FireEye, Inc.
Form 10-Q
May 04, 2018

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

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018

or
o 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	20-1548921
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

601 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 x No ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

The number of shares of the registrant's common stock outstanding as of May 1, 2018 was 191,928,725.

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PART I — FINANCIAL INFORMATION
Item1. Financial Statements
FIREEYE, INC.
Condensed Consolidated Balance Sheets
(In thousands, except per share data)
(Unaudited)

	March 31, 2018	December 31, 2017*
ASSETS		
Current assets:		
Cash and cash equivalents	$167,850	$180,891
Short-term investments	718,536	715,911
Accounts receivable, net of allowance for doubtful accounts of $2,585 and $2,503 at March 31, 2018 and December 31, 2017, respectively	103,056	146,317
Inventories	6,806	5,746
Prepaid expenses and other current assets	102,851	93,799
Total current assets	1,099,099	1,142,664
Property and equipment, net	76,579	71,357
Goodwill	999,920	984,661
Intangible assets, net	180,875	187,388
Deposits and other long-term assets	69,912	72,767
TOTAL ASSETS	$2,426,385	$2,458,837
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$30,749	$35,684
Accrued and other current liabilities	23,817	19,569
Accrued compensation	54,020	59,588
Deferred revenue, current portion	533,540	546,615
Total current liabilities	642,126	661,456
Convertible senior notes, net	789,272	779,578
Deferred revenue, non-current portion	352,596	363,485
Other long-term liabilities	22,957	22,102
Total liabilities	1,806,951	1,826,621
Commitments and contingencies (NOTE 10)		
Stockholders' equity:		
Common stock, par value of $0.0001 per share; 1,000,000 shares authorized, 191,905 shares and 187,105 shares issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	19	19
Additional paid-in capital	2,952,085	2,891,441
Treasury stock, at cost; 3,333 shares as of March 31, 2018 and December 31, 2017	(150,000)	(150,000)
Accumulated other comprehensive loss	(4,476)	(2,881)
Accumulated deficit	(2,178,194)	(2,106,363)
Total stockholders' equity	619,434	632,216
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$2,426,385	$2,458,837

* Certain prior period amounts have been adjusted as a result of adoption of the new revenue recognition standard.
See accompanying notes to condensed consolidated financial statements.

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FIREEYE, INC.
Condensed Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Three Months Ended March 31,	
	2018	2017*
Revenue:		
Product, subscription and support	$165,473	$153,729
Professional services	33,597	31,030
Total revenue	199,070	184,759
Cost of revenue:		
Product, subscription and support	47,429	46,423
Professional services	20,500	19,324
Total cost of revenue	67,929	65,747
Total gross profit	131,141	119,012
Operating expenses:		
Research and development	66,196	58,352
Sales and marketing	97,251	98,988
General and administrative	28,418	27,615
Total operating expenses	191,865	184,955
Operating loss	(60,724)	(65,943)
Interest income	2,940	2,032
Interest expense	(12,717)	(12,245)
Other income (expense), net	(276)	232
Loss before income taxes	(70,777)	(75,924)
Provision for income taxes	1,053	1,293
Net loss attributable to common stockholders	$(71,830)	$(77,217)
Net loss per share attributable to common stockholders, basic and diluted	$(0.39)	$(0.45)
Weighted average shares used in computing net loss per share attributable to common stockholders, basic and diluted	186,456	172,236

* Certain prior period amounts have been adjusted as a result of adoption of the new revenue recognition standard.
See accompanying notes to condensed consolidated financial statements.

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FIREEYE, INC.
Condensed Consolidated Statements of Comprehensive Loss
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2018	2017*
Net loss	$(71,830)	$(77,217)
Change in net unrealized gain / (losses) on available-for-sale investments, net of tax	(1,595)	323
Comprehensive loss	$(73,425)	$(76,894)

* Certain prior period amounts have been adjusted as a result of adoption of the new revenue recognition standard.

See accompanying notes to condensed consolidated financial statements.

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FIREEYE, INC.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2018	2017*
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(71,830)	$(77,217)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	22,389	26,365
Stock-based compensation	42,148	43,889
Non-cash interest expense related to convertible senior notes	9,694	9,226
Change in fair value of contingent earn-out liability	—	13
Deferred income taxes	(60)	251
Other	1,342	2,120
Changes in operating assets and liabilities, net of business acquisitions:		
Accounts receivable	42,986	22,021
Inventories	(1,373)	(1,090)
Prepaid expenses and other assets	(6,330)	630
Accounts payable	(5,354)	3,331
Accrued liabilities	4,254	(930)
Accrued compensation	(5,568)	(7,006)
Deferred revenue	(23,965)	(39,789)
Other long-term liabilities	854	1,234
Net cash provided by (used in) operating activities	9,187	(16,952)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment and demonstration units	(14,487)	(8,483)
Purchases of short-term investments	(109,469)	(98,480)
Proceeds from maturities of short-term investments	104,711	94,689
Proceeds from sales of short-term investments	—	3,620
Business acquisitions, net of cash acquired	(5,977)	—
Lease deposits	(116)	(70)
Net cash used in investing activities	(25,338)	(8,724)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments for contingent earn-outs	—	(38,928)
Proceeds from exercise of equity awards	3,110	4,311
Net cash provided by (used in) financing activities	3,110	(34,617)
Net change in cash and cash equivalents	(13,041)	(60,293)
Cash and cash equivalents, beginning of period	180,891	223,667
Cash and cash equivalents, end of period	$167,850	$163,374
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for income taxes	$646	$727
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Common stock issued in connection with acquisitions	$15,387	$—
Purchases of property and equipment and demonstration units in accounts payable and accrued liabilities	$13,773	$5,922

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FIREEYE, INC.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

* Certain prior period amounts have been adjusted as a result of adoption of the new revenue recognition standard.
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”) provide comprehensive intelligence-based cybersecurity solutions that allow organizations to prepare for, prevent, respond to and remediate cyber attacks. Our portfolio of cyber security products and services is designed to detect and prevent attacks, as well as enable rapid discovery and response when a breach occurs. We accomplish this with products and services that adapt to changes in the threat environment in a cycle of innovation that incorporates our threat intelligence, machine-based technologies and cyber security expertise. Our core competitive advantages include:

- Our high efficacy detection and prevention of known and unknown threats using machine-learning, behavioral analytics, and other intelligence-driven analysis (IDA) technologies, combined with our proprietary Multi-vector Virtual Execution (MVX) engine;
- Our intelligence on threats and threat actors, based on the continuous flow of new attack data from our global network of sensors and virtual machines, as well as intelligence gathered by our security researchers, security operations analysts and incident responders; and
- Our accumulated security expertise derived from responding to thousands of significant breaches over the past decade.

Our threat detection and prevention products encompass appliance-based, virtual and cloud solutions for network, email, and endpoint security, and provide the first line of defense against known and unknown attacks. These products are complemented by our network forensics, cloud-based threat intelligence and analytics, managed security services, cyber security consulting and incident response offerings. In combination, our products and services enable a proactive approach to cybersecurity that extends across the security operations cycle to reduce organizations’ overall cyber-risk at a lower total cost of ownership.
In January 2018, we completed the acquisition of privately held X15 Software, Inc. ("X15"), a data management company. As consideration for the acquisition, we paid cash consideration of $5.3 million and issued 1,016,334 shares of our common stock with an estimated fair value of $15.4 million.
In October 2017, we acquired Clean Communications Limited (d/b/a The Email Laundry) ("The Email Laundry"), a privately-held email security company. We paid cash consideration of $4.3 million and issued 259,425 shares of our common stock with an estimated fair value of $4.4 million.
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 unaudited condensed consolidated financial statements have been prepared on the same basis as our annual consolidated financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, that are necessary for a fair statement of our financial information. The results of operations for the three months ended March 31, 2018 are not necessarily indicative of the results to be expected for

the year ending December 31, 2018 or for any other interim period or for any other future year. The balance sheet as of December 31, 2017 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 unaudited 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, 2017 included in our Annual Report on Form 10-K for the year ended December 31, 2017.

The Company adopted Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), effective January 1, 2018 using the full retrospective method. The cumulative effect of the adoption was recognized as an increase to

accumulated deficit of $113 million on January 1, 2018 and impacted certain other prior period amounts. Certain amounts and disclosures set forth in this Form 10-Q have been updated to comply with the new standards.

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, determining the nature and timing of satisfaction of performance obligations, determining the standalone selling price ("SSP") of performance obligations, subscriptions and services, commissions expense including the period of benefit of customer acquisition cost, bonus expense, future taxable income, contract manufacturer liabilities, litigation and settlement costs and other loss contingencies, fair value of our equity awards, achievement of targets for performance stock units, fair value of the liability and equity components of convertible senior notes 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

Except for the accounting policies for revenue recognition and the associated treatments of, deferred revenue and, deferred cost of revenue and deferred commissions updated as a result of adopting ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), there have been no significant changes to our significant accounting policies as of and for the three months ended March 31, 2018, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2017.

Revenue from Contracts with Customers

Revenue is recognized when all of the following criteria are met:

•Identification of the contract, or contracts, with a customer - A contract with a customer exists when (i) we enter into an enforceable contract with a customer that defines each party’s rights regarding the goods or services to be transferred and identifies the payment terms related to these goods or services, (ii) the contract has commercial substance and the parties are committed to perform and, (iii) we determine that collection of substantially all consideration to which it will be entitled in exchange for goods or services that will be transferred is probable based on the customer’s intent and ability to pay the promised consideration.

•Identification of the performance obligations in the contract - Performance obligations promised in a contract are identified based on the goods or services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the goods or service either on its own or together with other resources that are readily available from third parties or from us, and are distinct in the context of the contract, whereby the transfer of the goods or services is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised goods or services, we apply judgment to determine whether promised goods or services are capable of being distinct and distinct in the context of the contract. If these criteria are not met the promised goods or services are accounted for as a combined performance obligation.

•Determination of the transaction price - The transaction price is determined based on the consideration to which we will be entitled in exchange for transferring goods or services to the customer adjusted for estimated variable consideration, if any. We typically estimate the transaction price impact of discounts offered to the customers for early payments on receivables or rebates based on sales target achievements. Constraints are applied when estimating variable considerations based on historical experience where applicable.

•Allocation of the transaction price to the performance obligations in the contract - If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative SSP basis. Determination of SSP requires judgement. We determine standalone selling price taking into account available information such as historical selling prices of the performance obligation, geographic location, overall strategic pricing objective, market conditions and internally approved pricing guidelines related to the performance obligations.

•Recognition of revenue when, or as, we satisfy performance obligation - We satisfy performance obligations either over time or at a point in time as discussed in further detail below. Revenue is recognized at or over the time the related performance obligation is satisfied by transferring a promised good or service to a customer.

Nature of products and services

We generate revenue from the sales of security appliances (products), subscriptions, support and maintenance and professional services, primarily through our indirect relationships with our partners or direct relationships with end customers through our direct sales force. We account for our performance obligations in accordance with the ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), and all related interpretations.

All of our security appliance deliverables include proprietary operating system software, which together with regular security intelligence updates deliver the essential functionality of our appliance-based security products. We combine intelligence dependent appliances and software licenses with the related intelligence subscription and support as a single performance obligation. As a result, we recognize intelligence dependent appliance and software license revenue ratably over the longer of the life of the related appliance and license when our contracts contain material right of renewal options or the contractual term, rather than recognizing revenue at the time of shipping. For the contracts where the term is less than the life of the appliance and license, the intelligence subscription and support revenue is recognized ratably over the contractual term with the allocated value of the material right performance obligations recognized in the period between the end of the contractual term and the useful life. Where our contracts do not contain material right of renewal options, or the contractual term is longer than the useful life, we expect to recognize intelligence dependent appliance and software license revenue ratably over the contractual term. Significant judgement is required in estimating the useful life of our security appliances that are dependent on intelligence and assessing the material rights associated with it.

