

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

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)

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  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

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 | <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"/> |
|                         |  | Emerging growth company   | <input type="checkbox"/> |

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

The number of shares of the registrant's common stock outstanding as of July 31, 2018 was 195,004,563.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

**FIREEYE, INC.**  
**Condensed Consolidated Balance Sheets**  
(In thousands, except per share data)  
(Unaudited)

|  | <u>June 30,<br/>2018</u>   | <u>December 31, 2017*</u>  |
|--|----------------------------|----------------------------|
| <b>ASSETS</b>  |                            |                            |
| Current assets:  |                            |                            |
| Cash and cash equivalents  | \$ 351,370                 | \$ 180,891                 |
| Short-term investments   | 723,975                    | 715,911                    |
| Accounts receivable, net of allowance for doubtful accounts of \$2,522 and \$2,503 at June 30, 2018 and December 31, 2017, respectively  | 120,893                    | 146,317                    |
| Inventories  | 6,744                      | 5,746                      |
| Prepaid expenses and other current assets  | 92,632                     | 93,799                     |
| Total current assets   | <u>1,295,614</u>           | <u>1,142,664</u>           |
| Property and equipment, net  | 81,373                     | 71,357                     |
| Goodwill   | 999,888                    | 984,661                    |
| Intangible assets, net   | 168,229                    | 187,388                    |
| Deposits and other long-term assets  | 69,370                     | 72,767                     |
| <b>TOTAL ASSETS</b>  | <u><u>\$ 2,614,474</u></u> | <u><u>\$ 2,458,837</u></u> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                            |                            |
| CURRENT LIABILITIES:   |                            |                            |
| Accounts payable   | \$ 32,308                  | \$ 35,684                  |
| Accrued and other current liabilities  | 20,512                     | 19,569                     |
| Accrued compensation   | 58,379                     | 59,588                     |
| Deferred revenue, current portion  | 525,617                    | 546,615                    |
| Total current liabilities  | <u>636,816</u>             | <u>661,456</u>             |
| Convertible senior notes, net  | 939,447                    | 779,578                    |
| Deferred revenue, non-current portion  | 353,939                    | 363,485                    |
| Other long-term liabilities  | 23,844                     | 22,102                     |
| Total liabilities  | <u>1,954,046</u>           | <u>1,826,621</u>           |
| Commitments and contingencies (NOTE 10)  |                            |                            |
| Stockholders' equity:  |                            |                            |
| Common stock, par value of \$0.0001 per share; 1,000,000 shares authorized, 194,987 shares and 187,105 shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively | 20                         | 19                         |
| Additional paid-in capital   | 3,064,955                  | 2,891,441                  |
| Treasury stock, at cost; 3,333 shares as of June 30, 2018 and December 31, 2017  | (150,000)                  | (150,000)                  |
| Accumulated other comprehensive loss   | (3,495)                    | (2,881)                    |
| Accumulated deficit  | (2,251,052)                | (2,106,363)                |
| Total stockholders' equity   | <u>660,428</u>             | <u>632,216</u>             |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>  | <u><u>\$ 2,614,474</u></u> | <u><u>\$ 2,458,837</u></u> |

\* 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.

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

|   | <b>Three Months Ended June 30,</b> |              | <b>Six Months Ended June 30,</b> |              |
|---|------------------------------------|--------------|----------------------------------|--------------|
|   | <b>2018</b>                        | <b>2017*</b> | <b>2018</b>                      | <b>2017*</b> |
| <b>Revenue:</b>   |                                    |              |                                  |              |
| Product, subscription and support   | \$ 167,429                         | \$ 158,097   | \$ 332,902                       | \$ 311,826   |
| Professional services   | 35,267                             | 33,625       | 68,864                           | 64,655       |
| Total revenue   | 202,696                            | 191,722      | 401,766                          | 376,481      |
| <b>Cost of revenue:</b>   |                                    |              |                                  |              |
| Product, subscription and support   | 46,136                             | 47,636       | 93,565                           | 94,059       |
| Professional services   | 21,146                             | 20,158       | 41,646                           | 39,482       |
| Total cost of revenue   | 67,282                             | 67,794       | 135,211                          | 133,541      |
| Total gross profit  | 135,414                            | 123,928      | 266,555                          | 242,940      |
| <b>Operating expenses:</b>  |                                    |              |                                  |              |
| Research and development  | 63,575                             | 60,747       | 129,771                          | 119,099      |
| Sales and marketing   | 94,196                             | 92,413       | 191,447                          | 191,401      |
| General and administrative  | 26,179                             | 27,805       | 54,597                           | 55,420       |
| Total operating expenses  | 183,950                            | 180,965      | 375,815                          | 365,920      |
| Operating loss  | (48,536)                           | (57,037)     | (109,260)                        | (122,980)    |
| Interest income   | 3,383                              | 2,168        | 6,323                            | 4,200        |
| Interest expense  | (13,605)                           | (12,385)     | (26,322)                         | (24,630)     |
| Other income (expense), net   | (12,690)                           | (120)        | (12,966)                         | 112          |
| Loss before income taxes  | (71,448)                           | (67,374)     | (142,225)                        | (143,298)    |
| Provision for income taxes  | 1,411                              | 965          | 2,464                            | 2,258        |
| Net loss attributable to common stockholders  | \$ (72,859)                        | \$ (68,339)  | \$ (144,689)                     | \$ (145,556) |
| Net loss per share attributable to common stockholders, basic and diluted   | \$ (0.38)                          | \$ (0.39)    | \$ (0.77)                        | \$ (0.83)    |
| Weighted average shares used in computing net loss per share attributable to common stockholders, basic and diluted | 189,696                            | 176,645      | 188,085                          | 174,453      |

\* 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.

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

|  | <b>Three Months Ended June 30,</b> |              | <b>Six Months Ended June 30,</b> |              |
|--|------------------------------------|--------------|----------------------------------|--------------|
|  | <b>2018</b>                        | <b>2017*</b> | <b>2018</b>                      | <b>2017*</b> |
| Net loss   | \$ (72,859)                        | \$ (68,339)  | \$ (144,689)                     | \$ (145,556) |
| Change in net unrealized gain (losses) on available-for-sale investments, net of tax | 981                                | 26           | (614)                            | 349          |
| Comprehensive loss   | \$ (71,878)                        | \$ (68,313)  | \$ (145,303)                     | \$ (145,207) |

\* 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.

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

|   | <b>Six Months Ended June 30,</b> |                   |
|---|----------------------------------|-------------------|
|   | <b>2018</b>                      | <b>2017*</b>      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                                  |                   |
| Net loss  | \$ (144,689)                     | \$ (145,556)      |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |                                  |                   |
| Depreciation and amortization   | 44,601                           | 52,773            |
| Stock-based compensation  | 81,040                           | 83,286            |
| Non-cash interest expense related to convertible senior notes                             | 20,144                           | 18,566            |
| Loss on repurchase of convertible senior notes  | 10,764                           | —                 |
| Deemed repayment of convertible senior notes attributable to accreted debt discount       | (43,575)                         | —                 |
| Change in fair value of contingent earn-out liability                                     | —                                | (54)              |
| Deferred income taxes   | (60)                             | 251               |
| Other   | 2,372                            | 3,467             |
| Changes in operating assets and liabilities, net of business acquisitions:                |                                  |                   |
| Accounts receivable   | 24,892                           | 16,198            |
| Inventories   | (2,266)                          | (573)             |
| Prepaid expenses and other assets   | 4,892                            | (1,505)           |
| Accounts payable  | (4,152)                          | 3,793             |
| Accrued liabilities   | 949                              | (2,610)           |
| Accrued compensation  | (1,209)                          | (6,881)           |
| Deferred revenue  | (30,545)                         | (57,929)          |
| Other long-term liabilities   | 1,742                            | 8,352             |
| Net cash used in operating activities   | <u>(35,100)</u>                  | <u>(28,422)</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                                  |                   |
| Purchases of property and equipment and demonstration units                               | (26,645)                         | (17,312)          |
| Purchases of short-term investments   | (218,842)                        | (222,910)         |
| Proceeds from maturities of short-term investments  | 209,045                          | 213,514           |
| Proceeds from sales of short-term investments   | —                                | 3,620             |
| Business acquisitions, net of cash acquired   | (5,945)                          | —                 |
| Lease deposits  | 26                               | (144)             |
| Net cash used in investing activities   | <u>(42,361)</u>                  | <u>(23,232)</u>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                                  |                   |
| Payments for contingent earn-outs   | —                                | (38,928)          |
| Proceeds from issuance of convertible senior notes, net of issuance costs                 | 584,405                          | —                 |
| Purchase of capped calls  | (65,220)                         | —                 |
| Repurchase of convertible senior notes  | (286,817)                        | —                 |
| Payment related to shares withheld for taxes  | —                                | (590)             |
| Proceeds from employee stock purchase plan  | 10,993                           | 10,764            |
| Proceeds from exercise of equity awards   | 4,579                            | 11,183            |
| Net cash provided by (used in) financing activities                                       | <u>247,940</u>                   | <u>(17,571)</u>   |
| Net change in cash and cash equivalents   | 170,479                          | (69,225)          |
| Cash and cash equivalents, beginning of period  | 180,891                          | 223,667           |
| Cash and cash equivalents, end of period  | <u>\$ 351,370</u>                | <u>\$ 154,442</u> |

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

|   | <b>Six Months Ended June 30,</b> |              |
|---|----------------------------------|--------------|
|   | <b>2018</b>                      | <b>2017*</b> |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>   |                                  |              |
| Cash paid for income taxes  | \$ 2,283                         | \$ 1,444     |
| Cash paid for interest  | \$ 5,791                         | \$ 6,038     |
| <b>SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>                         |                                  |              |
| Common stock issued in connection with acquisitions   | \$ 15,387                        | \$ —         |
| Convertible senior note issuance costs included in accounts payable and accrued expense                 | \$ 579                           | \$ —         |
| Purchases of property and equipment and demonstration units in accounts payable and accrued liabilities | \$ 14,129                        | \$ 7,883     |

\* 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.

