technologies, Inc. which required the use of approximately \$55 million in cash.

We believe that our existing cash and cash equivalents 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 six months ended June 30, 2014, operating activities used \$84.5 million in cash as a result of a net loss of \$218.0 million, adjusted by non-cash charges of \$87.4 million, and a net change of \$46.1 million in our net operating assets and liabilities. The net change in our net operating assets and liabilities was primarily the result of a \$44.2 million increase in deferred revenue, as a result of increases in sales of subscriptions and support and maintenance services, and a \$10.8 million increase in accrued compensation driven by headcount increases. This increase was partially offset by an \$11.7 million increase in accounts receivable resulting from growth in billings.

During the six months ended June 30, 2013, operating activities used \$12.7 million in cash as a result of a net loss of \$67.2 million, adjusted by non-cash charges of \$17.6 million and a net change of \$36.9 million in our net operating assets and liabilities. The net change in our net operating assets and liabilities was primarily the result of a \$26.2 million increase in deferred revenue as a result of increases in sales of subscriptions and support and maintenance services, an \$8.2 million increase in accounts payable due to growth in our business, a \$2.1 million decrease in accounts receivable and a \$4.9 million increase in accrued compensation as a result of the growth in our headcount. This increase was partially offset by a \$5.0 million increase in prepaid expenses and other assets.

#### Investing Activities

Cash used in investing activities during the six months ended June 30, 2014 was \$381.5 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, for the acquisition of nPulse and for capital expenditures to purchase property and equipment and demonstration units.

Cash used in investing activities during the six months ended June 30, 2013 was \$23.7 million, primarily for capital expenditures to purchase property and equipment and demonstration units.

#### Financing Activities

During the six months ended June 30, 2014, financing activities provided \$463.7 million in cash, primarily from net proceeds of \$445.3 million from our follow-on public offering, and proceeds of \$18.4 million from the exercise of employee stock options.

During the six months ended June 30, 2013, financing activities provided \$30.2 million in cash, primarily from the issuance of convertible preferred stock, additional borrowings of \$10.0 million under our line of credit, proceeds of \$7.3 million from the collection of notes receivable from stockholders, and proceeds of \$4.8 million from the exercise of stock options, partially offset by repayments on bank borrowings of \$2.1 million.

#### 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 June 30, 2014, 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 3, 2014, except as disclosed in 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.

#### 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.

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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 an immediate 10% adverse change in foreign exchange rates on monetary assets and liabilities at June 30, 2014 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 grow, our risks associated with fluctuation 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.

Interest Rate Risk

We had cash and cash equivalents and investments of \$464.5 million as of June 30, 2014, consisting of bank deposits, money market funds, commercial paper and corporate notes and bonds. 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, nor do we anticipate being 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 the 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, has evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2014. The term "disclosure controls and procedures," as defined in Rule 13a-15 under the Securities Exchange Act of 1934, as amended (or 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 rules and forms of the Securities and Exchange Commission (the "SEC"). Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Based on our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2014, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

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

On December 30, 2013, we completed the acquisition of Mandiant. We are in the process of integrating Mandiant into our systems and control environment as of June 30, 2014. We believe that we have taken the necessary steps to monitor and maintain appropriate internal control over financial reporting during this integration. There were no changes in our internal control over financial reporting during the three months ended June 30, 2014, which were identified in connection with management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, 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 17 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, our sales would not grow as quickly as anticipated, or at all, and our business, results of



operations and financial condition would be harmed.

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 recent acquisition of Mandiant Corporation, or Mandiant, a provider of advanced endpoint security products and security incident response solutions. 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 recent acquisition of Mandiant, 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. For example, we only recently completed our acquisition of Mandiant, and a significant amount of the acquisition integration risks remain. 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 Technologies. 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.

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 our Web Threat Prevention appliance, which we first shipped in 2008. We expanded our platform in 2011, 2012 and 2013 to include our Email Threat Prevention appliance, File Threat Prevention appliance and our latest Web Threat Prevention appliance, the NX 10000, respectively. In December 2013, we expanded our platform 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 recent acquisition of Mandiant 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.

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.