Revenue from subscriptions to cloud-based services, which allow customers to use our hosted security software over a contracted period without taking possession of the software and managed services where FireEye manages security for the customer are recognized over the contractual term. We also have a small portion of our revenue from appliances and software that are not dependent on regular threat intelligence updates. Revenue from these appliances and software is therefore recognized at a point in time when ownership is transferred to our customers.

Professional services, which include incident response, compromise assessments, and other security consulting services are offered on a time and materials basis or through a fixed fee arrangement, and we recognize the associated revenue as the services are delivered.

Contract Balances

Accounts Receivable

Trade accounts receivable are recorded at the billable amount where we have the unconditional right to bill, net of allowances for doubtful accounts. The allowance for doubtful accounts is based on our assessment of the collectability of accounts. Management regularly reviews the adequacy of the allowance for doubtful accounts by considering the age of each outstanding invoice, each customer's expected ability to pay and collection history, when applicable, to determine whether a specific allowance is appropriate. Accounts receivable deemed uncollectible are charged against the allowance for doubtful accounts when identified.

Deferred Revenue (Contract Liabilities) and Contract Assets

Deferred revenue consists of amounts that have been invoiced and for which the Company has the right to bill, but that have not been recognized as revenue because the related goods or services have not been transferred. Deferred revenue that will be realized during the succeeding 12 month period is recorded as current, and the remaining deferred revenue is recorded as non-current. Deferred revenue presented in the consolidated balance sheet and notes thereto is net of contract assets. Our contract assets consist of assets typically resulting when revenue recognized exceeds the amount billed or billable to the customer due to allocation of transaction price. Contract assets amount is immaterial as of March 31, 2018 and December 31, 2017.

In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined our contracts generally do not include a significant financing component. The primary purpose of our invoicing terms is to provide customers with simplified and predictable ways of purchasing our products and services, not to receive financing from our customers or to provide customers with financing. Examples include invoicing at the beginning of a subscription term with revenue recognized ratably over the contract period.

Assets Recognized from Costs to Obtain a Contract with a Customer

Deferred Commissions

Our customer acquisition costs are primarily related to sales commissions and related payroll taxes earned by our sales force and such costs are considered incremental costs to obtain a contract. Sales commissions for initial contracts are deferred and then amortized taking into consideration the pattern of transfer to which asset relate and may include expected renewal periods where renewal commissions are not commensurate with the initial commissions period. We typically recognize the initial commissions over the longer of the customer relationship (generally estimated to be four years) or over the same period as the initial revenue arrangement to which these costs relate. Renewal commissions not commensurate with the initial commissions paid are generally amortized over the renewal period. Deferred commissions that will amortize within the succeeding 12 month period are classified as current, and

included in prepaid expenses and other current assets on the consolidated balance sheet. The remaining balance is classified as non-current, and included in deposits and other long-term assets. As of December 31, 2017 and March 31, 2018, the amount of deferred commissions included in prepaid expenses and other current assets was $43.8 million and $45.4 million, respectively. The amount of deferred commissions included in deposits and other long-term assets as of December 31, 2017 and March 31, 2018 was $43.0 million and $41.6 million, respectively.

Deferred Costs of Revenue

Deferred costs of revenue consists of appliance related direct and incremental costs that are capitalized and will be amortized on a systematic basis that is consistent with the pattern of transfer to which the asset relates. Deferred costs of revenue that will be realized within the succeeding 12 month period are classified as current, and included in prepaid expenses and other current assets on the consolidated balance sheets. The remaining balance is classified as non-current, and included in deposits and other long-term assets. As of December 31, 2017 and March 31, 2018, the amount of deferred costs of revenue classified as current and included in prepaid expenses and other current assets was $18.4 million and $17.8 million, respectively. The amount of deferred costs of revenue classified as non-current and included in deposits and other long-term assets as of December 31, 2017 and March 31, 2018 was $19.7 million and $18.6 million, respectively.

ASC 606 Impact to Previously Reported Results

We adjusted our condensed consolidated financial statements from amounts previously reported due to the adoption of ASC 606. Select condensed consolidated balance sheet line items, which reflect the adoption of ASC 606, are as follows (in thousands):

	As of December 31, 2017		
Balance Sheet:	As Previously Reported	Impact of Adoption	As Adjusted
Accounts receivable, net	$140,049	6,268	$146,317
Prepaid expenses and other current assets	$34,541	59,258	$93,799
Deposits and other long-term assets	$11,537	61,230	$72,767
Deferred revenue, current portion	$443,064	103,551	$546,615
Deferred revenue, non-current portion	$227,680	135,805	$363,485
Stockholders' equity	$744,816	(112,600)	$632,216

Select unaudited condensed consolidated statement of operations line items, which reflects the adoption of ASC 606, are as follows (in thousands):

	Three Months Ended March 31, 2017		
Condensed Consolidated Statement of Operations	As Previously Reported	Impact of Adoption	As Adjusted
Total revenue	$173,738	11,021	$184,759
Total cost of revenue	$64,605	1,142	$65,747
Total operating expenses	$180,847	4,108	$184,955
Loss before income taxes	$(81,695)	5,771	$(75,924)
Net loss attributable to common stockholders	$(82,988)	5,771	$(77,217)

Select unaudited condensed consolidated statement of cash flows line items, which reflects the adoption of ASC 606, are as follows (in thousands):

	Three Months Ended March 31, 2017		
Condensed Consolidated Statement of Cash flows	As Previously Reported	Impact of Adoption	As Adjusted
Cash flows from operating activities:			
Net loss	$(82,988)	5,771	$(77,217)
Changes in operating assets and liabilities, net of business acquisitions:			
Accounts receivable	$14,584	7,437	$22,021
Prepaid expenses and other assets	$(4,619)	5,249	$630
Deferred revenue	$(21,331)	(18,458)	$(39,789)

Recent Accounting Pronouncements

In February 2018, the FASB issued Accounting Standards Update (ASU) 2018-02 that provides companies with an option to reclassify stranded tax effects resulting from enactment of the Tax Cuts and Jobs Act ("TCJA") from accumulated other comprehensive income to retained earnings. The guidance will be effective for the Company beginning in the first quarter of 2019 with early adoption permitted, and would be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the tax rate as a result of TCJA is recognized. The Company has not made a determination as to which alternative methods it will use when it adopts this standard, but does not expect the adoption of this ASU to have a material impact on its results of operations, financial position and cash flows.

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This standard eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge (i.e. Step 2 of the current guidance), instead measuring the impairment charge as the excess of the reporting unit's carrying amount over its fair value (i.e. Step 1 of the current guidance). The guidance is effective for us beginning in the first quarter of 2020, and should be applied prospectively. Early adoption is permitted for impairment testing dates after January 1, 2017. The adoption of this standard is not expected to have a significant impact on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This standard changes the impairment model for most financial assets and certain other instruments by introducing a current expected credit loss (CECL) model. The CECL model is a more forward-looking approach based on expected losses rather than incurred losses, requiring entities to estimate and record losses expected over the remaining contractual life of an asset. The guidance is effective for us beginning in the first quarter of 2020. Early adoption beginning in 2019 is permitted. We are currently evaluating the impact the adoption of this guidance will have on our consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This standard is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The guidance is effective for us beginning in the first quarter of 2019, and should be applied on a modified retrospective basis. Early adoption is permitted. We expect the adoption of this standard to have a material impact on our consolidated financial statements and related disclosures.

2. Fair Value Measurements

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

- Level 1: Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2: Inputs that reflect quoted prices for identical assets or liabilities in less active markets; quoted prices for similar assets or liabilities in active markets; benchmark yields, reported trades, broker/dealer quotes, inputs other than quoted prices that are observable for the assets or liabilities; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3: Unobservable inputs that reflect our own assumptions incorporated in valuation techniques used to measure fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

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

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

	As of March 31, 2018				As of December 31, 2017			
Description	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Cash equivalents:								
Money market funds	$11	$—	$ —	$11	$208	$—	$ —	$208
Treasury bills	—	—	—	—	3,098	—	—	3,098
Commercial Paper	—	1,997	—	1,997	—	—	—	—
Total cash equivalents	11	1,997	—	2,008	3,306	—	—	3,306
Short-term investments:								
Certificates of deposit	—	—	—	—	—	—	—	—
Commercial paper	—	—	—	—	—	4,987	—	4,987
Corporate notes and bonds	—	445,141	—	445,141	—	438,024	—	438,024
U.S. Government agencies	—	273,395	—	273,395	—	272,900	—	272,900
Total short-term investments	—	718,536	—	718,536	—	715,911	—	715,911
Total assets measured at fair value	$11	$720,533	$ —	$720,544	$3,306	$715,911	$ —	$719,217
Liabilities								
Contingent earn-out	$—	$—	$ —	$—	$—	$—	$ —	$—
Total liabilities measured at fair value	$—	$—	$ —	$—	$—	$—	$ —	$—

We measure certain assets, including goodwill, intangible assets and our equity-method investment in a private company at fair value on a nonrecurring basis when there are identifiable events or changes in circumstances that may have a significant adverse impact on the fair value of these assets. No such events or changes occurred during the three months ended March 31, 2018.

The estimated fair value of the Convertible Senior Notes (as defined in Note 9) as of March 31, 2018 was determined to be $863.5 million, based on quoted market prices. We consider the fair value of the Convertible Senior Notes to be a Level 2 measurement as they are not actively traded.

3. Investments

Our investments consisted of the following (in thousands):

	As of March 31, 2018					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cash and Cash Equivalent	Short-Term Investments
Commercial paper	1,997	—	—	1,997	1,997	—
Corporate notes and bonds	448,465	—	(3,324)	445,141	—	445,141
U.S. Government agencies	274,547	—	(1,152)	273,395	—	273,395
Total	$725,009	$ —	$ (4,476)	$720,533	$ 1,997	$ 718,536

	As of December 31, 2017					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cash and Cash Equivalents	Short-Term Investments
Commercial paper	4,989	—	(2)	4,987	—	4,987
Corporate notes and bonds	439,851	2	(1,829)	438,024	—	438,024
Treasury bills	3,098	—	—	3,098	3,098	—
U.S. Government agencies	273,950	—	(1,050)	272,900	—	272,900
Total	$721,888	$ 2	$ (2,881)	$719,009	$ 3,098	$ 715,911

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

	As of March 31, 2018					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Commercial paper	1,997	—	—	—	1,997	—
Corporate notes and bonds	289,206	(2,494)	155,935	(831)	445,141	(3,325)
U.S. Government agencies	113,531	(686)	159,864	(465)	273,395	(1,151)
Total	$404,734	$ (3,180)	$315,799	$ (1,296)	$720,533	$ (4,476)

	As of December 31, 2017					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Commercial paper	4,987	(2)	—	—	4,987	(2)
Corporate notes and bonds	284,499	(1,484)	153,525	(345)	438,024	(1,829)
U.S. Government agencies	117,132	(486)	155,768	(564)	272,900	(1,050)
Total	$406,618	$ (1,972)	$309,293	$ (909)	$715,911	$ (2,881)

Unrealized losses related to these investments are due to interest rate fluctuations as opposed to credit quality. In addition, we do not intend to sell, and it is not more likely than not that we would be required to sell, these investments before recovery of their cost basis. As a result, there is no other-than-temporary impairment for these investments as of March 31, 2018 and December 31, 2017.