**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 physical) and cloud solutions for network, email, and endpoint security, and are designed to detect and block known and unknown attacks. These products are complemented by our network forensics, cloud-based threat intelligence and analytics, managed detection and response 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 the three months ended June 30, 2018, we issued \$600 million aggregate principal amount of 0.875% Convertible Senior Notes due 2024 (the "2024 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 \$584.4 million. In connection with the issuance of the 2024 Notes, we also entered into capped call transactions (the "Capped Calls") with certain parties affiliated with the initial purchasers of the 2024 Notes. We paid approximately \$65.2 million for the Capped Calls, which have an initial strike price of \$23.17 per share, which corresponds to the initial conversion price of the 2024 Notes. The Capped Calls have an initial cap price of \$34.32 per share subject to certain adjustments as set forth in the confirmations for the Capped Calls.

In May 2018, in a separate transaction, we repurchased \$340.2 million aggregate principal of existing 1.000% Convertible Senior Notes due 2035 (the "Series A Notes"). We used \$330.4 million of the net proceeds from the 2024 Notes offering to repurchase such portion of the Series A Notes.

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.

The majority of our products, subscriptions and services are sold to end-customers through distributors, resellers, and strategic partners, with a lesser percentage of sales directly to our 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 and six months ended June 30, 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 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) ("ASC 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 \$113.0 million on January 1, 2018 and impacted certain other prior period amounts. Certain amounts and disclosures set forth in this Quarterly Report on 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 the Convertible Senior Notes and the purchase price allocation of acquired businesses. We base our estimates on historical experience and 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, deferred cost of revenue and deferred commissions, updated as a result of adopting ASC 606, there have been no significant changes to our significant accounting policies as of and for the three and six months ended June 30, 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 physical and virtual 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 ASC 606, and all related interpretations.

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 estimated useful 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 subscription and support contracts where the term is less than the estimated useful life of the appliance and software license, the intelligence subscription and support revenue is recognized ratably over the contractual term and the allocated value of the material right performance obligations is recognized in the period between the end of the contractual term and the estimated useful life of the appliance. 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 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 our 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 provides managed detection and response services 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 when ownership is transferred to our customers, typically upon shipment.

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. Our contract assets were immaterial as of June 30, 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 the asset relates 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 June 30, 2018 and December 31, 2017, the amount of deferred commissions included in prepaid expenses and other current assets was \$47.5 million and \$43.8 million, respectively. The amount of deferred commissions included in deposits and other long-term assets as of June 30, 2018 and December 31, 2017 was \$42.4 million and \$43.0 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 June 30, 2018 and December 31, 2017, the amount of deferred costs of revenue classified as current and included in prepaid expenses and other current assets was \$18.0 million and \$18.4 million, respectively. The amount of deferred costs of revenue classified as non-current and included in deposits and other long-term assets as of June 30, 2018 and December 31, 2017 was \$17.2 million and \$19.7 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 ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). Select condensed consolidated balance sheet line items, which reflect the adoption of this standard, are as follows (in thousands):

|   | As of December 31, 2017 |                    |             |
|---|-------------------------|--------------------|-------------|
|   | As Previously Reported  | Impact of Adoption | As Adjusted |
| <b>Balance Sheet:</b>                     |                         |                    |             |
| 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 reflect the adoption of ASC 606, are as follows (in thousands):

|   | Three Months Ended June 30, 2017 |                    |             |
|---|----------------------------------|--------------------|-------------|
|   | As Previously Reported           | Impact of Adoption | As Adjusted |
| <b>Condensed Consolidated Statement of Operations</b>                     |                                  |                    |             |
| Total revenue   | \$ 185,472                       | 6,250              | \$ 191,722  |
| Total cost of revenue   | \$ 66,692                        | 1,102              | \$ 67,794   |
| Total operating expenses  | \$ 178,210                       | 2,755              | \$ 180,965  |
| Operating loss  | \$ (59,430)                      | 2,393              | \$ (57,037) |
| Net loss attributable to common stockholders                              | \$ (70,732)                      | 2,393              | \$ (68,339) |
| Net loss per share attributable to common stockholders, basic and diluted | \$ (0.40)                        | 0.01               | \$ (0.39)   |

| <b>Condensed Consolidated Statement of Operations</b>                     | <b>Six Months Ended June 30, 2017</b> |                           |                    |
|---|---------------------------------------|---------------------------|--------------------|
|   | <b>As Previously Reported</b>         | <b>Impact of Adoption</b> | <b>As Adjusted</b> |
| Total revenue   | \$ 359,210                            | 17,271                    | \$ 376,481         |
| Total cost of revenue   | \$ 131,297                            | 2,244                     | \$ 133,541         |
| Total operating expenses  | \$ 359,057                            | 6,863                     | \$ 365,920         |
| Operating loss  | \$ (131,144)                          | 8,164                     | \$ (122,980)       |
| Net loss attributable to common stockholders                              | \$ (153,720)                          | 8,164                     | \$ (145,556)       |
| Net loss per share attributable to common stockholders, basic and diluted | \$ (0.88)                             | 0.05                      | \$ (0.83)          |

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

| <b>Condensed Consolidated Statement of Cash flows</b>                             | <b>Six Months Ended June 30, 2017</b> |                           |                    |
|---|---------------------------------------|---------------------------|--------------------|
|   | <b>As Previously Reported</b>         | <b>Impact of Adoption</b> | <b>As Adjusted</b> |
| <b>Cash flows from operating activities:</b>                                      |                                       |                           |                    |
| Net loss  | \$ (153,720)                          | \$ 8,164                  | \$ (145,556)       |
| <b>Changes in operating assets and liabilities, net of business acquisitions:</b> |                                       |                           |                    |
| Accounts receivable   | \$ 10,318                             | 5,880                     | \$ 16,198          |
| Prepaid expenses and other assets   | \$ (10,637)                           | 9,132                     | \$ (1,505)         |
| Deferred revenue  | \$ (34,780)                           | (23,149)                  | \$ (57,929)        |

#### ***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 may be applied on a modified retrospective basis or prospective 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):

| Description                         | As of June 30, 2018 |            |         |            | As of December 31, 2017 |            |         |            |
|-------------------------------------|---------------------|------------|---------|------------|-------------------------|------------|---------|------------|
|                                     | Level 1             | Level 2    | Level 3 | Total      | Level 1                 | Level 2    | Level 3 | Total      |
| <u>Assets</u>                       |                     |            |         |            |                         |            |         |            |
| Cash equivalents:                   |                     |            |         |            |                         |            |         |            |
| Money market funds                  | \$ 204              | \$ —       | \$ —    | \$ 204     | \$ 208                  | \$ —       | \$ —    | \$ 208     |
| Treasury bills                      | —                   | —          | —       | —          | 3,098                   | —          | —       | 3,098      |
| Commercial Paper                    | —                   | —          | —       | —          | —                       | —          | —       | —          |
| Total cash equivalents              | 204                 | —          | —       | 204        | 3,306                   | —          | —       | 3,306      |
| Short-term investments:             |                     |            |         |            |                         |            |         |            |
| Certificates of deposit             | —                   | —          | —       | —          | —                       | —          | —       | —          |
| Commercial paper                    | —                   | —          | —       | —          | —                       | 4,987      | —       | 4,987      |
| Corporate notes and bonds           | —                   | 448,401    | —       | 448,401    | —                       | 438,024    | —       | 438,024    |
| U.S. Government agencies            | —                   | 275,574    | —       | 275,574    | —                       | 272,900    | —       | 272,900    |
| Total short-term investments        | —                   | 723,975    | —       | 723,975    | —                       | 715,911    | —       | 715,911    |
| Total assets measured at fair value | \$ 204              | \$ 723,975 | \$ —    | \$ 724,179 | \$ 3,306                | \$ 715,911 | \$ —    | \$ 719,217 |

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 six months ended June 30, 2018.

The estimated fair value of the Convertible Senior Notes (as defined in Note 9) as of June 30, 2018 was determined to be \$1.1 billion, 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 June 30, 2018 |                        |                         |                      |                          |                        |
|---------------------------|---------------------|------------------------|-------------------------|----------------------|--------------------------|------------------------|
|                           | Amortized Cost      | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value | Cash and Cash Equivalent | Short-Term Investments |
| Commercial paper          | \$ —                | \$ —                   | \$ —                    | \$ —                 | \$ —                     | \$ —                   |
| Corporate notes and bonds | 450,939             | 4                      | (2,542)                 | 448,401              | —                        | 448,401                |
| U.S. Government agencies  | 276,531             | —                      | (957)                   | 275,574              | —                        | 275,574                |
| Total                     | \$ 727,470          | \$ 4                   | \$ (3,499)              | \$ 723,975           | \$ —                     | \$ 723,975             |

|                           | 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 June 30, 2018 |                 |                        |                 |            |                 |
|---------------------------|---------------------|-----------------|------------------------|-----------------|------------|-----------------|
|                           | Less Than 12 Months |                 | Greater Than 12 Months |                 | Total      |                 |
|                           | Fair Value          | Unrealized Loss | Fair Value             | Unrealized Loss | Fair Value | Unrealized Loss |
| Commercial paper          | \$ —                | \$ —            | \$ —                   | \$ —            | \$ —       | \$ —            |
| Corporate notes and bonds | 211,707             | (1,360)         | 231,668                | (1,182)         | 443,375    | (2,542)         |
| U.S. Government agencies  | 168,440             | (732)           | 105,078                | (225)           | 273,518    | (957)           |
| Total                     | \$ 380,147          | \$ (2,092)      | \$ 336,746             | \$ (1,407)      | \$ 716,893 | \$ (3,499)      |

|                           | 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 June 30, 2018 and December 31, 2017.