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 over 2,300 employees as of June 30, 2014. We expect our headcount to continue to grow rapidly. In addition, our number of end-customers increased from more than 1,900 to more than 2,400 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 have recently implemented a new enterprise resource planning system, including revenue recognition and management software, and we plan to implement additional systems. There is no assurance that we will be able to successfully scale improvements to our enterprise resource planning system or other systems and processes in a manner that keeps pace with our growth or that such systems 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 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.

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 contract manufacturer relationships and other 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. Currently, most enterprises and governments have not allocated a fixed portion of their budgets to protect against next-generation advanced cyber attacks. 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, general reductions in IT spending by our customers are likely to have a disproportionate impact on our business, results of operations and financial condition. 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 and retain new 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;

• decreases in our customers' subscription renewal rates;

• 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;

• 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 \$116.8 million and \$40.2 million in the three months ended June 30, 2014 and 2013, respectively, and net losses of \$218.0 million and \$67.2 million in the six months ended June 30, 2014 and 2013, 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 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.

We expect our revenue growth rate to decline, and as our costs increase, we may not be able to generate sufficient revenue to achieve and maintain profitability over the long term.

From the year ended December 31, 2010 to the year ended December 31, 2013, our revenue grew from \$11.8 million to \$161.6 million, which represents a compounded annual growth rate of approximately 139%. 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. In addition, 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 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 those we anticipated, or have not occurred at all. The loss or delay of one or more 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. As a result of these factors, it is difficult for us to forecast our revenue accurately in any quarter. 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.

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, 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 and the trend of "bring your own device" in enterprises, 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. For example, in September 2013, we announced the introduction of our latest Web Threat Prevention appliance, the NX 10000, and in December 2013, we released our new SaaS-based Mobile Threat Prevention solution and our solution for small and midsize businesses. 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 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. Our data center 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.

Our customers depend on the continuous availability of our DTI cloud. Our DTI cloud is 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. 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 is unreliable.

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, if at all.

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.

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 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 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, 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 Chief Operating Officer, our Senior Vice President of Worldwide Sales 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.

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.

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.

Real or perceived defects, errors or vulnerabilities in our platform or the failure of our platform to block malware or prevent a security breach could harm our reputation and adversely impact our business, financial position and results of operations.

Because our platform is complex, it has contained and may contain design or manufacturing defects or errors that are not detected until after its deployment by our customers. For example, in the past, we expended time and resources addressing certain manufacturing defects that negatively impacted the ability of certain appliances used in our platform to withstand normal transit. Defects in the functionality of our platform may result in vulnerability to security attacks, cause it to fail to secure networks 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 platform is unable to detect or prevent. Moreover, as our platform is 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 platform. If this happens, our networks, products, subscriptions and services could be targeted by attacks specifically designed to disrupt our business and undermine the perception that our platform is 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 adopting our platform, even if our platform has blocked the theft of any of such customer's data, such customer could nevertheless be disappointed with our platform. Furthermore, if any enterprises or governments that are publicly known to use our platform 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 platform. 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 platform 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 platform 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. To the extent potential customers or industry analysts believe that the occurrence of such a failure is a flaw or indicates that our products 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 platform, or any other failure of our platform to detect an advanced threat, could result in:

- loss of existing or potential customers or channel partners;
- delayed or lost revenue;
- 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.

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. 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.

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.

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 a limited number of third-party manufacturers reduces our control over the manufacturing process and exposes us to risks, including reduced control over quality assurance, product costs, and 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, we may be deemed to manufacture or contract to manufacture products that contain certain minerals that have been designated as “conflict minerals” under the Dodd-Frank Wall Street Reform and Consumer Protection Act. As a result, in future periods, we may be required to diligence the origin of such minerals and disclose and report whether or not such minerals originated in the Democratic Republic of the Congo or adjoining countries. The implementation of these new requirements could adversely affect the sourcing, availability, and pricing of minerals used in the manufacture of our products. In addition, we may incur additional costs to comply with the disclosure requirements, including costs related to determining the source of any of the relevant minerals and metals used in our products.