The following table summarizes the contractual maturities of our investments at March 31, 2018 (in thousands):

	Amortized Cost	Fair Value
Due within one year	$394,371	$392,611
Due within one to two years	330,639	327,922
Total	$725,010	$720,533

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

As of March 31, 2018, we held an 11.1% ownership interest in a private company, which is accounted for under the equity method based on our ability to exercise significant influence over operating and financial policies of the private company. This investment is classified within deposits and other long-term assets on our condensed consolidated balance sheets. The carrying value of this investment was $1.7 million as of March 31, 2018 and $2.1 million as of December 31, 2017.

4. Property and Equipment

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

	As of March 31, 2018	As of December 31, 2017
Computer equipment and software	$152,429	$144,438
Leasehold improvements	56,609	67,451
Furniture and fixtures	13,718	16,665
Machinery and equipment	447	447
Total property and equipment	223,203	229,001
Less: accumulated depreciation	(146,624)	(157,644)
Total property and equipment, net	$76,579	$71,357

Depreciation and amortization expense related to property, equipment and demonstration units during the three months ended March 31, 2018 and 2017 was $9.4 million and $11.0 million, respectively.

During the three months ended March 31, 2018 and 2017, we capitalized $4.9 million and $4.7 million, respectively, of software development costs primarily related to our cloud subscription offerings. Amortization expense related to capitalized software development costs during the three months ended March 31, 2018 and 2017 was $1.9 million and $0.8 million, respectively.

5. Business Combinations

Acquisition of The Email Laundry

On October 20, 2017, we acquired all of the outstanding shares of The Email Laundry, a privately held email security company, which is expected to enhance our current email offerings. In connection with this acquisition, we paid cash consideration of $4.3 million and issued 259,425 shares of our common stock with an estimated fair value of $4.4 million, resulting in total purchase consideration of $8.7 million. The purchase price is subject to customary working capital and related adjustments. The purchase price was allocated to intangible assets of $2.7 million, goodwill of $6.4 million and tangible net liabilities of $0.3 million. The intangible assets are composed of technology and customer relationships, each with an estimated weighted average useful life of 3 years. The goodwill is primarily attributable to the know-how of the workforce and is not expected to be deductible for U.S. federal income tax purposes. The results of operations of The Email Laundry have been included in our consolidated statements of operations from the acquisition date. Pro forma financial information has not been presented for this acquisition as the impact to our consolidated financial statements was not material.

Acquisition of X15 Software

On January 11, 2018, we acquired all of the outstanding shares of privately held X15, a data management company. We expect that the X15 technology will be incorporated into the foundation for our platform and analytics capabilities going forward. In connection with this acquisition, we paid cash consideration of $5.3 million and issued 1,016,334 shares of our common stock with an estimated fair value of $15.4 million, resulting in total purchase consideration of $20.7 million. The purchase price was allocated to intangible assets of $6.1 million, goodwill of $15.3 million and tangible net liabilities of $0.7 million. The intangible asset relates to developed technology with an estimated weighted average useful life of 3 years. The goodwill is primarily attributable to the know-how of the workforce and is not expected to be deductible for U.S. federal income tax purposes. The results of operations of X15 have been included in our consolidated statements of operations from the acquisition date. Pro forma financial information has not been presented for this acquisition as the impact to our consolidated financial statements was not material.

Goodwill and Purchased Intangible Assets

Goodwill increased approximately $15.3 million for the three months ended March 31, 2018 due to the acquisition of X15 Software, Inc. There were no other changes in the carrying amount of goodwill.

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

	As of March 31, 2018	As of December 31, 2017
Developed technology	$110,003	$103,903
Content	158,700	158,700
Customer relationships	111,090	111,090
Contract backlog	12,500	12,500
Trade names	15,560	15,560
Non-competition agreements	1,400	1,400
Total intangible assets	409,253	403,153
Less: accumulated amortization	(228,378)	(215,765)
Total net intangible assets	$180,875	$187,388

Amortization expense of intangible assets during the three months ended March 31, 2018 and 2017 was $12.6 million and $14.8 million, respectively.

The expected future annual amortization expense of intangible assets as of March 31, 2018 is presented below (in thousands):

Years Ending December 31,	Amount
2018 (remaining nine months)	$37,713
2019	48,441
2020	33,903
2021	29,337
2022	18,209
and thereafter	13,272
Total	$180,875

6. Restructuring Charges

We initiated a series of restructuring activities in February 2016, including a restructuring plan approved by our Board of Directors in August 2016 designed to reduce operating expenses and align our expense structure with our growth expectations. This restructuring plan resulted in a 10% reduction in our workforce, the consolidation of certain real estate facilities and the impairment of certain assets in 2016.

The following table sets forth a summary of restructuring activities during the three months ended March 31, 2018 (in thousands):

	Facilities costs
Balance, December 31, 2017	$ 935
Cash payments	(48)
Other adjustments	(23)
Balance, March 31, 2018	$ 864

Other adjustments represent relief of unused benefits, changes in fair value and foreign currency fluctuations.

The remaining restructuring balance of $0.9 million at March 31, 2018 is for non-cancelable lease costs which we expect to pay over the terms of the related obligations through the third quarter of 2024, net of sublease income.

7. Deferred Commissions

We capitalize most of our commission expenses and related payroll taxes and amortize on a systematic basis that is consistent with the transfer to customer of the goods or services to which the asset relates. Changes in the balance of total deferred commissions during the three months ended March 31, 2018 are as follows (in thousands):

	As of December 31, 2017	Commissions capitalized	Commissions recognized	As of March 31, 2018
Deferred Commissions	$ 86,779	$ 13,486	$ (13,253)	$87,012

There was no impairment loss in relation to the commissions capitalized for the periods presented.

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8. Deferred Revenue

Deferred revenue consisted of the following (in thousands):

	As of March 31, 2018	As of December 31, 2017*
Product, subscription and support, current	$489,264	$496,218
Professional services, current	44,276	50,397
Total deferred revenue, current	533,540	546,615
Product, subscription and support, non-current	352,269	363,313
Professional services, non-current	327	172
Total deferred revenue, non-current	352,596	363,485
Total deferred revenue	$886,136	$910,100

Changes to the unearned revenue during the three months ended March 31, 2018 are as follows (in thousands):

	As of December 31, 2017*	Billings for the quarter	Revenue Recognized	As of March 31, 2018
Deferred Revenue	$910,100	$175,106	$(199,070)	$886,136

Remaining Performance Obligations

Transaction price allocated to remaining performance obligations represents contracted revenue that has not yet been recognized, which includes deferred revenue and non-cancelable contracts that will be invoiced and recognized as revenue in future periods ("backlog"). While deferred revenue is recorded on our balance sheet as a liability, backlog is not recorded in revenue, unearned revenue or elsewhere in our consolidated financial statements until we establish a contractual right to invoice at which point they are recorded as revenue or deferred revenue as appropriate. As of March 31, 2018, the aggregate amount of the transaction price allocated to remaining performance obligations was $886.1 million in deferred revenue and $11.6 million in backlog. We have used the practical expedient to not disclose backlog related to the comparative period under ASC 606.

We expect that the amount of backlog relative to the total value of our contracts will change from year to year due to several factors, including the amount invoiced early in the contract term, the timing and duration of customer agreements, varying invoicing cycles of agreements and changes in customer financial circumstances. Accordingly, we believe that fluctuations in backlog are not always a reliable indicator of future revenues and we do not utilize backlog as a key management metric internally.

We expect to recognize these remaining performance obligations as follows (in percentages):

	Total	Less than 1 year	1-2 years	2-3 years	More than 3 years
Deferred revenue	100%	60%	25%	11%	4%
Backlog	100%	38%	50%	12%	—%

*Certain prior period amounts have been adjusted as a result of adoption of the new revenue recognition standard.

9. Convertible Senior Notes

Convertible Senior Notes

In June 2015, we issued $460.0 million principal amount of 1.000% Convertible Senior Notes due 2035 (the “Series A Notes”) and $460.0 million principal amount of 1.625% Convertible Senior Notes due 2035 (the “Series B Notes” and together with the Series A Notes, the “Convertible Senior Notes”), including the full exercise of the initial purchasers' over-allotment option, in a private placement to qualified institutional purchasers pursuant to an exemption from registration provided by Section 4(a)(2) and Rule 144A under the Securities Act of 1933, as amended. The net proceeds after the initial purchasers' discount of $23.0 million and issuance costs of $0.5 million from the Convertible Senior Notes were $896.5 million. The Series A Notes and Series B Notes bear interest at 1.000% per year and 1.625% per year, respectively, payable semiannually in arrears on June 1 and December 1 of each year, beginning December 1, 2015. The Convertible Senior Notes mature on June 1, 2035, unless earlier repurchased, redeemed or converted.

The Convertible Senior Notes are unsecured obligations and rank senior in right of payment to any of our indebtedness that is expressly subordinated in right of payment to the Convertible Senior Notes. They rank equally in

right of payment with all of our existing and future liabilities that are not expressly subordinated to the Convertible Senior Notes and effectively rank junior in right of payment to any of our

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secured indebtedness to the extent of the value of the assets securing such indebtedness. They are structurally junior to all indebtedness and other liabilities (including trade payables) of our subsidiaries.

The Convertible Senior Notes do not contain any financial covenants and do not restrict us from paying dividends or issuing or repurchasing our other securities.

The initial conversion rate on each series of Convertible Senior Notes is 16.4572 shares of our common stock per $1,000 principal amount of Convertible Senior Notes, which is equivalent to an initial conversion price of approximately $60.76 per share of common stock. The conversion rate of each series of Convertible Senior Notes may be adjusted upon the occurrence of certain specified events, but not for accrued and unpaid interest.

Holders may convert the Convertible Senior Notes at their option in multiples of $1,000 principal amount prior to March 1, 2035, excluding the period from March 1, 2020 to June 1, 2020 in the case of the Series A Notes and March 1, 2022 to June 1, 2022 in the case of the Series B Notes, only under the following circumstances:

- during any calendar quarter commencing after the calendar quarter ended on September 30, 2015 (and only during such calendar quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price for the Convertible Senior Notes of the relevant series on each applicable trading day;
- during the five business day period after any five consecutive trading day period in which the trading price per $1,000 principal amount of Series A Notes or Series B Notes, as applicable, for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate for the notes of the relevant series on each such trading day;
- if we call any or all of the Convertible Senior Notes of a series for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the relevant redemption date; or
- upon the occurrence of specified corporate events, as specified in each indenture governing the Convertible Senior Notes.

Regardless of the foregoing conditions, holders may convert their Convertible Senior Notes at their option in multiples of $1,000 principal amount at any time during the period from March 1, 2020 to June 1, 2020 in the case of the Series A Notes and during the period from March 1, 2022 to June 1, 2022 in the case of the Series B Notes, or after March 1, 2035 until maturity for either series of Convertible Senior Notes. Upon conversion, the Convertible Senior Notes can be settled in cash, shares of our common stock or any combination thereof at our option.

We may be required by holders of the Convertible Senior Notes to repurchase all or any portion of their Convertible Senior Notes at 100% of the principal amount plus accrued and unpaid interest, on each of June 1, 2020, June 1, 2025 and June 1, 2030, in the case of the Series A Notes, and each of June 1, 2022, June 1, 2025 and June 1, 2030 in the case of the Series B Notes. Holders may also require us to repurchase the Convertible Senior Notes if we undergo a "fundamental change," as defined in each indenture governing the Convertible Senior Notes, at a purchase price equal to 100% of the principal amount, plus accrued and unpaid interest.