The following table summarizes the contractual maturities of our investments at June 30, 2018 (in thousands):

|  | Amortized Cost | Fair Value |
|--|----------------|------------|
|--|----------------|------------|

|                             |            |            |
|-----------------------------|------------|------------|
| Due within one year         | \$ 442,938 | \$ 441,165 |
| Due within one to two years | 284,532    | 282,810    |
| Total                       | \$ 727,470 | \$ 723,975 |

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 June 30, 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 \$1.3 million as of June 30, 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 June 30, 2018 | As of December 31, 2017 |
|-----------------------------------|---------------------|-------------------------|
| Computer equipment and software   | \$ 161,783          | \$ 144,438              |
| Leasehold improvements            | 59,039              | 67,451                  |
| Furniture and fixtures            | 14,485              | 16,665                  |
| Machinery and equipment           | 447                 | 447                     |
| Total property and equipment      | 235,754             | 229,001                 |
| Less: accumulated depreciation    | (154,381)           | (157,644)               |
| Total property and equipment, net | \$ 81,373           | \$ 71,357               |

Depreciation and amortization expense related to property, equipment and demonstration units during the three months ended June 30, 2018 and 2017 was \$9.2 million and \$11.0 million, respectively. Depreciation and amortization expense related to property, equipment and demonstration units during the six months ended June 30, 2018 and 2017 was \$18.6 million and \$22.0 million, respectively.

During the three months ended June 30, 2018 and 2017, we capitalized \$6.8 million and \$3.2 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 June 30, 2018 and 2017 was \$2.3 million and \$1.3 million, respectively.

During the six months ended June 30, 2018 and 2017, we capitalized \$11.7 million and \$7.9 million, respectively, of software development costs primarily related to our cloud subscription offerings. Amortization expense related to capitalized software development costs during the six months ended June 30, 2018 and 2017 was \$4.2 million and \$2.1 million, respectively.

#### 5. Business Combinations

##### *Acquisition of The Email Laundry*

On October 20, 2017, we acquired all outstanding shares of The Email Laundry, a privately held email security company, whose technology 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 \$0.4 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*

On January 11, 2018, we acquired all outstanding shares of privately held X15, a data management company. We expect that the X15 technology will be incorporated into 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 \$15.2 million and tangible net liabilities of \$0.6 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 \$15.2 million for the six months ended June 30, 2018 due to the acquisition of X15. There were no other changes in the carrying amount of goodwill.

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

|                                | As of June 30,<br>2018 | As of December 31,<br>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 | (241,024)              | (215,765)                  |
| Total net intangible assets    | \$ 168,229             | \$ 187,388                 |

Amortization expense of intangible assets during the three months ended June 30, 2018 and 2017 was \$12.7 million and \$14.8 million, respectively. Amortization expense of intangible assets during the six months ended June 30, 2018 and 2017 was \$25.3 million and \$29.6 million, respectively.

The expected future annual amortization expense of intangible assets as of June 30, 2018 is presented below (in thousands):

| Years Ending December 31,   | Amount     |
|-----------------------------|------------|
| 2018 (remaining six months) | \$ 25,067  |
| 2019                        | 48,441     |
| 2020                        | 33,903     |
| 2021                        | 29,337     |
| 2022                        | 18,209     |
| and thereafter              | 13,272     |
| Total                       | \$ 168,229 |

## 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 six months ended June 30, 2018 (in thousands):

|                            | Facilities costs |
|----------------------------|------------------|
| Balance, December 31, 2017 | \$ 935           |
| Cash payments              | (92)             |
| Other adjustments          | (13)             |
| Balance, June 30, 2018     | \$ 830           |

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

The remaining restructuring balance of \$0.8 million at June 30, 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 them on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Changes in the balance of total deferred commissions for the periods presented are as follows (in thousands):

|                         | <b>Three Months Ended June<br/>30, 2018</b> |
|-------------------------|---|
| As of March 31, 2018    | \$ 87,012                                   |
| Commissions capitalized | 17,013                                      |
| Commissions recognized  | (14,054)                                    |
| As of June 30, 2018     | <u>\$ 89,971</u>                            |
|                         | <b>Six Months Ended June 30,<br/>2018</b>   |
| As of December 31, 2017 | \$ 86,779                                   |
| Commissions capitalized | 30,499                                      |
| Commissions recognized  | (27,307)                                    |
| As of June 30, 2018     | <u>\$ 89,971</u>                            |

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

## 8. Deferred Revenue

Deferred revenue consisted of the following (in thousands):

|  | <b>As of June 30,<br/>2018</b> | <b>As of December 31,<br/>2017*</b> |
|--|--------------------------------|-------------------------------------|
| Product, subscription and support, current     | \$ 476,818                     | \$ 496,218                          |
| Professional services, current                 | 48,799                         | 50,397                              |
| Total deferred revenue, current                | 525,617                        | 546,615                             |
| Product, subscription and support, non-current | 353,927                        | 363,313                             |
| Professional services, non-current             | 12                             | 172                                 |
| Total deferred revenue, non-current            | 353,939                        | 363,485                             |
| Total deferred revenue                         | <u>\$ 879,556</u>              | <u>\$ 910,100</u>                   |

Changes in the balance of unearned revenue for the periods presented are as follows (in thousands):

|                          | <b>Three Months Ended June<br/>30, 2018</b> |
|--------------------------|---|
| As of March 31, 2018     | \$ 886,136                                  |
| Billings for the period  | 196,116                                     |
| Revenue recognized       | (202,696)                                   |
| As of June 30, 2018      | <u>\$ 879,556</u>                           |
|                          | <b>Six Months Ended June 30,<br/>2018</b>   |
| As of December 31, 2017* | \$ 910,100                                  |
| Billings for the period  | 371,222                                     |
| Revenue recognized       | (401,766)                                   |
| As of June 30, 2018      | <u>\$ 879,556</u>                           |

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

### *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 it is recorded as revenue or deferred revenue as appropriate. As of June 30, 2018, the aggregate amount of the transaction price allocated to remaining performance obligations was \$879.6 million in deferred revenue and \$17.4 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):

|                  | <b>Total</b> | <b>Less than 1<br/>year</b> | <b>1-2 years</b> | <b>2-3 years</b> | <b>More than 3<br/>years</b> |
|------------------|--------------|-----------------------------|------------------|------------------|------------------------------|
| Deferred revenue | 100%         | 60%                         | 25%              | 12%              | 3%                           |
| Backlog          | 100%         | 57%                         | 34%              | 8%               | 1%                           |

## 9. Convertible Senior Notes

### *Convertible Senior Notes due 2024*

On May 24, 2018, we issued \$525.0 million aggregate principal amount of the 2024 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. In addition, on June 5, 2018, we issued an additional \$75.0 million aggregate principal amount of the 2024 Notes pursuant to the full exercise of the initial purchasers' option to purchase additional 2024 Notes, in a private placement exempt from the registration requirements of the Securities Act. The net proceeds from the offerings, after deducting the initial purchasers' discount of approximately \$15.0 million and the issuance costs of approximately \$0.6 million, were \$584.4 million. We used (i) approximately \$330.4 million of the net proceeds to repurchase approximately \$340.2 million in principal amount outstanding of the Series A Notes in negotiated transactions with institutional investors and (ii) approximately \$65.2 million of the net proceeds from the offering of the 2024 Notes to enter into the Capped Calls.

The 2024 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 2024 Notes. They rank equally in right of payment with all of our existing and future liabilities that are not expressly subordinated to the 2024 Notes including the Series A Notes and the Series B Notes (as defined below); and effectively rank junior in right of payment to any of our secured indebtedness to the extent of the value of the assets securing such indebtedness. The 2024 Notes are structurally junior to all indebtedness and other liabilities (including trade payables) of our subsidiaries.

The 2024 Notes do not contain any financial covenants and do not restrict us from paying dividends or issuing or repurchasing other securities.

The 2024 Notes bear interest at 0.875% per year, payable semiannually in arrears on June 1 and December 1 of each year, beginning December 1, 2018. The 2024 Notes mature on June 1, 2024, unless earlier repurchased, redeemed or converted.

The initial conversion rate of the 2024 Notes is 43.1667 shares of our common stock per \$1,000 of principal amount of the 2024 Notes, which is equivalent to an initial conversion price of approximately \$23.17 per share of common stock. The conversion rate of the 2024 Notes may be adjusted pursuant to the terms of the indenture governing the 2024 Notes upon the occurrence of certain specified events, but not for accrued and unpaid interest.