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 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 60% and 48% for the three months ended June 30, 2014 and 2013, respectively, and comprising 63% and 48% for the six months ended June 30, 2014 and 2013, 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 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 in the past 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 uncovers 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. 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, 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 and inhibit adoption of our products by current and future customers.

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 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 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, 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 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 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 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

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. Our business results may vary significantly from such guidance 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 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 \$25.58 to \$97.35 through July 31, 2014,

and the last reported sale price on July 31, 2014 was \$35.50. 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 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. If our stock price is volatile, we may become the target of securities litigation. 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.

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.

Insiders have substantial control over us, which could limit your ability to influence the outcome of key transactions, including a change of control.

Our directors, executive officers and each of our stockholders who, as of June 30, 2014, owned greater than 5% of our outstanding common stock beneficially owned approximately 41.1% of the total outstanding shares of our common stock as of June 30, 2014. As a result, these stockholders, if acting together, will be able to influence or control matters requiring approval by our stockholders, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. They may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. This concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

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.

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 an “emerging growth company,” and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

For so long as we remain an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act, or the JOBS Act, we may take advantage of certain exemptions from various requirements that are applicable to public companies that are not “emerging growth companies,” including not being required to comply with the independent auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We will remain an “emerging growth company” until the earliest of (i) the last day of the fiscal year following the fifth anniversary of the completion of our IPO, (ii) the last day of the first fiscal year in which our annual gross revenue is \$1 billion or more, (iii) the date on which we have, during the previous rolling three-year period, issued more than \$1 billion in non-convertible debt securities or (iv) the date on which we are deemed to be a “large accelerated filer” as defined in the Exchange Act. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock, and our stock price may be more volatile and may decline.

As a public company, we are obligated to implement and 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 these internal controls 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.

As a public company, 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 for the fiscal year ending December 31, 2014. This assessment will need to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting.

We are currently evaluating our internal controls, identifying and remediating deficiencies in those internal controls and documenting the results of our evaluation, testing and remediation. We may not be able to complete our evaluation, testing and any required remediation in a timely fashion. 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 auditors, when required, are unable to attest to management’s report on the effectiveness of 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.

As a public company, we are required to disclose material changes made in our internal control and procedures on a quarterly basis. Once we are no longer an “emerging growth company,” as defined in the JOBS Act, our independent registered public accounting firm will be required to formally attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act. To comply with the requirements of being a public company, we may need to undertake various actions, such as implementing new internal controls and procedures and hiring accounting or internal audit staff.

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.

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.

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

On May 9, 2014, as partial consideration for our acquisition of nPulse Technologies, Inc. ("nPulse"), we issued 295,681 shares of our common stock to the holders of capital stock and/or vested stock options of nPulse (collectively, the "Securityholders"). The shares were deposited into an escrow account and will be released to the Securityholders upon the achievement of certain milestones. The issuance of the shares was deemed to be exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), in reliance on Section 4(a)(2) of the Securities Act and Regulation D promulgated thereunder, on the basis that, among other factors: (1) certain of the Securityholders represented that they were an "accredited investor" within the meaning of Rule 501(a) of Regulation D; (2) we reasonably believed that each Securityholder who was not an accredited investor (which Securityholders did not exceed 35), either alone or with its purchaser representative, had such knowledge and experience in financial and business matters that such Securityholder was capable of evaluating the merits and risks of the investment, (3) there was no general solicitation or advertising in connection with the issuance of the shares; (4) each of the Securityholders

represented that such Securityholder understood that the shares had not been registered under the Securities Act or any state securities laws and may not be offered for sale, sold, assigned or transferred in the absence of registration or an applicable exemption from registration requirements; (5) each Securityholder or its purchaser representative, as applicable, received or had access to required information and had an opportunity to obtain additional information about us a reasonable period of time prior to the issuance of the shares; and (6) appropriate legends were placed upon the book-entry positions representing the shares.

(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

No shares of our common stock were repurchased during the three months ended June 30, 2014.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit

Number Exhibit Description

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.SCHXBRL Taxonomy Extension Schema Document

101.CALXBRL 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.

+ In accordance with Rule 406T of Regulation S-T, the information in these exhibits is furnished and deemed not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.



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: August 13, 2014

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

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