Additionally, we may redeem for cash all or any portion of the Series B Notes on or after June 1, 2020 until June 1, 2022 if the last reported sale price of our common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending not more than three trading days immediately preceding the date we provide notice of redemption. We also may redeem for cash all or any portion of the Series A Notes on or after June 1, 2020 until maturity and all or any portion of the Series B Notes on or after June 1, 2022 until maturity, regardless of the foregoing sale price condition.

In accordance with accounting for debt with conversions and other options, we allocated the principal amount of the Convertible Senior Notes into liability and equity components. We also allocated the total amount of initial purchasers' discount and transaction costs incurred to the liability and equity components using the same proportions as the proceeds from the Convertible Senior Notes. Transaction costs of $0.4 million and $0.1 million and initial purchasers' discount of $17.6 million and $5.4 million were attributable to the liability component and equity component of the Convertible Senior Notes, respectively.

The liability and equity components of the Convertible Senior Notes consisted of the following (in thousands):

	As of March 31, 2018		As of December 31, 2017	
	Series A Notes	Series B Notes	Series A Notes	Series B Notes
Liability component:				
Principal	$460,000	$460,000	$460,000	$460,000
Less: Convertible senior notes discounts and issuance costs, net of amortization	(48,505)	(82,223)	(53,762)	(86,660)
Net carrying amount	$411,495	$377,777	$406,238	$373,340
Equity component, net of issuance costs	$92,567	$117,834	$92,567	$117,834

The unamortized discounts and issuance costs as of March 31, 2018 will be amortized over a weighted-average remaining period of approximately 3 years.

Interest expense for the three months ended March 31, 2018 related to the Convertible Senior Notes consisted of the following (in thousands):

	Three Months Ended March 31, 2018	
	Series A Notes	Series B Notes
Coupon interest	$1,150	$1,869
Amortization of convertible senior notes discounts and issuance costs	5,257	4,437
Total interest expense recognized	$6,407	$6,306
Effective interest rate on the liability component	6.3 %	6.8 %

Interest expense for the three months ended March 31, 2017 related to the Convertible Senior Notes consisted of the following (in thousands):

	Three Months Ended March 31, 2017	
	Series A Notes	Series B Notes
Coupon interest	$1,150	$1,869
Amortization of convertible senior notes discounts and issuance costs	4,993	4,232
Total interest expense recognized	$6,143	$6,101
Effective interest rate on the liability component	6.4 %	6.9 %

Prepaid Forward Stock Purchase

In connection with the issuance of the Convertible Senior Notes, we also entered into privately negotiated prepaid forward stock purchase transactions (each a “Prepaid Forward”) with one of the initial purchasers of the Convertible Senior Notes (the “Forward Counterparty”), pursuant to which we paid approximately $150.0 million. The amount of the prepaid is equivalent to approximately 3.3 million shares which are to be settled on or around June 1, 2020 and June 1, 2022, respectively, subject to any early settlement, in whole or in part, of each Prepaid Forward. The Prepaid Forwards are intended to facilitate privately negotiated derivative transactions by which investors in the Convertible Senior Notes will be able to hedge their investment in the Convertible Senior Notes. In the event we pay any cash dividends on our common stock, the Forward Counterparty will pay an equivalent amount back to us.

The related shares were accounted for as a repurchase of common stock, and are presented as Treasury Stock in the unaudited condensed consolidated balance sheets. The 3.3 million shares of common stock purchased under the Prepaid Forwards are excluded from weighted-average shares outstanding for basic and diluted EPS purposes

although they remain legally outstanding.

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10. Commitments and Contingencies
Leases
We lease our facilities under various non-cancelable operating leases, which expire on various dates through the year ending December 31, 2027. Rent expense is recognized using the straight-line method over the term of the lease. Rent expense, net of sublease income, was $4.6 million and $4.1 million for the three months ended March 31, 2018 and 2017, respectively.
The aggregate future non-cancelable minimum rental payments on our operating leases, as of March 31, 2018, are as follows (in thousands):

Years Ending December 31,	Amount
2018 (remaining nine months)	$ 11,838
2019	13,557
2020	11,742
2021	10,722
2022	8,911
2023 and thereafter	31,654
Total	$ 88,424

Total future non-cancelable minimum rental payments have not been reduced by future minimum sublease rentals totaling $6.2 million.
We are party to letters of credit totaling $3.3 million and $3.3 million as of March 31, 2018 and December 31, 2017, respectively, issued primarily in support of operating leases for several of our facilities. These letters of credit are collateralized by a line with our bank. No amounts have been drawn against these letters of credit.
Contract Manufacturer Commitments
Our independent contract manufacturers procure components and assemble our products based on our forecasts. These forecasts are based on estimates of future demand for our products, which are in turn based on historical trends and an analysis from our sales and product marketing organizations, adjusted for overall market conditions. In order to reduce manufacturing lead times and plan for adequate supply, we may issue forecasts and orders for components and products that are non-cancelable. As of March 31, 2018 and December 31, 2017, we had non-cancelable open orders of $11.4 million and $11.6 million, respectively. We are required to record a liability for firm, non-cancelable and unconditional purchase commitments with contract manufacturers and suppliers for quantities in excess of our future demand forecasts. As of March 31, 2018, we have not accrued any significant costs for such non-cancelable commitments.
Purchase Obligations
As of March 31, 2018, we had approximately $12.9 million of non-cancelable firm purchase commitments primarily for purchases of software and services. In those situations in which we have received delivery of the goods or services as of March 31, 2018 under purchase orders outstanding as of the same date, such amounts are reflected in the condensed consolidated balance sheet as accounts payable or accrued liabilities, and are excluded from the $12.9 million.
Litigation
From time to time, we are involved in claims and legal proceedings that arise in the ordinary course of business. Any claims or proceedings against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time, result in the diversion of significant operational resources, or require us to enter into agreements which may not be available on terms favorable to us or at all.

To the extent there is a reasonable possibility that a loss exceeding amounts already recognized may be incurred, and the amount of such additional loss would be material, we will either disclose the estimated additional loss or state that such an estimate cannot be made. We do not currently believe that it is reasonably possible that additional losses in connection with litigation arising in the ordinary course of business would be material.
Indemnification
Under the indemnification provisions of our standard sales related contracts, we agree to defend our customers against third-party claims asserting infringement of certain intellectual property rights, which may include patents, copyrights,

trademarks, or trade secrets, and to pay judgments entered on such claims. Our exposure under these indemnification provisions is generally limited to the total amount paid by our customer under the agreement. However, certain agreements include indemnification provisions that could potentially expose us to losses in excess of the amount received under the agreement. In addition, we indemnify

our officers, directors, and certain key employees for actions taken while they are or were serving in good faith in such capacities. Through March 31, 2018, there have been no claims under any indemnification provisions.

11. Common Shares Reserved for Issuance

Under our amended and restated certificate of incorporation, we are authorized to issue 100,000,000 shares of convertible preferred stock with a par value of $0.0001 per share, none of which were issued and outstanding as of March 31, 2018 or December 31, 2017.

Under our amended and restated certificate of incorporation, we are authorized to issue 1,000,000,000 shares of common stock with a par value of $0.0001 per share as of March 31, 2018 and December 31, 2017. Each share of common stock outstanding is entitled to one vote. The holders of common stock are also entitled to receive dividends whenever funds are legally available and when declared by our Board of Directors, subject to the prior rights of holders of all classes of convertible preferred stock outstanding.

We had reserved shares of common stock for issuance as follows (in thousands):

	As of March 31, 2018	As of December 31, 2017
Reserved under stock award plans	41,602	35,838
Convertible Senior Notes	15,141	15,141
ESPP	4,856	2,985
Total	61,599	53,964

12. 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. Our 2013 Plan provides for annual increases in the number of shares available for issuance on the first day of each fiscal year. Awards granted under the 2013 Plan vest over the periods determined by our Board of Directors or compensation committee of our Board of Directors, generally four years, and stock options granted under the 2013 Plan expire no more than ten years after the date of grant. In the case of an incentive stock option granted to an employee who at the time of grant owns stock representing more than 10% of the total combined voting power of all classes of stock, the exercise price shall be no less than 110% of the fair value per share on the date of grant, and the award shall expire five years from the date of grant. For options granted to any other employee, the per share exercise price shall be no less than 100% of the fair value per share on the date of grant. In the case of non-statutory stock options and options granted to consultants, the per share exercise price shall be no less than 100% of the fair value per share on the date of grant. Stock that is purchased prior to vesting is subject to our right of repurchase at any time following termination of the participant's service for so long as such stock remains unvested. Approximately 12.8 million shares and 11.7 million shares of our common stock were reserved for future grants as of March 31, 2018 and December 31, 2017, respectively, 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. An aggregate of approximately 4.9 million shares and 3.0 million shares of common stock were available for future issuance as of March 31, 2018 and December 31, 2017, respectively, under our ESPP.

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

Stock Option Activity

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

	Options Outstanding			
	Number of Shares	Weighted-Average Exercise Price (per share)	Weighted-Average Contractual Life (years)	Aggregate Intrinsic Value
Balance — December 31, 2017	4,433	$ 12.31	4.8	$ 28,090
Exercised	(445)	6.99		4,498
Cancelled	(68)	32.41		
Balance — March 31, 2018	3,920	$ 12.56	4.7	$ 34,167
Options exercisable — March 31, 2018	3,920	$ 12.56	4.7	$ 34,167

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

A summary of the activity for our restricted common stock, RSAs and RSUs, including those subject to performance conditions, during the reporting period and a summary of information related to unvested restricted common stock, RSAs and RSUs, including those with vesting subject to the achievement of a performance condition, are presented below (in thousands, except per share amounts and contractual life years):

	Number of Shares	Weighted-Average Grant Date Fair Value (per share)	Weighted-Average Contractual Life (years)	Aggregate Intrinsic Value
Unvested balance — December 31, 2017	20,017	$ 17.09	1.3	$ 284,255
Granted	9,313	14.95		
Vested	(3,340)	16.68		
Cancelled	(885)	18.22		
Unvested balance — March 31, 2018	25,105	$ 16.20	1.7	$ 425,075
Unvested awards for which the requisite service period has not been rendered and vesting is subject to the achievement of a performance condition — March 31, 2018	1,139	$ 16.17	1.9	$ 19,289

Stock-Based Compensation

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

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 for the offering periods beginning in November 2017:

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Fair value of common stock	$14.14 - $15.65	$13.12-$14.12
Risk-free interest rate	1.05% - 1.62%	0.38% - 0.79%
Expected term (in years)	0.5 - 1.0	0.5 - 1.0
Volatility	29% - 52%	57% - 63%
Dividend yield	—%	—%

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

	Three Months Ended March 31,	
	2018	2017
Cost of product, subscription and support revenue	$3,622	$4,360
Cost of professional services revenue	3,902	3,672
Research and development	14,353	14,525
Sales and marketing	12,977	14,015
General and administrative	7,294	7,317
Total	$42,148	$43,889

As of March 31, 2018, total compensation cost related to stock-based awards not yet recognized was $327.5 million, which is expected to be amortized on a straight-line basis over the weighted-average remaining vesting period of approximately 2.7 years.

13. Income Taxes

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

We recognized a provision for income taxes of $1.1 million and $1.3 million for the three months ended March 31, 2018 and 2017, respectively. For both the three months ended March 31, 2018 and 2017, the provision for income taxes is primarily comprised of income taxes in foreign jurisdictions and withholding taxes.