Holders may convert the 2024 Notes at their option in multiples of \$1,000 principal amount prior to the business day preceding March 1, 2024, only under the following circumstances:

- during any calendar quarter commencing after the calendar quarter ended on September 30, 2018 (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 of the 2024 Notes on each applicable trading day;
- during the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price per \$1,000 principal amount of the 2024 Notes 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 on each such trading day;
- if we call any or all of the 2024 Notes 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 2024 Notes.

Regardless of the foregoing conditions, holders may convert their 2024 Notes at their option in multiples of \$1,000 principal amount during the period from, and including, March 1, 2024 to the close of business on the second scheduled trading day immediately preceding the maturity date. Upon conversion, the 2024 Notes can be settled in cash, shares of our common stock or any combination of cash and shares of common stock at our option.

Holders may also require us to repurchase the 2024 Notes if we undergo a "fundamental change," as defined in each indenture governing the 2024 Notes, at a repurchase price equal to 100% of the principal amount, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

Additionally, we may redeem for cash all or any portion of the 2024 Notes on or after June 5, 2021, 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) immediately preceding the date on which we provide notice of redemption at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus any accrued and unpaid interest to, but excluding, the redemption date.

As of June 30, 2018, none of the conditions permitting holders to convert their 2024 Notes had been satisfied and no shares of our common stock had been issued in connection with any conversions of the 2024 Notes. Based on the closing price of our common stock of \$15.39 per share on June 29, 2018, the conversion value of the 2024 Notes was less than the principal amount of the 2024 Notes outstanding on a per 2024 Note basis.

In accordance with accounting for debt with conversions and other options, we bifurcated the principal amount of the 2024 Notes into liability and equity components. The initial liability component of the 2024 Notes was valued at \$458.3 million based on the contractual cash flows discounted at an appropriate comparable market non-convertible debt borrowing rate at the date of issuance of 5.5% with the equity component representing the residual amount of the proceeds of \$141.7 million, which was recorded as a debt discount. Issuance costs were allocated pro rata based on the relative initial carrying amounts of the liability and equity components. As a result, transaction costs of \$0.5 million and \$0.1 million and initial purchasers' discount of \$11.5 million and \$3.5 million were attributable to the liability component ("debt discounts") and equity component of the 2024 Notes, respectively. The debt discount and the issuance costs allocated to the liability component are amortized as additional interest expense over the term of the 2024 Notes using the effective interest method of 3.8% for all periods presented.

The liability and equity components of the 2024 Notes consisted of the following (in thousands):

|  | <b>As of June 30,<br/>2018</b> |
|--|--------------------------------|
|  | <b>2024 Notes</b>              |
| Liability component:                                 |                                |
| Principal  | \$ 600,000                     |
| Less: 2024 Notes debt discounts, net of amortization | (151,400)                      |
| Net carrying amount                                  | <u>\$ 448,600</u>              |

The unamortized issuance costs as of June 30, 2018 will be amortized over a weighted-average remaining period of approximately 6 years.

Interest expense for the three and six months ended June 30, 2018 related to the 2024 Notes consisted of the following (in thousands):

|   | <b>Three and Six Months<br/>Ended June 30, 2018</b> |
|---|---|
|   | <b>2024 Notes</b>                                   |
| Coupon interest                           | \$ 520  |
| Amortization of 2024 Notes debt discounts | 2,259   |
| Total interest expense recognized         | <u>\$ 2,779</u>                                     |

In connection with the 2024 Notes offering, the Company entered into Capped Calls with certain counterparties affiliated with the initial purchasers of the 2024 Notes. The Capped Calls are expected to reduce potential dilution of earnings per share upon conversion of the 2024 Notes, and have an initial strike price of \$23.17 per share, which corresponds to the initial conversion price of the 2024 Notes and which have a cap price of \$34.32 per share. The Capped Calls do not meet the criteria for separate accounting as a derivative as they are indexed to our own stock and are accounted for as freestanding financial instruments. The premiums paid for the purchase of the Capped Calls in the amount of \$65.2 million have been recorded as a reduction of the Company's additional

paid-in capital in stockholder's equity in the accompanying Condensed Consolidated Financial Statements and fair values of the Capped Calls are not measured at each reporting period.

### *Convertible Senior Notes due 2035*

In June 2015, we issued \$460.0 million principal amount of 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 "2035 Notes" and the 2035 Notes, together with the 2024 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. The net proceeds after the initial purchasers' discount of \$23.0 million and issuance costs of \$0.5 million from the 2035 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 2035 Notes mature on June 1, 2035, unless earlier repurchased, redeemed or converted.

The 2035 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 2035 Notes. They rank equally in right of payment with all of our existing and future liabilities that are not expressly subordinated to the 2035 Notes and effectively rank junior in right of payment to any of our 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 2035 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 2035 Notes is 16.4572 shares of our common stock per \$1,000 principal amount of 2035 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 2035 Notes may be adjusted upon the occurrence of certain specified events, but not for accrued and unpaid interest.

Holders may convert the 2035 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 2035 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 2035 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 2035 Notes.

Regardless of the foregoing conditions, holders may convert their 2035 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 2035 Notes. Upon conversion, the 2035 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 2035 Notes to repurchase all or any portion of their 2035 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 2035 Notes if we undergo a "fundamental change," as defined in each indenture governing the 2035 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 2035 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 2035 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 2035 Notes, respectively.

**Repurchase of portion of Series A Notes**

In May 2018, we used approximately \$330.4 million of the net proceeds from the offering of the 2024 Notes to repurchase \$340.2 million in principal amount of the Series A Notes. The repurchase was accounted for as a partial extinguishment of the Series A Notes. The consideration of approximately \$330.4 million used to repurchase the Series A Notes was allocated between the liability and equity components of the amount extinguished by determining the fair value of the liability component immediately prior to the debt extinguishment and allocating that portion of the repurchase price to the liability component in the amount of \$317.4 million. The residual of the repurchase price of \$13.0 million was allocated to the equity component of the Series A Notes as a reduction of additional paid-in capital. The fair value of the debt extinguished was calculated using a discount rate of 4.5%, representing an estimate of the Company's borrowing rate at the date of repurchase with a remaining expected life of two years. As part of the repurchase, we wrote-off a portion of the unamortized debt issuance cost apportioned to the principal amount of Series A Notes repurchased. We also recorded a loss on extinguishment of the Series A Notes of \$10.8 million in Other Expense, net, representing the difference between the consideration attributed to the liability component and the sum of the net carrying amount of the liability component and unamortized costs. As of June 30, 2018, \$119.8 million aggregate principal amount of the Series A Notes remains outstanding.

The liability and equity components of the remaining portion of Series A Notes and Series B Notes consisted of the following (in thousands):

|   | As of June 30, 2018 |                   | As of December 31, 2017 |                   |
|---|---------------------|-------------------|-------------------------|-------------------|
|   | Series A Notes      | Series B Notes    | Series A Notes          | Series B Notes    |
| Liability component:                                |                     |                   |                         |                   |
| Principal   | \$ 119,828          | \$ 460,000        | \$ 460,000              | \$ 460,000        |
| Less: 2035 Notes debt discount, net of amortization | (11,248)            | (77,733)          | (53,762)                | (86,660)          |
| Net carrying amount                                 | <u>\$ 108,580</u>   | <u>\$ 382,267</u> | <u>\$ 406,238</u>       | <u>\$ 373,340</u> |
| Equity component, net of issuance costs             | <u>\$ 79,555</u>    | <u>\$ 117,834</u> | <u>\$ 92,567</u>        | <u>\$ 117,834</u> |

The unamortized discounts and issuance costs as of June 30, 2018 will be amortized over a weighted-average remaining period of approximately 4 years.

Interest expense for the three and six months ended June 30, 2018 related to the 2035 Notes consisted of the following (in thousands):

|  | Three Months Ended June 30, 2018 |                 | Six Months Ended June 30, 2018 |                  |
|--|----------------------------------|-----------------|--------------------------------|------------------|
|  | Series A Notes                   | Series B Notes  | Series A Notes                 | Series B Notes   |
| Coupon interest                                    | \$ 788                           | \$ 1,848        | \$ 1,938                       | \$ 3,717         |
| Amortization of 2035 Notes debt discount           | 3,700                            | 4,490           | 8,957                          | 8,927            |
| Total interest expense recognized                  | <u>\$ 4,488</u>                  | <u>\$ 6,338</u> | <u>\$ 10,895</u>               | <u>\$ 12,644</u> |
| Effective interest rate on the liability component | <u>6.3%</u>                      | <u>6.7%</u>     | <u>6.3%</u>                    | <u>6.8%</u>      |

Interest expense for the three and six months ended June 30, 2017 related to the 2035 Notes consisted of the following (in thousands):

|  | Three Months Ended June 30,<br>2017 |                | Six Months Ended June 30, 2017 |                |
|--|-------------------------------------|----------------|--------------------------------|----------------|
|  | Series A Notes                      | Series B Notes | Series A Notes                 | Series B Notes |
| Coupon interest                                    | \$ 1,150                            | \$ 1,869       | \$ 2,300                       | \$ 3,738       |
| Amortization of 2035 Notes debt discount           | 5,058                               | 4,283          | 10,051                         | 8,515          |
| Total interest expense recognized                  | \$ 6,208                            | \$ 6,152       | \$ 12,351                      | \$ 12,253      |
| Effective interest rate on the liability component | 6.4%                                | 6.8%           | 6.4%                           | 6.9%           |

#### *Prepaid Forward Stock Purchase*

In connection with the issuance of the 2035 Notes, we also entered into privately negotiated prepaid forward stock purchase transactions (each a "Prepaid Forward") with one of the initial purchasers of the 2035 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 2035 Notes will be able to hedge their investment in the 2035 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.

