

FireEye, Inc.
Form 10-Q
November 05, 2015

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

or

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

For the transition period from _____ to _____

Commission File Number 001-36067

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

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

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

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

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

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

The number of shares of the registrant's common stock outstanding as of October 30, 2015 was 160,563,939.

Table of Contents

TABLE OF CONTENTS

	Page
<u>PART I — FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (unaudited)</u>	<u>1</u>
<u>Condensed Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014</u>	<u>1</u>
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2015 and 2014</u>	<u>2</u>
<u>Condensed Consolidated Statements of Comprehensive Loss for the Three and Nine Months Ended September 30, 2015 and 2014</u>	<u>3</u>
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2015 and 2014</u>	<u>4</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>5</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>19</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>35</u>
<u>Item 4. Controls and Procedures</u>	<u>36</u>
<u>PART II — OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>37</u>
<u>Item 1A. Risk Factors</u>	<u>37</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>60</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>60</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>60</u>
<u>Item 5. Other Information</u>	<u>60</u>
<u>Item 6. Exhibits</u>	<u>61</u>
<u>Signature</u>	<u>62</u>

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

FIREEYE, INC.

Condensed Consolidated Balance Sheets

(In thousands, except per share data)

(Unaudited)

	September 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$436,901	\$146,363
Short-term investments	733,026	255,845
Accounts receivable, net of allowance for doubtful accounts of \$1,567 and \$586 at September 30, 2015 and December 31, 2014, respectively	140,940	193,182
Inventories	11,628	7,952
Deferred tax assets, current portion	26,391	25,126
Prepaid expenses and other current assets	30,595	28,669
Total current assets	1,379,481	657,137
Property and equipment, net	73,129	82,298
Goodwill	750,288	750,288
Intangible assets, net	226,326	261,625
Deposits and other long-term assets	6,228	7,533
TOTAL ASSETS	\$2,435,452	\$1,758,881
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$33,611	\$34,057
Accrued and other current liabilities	30,407	24,596
Accrued compensation	73,030	64,551
Deferred revenue, current portion	265,906	203,877
Total current liabilities	402,954	327,081
Convertible senior notes, net	697,526	—
Deferred revenue, non-current portion	188,961	148,666
Deferred tax liabilities, non-current portion	26,198	24,903
Other long-term liabilities	10,144	7,403
Total liabilities	1,325,783	508,053
Commitments and contingencies (NOTE 9)		
Stockholders' equity:		
Common stock, par value of \$0.0001 per share; 1,000,000 shares authorized, 160,354 shares and 152,860 shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively	16	15
Additional paid-in capital	2,330,436	1,918,546
Treasury stock, at cost; 3,333 shares and no shares as of September 30, 2015 and December 31, 2014, respectively	(150,000) —
Accumulated other comprehensive loss	(424) (441
Accumulated deficit	(1,070,359) (667,292
Total stockholders' equity	1,109,669	1,250,828
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$2,435,452	\$1,758,881
See accompanying notes to condensed consolidated financial statements.		

Table of Contents

FIREEYE, INC.

Condensed Consolidated Statements of Operations

(In thousands, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue:				
Product	\$60,101	\$48,375	\$150,034	\$110,310
Subscription and services	105,515	65,836	288,159	172,370
Total revenue	165,616	114,211	438,193	282,680
Cost of revenue:				
Product	21,265	15,440	53,566	39,515
Subscription and services	40,606	29,488	116,463	82,286
Total cost of revenue	61,871	44,928	170,029	121,801
Total gross profit	103,745	69,283	268,164	160,879
Operating expenses:				
Research and development	73,374	54,707	207,777	150,085
Sales and marketing	117,131	111,625	340,734	283,070
General and administrative	36,518	30,119	103,812	89,150
Restructuring charges	—	2,769	—	2,769
Total operating expenses	227,023	199,220	652,323	525,074
Operating loss	(123,278)	(129,937)	(384,159)	(364,195)
Interest income	956	228	1,616	456
Interest expense	(11,587)	(6)	(15,425)	(17)
Other expense, net	(985)	(636)	(2,559)	(1,018)
Loss before income taxes	(134,894)	(130,351)	(400,527)	(364,774)
Provision for (benefit from) income taxes	636	(10,320)	2,540	(26,710)
Net loss attributable to common stockholders	\$(135,530)	\$(120,031)	\$(403,067)	\$(338,064)
Net loss per share attributable to common stockholders, basic and diluted	\$(0.88)	\$(0.83)	\$(2.63)	\$(2.41)
Weighted average shares used in computing net loss per share attributable to common stockholders, basic and diluted	154,523	144,923	153,440	140,285

See accompanying notes to condensed consolidated financial statements.

Table of Contents

FIREEYE, INC.

Condensed Consolidated Statements of Comprehensive Loss

(In thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net loss	\$(135,530)	\$(120,031)	\$(403,067)	\$(338,064)
Change in net unrealized loss on available-for-sale investments, net of tax	48	(216)	17	(326)
Comprehensive loss	\$(135,482)	\$(120,247)	\$(403,050)	\$(338,390)

See accompanying notes to condensed consolidated financial statements.

3

Table of Contents

FIREEYE, INC.

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(403,067) \$(338,064)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	82,154	67,631
Stock-based compensation	164,652	106,607
Non-cash interest expense related to convertible senior notes	11,397	—
Deferred income taxes	120	(30,142)
Other	3,144	1,702
Changes in operating assets and liabilities, net of acquisition of business:		
Accounts receivable	50,885	(60,041)
Inventories	(4,986) 162
Prepaid expenses and other assets	1,059	(2,138)
Accounts payable	1,289	(8,359)
Accrued liabilities	7,554	6,684
Accrued compensation	8,305	25,415
Deferred revenue	102,324	95,107
Other long-term liabilities	2,741	4,434
Net cash provided by (used in) operating activities	27,571	(131,002)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment and demonstration units	(37,193) (55,466)
Purchases of short-term investments	(640,162) (352,401)
Proceeds from maturities of short-term investments	159,149	50,780
Acquisition of business, net of cash acquired	—	(55,058)
Lease deposits	(627) (565)
Net cash used in investing activities	(518,833) (412,710)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of stock	—	444,338
Net proceeds from issuance of convertible senior notes	896,530	—
Prepaid forward stock purchase	(150,000) —
Proceeds from exercise of equity awards	35,270	24,299
Net cash provided by financing activities	781,800	468,637
Net change in cash and cash equivalents	290,538	(75,075)
Cash and cash equivalents, beginning of period	146,363	173,918
Cash and cash equivalents, end of period	\$436,901	\$98,843
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for income taxes	\$1,392	\$2,338
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Vesting of early exercised stock options	\$1,743	\$3,695
Purchases of property and equipment and demonstration units in accounts payable and accrued liabilities	\$4,981	\$8,022

See accompanying notes to condensed consolidated financial statements.

4

Table of Contents

FIREEYE, INC.

Notes to Condensed Consolidated Financial Statements

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

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

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

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

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

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”), 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 “Securities Act”). We recognized total net proceeds after the initial purchasers' discount and issuance costs of \$896.5 million. 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, pursuant to which we paid approximately \$150.0 million. The amount 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 part of each Prepaid Forward.

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 finan