14. Net Loss per Share

Basic net loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period, less shares subject to repurchase, and excludes any dilutive effects of employee share based awards and warrants. Diluted net income per common share is computed giving effect to all potentially dilutive common shares, including common stock issuable upon exercise of stock options, conversion of the Convertible Senior Notes, and unvested restricted common stock and stock units. As we had net losses for the three months ended March 31, 2018 and 2017, all potential common shares were determined to be anti-dilutive.

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

	Three Months Ended March 31,	
	2018	2017*
Numerator:		
Net loss	$(71,830)	$(77,217)
Denominator:		
Weighted average number of shares outstanding—basic and diluted	186,456	172,236
Net loss per share—basic and diluted	$(0.39)	$(0.45)

* Certain prior period amounts have been adjusted as a result of adoption of the new revenue recognition standard.

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

	As of March 31,	
	2018	2017
Options to purchase common stock	3,920	7,019
Unvested early exercised common shares	—	—
Unvested restricted stock awards and units	25,105	24,983
Convertible senior notes	15,141	15,141
ESPP shares	639	784

15. 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. All participants' interests in their deferrals are 100% vested when contributed. We are responsible for administrative costs of the 401(k) Plan and have made no matching contributions into our 401(k) Plan since inception. Under the 401(k) Plan, pre-tax contributions are allocated to each participant's individual account and are then invested in selected investment alternatives according to the participants' directions. The 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 the 401(k) Plan and earnings on those contributions are not taxable to the employees until distributed, and all contributions are deductible by us when and if made.

16. Segment and Major Customers Information

Disaggregation of revenue by geography

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 define our regions into United States ("US"), Europe, the Middle East, and Africa ("EMEA"), Asia Pacific and Japan ("APAC"), and all remaining geographies (primarily Latin America and Canada) included in Others. There are no segment managers who are held accountable for operations, operating results, and plans for levels, components, or types of products or services below the consolidated unit level. Accordingly, we are considered to be in a single reportable segment and operating unit structure.

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

	Three Months Ended March 31,							
	2018	2017*	2018	2017*	2018	2017*	2018	2017*
	US		EMEA		APAC		Other	
Product and related subscription and support	$73,628	$71,197	$21,925	$18,472	$19,748	$17,758	$5,792	$4,757
Cloud subscription and managed services	29,855	30,941	6,645	4,058	5,409	5,018	2,471	1,527
Professional services	22,465	23,147	5,448	2,871	2,498	2,969	3,186	2,044
Total revenue	$125,948	$125,285	$34,018	$25,401	$27,655	$25,745	$11,449	$8,328

We generate revenue from sales of our products and related subscriptions and support, cloud subscription and managed services, and professional services. Our product and related subscription and support revenue consists primarily of revenue from the sale of our intelligence-dependent security appliances and software, subscriptions to our dynamic threat intelligence (DTI) updates, and support and maintenance. Our intelligent-dependent security appliances include NX (network security), EX (email security), HX (endpoint security), and FX (file security). Product and related subscription and support also includes our enterprise forensic solutions (PX) network forensics appliance and our central management system (CMS) management appliance. Because these PX and CMS appliances are not dependent on regular threat intelligence updates, revenue is recognized upon shipment. Cloud subscription and managed services consists of revenue from the sale of our cloud-based email security, our Threat Analytics Platform

(TAP), our Helix orchestration and automation platform, and our standalone threat intelligence subscriptions. Professional services revenue consists of revenue from the sale of security consulting services, including incident response,

compromise and security program assessments, red teaming and training. The following table depicts the disaggregation of revenue according to revenue type and is consistent with how we evaluate our financial performance (in thousands):

	Three Months Ended March 31,	
	2018	2017*
Revenue by Category		
Product and related subscription and support	$121,092	$112,184
Cloud subscription and managed services	44,381	41,545
Professional services	33,597	31,030
Total revenue	$199,070	$184,759

Disaggregation of long lived assets by geography

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

	As of March 31, 2018	As of December 31, 2017
Property and Equipment, net:		
United States	$66,453	$ 60,202
International	10,126	11,155
Total property and equipment, net	$76,579	$ 71,357

For each of the three months ended March 31, 2018 and 2017, one distributor represented 20% and 19%, respectively, and one reseller represented 15% and 12%, respectively, of the Company's total revenue. As of March 31, 2018 and December 31, 2017, no customer represented 10% or more of the Company's net accounts receivable balance.

*Certain prior period amounts have been adjusted as a result of adoption of the new revenue recognition standard.

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 condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2017. 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:

- the evolution of the threat landscape facing our customers and prospects;
- our ability , and effects of our efforts, to educate the market regarding the advantages of our security solutions;
- our ability to continue to grow revenues;
- our future financial and operating results;
- our business plan and our ability to effectively manage our growth and associated investments;
- beliefs and objectives for future operations;
- our ability to expand our leadership position in advanced network security;
- our ability to attract and retain customers and to expand our solutions footprint within each of these customers;
- our expectations concerning customer retention rates as well as expectations for the value of subscriptions and services renewals;
- our ability to maintain our competitive technological advantages against new entrants in our industry;
- 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 maintain, protect, and enhance our brand and intellectual property;
- our ability to expand internationally;
- the effects of increased competition in our market and our ability to compete effectively;

- cost of revenue, including changes in costs associated with products, manufacturing and customer support;
- operating expenses, including changes in research and development, sales and marketing, and general and administrative expenses;
- anticipated income tax rates;
- potential attrition and other impacts associated with restructuring;
- sufficiency of cash to meet cash needs for at least the next 12 months;
- our ability to generate cash flows from operations and free cash flows;
- our ability to capture new, and renew existing, contracts with the United States and international governments;
- our expectations concerning relationships with third parties, including channel partners and logistics providers;
- the release of new products;
- economic and industry trends or trend analysis;
- the attraction, training, integration and retention of qualified employees and key personnel;
- future acquisitions of or investments in complementary companies, products, subscriptions or technologies; and
- the effects of seasonal trends on our results of operations.

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

Overview

We provide comprehensive intelligence-based cybersecurity solutions that allow organizations to prepare for, prevent, respond to and remediate cyber attacks. Our portfolio of cybersecurity products and services is designed to detect and prevent attacks as well as enable rapid discovery and response when a breach occurs.

Our Business Model

We generate revenue from sales of our product and related subscriptions and support, from sales of our cloud subscriptions and managed security services, and from professional services. Our product and related subscription and support revenue consists primarily of revenue from the sale of our intelligence-dependent security appliances and software, subscriptions to our dynamic threat intelligence (DTI) updates, and support and maintenance. Our intelligent-dependent security appliances include NX (network security), EX (email security), HX (endpoint security), and FX (file security). We require customers to purchase a subscription to our Dynamic Threat Intelligence (DTI) and to support and maintenance services when they purchase any of these appliance-based detection and prevention products, generally for a one or three-year term. Revenue from sales of our intelligence-dependent security appliances and software is recognized over the longer of the life of the related appliance and license or the contractual term, rather than at the time of shipping. Revenue from subscriptions and support related to our security appliances is recognized ratably over the contractual term. A small portion of our product and related subscription and support revenue is from the sale of our enterprise forensic solutions (PX) network forensics appliance and our central management system (CMS) management appliance that are not dependent on regular security intelligence updates. Revenue from PX and CMS is therefore recognized at the point in time when ownership is transferred to our customer, typically at shipment.

Cloud subscriptions and managed services consists of revenue from the sale of our cloud-based email security, our Threat Analytics Platform (TAP), our Helix orchestration and automation platform, and our standalone threat intelligence subscriptions. Revenue from subscriptions to cloud-based software and our managed services is recognized over the contractual term, generally one or three years.

Sales of our intelligence-dependent appliances and software, subscription and support services initially increase our deferred revenue. Deferred revenue from our product subscription and support sales totaled $841.5 million and $859.5 million as of March 31, 2018 and December 31, 2017, respectively. Amortization of this deferred revenue has contributed to the increase in our product,

subscription and support revenue. For the three months ended March 31, 2018 and 2017, product, subscription and support revenue as a percentage of total revenue was 83% and 83%, respectively.
Growth in our subscription and services revenue is the result of the deferral of the initial subscription and services agreements, as well as growth in the renewals of such agreements as initial subscription and services agreements expire. Our retention rate of customers with subscriptions and support contracts expiring in the 12 months ended March 31, 2018 was consistent with historical retention rates, and we expect to maintain these strong retention rates in the future.
We also offer professional services, including incident response and other security consulting services for our customers who have experienced a cyber security breach or require assistance assessing the resilience of their networks. Our professional services are offered on a time and materials basis, through a fixed fee arrangement, or on a retainer basis. Revenue from these professional services is recognized as the services are delivered. Some professional services are prepaid, and revenue is deferred until services are delivered. Deferred revenue from professional services for the three months ended March 31, 2018 and December 31, 2017 was $44.6 million and $50.6 million, respectively.
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 (a non-GAAP metric), net cash flow provided by (used in) operating activities, and free cash flow (a non-GAAP metric) are discussed immediately below the following table (in thousands, except percentages).

	Three Months Ended or As of March 31,	
	2018	2017*
Product, subscription and support revenue	$165,473	$153,729
Professional services revenue	33,597	31,030
Total revenue	$199,070	$184,759
Year-over-year percentage increase	8 %	
Gross margin percentage	66 %	64 %
Deferred revenue, current	$533,540	$498,664
Deferred revenue, non-current	$352,596	$389,296
Billings (non-GAAP)	$175,106	$144,970
Net cash provided by (used in) operating activities	$9,187	$(16,952)
Free cash flow (non-GAAP)	$(5,300)	$(25,435)

Deferred revenue. Our deferred revenue consists of amounts that we have the right to bill and which have been invoiced, but have not yet been recognized as revenue as of period end. The majority of our deferred revenue consists of the unamortized balance of revenue from previously invoiced and non-cancelable contracts consisting of intelligence-based security appliances, subscriptions to our threat intelligence, security-as-a-service and support and maintenance contracts. Because invoiced amounts for such contracts 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 are 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, excluding deferred revenue assumed through acquisitions. 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 represent a significant percentage of future revenue. However, it is important to note that other companies, including companies in our industry, may not use billings, may define 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 (in thousands):

	Three Months Ended March 31,	
	2018	2017*
Revenue	$199,070	$184,759
Add: Deferred revenue, end of period	886,136	887,960
Less: Deferred revenue, beginning of period	910,100	927,749
Billings (non-GAAP)	$175,106	$144,970

We have provided disaggregation of billings below (in thousands):

	Three Months Ended March 31,	
	2018	2017*
Product and related subscription and support	90,365	76,930
Cloud subscription and managed services	57,110	35,349
Professional Services	27,631	32,691
Billings (non-GAAP)	$175,106	$144,970

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 if and when generated. However, it is important to note that other companies, including companies in our industry, may not use free cash flow, may calculate free cash flow differently, or may use other financial measures to evaluate their performance, all of which could reduce the usefulness of free cash flow as a comparative measure. A reconciliation of free cash flow to cash flow provided by (used in) operating activities is provided below (in thousands):

	Three Months Ended March 31,	
	2018	2017*
Net cash provided by (used in) operating activities	$9,187	$(16,952)
Less: purchase of property and equipment and demonstration units	14,487	8,483
Free cash flow (non-GAAP)	$(5,300)	$(25,435)
Net cash used in investing activities	$(25,338)	$(8,724)
Net cash provided by (used in) financing activities	$3,110	$(34,617)

*Certain prior period amounts have been adjusted as a result of adoption of the new revenue recognition standard.