#### **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 \$5.2 million and \$4.4 million for the three months ended June 30, 2018 and 2017, respectively. Rent expense, net of sublease income, was \$9.8 million and \$8.5 million for the six months ended June 30, 2018 and 2017, respectively.

The aggregate future non-cancelable minimum rental payments on our operating leases, as of June 30, 2018, are as follows (in thousands):

| Years Ending December 31,   | Amount     |
|-----------------------------|------------|
| 2018 (remaining six months) | \$ 7,330   |
| 2019                        | 15,980     |
| 2020                        | 15,671     |
| 2021                        | 14,202     |
| 2022                        | 11,937     |
| 2023 and thereafter         | 53,618     |
| Total                       | \$ 118,738 |

Total future non-cancelable minimum rental payments have not been reduced by future minimum sublease rentals totaling \$5.9 million.

We are party to letters of credit totaling \$3.7 million and \$3.3 million as of June 30, 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. We may issue forecasts and orders for components and products that are non-cancelable to reduce manufacturing lead times and plan for adequate supply. As of June 30, 2018 and December 31, 2017, we had non-cancelable open orders of \$12.5 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 June 30, 2018, we have not accrued any significant costs for such non-cancelable commitments.

### ***Purchase Obligations***

As of June 30, 2018, we had approximately \$13.7 million of non-cancelable firm purchase commitments primarily for purchases of software and services. In situations in which we have received delivery of the goods or services as of June 30, 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 \$13.7 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 June 30, 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 June 30, 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 June 30, 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):

|                                     | <b>As of June 30, 2018</b> | <b>As of December 31, 2017</b> |
|-------------------------------------|----------------------------|--------------------------------|
| Reserved under stock award plans    | 39,449                     | 35,838                         |
| Convertible Senior Notes            | 35,442                     | 15,141                         |
| Employee Stock Purchase Plan (ESPP) | 3,817                      | 2,985                          |
| Total                               | <u>78,708</u>              | <u>53,964</u>                  |

## **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 June 30, 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 3.8 million shares and 3.0 million shares of common stock were available for future issuance as of June 30, 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                           | (648)               | 7.07  |   | 6,562                     |
| Cancelled                           | (91)                | 41.37                                       |   |                           |
| Balance — June 30, 2018             | 3,694               | \$ 12.51                                    | 4.5                                       | \$ 27,273                 |
| Options exercisable — June 30, 2018 | 3,694               | \$ 12.51                                    | 4.5                                       | \$ 27,273                 |

### 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   | 10,186           | 15.13  |   |                           |
| Vested  | (5,173)          | 18.08  |   |                           |
| Cancelled   | (2,067)          | 16.78  |   |                           |
| Unvested balance — June 30, 2018  | 22,963           | \$ 15.78   | 1.4                                       | \$ 353,401                |
| Unvested awards for which the requisite service period has not been rendered and vesting is subject to the achievement of a performance condition — June 30, 2018 | 4,152            | \$ 15.40   | 0.9                                       | \$ 63,897                 |

### 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 May 2018:

|                            | Three and Six Months<br>Ended June 30, 2018 | Three and Six Months<br>Ended June 30, 2017 |
|----------------------------|---|---|
| Fair value of common stock | \$16.69                                     | \$15.65                                     |
| Risk-free interest rate    | 2.08% - 2.23%                               | 1.05% - 1.12%                               |
| Expected term (in years)   | 0.5 - 1.0                                   | 0.5 - 1.0                                   |
| Volatility                 | 32% - 35%                                   | 50% - 52%                                   |
| Dividend yield             | —%  | —%  |

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

|   | Three Months Ended June 30, |                  | Six Months Ended June 30, |                  |
|---|-----------------------------|------------------|---------------------------|------------------|
|   | 2018                        | 2017             | 2018                      | 2017             |
| Cost of product, subscription and support revenue | \$ 3,558                    | \$ 4,017         | \$ 7,180                  | \$ 8,377         |
| Cost of professional services revenue             | 3,448                       | 3,375            | 7,350                     | 7,047            |
| Research and development                          | 12,418                      | 14,057           | 26,771                    | 28,582           |
| Sales and marketing                               | 12,223                      | 10,219           | 25,200                    | 24,234           |
| General and administrative                        | 7,245                       | 7,729            | 14,539                    | 15,046           |
| Total   | <u>\$ 38,892</u>            | <u>\$ 39,397</u> | <u>\$ 81,040</u>          | <u>\$ 83,286</u> |

As of June 30, 2018, total compensation cost related to stock-based awards not yet recognized was \$286.2 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 \$1.4 million and \$1.0 million for the three months ended June 30, 2018 and 2017, respectively. For both the three months ended June 30, 2018 and 2017, the provision for income taxes was 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 and six months ended June 30, 2018 and 2017, all potentially dilutive common shares were determined to be anti-dilutive.

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

|   | Three Months Ended June 30, |                  | Six Months Ended June 30, |                  |
|---|-----------------------------|------------------|---------------------------|------------------|
|   | 2018                        | 2017*            | 2018                      | 2017*            |
| Numerator:  |                             |                  |                           |                  |
| Net loss  | \$ (72,859)                 | \$ (68,339)      | \$ (144,689)              | \$ (145,556)     |
| Denominator:  |                             |                  |                           |                  |
| Weighted average number of shares outstanding—basic and diluted | 189,696                     | 176,645          | 188,085                   | 174,453          |
| Net loss per share—basic and diluted                            | <u>\$ (0.38)</u>            | <u>\$ (0.39)</u> | <u>\$ (0.77)</u>          | <u>\$ (0.83)</u> |

\* 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 June 30, |        |
|--|----------------|--------|
|  | 2018           | 2017   |
| Options to purchase common stock           | 3,694          | 5,474  |
| Unvested early exercised common shares     | —              | —      |
| Unvested restricted stock awards and units | 22,963         | 21,994 |
| Convertible senior notes                   | 35,442         | 15,141 |
| ESPP shares                                | 156            | 210    |

## 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 ("U.S."), 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 June 30, |            |           |           |           |           |           |          |
|--|-----------------------------|------------|-----------|-----------|-----------|-----------|-----------|----------|
|  | 2018                        |            | 2017*     |           | 2018      |           | 2017*     |          |
|  | US                          |            | EMEA      |           | APAC      |           | Other     |          |
| Product and related subscription and support | \$ 75,104                   | \$ 75,917  | \$ 21,393 | \$ 19,715 | \$ 20,787 | \$ 18,631 | \$ 5,107  | \$ 4,843 |
| Cloud subscription and managed services      | 30,394                      | 28,501     | 6,462     | 4,106     | 5,410     | 4,623     | 2,771     | 1,759    |
| Professional services                        | 22,887                      | 24,663     | 4,275     | 3,290     | 4,078     | 3,911     | 4,028     | 1,763    |
| Total revenue                                | \$ 128,385                  | \$ 129,081 | \$ 32,130 | \$ 27,111 | \$ 30,275 | \$ 27,165 | \$ 11,906 | \$ 8,365 |

|  | Six Months Ended June 30, |            |           |           |           |           |           |           |
|--|---------------------------|------------|-----------|-----------|-----------|-----------|-----------|-----------|
|  | 2018                      |            | 2017*     |           | 2018      |           | 2017*     |           |
|  | US                        |            | EMEA      |           | APAC      |           | Other     |           |
| Product and related subscription and support | \$ 148,732                | \$ 147,114 | \$ 43,318 | \$ 38,187 | \$ 40,535 | \$ 36,389 | \$ 10,899 | \$ 9,600  |
| Cloud subscription and managed services      | 60,249                    | 59,442     | 13,107    | 8,164     | 10,819    | 9,641     | 5,242     | 3,286     |
| Professional services                        | 45,352                    | 47,810     | 9,723     | 6,161     | 6,576     | 6,880     | 7,214     | 3,807     |
| Total revenue                                | \$ 254,333                | \$ 254,366 | \$ 66,148 | \$ 52,512 | \$ 57,930 | \$ 52,910 | \$ 23,355 | \$ 16,693 |

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 June 30, |            | Six Months Ended June 30, |            |
|--|-----------------------------|------------|---------------------------|------------|
|  | 2018                        | 2017*      | 2018                      | 2017*      |
| Revenue by Category                          |                             |            |                           |            |
| Product and related subscription and support | \$ 122,392                  | \$ 119,107 | \$ 243,484                | \$ 231,291 |
| Cloud subscription and managed services      | 45,037                      | 38,990     | 89,418                    | 80,535     |
| Professional services                        | 35,267                      | 33,625     | 68,864                    | 64,655     |
| Total revenue                                | \$ 202,696                  | \$ 191,722 | \$ 401,766                | \$ 376,481 |

### Long lived assets by geography

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

|                                   | As of June 30, 2018 | As of December 31, 2017 |
|-----------------------------------|---------------------|-------------------------|
| Property and Equipment, net:      |                     |                         |
| United States                     | \$ 71,702           | \$ 60,202               |
| International                     | 9,671               | 11,155                  |
| Total property and equipment, net | \$ 81,373           | \$ 71,357               |

For each of the three months ended June 30, 2018 and 2017, one distributor represented 20% for each period and one reseller represented 15% and 12%, respectively, of our total revenue. For the six months ended June 30, 2018 and 2017, one distributor represented 20% and 19%, respectively, and one reseller represented 15% and 12%, respectively, of our total revenue. As of June 30, 2018, one customer represented 15% of our net accounts receivable balance, and as of December 31, 2017, no customer represented 10% or more of our 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 the 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;
- our 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.*

*Investors and others should note that we announce material financial information to our investors using our investor relations Web site (<http://investors.fireeye.com/>), SEC filings, press releases, public conference calls and webcasts. We use these channels, as well as social media, to communicate with the public about our company, our services and other issues. It is possible that the information we post on social media could be deemed to be material information.*

## **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 products (primarily virtual and physical appliances) and related subscriptions and support, cloud subscriptions, managed security services and professional services. Our product and related subscription and support revenue consists primarily of revenue from the sale of our intelligence-dependent physical and virtual security appliances and software, subscriptions to our dynamic threat intelligence (DTI) updates, and support and maintenance. Our intelligent-dependent physical and virtual security appliances include NX (network security), EX (email security), HX (endpoint security),

and FX (file security) appliances. 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 estimated useful 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 network forensics appliances (PX) 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 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, our standalone threat intelligence subscriptions and our Managed Defense managed detection and response service. Revenue from subscriptions to cloud-based software and Managed Defense services is recognized over the contractual term, generally one or three years.