Factors Affecting our Performance

Market Adoption. We rely on market education to raise awareness of today's cyber attacks and articulate the need for our security solutions 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. Additionally, the market for security operations and automation management platforms such as FireEye Helix is in the early stages of development.

We invest heavily in sales and marketing efforts to increase market awareness, educate prospective customers and drive adoption of our products, subscriptions and services. This market education is critical to creating new IT budget dollars or allocating more of existing IT budget dollars to advanced threat protection and management solutions and, in particular, our products and the FireEye Helix platform. The degree to which prospective customers recognize the

mission critical need for advanced threat protection solutions and security operations management solutions, including our FireEye Helix 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 in-house sales teams who work in collaboration with external channel partners to identify new sales prospects, sell additional products, subscriptions and services, and provide post-sale support. Our sales teams are organized by territory to target large enterprise and government customers, who typically have sales cycles that can last several months or more. We have also expanded our inside sales teams to work with channel partners to expand our customer base of small and medium enterprises, or SMEs, as well as manage renewals of subscription and support contracts.

Newly hired sales and marketing employees typically require several months to establish prospect relationships and achieve full sales productivity. In addition, although we believe our investments in market education have increased awareness of us and our solutions globally, sales teams in certain international markets may face local markets with limited awareness of us and our solutions, or have specific requirements that are not available with our solutions. All of these factors will influence the timing and overall levels of sales productivity, impacting the rate at which we will be able to convert prospects to sales and drive revenue growth.

Retention Rates. New or existing customers who purchase our intelligence-dependent security appliances are required to purchase a one or three year subscription to our DTI cloud and support and maintenance services. New or existing customers who purchase our PX network forensic appliances or our CMS management appliances are required to purchase support and maintenance services for a term of one or three years.

We believe our customer retention rate is an important metric to measure the long-term value of our customer agreements. We define retention rate as the percentage of customers at the end of the previous period that are up for renewal in the current period that remain customers at the end of the current period on a trailing twelve month basis. We believe our ability to maintain strong customer retention rates will have a material impact on our future sales of product, subscription and services and therefore our future financial performance.

Follow-On Sales. After the initial sale to a new customer, we focus on expanding our relationship with the customer to sell additional products, subscriptions and services. To grow our revenue, it is important that our customers make additional purchases of our products, subscriptions and services. Sales to our existing customer base can take the form of incremental sales of security appliances, subscriptions and services, either to deploy our platform into additional parts of their network to protect additional threat vectors, or to extend their internal security resources with our managed and professional security services. Our opportunity to expand our customer relationships through follow-on sales will increase as we add new customers, broaden our product portfolio with additional subscriptions and services and enhance the functionality of our existing products and the Helix platform. 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 many of our large enterprise and government 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 recent accounting pronouncements, “Critical Accounting Policies and Estimates-Revenue Recognition” under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2017, revenue is recognized when a contract has been entered into with a customer, the performance obligation(s) is(are) identified, the transaction price is determined and has been allocated to the performance obligation(s) and only then for each performance obligation after we have satisfied that performance obligation.

- Product, subscription and support revenue. Our product, subscription and support revenue is generated from sales of our intelligent-dependent security appliances and related subscriptions and support, as well as cloud-based subscriptions and managed services. We combine intelligence-dependent appliances and software licenses with the mandatory intelligence subscriptions and support as a single performance obligation. We recognize intelligence-dependent appliance and software license revenue ratably over the longer of the life of the related appliance and license or the contractual term, rather than at the time of shipping, when our contracts contain material right of renewal options. For our contracts in which the term is less than the life of the appliance and license, the mandatory intelligence subscription and support is recognized ratably over the contractual term with the allocated value of the material right performance obligations being recognized in the period between the end of the contractual

term and the useful life. Where our contracts do not contain material right of renewal options, or the contractual term is longer than the useful life, we expect to recognize the intelligence-dependent appliance and software license revenue ratably over the contractual term. Revenue from our cloud subscriptions and managed services is recognized ratably over the contractual term, typically one or three years.

- Professional services revenue. Professional services, which includes incident response, compromise assessments, and other security consulting services, are offered on a time-and-material basis, through a fixed fee arrangement, or on a retainer basis. We recognize the associated revenue as the services are delivered. Some professional services are prepaid, and revenue is deferred until services are delivered.

Cost of Revenue

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

- Cost of product, subscription and support revenue. Cost of product, subscription and support revenue primarily consists of costs paid to our third-party contract manufacturers for our appliances and personnel, other costs in our manufacturing operations department, and personnel costs associated with maintaining our Dynamic Threat Intelligence updates and our global customer support operations. Our cost of product revenue also includes product testing costs, shipping costs and allocated overhead costs. If revenue from sales of product, subscriptions and support declines, the cost of product, subscription and support revenue may increase as a percentage of product, subscription and support revenue due to the fixed nature of a portion of these costs.
- Cost of professional services revenue. Cost of professional services revenue primarily consists of personnel costs for our services organization and allocated overhead costs. If sales of our services decline or we are unable to maintain our changeability rates, our cost of services revenue may increase as a percentage of professional services revenue.

Gross Margin

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

Operating Expenses

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

- Research and development. Research and development expense consists primarily of personnel costs and allocated overhead. Research and development expense also includes prototype related expenses. We expect research and development expense to remain relatively flat in absolute terms, but to decrease as a percentage of total revenue.
- Sales and marketing. Sales and marketing expense consists primarily of personnel costs, partner referral fees, incentive commission costs and allocated overhead. Commission costs capitalized and amortized based on the useful life amortization period taking into consideration the pattern of transfer to which the asset relates and the expected renewal periods during which renewal commissions are not commensurate with the initial commissions paid. When initial commissions are higher than (not-commensurate) renewal commissions, we recognize the incremental portion of initial commissions over an estimated renewal period. The commensurate portion will be recognized over the same period as the initial revenue arrangement to which it relates. Additionally, our appliance related cost of goods sold are capitalized and amortized on a systematic basis that is consistent with the pattern of transfer to which the asset relates.

Sales and marketing expense also includes costs for market development programs, promotional and other marketing activities, travel, depreciation of proof-of-concept evaluation units and outside consulting costs. We expect sales and marketing expense to remain relatively flat in absolute terms, but decrease as a percentage of total revenue. These costs are recognized as incurred.

- General and administrative. General and administrative expense consists of personnel costs, professional service costs and allocated overhead. General and administrative personnel include our executive, finance, human resources, facilities and legal organizations. Professional service costs consist primarily of legal, auditing, accounting and other consulting costs. We expect general and administrative expense to remain relatively flat in absolute terms, but to decrease as a percentage of total revenue.

Interest Income

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

Interest Expense

Interest expense is primarily a result of our convertible senior notes, consisting of interest at the stated rate (coupon) and amortization of discounts and issuance costs.

Other Income (Expense), Net

Other income (expense), net includes gains or losses on the disposal of fixed assets, gains or losses from our equity-method investment, foreign currency re-measurement gains and losses and foreign currency transaction gains and losses. We expect other income (expense), net to fluctuate depending primarily on foreign exchange rate movements.

Provision for (Benefit from) Income Taxes

Provision for income taxes primarily relates to income taxes payable in foreign jurisdictions in which we conduct business, withholding taxes, and state income taxes in the United States. The provision is offset by tax benefits primarily related to the reversal of valuation allowances previously established against our deferred tax assets. Should the tax benefits exceed the provision, then a net tax benefit from income taxes is reflected for the period. 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 net income being subject to foreign income tax rates that are lower than the U.S. federal statutory rate.

Results of Operations

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

	Three Months Ended March 31,			
	2018		2017*	
	Amount	% of total Revenue	Amount	% of total Revenue
	(Dollars in thousands)			
Revenue:				
Product, subscription and support	$165,473	83 %	$153,729	83 %
Professional services	33,597	17	31,030	17
Total revenue	199,070	100	184,759	100
Cost of revenue:				
Product, subscription and support	47,429	24	46,423	25
Professional services	20,500	10	19,324	10
Total cost of revenue	67,929	34	65,747	36
Total gross profit	131,141	66	119,012	64
Operating expenses:				
Research and development	66,196	33	58,352	32
Sales and marketing	97,251	49	98,988	54
General and administrative	28,418	14	27,615	15
Total operating expenses	191,865	96	184,955	100
Operating loss	(60,724)	(31)	(65,943)	(36)
Interest income	2,940	1	2,032	1
Interest expense	(12,717)	(6)	(12,245)	(7)
Other expense, net	(276)	—	232	—
Loss before income taxes	(70,777)	(36)	(75,924)	(41)
Provision for income taxes	1,053	1	1,293	1
Net loss attributable to common stockholders	$(71,830)	(36)%	$(77,217)	(42)%

*Certain prior period amounts have been adjusted as a result of adoption of the new revenue recognition standard.

Comparison of the Three Months Ended March 31, 2018 and 2017

Revenue

	Three Months Ended March 31,									
	2018			2017*			Change			
	Amount	% of Total Revenue		Amount	% of Total Revenue		Amount	%		
	(Dollars in thousands)									
Revenue:										
Product, subscription and support	$165,473	83	%	$153,729	83	%	$11,744	8	%	
Professional services	33,597	17		31,030	17		2,567	8		
Total revenue	$199,070	100	%	$184,759	100	%	$14,311	8	%	
Revenue by geographic region:										
United States	$125,948	63	%	$125,285	68	%	$663	1	%	
EMEA	34,018	17		25,401	14		8,617	34		
APAC	27,655	14		25,745	14		1,910	7		
Other	11,449	6		8,328	4		3,121	37		
Total revenue	$199,070	100	%	$184,759	100	%	$14,311	8	%	

Product, subscription and support revenue increased by $11.7 million, or 8%, during the three months ended March 31, 2018 compared to the three months ended March 31, 2017. The increase in product, subscription and support revenue consisted of an increase of $8.9 million in product and related subscriptions and support revenue and an increase of $2.8 million in cloud subscriptions and managed services revenue. The increase in product and related subscription and support revenue was primarily due to an increase in the amortization of deferred revenue associated with sales of our intelligence-dependent security appliances in prior years, as well as continued strong renewals of related threat intelligence subscription and support contracts. The increase in cloud subscriptions and managed services was primarily due to an increase in revenue recognized from deferred revenue related to growth in sales in our cloud email, intelligence and analytics subscriptions as customer buying preferences shifted to cloud-based subscriptions.

Professional services revenue increased by $2.6 million, or 8%, during the three months ended March 31, 2018 compared to the three months ended March 31, 2017. The increase is primarily due to revenues from incident response services.

Our international revenue increased $13.6 million, or 23%, during the three months ended March 31, 2018 compared to the three months ended March 31, 2017, which reflects our increasing international market presence.

Cost of Revenue and Gross Margin

	Three Months Ended March 31,							
	2018			2017*			Change	
	Amount	Gross Margin		Amount	Gross Margin		Amount	%
	(Dollars in thousands)							
Cost of revenue:								
Product, subscription and support	$47,429			$46,423			$1,006	2%
Professional services	20,500			19,324			1,176	6
Total cost of revenue	$67,929			$65,747			$2,182	3%
Gross margin:								
Product, subscription and support		71	%		70	%		
Professional services		39	%		38	%		
Total gross margin		66	%		64	%		

The cost of product, subscription and support revenue increased by $1.0 million, or 2%, during the three months ended March 31, 2018 compared to the three months ended March 31, 2017. The increase in cost of product,

subscription and support revenue was primarily driven by an increase in sales of our security products, subscriptions and support, partially offset by lower costs of operations and lower amortization expense associated with intangible assets.

The cost of professional services revenue increased $1.2 million, or 6%, during the three months ended March 31, 2018 compared to the three months ended March 31, 2017. The increase in cost of professional services revenue was primarily due to an increase in personnel costs.

Gross profit margin increased as a percentage of revenue during the three months ended March 31, 2018 compared to the three months ended March 31, 2017 due primarily to an increase in product, subscription and support revenue and professional services revenues, as well as a decrease in the amortization of intangible assets.

Operating Expenses

	Three Months Ended March 31,								
	2018			2017*			Change		
	Amount	% of Total Revenue		Amount	% of Total Revenue		Amount	%	
	(Dollars in thousands)								
Operating expenses:									
Research and development	$66,196	33	%	$58,352	32	%	$7,844	13	%
Sales and marketing	97,251	49		98,988	54		(1,737)	(2)	
General and administrative	28,418	14		27,615	15		803	3	
Total operating expenses	$191,865	96	%	$184,955	100	%	$6,910	4	%
Includes stock-based compensation expense of:									
Research and development	$14,353			$14,525					
Sales and marketing	12,977			14,015					
General and administrative	7,294			7,317					
Total	$34,624			$35,857					

Research and Development

Research and development expense increased $7.8 million, or 13%, during the three months ended March 31, 2018 compared to the three months ended March 31, 2017. The increase was primarily due to a $7.6 million increase in personnel costs and a $0.2 million increase in software costs.

Sales and Marketing

Sales and marketing expense decreased $1.7 million, or 2%, during the three months ended March 31, 2018 compared to the three months ended March 31, 2017. The decrease was primarily due to a decrease in commissions of $1.9 million, a decrease in stock-based compensation of $1.0 million and a $1.2 million decrease in sales and marketing programs costs compared to the same period in 2017. These decreases were offset in part by an increase in personnel costs of $2.1 million for salaries and benefits.

General and Administrative

General and administrative expense increased $0.8 million, or 3%, during the three months ended March 31, 2018 compared to the three months ended March 31, 2017. The increase was primarily due to a $0.6 million increase in fees paid to legal and other professional services firms.

Interest Income

	Three Months Ended March 31,		Change	
	2018	2017	Amount	%
	(Dollars in thousands)			
Interest income	$2,940	$2,032	$908	45%

Interest income increased for the three months ended March 31, 2018 compared to the three months ended March 31, 2017, due to a higher rate of return on our investments, partially offset by lower average balances in our cash and cash equivalents and investments.

Interest Expense

	Three Months Ended March 31,		Change	
	2018	2017	Amount	%
	(Dollars in thousands)			
Interest expense	$(12,717)	$(12,245)	$(472)	(4)%

Interest expense increased for the three months ended March 31, 2018 compared to the three months ended March 31, 2017 due to greater amortization of discount and issuance costs related to our convertible senior notes.
*Certain prior period amounts have been adjusted as a result of adoption of the new revenue recognition standard.

Other Income (Expense), Net

	Three Months Ended March 31,		Change	
	2018	2017	Amount	%
	(Dollars in thousands)			
Other income (expense), net	$(276)	$232	$(508)	(219)%

Other expense for the three months ended March 31, 2017 is primarily composed of foreign currency transaction losses. Other income (expense), net for the three months ended March 31, 2018 is primarily composed of foreign currency transaction gains, offset by losses from our equity method investment.

Provision for (Benefit from) Income Taxes

	Three Months Ended March 31,	
	2018	2017*
	(Dollars in thousands)	
Provision for income taxes	$1,053	$1,293
Effective tax rate	(1.5)%	(1.7)%

Provision for income taxes remained relatively consistent for the three months ended March 31, 2018 compared to the three months ended March 31, 2017. The provision for income taxes is primarily comprised of income taxes in foreign jurisdictions and withholding taxes for both periods.
*Certain prior period amounts have been adjusted as a result of adoption of the new revenue recognition standard.

Liquidity and Capital Resources

	As of March 31, 2018	As of December 31, 2017
	(In thousands)	
Cash and cash equivalents	$167,850	$180,891
Short-term investments	$718,536	$715,911

	Three Months Ended March 31,	
	2018	2017*
	(In thousands)	
Cash used in operating activities	$9,187	$(16,952)
Cash used in investing activities	(25,338)	(8,724)
Cash provided by (used in) financing activities	3,110	(34,617)
Net decrease in cash and cash equivalents	$(13,041)	$(60,293)

As of March 31, 2018, our cash and cash equivalents of $167.9 million were held for working capital, capital expenditures, investment in technology, debt servicing and business acquisition purposes, of which approximately

$61.3 million was held outside of the United States. We consider the undistributed earnings of our foreign subsidiaries as of March 31, 2018 to be indefinitely

reinvested outside the United States on the basis of estimates that future domestic cash generation will be sufficient to meet future domestic cash needs and our plan for reinvestment of our foreign subsidiaries' undistributed earnings.
In January 2018, we acquired X15, a data management company. We paid cash consideration of $5.3 million and issued 1,016,334 shares of our common stock with an estimated fair value of $15.4 million.
*Certain prior period amounts have been adjusted as a result of adoption of the new revenue recognition standard.
Our principal sources of liquidity are our existing cash and cash equivalents and short-term investments and any cash inflow from operations, which we believe will be sufficient to meet our anticipated operating cash needs 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 efficiency of our marketing and sales activities, the introduction of new and enhanced product and service offerings, the cost of any future acquisitions of technology or businesses, and the continuing market acceptance of our products. In the event that additional financing is required from outside sources, we may not be able to raise such financing on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, operating results and financial condition would be adversely affected.

Operating Activities

During the three months ended March 31, 2018, our operating activities provided cash of $9.2 million. We incurred a net loss of $71.8 million, which included net non-cash expenses of $75.5 million, primarily consisting of stock-based compensation charges, depreciation and amortization expense and non-cash interest expense related to our convertible senior notes. Our net change in operating assets and liabilities provided cash of $5.5 million, primarily related to cash sourced from reduction in accounts receivable of $43.0 million due to increased collection, increased accrued liabilities of $4.3 million due to accretion of interest on convertible notes, which was partially offset by reductions in deferred revenue of $24.0 million, accounts payable of $5.4 million and increased prepaid expenses of $6.3 million due to early payment of payroll taxes and commissions deferred.
During the three months ended March 31, 2017, our operating activities used cash of $17.0 million. We incurred a net loss of $77.2 million, which included net non-cash expenses of $81.9 million, primarily consisting of stock-based compensation charges and depreciation and amortization expense. Our net change in operating assets and liabilities used cash of $21.6 million, primarily related to decreases in deferred revenue of $39.8 million and accrued liabilities of $7.9 million, partially offset by cash sourced from reduction in accounts receivable for $22.0 million.

Investing Activities

Cash used in investing activities during the three months ended March 31, 2018 was $25.3 million, primarily for capital expenditures to purchase property and equipment and demonstration units of $14.5 million, net purchases of short-term investments and cash used in the acquisition of X15.
Cash used in investing activities during the three months ended March 31, 2017 was $8.7 million, primarily for capital expenditures to purchase property and equipment and demonstration units.

Financing Activities

During the three months ended March 31, 2018, financing activities provided $3.1 million in cash, primarily from proceeds from employee purchases of shares under the 2013 Employee Stock Purchase Plan ("ESPP") and exercises of employee stock options.
During the three months ended March 31, 2017, financing activities used $34.6 million in cash, primarily for the contingent earn-out payment related to the acquisition of iSIGHT, as the threat intelligence bookings target was determined to be achieved in February 2017, partially offset by proceeds from exercises of employee stock options.

Contractual Obligations and Commitments

There have been no significant changes to our contractual obligations and commitments discussed in our Annual Report on Form 10-K for the year ended December 31, 2017 except for those disclosed in Note 10 Commitments and Contingencies contained in the "Notes to Condensed Consolidated Financial Statements" in Item 1 of Part I of this Quarterly Report on Form 10-Q.

Off-Balance Sheet Arrangements

As of March 31, 2018, we did not have any relationships with unconsolidated entities or financial partnerships, such as structured finance or special purpose entities, which 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.

Except for the accounting policies for revenue recognition, deferred revenue, deferred commissions and deferred cost of revenue that were updated as a result of adopting ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), there have been no significant changes to any significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2017. 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 these changes.

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Exchange Risk

Our sales contracts are primarily denominated in U.S. dollars. A portion of our operating expenses are incurred outside the United States and are denominated in foreign currencies and are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Indian Rupee, British Pound Sterling, Japanese Yen and Euro. Additionally, fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our statement of operations. On June 23, 2016, the United Kingdom ("U.K.") held a referendum in which British voters approved an exit from the European Union ("EU"), commonly referred to as "Brexit." This resulted in an adverse impact to currency exchange rates, notably the British Pound Sterling which experienced a sharp decline in value compared to the U.S. dollar and other currencies. Continued volatility in currency exchange rates is expected as the U.K. negotiates its exit from the EU, which could result in greater transaction gains or losses in our statement of operations.

The effect of a hypothetical 10% adverse change in foreign exchange rates on monetary assets and liabilities at March 31, 2018 would not be material to our financial condition or results of operations. To date, foreign currency transaction gains and losses and exchange rate fluctuations have not been material to our financial statements, and we have not engaged in any foreign currency hedging transactions.

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

Interest Rate Risk

We had cash and cash equivalents and investments of $886.4 million and $896.8 million as of March 31, 2018 and December 31, 2017, respectively, consisting of bank deposits, money market funds, certificates of deposit, commercial paper and bonds issued by corporate institutions and U.S. government agencies. Such interest-earning instruments carry a degree of interest rate risk. To date, fluctuations in interest income have not been significant.

We do not enter into investments for trading or speculative purposes and have not used any derivative financial instruments to manage our interest rate risk exposure. We have not been exposed to, nor do we anticipate being exposed to, material risks due to changes in interest rates.

Our cash flow exposure due to changes in interest rates related to our debt is limited as our Convertible Senior Notes have fixed interest rates at 1.000% and 1.625%. The fair value of the Convertible Senior Notes may increase or decrease for various reasons, including fluctuations in the market price of our common stock, fluctuations in market interest rates and fluctuations in general economic conditions. Based upon the quoted market price as of March 31, 2018, the fair value of our Convertible Senior Notes was approximately $863.5 million.

A hypothetical 10% change in interest rates during any of the periods presented would not have had a material impact on our financial statements.

Item 4. Controls and Procedures

Limitations on Effectiveness of Controls

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

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2018. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's (the "SEC") rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Based on our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2018, 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 the 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

Except for the implementation of certain internal controls related to the adoption of the new revenue recognition standard, there were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended March 31, 2018 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 10 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 21 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 security platforms, our sales will not grow as quickly as anticipated, or at all, and our business, results of operations and financial condition would be harmed.

Our future success depends on market adoption of our unique approach to IT security. We are seeking to disrupt the IT security market with our security platforms. Our platforms interoperate with but do 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 security platforms if they believe that signature-based products are more cost effective, provide substantially the same functionality as our platforms 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 platforms. 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 platforms 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 platforms, 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 security solutions like ours, if our competitors include functionality that is, or is perceived to be, better than or equivalent to that of our platforms, we may have difficulty increasing the market penetration of our platforms. Furthermore, even if the functionality offered by other IT security providers is different and more limited than the functionality of our platforms, organizations may elect to accept such limited functionality in lieu of adding products from additional vendors like us, especially if competitor offerings are free or available at a lower cost.