Sales of our products, subscriptions, support and managed services initially increase our deferred revenue. Deferred revenue from our product subscription and support sales totaled \$830.7 million and \$859.5 million as of June 30, 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 six months ended June 30, 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 June 30, 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 as of June 30, 2018 and December 31, 2017 was \$48.8 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<br>June 30, |             | Six Months Ended or As of<br>June 30, |             |
|---|---|-------------|---------------------------------------|-------------|
|   | 2018                                    | 2017*       | 2018                                  | 2017*       |
| Product, subscription and support revenue | \$ 167,429                              | \$ 158,097  | \$ 332,902                            | \$ 311,826  |
| Professional services revenue             | 35,267                                  | 33,625      | 68,864                                | 64,655      |
| Total revenue                             | \$ 202,696                              | \$ 191,722  | \$ 401,766                            | \$ 376,481  |
| Year-over-year percentage increase        | 6%                                      |             | 7%                                    |             |
| Gross margin percentage                   | 67%                                     | 65%         | 66%                                   | 65%         |
| Deferred revenue, current                 | \$ 525,617                              | \$ 498,666  | \$ 525,617                            | \$ 498,666  |
| Deferred revenue, non-current             | \$ 353,939                              | \$ 371,154  | \$ 353,939                            | \$ 371,154  |
| Billings (non-GAAP)                       | \$ 196,116                              | \$ 173,582  | \$ 371,222                            | \$ 318,552  |
| Net cash used in operating activities     | \$ (44,287)                             | \$ (11,470) | \$ (35,100)                           | \$ (28,422) |
| Free cash flow (non-GAAP)                 | \$ (56,445)                             | \$ (20,299) | \$ (61,745)                           | \$ (45,734) |

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

*Deferred revenue.* Our deferred revenue consists of amounts that we have the right to invoice and which have been invoiced, but have not yet been recognized into revenue as of the end of the respective period. 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. Invoiced amounts for such contracts can be for multiple years, as such 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 June 30, |            | Six Months Ended June 30, |            |
|---|-----------------------------|------------|---------------------------|------------|
|   | 2018                        | 2017*      | 2018                      | 2017*      |
| Revenue                                     | \$ 202,696                  | \$ 191,722 | \$ 401,766                | \$ 376,481 |
| Add: Deferred revenue, end of period        | 879,556                     | 869,820    | 879,556                   | 869,820    |
| Less: Deferred revenue, beginning of period | 886,136                     | 887,960    | 910,100                   | 927,749    |
| Billings (non-GAAP)                         | \$ 196,116                  | \$ 173,582 | \$ 371,222                | \$ 318,552 |

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

|  | Three Months Ended June 30, |            | Six Months Ended June 30, |            |
|--|-----------------------------|------------|---------------------------|------------|
|  | 2018                        | 2017*      | 2018                      | 2017*      |
| Product and related subscription and support | 107,025                     | 95,608     | 197,390                   | 172,538    |
| Cloud subscription and managed services      | 49,617                      | 39,270     | 106,727                   | 74,619     |
| Professional Services                        | 39,474                      | 38,704     | 67,105                    | 71,395     |
| Billings (non-GAAP)                          | \$ 196,116                  | \$ 173,582 | \$ 371,222                | \$ 318,552 |

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

*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 June 30, |             | Six Months Ended June 30, |             |
|--|-----------------------------|-------------|---------------------------|-------------|
|  | 2018                        | 2017        | 2018                      | 2017        |
| Net cash used in operating activities                            | \$ (44,287)                 | \$ (11,470) | \$ (35,100)               | \$ (28,422) |
| Less: purchase of property and equipment and demonstration units | 12,158                      | 8,829       | 26,645                    | 17,312      |
| Free cash flow (non-GAAP)  | \$ (56,445)                 | \$ (20,299) | \$ (61,745)               | \$ (45,734) |
| Net cash used in investing activities                            | \$ (17,023)                 | \$ (14,508) | \$ (42,361)               | \$ (23,232) |
| Net cash provided by (used in) financing activities              | \$ 244,830                  | \$ 17,046   | \$ 247,940                | \$ (17,571) |

### 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 of 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 with) 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, gains or losses on the extinguishment of convertible notes, 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 June 30, |                    |             |                    |
|--|-----------------------------|--------------------|-------------|--------------------|
|  | 2018                        |                    | 2017*       |                    |
|  | Amount                      | % of total Revenue | Amount      | % of total Revenue |
| (Dollars in thousands)                       |                             |                    |             |                    |
| Revenue:                                     |                             |                    |             |                    |
| Product, subscription and support            | \$ 167,429                  | 83 %               | \$ 158,097  | 82 %               |
| Professional services                        | 35,267                      | 17                 | 33,625      | 18                 |
| Total revenue                                | 202,696                     | 100                | 191,722     | 100                |
| Cost of revenue:                             |                             |                    |             |                    |
| Product, subscription and support            | 46,136                      | 23                 | 47,636      | 25                 |
| Professional services                        | 21,146                      | 10                 | 20,158      | 11                 |
| Total cost of revenue                        | 67,282                      | 33                 | 67,794      | 35                 |
| Total gross profit                           | 135,414                     | 67                 | 123,928     | 65                 |
| Operating expenses:                          |                             |                    |             |                    |
| Research and development                     | 63,575                      | 31                 | 60,747      | 32                 |
| Sales and marketing                          | 94,196                      | 46                 | 92,413      | 48                 |
| General and administrative                   | 26,179                      | 13                 | 27,805      | 15                 |
| Total operating expenses                     | 183,950                     | 91                 | 180,965     | 94                 |
| Operating loss                               | (48,536)                    | (24)               | (57,037)    | (30)               |
| Interest income                              | 3,383                       | 2                  | 2,168       | 1                  |
| Interest expense                             | (13,605)                    | (7)                | (12,385)    | (6)                |
| Other expense, net                           | (12,690)                    | (6)                | (120)       | —                  |
| Loss before income taxes                     | (71,448)                    | (35)               | (67,374)    | (35)               |
| Provision for income taxes                   | 1,411                       | 1                  | 965         | 1                  |
| Net loss attributable to common stockholders | \$ (72,859)                 | (36)%              | \$ (68,339) | (36)%              |

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

| Six Months Ended June 30, |                    |        |                    |
|---------------------------|--------------------|--------|--------------------|
| 2018                      |                    | 2017*  |                    |
| Amount                    | % of total Revenue | Amount | % of total Revenue |

| (Dollars in thousands)                       |              |       |                    |
|--|--------------|-------|--------------------|
| <b>Revenue:</b>                              |              |       |                    |
| Product, subscription and support            | \$ 332,902   | 83 %  | \$ 311,826 83 %    |
| Professional services                        | 68,864       | 17    | 64,655 17          |
| Total revenue                                | 401,766      | 100   | 376,481 100        |
| <b>Cost of revenue:</b>                      |              |       |                    |
| Product, subscription and support            | 93,565       | 23    | 94,059 25          |
| Professional services                        | 41,646       | 10    | 39,482 10          |
| Total cost of revenue                        | 135,211      | 34    | 133,541 35         |
| Total gross profit                           | 266,555      | 66    | 242,940 65         |
| <b>Operating expenses:</b>                   |              |       |                    |
| Research and development                     | 129,771      | 32    | 119,099 32         |
| Sales and marketing                          | 191,447      | 48    | 191,401 51         |
| General and administrative                   | 54,597       | 14    | 55,420 15          |
| Total operating expenses                     | 375,815      | 94    | 365,920 97         |
| Operating loss                               | (109,260)    | (27)  | (122,980) (33)     |
| Interest income                              | 6,323        | 2     | 4,200 1            |
| Interest expense                             | (26,322)     | (7)   | (24,630) (7)       |
| Other Income (expense), net                  | (12,966)     | (3)   | 112 —              |
| Loss before income taxes                     | (142,225)    | (35)  | (143,298) (38)     |
| Provision for income taxes                   | 2,464        | 1     | 2,258 1            |
| Net loss attributable to common stockholders | \$ (144,689) | (36)% | \$ (145,556) (39)% |

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

#### Comparison of the Three Months Ended June 30, 2018 and 2017

##### Revenue

|                                      | Three Months Ended June 30, |                    |            |                    |           |      |
|--------------------------------------|-----------------------------|--------------------|------------|--------------------|-----------|------|
|                                      | 2018                        |                    | 2017*      |                    | Change    |      |
|                                      | Amount                      | % of Total Revenue | Amount     | % of Total Revenue | Amount    | %    |
| (Dollars in thousands)               |                             |                    |            |                    |           |      |
| <b>Revenue:</b>                      |                             |                    |            |                    |           |      |
| Product, subscription and support    | \$ 167,429                  | 83%                | \$ 158,097 | 82%                | \$ 9,332  | 6 %  |
| Professional services                | 35,267                      | 17                 | 33,625     | 18                 | 1,642     | 5    |
| Total revenue                        | \$ 202,696                  | 100%               | \$ 191,722 | 100%               | \$ 10,974 | 6 %  |
| <b>Revenue by geographic region:</b> |                             |                    |            |                    |           |      |
| US                                   | \$ 128,385                  | 63%                | \$ 129,081 | 67%                | \$ (696)  | (1)% |
| EMEA                                 | 32,130                      | 16                 | 27,111     | 14                 | 5,019     | 19   |
| APAC                                 | 30,275                      | 15                 | 27,165     | 14                 | 3,110     | 11   |
| Other                                | 11,906                      | 6                  | 8,365      | 5                  | 3,541     | 42   |
| Total revenue                        | \$ 202,696                  | 100%               | \$ 191,722 | 100%               | \$ 10,974 | 6 %  |

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

Product, subscription and support revenue increased by \$9.3 million, or 6%, during the three months ended June 30, 2018 compared to the three months ended June 30, 2017. The increase in product, subscription and support revenue consisted of an increase of \$11.6

million in subscription and support revenue, offset by a \$2.3 million decrease in product revenues. 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 \$1.6 million, or 5%, during the three months ended June 30, 2018 compared to the three months ended June 30, 2017 due primarily to an increase in billable hours and larger engagements.

Our international revenue increased \$11.7 million, or 19%, during the three months ended June 30, 2018 compared to the three months ended June 30, 2017, which reflects our increasing international market presence driven by increases in international professional services revenue and the related product and subscription pull through from those service engagements.

#### *Cost of Revenue and Gross Margin*

|                                   | <b>Three Months Ended June 30,</b> |                     |                  |                     |                 |             |
|-----------------------------------|------------------------------------|---------------------|------------------|---------------------|-----------------|-------------|
|                                   | <b>2018</b>                        |                     | <b>2017*</b>     |                     | <b>Change</b>   |             |
|                                   | <b>Amount</b>                      | <b>Gross Margin</b> | <b>Amount</b>    | <b>Gross Margin</b> | <b>Amount</b>   | <b>%</b>    |
| <b>(Dollars in thousands)</b>     |                                    |                     |                  |                     |                 |             |
| <b>Cost of revenue:</b>           |                                    |                     |                  |                     |                 |             |
| Product, subscription and support | \$ 46,136                          |                     | \$ 47,636        |                     | \$ (1,500)      | (3)%        |
| Professional services             | 21,146                             |                     | 20,158           |                     | 988             | 5           |
| Total cost of revenue             | <u>\$ 67,282</u>                   |                     | <u>\$ 67,794</u> |                     | <u>\$ (512)</u> | <u>(1)%</u> |
| <b>Gross margin:</b>              |                                    |                     |                  |                     |                 |             |
| Product, subscription and support |                                    | 72%                 |                  | 70%                 |                 |             |
| Professional services             |                                    | 40%                 |                  | 40%                 |                 |             |
| Total gross margin                |                                    | 67%                 |                  | 65%                 |                 |             |

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

The cost of product, subscription and support revenue decreased by \$1.5 million, or 3%, during the three months ended June 30, 2018 compared to the three months ended June 30, 2017. The decrease in cost of product, subscription and support revenue was primarily driven by decreased appliance sales as well as a decrease in amortization of intangible assets.

The cost of professional services revenue increased \$1.0 million, or 5%, during the three months ended June 30, 2018 compared to the three months ended June 30, 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 June 30, 2018 compared to the three months ended June 30, 2017 due primarily to an increase in product, subscription and support revenue and professional services revenues, combined with a net decrease in total cost of revenue.

Operating Expenses

|   | Three Months Ended June 30, |                    |                   |                    |                 |            |
|---|-----------------------------|--------------------|-------------------|--------------------|-----------------|------------|
|   | 2018                        |                    | 2017*             |                    | Change          |            |
|   | Amount                      | % of Total Revenue | Amount            | % of Total Revenue | Amount          | %          |
| (Dollars in thousands)                        |                             |                    |                   |                    |                 |            |
| Operating expenses:                           |                             |                    |                   |                    |                 |            |
| Research and development                      | \$ 63,575                   | 31%                | \$ 60,747         | 32%                | \$ 2,828        | 5 %        |
| Sales and marketing                           | 94,196                      | 46                 | 92,413            | 48                 | 1,783           | 2          |
| General and administrative                    | 26,179                      | 13                 | 27,805            | 15                 | (1,626)         | (6)        |
| Total operating expenses                      | <u>\$ 183,950</u>           | <u>91%</u>         | <u>\$ 180,965</u> | <u>94%</u>         | <u>\$ 2,985</u> | <u>2 %</u> |
| Includes stock-based compensation expense of: |                             |                    |                   |                    |                 |            |
| Research and development                      | \$ 12,418                   |                    | \$ 14,057         |                    |                 |            |
| Sales and marketing                           | 12,223                      |                    | 10,219            |                    |                 |            |
| General and administrative                    | 7,245                       |                    | 7,729             |                    |                 |            |
| Total   | <u>\$ 31,886</u>            |                    | <u>\$ 32,005</u>  |                    |                 |            |

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

*Research and Development*

Research and development expense increased \$2.8 million, or 5%, during the three months ended June 30, 2018 compared to the three months ended June 30, 2017. The increase was due to a \$3.7 million increase in personnel costs primarily due to an increase in headcount, offset in part by decreases in various other research and development expenses.

*Sales and Marketing*

Sales and marketing expense increased \$1.8 million, or 2%, during the three months ended June 30, 2018 compared to the three months ended June 30, 2017. The increase was primarily due to an increase in personnel costs, including stock-based compensation of \$2.9 million and a \$0.9 million increase in sales and marketing programs costs compared to the same period in 2017. These increases were offset in part by a decrease in commissions expense of \$2.1 million.

*General and Administrative*

General and administrative expense decreased \$1.6 million, or 6%, during the three months ended June 30, 2018 compared to the three months ended June 30, 2017. The decrease was due primarily to a \$1.7 million decrease in fees paid to legal and other professional services firms and a \$0.5 million decrease in stock-based compensation expense, partially offset in part by various immaterial increases in other expenses.

*Interest Income*

|                 | Three Months Ended June 30, |          |          | Change |  |
|-----------------|-----------------------------|----------|----------|--------|--|
|                 | 2018                        | 2017     | Amount   | %      |  |
|                 | (Dollars in thousands)      |          |          |        |  |
| Interest income | \$ 3,383                    | \$ 2,168 | \$ 1,215 | 56%    |  |

Interest income increased for the three months ended June 30, 2018 compared to the three months ended June 30, 2017, due to a higher rate of return on our investments in conjunction with higher average balances in our cash and cash equivalents and investments as a result of the issuance of the 2024 Notes during the three months ended June 30, 2018.

*Interest Expense*

|                  | Three Months Ended June 30, |             | Change     |     |
|------------------|-----------------------------|-------------|------------|-----|
|                  | 2018                        | 2017        | Amount     | %   |
|                  | (Dollars in thousands)      |             |            |     |
| Interest expense | \$ (13,605)                 | \$ (12,385) | \$ (1,220) | 10% |

Interest expense increased for the three months ended June 30, 2018 compared to the three months ended June 30, 2017 due to greater amortization of discount and issuance costs related to the 2035 Notes and the 2024 Notes issued during the three months ended June 30, 2018.

*Other Income (Expense), Net*

|                             | Three Months Ended June 30, |          | Change      |         |
|-----------------------------|-----------------------------|----------|-------------|---------|
|                             | 2018                        | 2017     | Amount      | %       |
|                             | (Dollars in thousands)      |          |             |         |
| Other income (expense), net | \$ (12,690)                 | \$ (120) | \$ (12,570) | 10,475% |

Other income (expense), net for the three months ended June 30, 2018 is due primarily to the loss recorded on extinguishment of our Series A Notes of \$10.8 million and foreign currency transaction loss.

*Provision for (Benefit from) Income Taxes*

|                            | Three Months Ended June 30, |        |
|----------------------------|-----------------------------|--------|
|                            | 2018                        | 2017*  |
|                            | (Dollars in thousands)      |        |
| Provision for income taxes | \$ 1,411                    | \$ 965 |
| Effective tax rate         | (2.0)%                      | (1.4)% |

The provision for income taxes increased for the three months ended June 30, 2018 compared to the three months ended June 30, 2017. Our provision for income taxes for the three months ended June 30, 2018 and June 30, 2017 is primarily comprised of income taxes in foreign jurisdictions and withholding taxes.