In addition, changes in customer requirements could reduce customer demand for our security solutions. For example, if customers were to reduce their number of web egress points in order to reduce their cyber attack surface, they would not need to purchase as many of our Network Threat Prevention appliances, which currently account for the largest portion of our threat prevention product revenue. Similarly, if one or more governments share, on a free or nearly free basis, threat intelligence with other governmental agencies or organizations, such as critical infrastructure companies, then those agencies or organizations might have less demand for additional threat intelligence and may purchase less of our threat intelligence offerings.

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

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 our inception, including net losses of $71.8 million and $77.2 million during the three months ended March 31, 2018 and 2017, respectively. Any failure to increase our revenue and manage our cost structure as we grow our business could prevent us from achieving or, if achieved, maintaining profitability. Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis. If we are unable to become and remain profitable, the value of our company could decrease and our ability to raise capital, maintain our research and development efforts, and expand our business could be negatively impacted.

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, threat vectors 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 and Juniper Networks that may emulate or integrate security features similar to ours into their own products; large companies such as IBM, Oracle and HPE that have acquired security vendors in recent years and have the technical and financial resources to bring competitive solutions to the market; independent security vendors such as Palo Alto Networks and Trend Micro that offer products or features that claim to perform similar functions to our platform; small and large companies, including new market entrants, that offer niche product solutions that compete with some of the features present in our platform; providers of traditional signature-based security solutions, such as Symantec and McAfee; and other providers of incident response and compromise assessment 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 or enter into strategic partnerships;
- 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.

Some of our competitors have made or could make acquisitions of businesses that allow them to offer more competitive and comprehensive solutions. As a result of such acquisitions, our current or potential competitors may be able to accelerate the adoption of new technologies that better address end-customer needs, devote greater resources to bring these products and services to market, initiate or withstand substantial price competition, or develop and expand their product and service offerings more quickly than we do. These competitive pressures in our market or our failure to compete effectively may result in price reductions, fewer orders, reduced revenue and gross margins, and loss of market share.

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.

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

position and results of operations.

Because our products and services are complex, they have contained and may contain design or manufacturing defects or errors that are not detected until after their deployment. Our products also provide our customers with the ability to customize a multitude of settings, and it is possible that a customer could misconfigure our products or otherwise fail to configure our products in an optimal manner. Such defects and misconfigurations of our products could cause our products or services to be vulnerable to security attacks, cause them to fail to secure networks and detect and block threats, or temporarily interrupt the networking traffic of our customers.

In addition, because the techniques used by computer hackers to access or sabotage networks change frequently and generally are not recognized until launched against a target, there is a risk that an advanced attack could emerge that our products and services are unable to detect or prevent. Moreover, as our products and services are adopted by an increasing number of enterprises and governments, it is possible that the individuals and organizations behind advanced malware attacks will begin to focus on finding ways to defeat our products and services. If this happens, our networks, products, services and subscriptions could be targeted by attacks specifically designed to disrupt our business and undermine the perception that our products and services are capable of providing superior IT security, which, in turn, could have a serious impact on our reputation as a provider of virtual machine-based security solutions. Any breach or perceived security breaches of our network could materially and adversely affect our business, financial condition and results of operations.

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

Furthermore, our products and services may fail to detect or prevent malware, ransomware, viruses, worms or similar threats for any number of reasons, including our failure to enhance and expand our products and services to reflect industry trends, new technologies and new operating environments, the complexity of the environment of our clients and the sophistication of malware, viruses and other threats. In addition, from time to time, firms test our products against other security products. Our products may fail to detect or prevent threats in any particular test for a number of reasons, including misconfiguration. To the extent potential customers, industry analysts or testing firms believe that the occurrence of a failure to detect or prevent any particular threat is a flaw or indicates that our products or services do not provide significant value, our reputation and business could be harmed. Failure to keep pace with technological changes in the IT security industry and changes in the threat landscape could adversely affect our ability to protect against security breaches and could cause us to lose customers. In addition, in the event that a customer suffers a cyber attack, we could be subject to claims based on a misunderstanding of the scope of our contractual warranties or the protection afforded by the Support Anti-Terrorism by Fostering Effective Technologies Act of 2002, or the SAFETY Act.

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

- a loss of existing or potential customers or channel partners;
- delayed or lost revenue and harm to our financial condition and results of operations;
- a delay in attaining, or the failure to attain, market acceptance;
- the expenditure of significant financial and product development resources in efforts to analyze, correct, eliminate, or work around errors or defects, to address and eliminate vulnerabilities, or to identify and ramp up production with alternative third-party manufacturers;
- an increase in warranty claims, or an increase in the cost of servicing warranty claims, either of which would adversely affect our gross margins;
- harm to our reputation or brand; and
- litigation, regulatory inquiries, or investigations that may be costly and further harm our reputation.

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, including, but not limited to our GAAP and non-GAAP measures, will continue to vary as a result of a number of factors, many of which are outside of our control and may be difficult to predict, including:

- our ability to attract new and retain existing customers or sell additional products and subscriptions to our existing customers;
- changes in our mix of products, subscriptions and services sold, including changes in multi-year subscriptions and support;

- the timing and success of new product, subscription or service introductions by us or our competitors;
- real or perceived reductions in our product efficacy by our customers or in the marketplace;
- 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, distributor 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;
- any change in the competitive landscape of the IT security market, including consolidation among our customers or competitors and strategic partnerships entered into by and between our 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 and continuously expand our business domestically and internationally;
- reductions in customer retention rates for our subscriptions and support;
- 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 relationships with channel partners;
- our inability to fulfill our customers’ orders due to supply chain delays or events that impact our manufacturers or their suppliers;
- the timing and costs related to the development or acquisition of technologies or businesses or strategic partnerships;
- the lack of synergy or the inability to realize expected synergies, resulting from acquisitions or strategic partnerships;
- our inability to execute, complete or integrate efficiently any acquisition that we may undertake;
- increased expenses, unforeseen liabilities, or write-downs and any impact on our operating results from any acquisitions we consummate;
- 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 future litigation;
- seasonality or cyclical fluctuations in our business;
- political, economic and social instability;
- 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; and
- increases or decreases in our revenues and 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. For example, as we offer more and more solutions through subscriptions and services, it becomes increasingly difficult for us to predict whether customers will purchase our solutions as a product, a subscription or a service. If customers purchase our solutions through subscriptions and services that have less profit associated with them than our products, our operating results could be harmed. Changes in the mix of offerings sold impacts the timing of recognition of revenue for our sales. Consequently, given the different revenue recognition policies associated with sales of our products, subscriptions and services, customers purchasing more of our subscription and services offerings and less of our product offerings than we anticipated could result in our actual revenue falling below our publicly announced guidance or the expectations of securities analysts and investors, resulting in a decline in our stock price.

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.

If we are unable to retain our customers and renew and expand our relationships with them, we may not be able to sustain revenue growth and we may not achieve or maintain profitability in the future.

From the year ended December 31, 2010 to the year ended December 31, 2017, our revenue grew from $11.8 million to $751.1 million, which represents a compounded annual growth rate of approximately 81%. Although we have experienced rapid growth historically and currently have strong retention rates, we may not continue to grow in the future and our retention rates may decline. Any success that we may experience in the future will depend, in large part, on our ability to, among other things:

- maintain and expand our customer base;
- increase revenues from existing customers through increased use of our products, subscriptions and services within their organizations;
- improve the capabilities of our products and subscriptions through research and development;
- continue to develop our cloud-based solutions;
- maintain the rate at which customers purchase our subscriptions and support;
- continue to successfully expand our business domestically and internationally; and
- successfully compete with other companies.

If we are unable to maintain consistent revenue growth or if our revenues decline, it may be difficult to achieve and maintain profitability and our business and financial results could be adversely affected. Our revenue for any prior quarterly or annual periods should not be relied upon as any indication of our future revenue or revenue growth.

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, such as our FireEye Helix platform. 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, general economic conditions, and our customers' satisfaction with our existing solutions they have previously purchased. 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 retention rates. Our customers' retention rates may decline or fluctuate as a result of a number of factors, including the level of their satisfaction with our platform, our customer support, customer budgets and the pricing of our platform compared with the products and services offered by our competitors. If our customers renew their subscriptions, they may renew for shorter contract lengths or on other terms that are less economically beneficial to us. We cannot assure you that our customers will renew their subscriptions, and if our customers do not renew their subscriptions or renew on less favorable terms, our revenue may grow more slowly than expected, not grow at all, or even decline.

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

Recent, past 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 acquisition of iSIGHT Security, Inc. (d/b/a iSIGHT Partners, Inc.), or iSIGHT, our acquisition of Invotas International Corporation, or Invotas, our acquisition of Clean Communications Limited (d/b/a The Email Laundry), or The Email Laundry, and our acquisition of X15 Software, Inc., or X15.

The identification of suitable acquisition candidates can be difficult, time-consuming and costly, and we may not be able to successfully complete acquisitions that we target in the future. The risks we face in connection with acquisitions, including our acquisitions of iSIGHT, Invotas, The Email Laundry and X15 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, as well as the acquired operations, technology and rights into our offerings, and any unanticipated expenses related to such integration;
- the need to implement or improve controls, procedures, and policies at a business that prior to the acquisition may have lacked 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;
- completing the transaction and achieving the anticipated benefits of the acquisition within the expected timeframe, or at all;
- 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 which may differ from or be more significant than the risks our business faces.

Our failure to address these risks or other problems encountered in connection with our past or future acquisitions and investments could cause us to fail to realize the anticipated benefits of these acquisitions or investments, cause us to incur unanticipated liabilities, and harm our business generally. Future acquisitions could also result in dilutive issuances of equity securities. For example, in January 2016, we issued 1,793,305 shares of common stock in connection with our acquisition of iSIGHT; in February 2016, we issued 742,026 shares of common stock in connection with our acquisition of Invotas; in October 2017, we issued 259,425 shares of common stock in connection with our acquisition of The Email Laundry; and in January 2018, we issued 1,016,334 shares of common stock in connection with our acquisition of X15.

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.

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, subscriptions and services through, or with the assistance of, 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.

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

Our revenue depends significantly on general economic conditions and the demand for products in the IT security market. Economic weakness, customer financial difficulties, and constrained spending on IT security may result in decreased revenue and earnings. Such factors could make it difficult to accurately forecast our sales and operating results and could negatively affect our ability to provide accurate forecasts to our contract manufacturers and manage our inventory purchases, contract manufacturer relationships and other costs and expenses. In addition, concerns regarding the effects of the "Brexit" decision, uncertainties related to changes in public policies such as domestic and international regulations, taxes or international trade agreements as well as geopolitical turmoil and other disruptions to global and regional economies and markets in many parts of the world, have and may continue to put pressure on global economic conditions and overall spending on IT security. General economic weakness may also lead to longer collection cycles for payments due from our customers, an increase in customer bad debt, restructuring initiatives and associated expenses, and impairment of investments. Furthermore, the continued uncertainty in worldwide credit markets, including the sovereign debt situation in certain countries in the EU 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.

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

Although our business has experienced significant growth in the past, we cannot provide any assurance that our business will continue to grow at the same rate or at all. To improve our infrastructure, we continue to enhance our enterprise resource planning system, including revenue recognition and management software, and implement and enhance additional systems and controls. There is no assurance that we will be able to successfully scale improvements to our enterprise resource planning system or implement or scale improvements to our other systems, processes and controls in a manner that keeps pace with our growth or that such systems, processes and controls will be effective in preventing or detecting errors, omissions or fraud.

As part of our efforts to improve our internal systems, processes and controls, we have licensed technology from third parties. The support services available for such third-party technology are 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.