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

**Comparison of the Six Months Ended June 30, 2018 and 2017**

*Revenue*

|                                   | Six Months Ended June 30, 2018 |                    |            |                    |           |    |
|-----------------------------------|--------------------------------|--------------------|------------|--------------------|-----------|----|
|                                   | 2018                           |                    | 2017*      |                    | Change    |    |
|                                   | Amount                         | % of Total Revenue | Amount     | % of Total Revenue | Amount    | %  |
|                                   | (Dollars in thousands)         |                    |            |                    |           |    |
| Revenue:                          |                                |                    |            |                    |           |    |
| Product, subscription and support | \$ 332,902                     | 83%                | \$ 311,826 | 83%                | \$ 21,076 | 7% |
| Professional services             | 68,864                         | 17                 | 64,655     | 17                 | 4,209     | 7  |
| Total revenue                     | \$ 401,766                     | 100%               | \$ 376,481 | 100%               | \$ 25,285 | 7% |
| Revenue by geographic region:     |                                |                    |            |                    |           |    |
| United States                     | \$ 254,333                     | 63%                | \$ 254,366 | 68%                | \$ (33)   | —% |
| EMEA                              | 66,148                         | 16                 | 52,512     | 14                 | 13,636    | 26 |
| APAC                              | 57,930                         | 15                 | 52,910     | 14                 | 5,020     | 9  |
| Other                             | 23,355                         | 6                  | 16,693     | 4                  | 6,662     | 40 |
| Total revenue                     | \$ 401,766                     | 100%               | \$ 376,481 | 100%               | \$ 25,285 | 7% |

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

Product, subscription and support revenue increased by \$21.1 million, or 7%, during the six months ended June 30, 2018 compared to the six months ended June 30, 2017. The increase in product, subscription and support revenue consisted of an increase of \$14.3 million in product and subscription revenue as well as a \$6.8 million increase in support 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 \$4.2 million, or 7%, during the six months ended June 30, 2018 compared to the six months ended June 30, 2017. The increase is primarily due to revenues from incident response services and an increase in billable hours.

Our international revenue increased \$25.3 million, or 21%, during the six months ended June 30, 2018 compared to the six months ended June 30, 2017, which reflects our increasing international market presence driven by increases in international professional services revenue and the related product and subscription pull through from those service engagements.

*Cost of Revenue and Gross Margin*

|                                   | Six Months Ended June 30, |              |                   |              |                 |            |
|-----------------------------------|---------------------------|--------------|-------------------|--------------|-----------------|------------|
|                                   | 2018                      |              | 2017*             |              | Change          |            |
|                                   | Amount                    | Gross Margin | Amount            | Gross Margin | Amount          | %          |
| (Dollars in thousands)            |                           |              |                   |              |                 |            |
| <b>Cost of revenue:</b>           |                           |              |                   |              |                 |            |
| Product, subscription and support | \$ 93,565                 |              | \$ 94,059         |              | \$ (494)        | (1)%       |
| Professional services             | 41,646                    |              | 39,482            |              | 2,164           | 5          |
| Total cost of revenue             | <u>\$ 135,211</u>         |              | <u>\$ 133,541</u> |              | <u>\$ 1,670</u> | <u>1 %</u> |
| <b>Gross margin:</b>              |                           |              |                   |              |                 |            |
| Product, subscription and support |                           | 72%          |                   | 70%          |                 |            |
| Professional services             |                           | 40%          |                   | 39%          |                 |            |
| Total gross margin                |                           | 66%          |                   | 65%          |                 |            |

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

The cost of product, subscription and support revenue decreased slightly by \$0.5 million, or 1%, during the six months ended June 30, 2018 compared to the six months ended June 30, 2017. There were increases in allocations to cost of revenues and web hosting, offset in part by a decrease in amortization of intangible assets as compared to the same period in 2017.

The cost of professional services revenue increased \$2.2 million, or 5%, during the six months ended June 30, 2018 compared to the six months ended June 30, 2017. The increase in cost of professional services revenue was primarily due to a \$4.7 million increase in personnel and professional services costs, offset primarily by a \$2.1 million decrease in depreciation expense.

Gross profit margin increased slightly as a percentage of revenue during the six months ended June 30, 2018 compared to the six months ended June 30, 2017 due primarily to an increase in product, subscription and support revenue and professional services revenues, as total cost of revenue remained relatively constant as compared to the same period in 2017.

## Operating Expenses

|   | Six Months Ended June 30, |                    |                   |                    |                 |            |
|---|---------------------------|--------------------|-------------------|--------------------|-----------------|------------|
|   | 2018                      |                    | 2017*             |                    | Change          |            |
|   | Amount                    | % of Total Revenue | Amount            | % of Total Revenue | Amount          | %          |
| (Dollars in thousands)                        |                           |                    |                   |                    |                 |            |
| Operating expenses:                           |                           |                    |                   |                    |                 |            |
| Research and development                      | \$ 129,771                | 32%                | \$ 119,099        | 32%                | \$ 10,672       | 9 %        |
| Sales and marketing                           | 191,447                   | 48                 | 191,401           | 51                 | 46              | 0          |
| General and administrative                    | 54,597                    | 14                 | 55,420            | 15                 | (823)           | (1)        |
| Total operating expenses                      | <u>\$ 375,815</u>         | <u>94%</u>         | <u>\$ 365,920</u> | <u>97%</u>         | <u>\$ 9,895</u> | <u>3 %</u> |
| Includes stock-based compensation expense of: |                           |                    |                   |                    |                 |            |
| Research and development                      | \$ 26,771                 |                    | \$ 28,582         |                    |                 |            |
| Sales and marketing                           | 25,200                    |                    | 24,234            |                    |                 |            |
| General and administrative                    | 14,539                    |                    | 15,046            |                    |                 |            |
| Total   | <u>\$ 66,510</u>          |                    | <u>\$ 67,862</u>  |                    |                 |            |

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

### Research and Development

Research and development expense increased \$10.7 million, or 9%, during the six months ended June 30, 2018 compared to the six months ended June 30, 2017. The increase was primarily due to a \$12.7 million increase in personnel costs, a \$2.1 million increase in web hosting costs and a \$0.9 million increase in professional services. These expenses were offset in part by decreases in various other research and development expenses.

### Sales and Marketing

Sales and marketing expense was relatively constant during the six months ended June 30, 2018 as compared to the six months ended June 30, 2017. There was a decrease in commissions of \$4.0 million during the six months ended June 30, 2018 which was offset by a corresponding increase in personnel related costs of \$3.9 million, including stock-based compensation, as compared to the same period in 2017.

### General and Administrative

General and administrative expense decreased \$0.8 million, or 1%, during the six months ended June 30, 2018 compared to the six months ended June 30, 2017. The decrease was primarily due to a \$0.7 million decrease in fees paid to legal and other professional services firms as well as approximately \$0.3 million less in personnel related expenses, including stock-based compensation.

### Interest Income

|                        | Six Months Ended June 30, |   |          |   |          |     |
|------------------------|---------------------------|---|----------|---|----------|-----|
|                        | 2018                      |   | 2017     |   | Change   |     |
|                        | Amount                    | % | Amount   | % | Amount   | %   |
| (Dollars in thousands) |                           |   |          |   |          |     |
| Interest income        | \$ 6,323                  |   | \$ 4,200 |   | \$ 2,123 | 51% |

Interest income increased for the six months ended June 30, 2018 compared to the six months ended June 30, 2017, due to a higher rate of return on our investments as well as higher than average balances in our cash and cash equivalents and investments due to our recent issuance of the 2024 Notes during the six months ended June 30, 2018.

### Interest Expense

|                        | Six Months Ended June 30, |   |             |   |            |    |
|------------------------|---------------------------|---|-------------|---|------------|----|
|                        | 2018                      |   | 2017        |   | Change     |    |
|                        | Amount                    | % | Amount      | % | Amount     | %  |
| (Dollars in thousands) |                           |   |             |   |            |    |
| Interest expense       | \$ (26,322)               |   | \$ (24,630) |   | \$ (1,692) | 7% |

Interest expense increased for the six months ended June 30, 2018 compared to the six months ended June 30, 2017 due to greater amortization of discount and issuance costs related to the 2035 Notes as well as the recent issuance of the 2024 Notes during the six months ended June 30, 2018.

*Other Income (Expense), Net*

|                             | Six Months Ended June 30, |        | Change      |           |
|-----------------------------|---------------------------|--------|-------------|-----------|
|                             | 2018                      | 2017   | Amount      | %         |
|                             | (Dollars in thousands)    |        |             |           |
| Other income (expense), net | \$ (12,966)               | \$ 112 | \$ (13,078) | (11,677)% |

Other income (expense), net for the six months ended June 30, 2018 is due primarily to the loss on extinguishment of the Series A Notes in the amount of \$10.8 million and foreign currency transaction losses.

*Provision for Income Taxes*

|                            | Six Months Ended June 30, |          |
|----------------------------|---------------------------|----------|
|                            | 2018                      | 2017*    |
|                            | (Dollars in thousands)    |          |
| Provision for income taxes | \$ 2,464                  | \$ 2,258 |
| Effective tax rate         | (1.7)%                    | (1.6)%   |

The provision for income taxes remained relatively constant for the six months ended June 30, 2018 compared to the six months ended June 30, 2017. Our provision for income taxes for the six months ended June 30, 2018 and June 30, 2017 is primarily comprised of income taxes in foreign jurisdictions and withholding taxes.

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

**Liquidity and Capital Resources**

|  | As of June 30, 2018       | As of December 31, 2017 |
|--|---------------------------|-------------------------|
|  | (In thousands)            |                         |
| Cash and cash equivalents                            | \$ 351,370                | \$ 180,891              |
| Short-term investments                               | \$ 723,975                | \$ 715,911              |
|  | Six Months Ended June 30, |                         |
|  | 2018                      | 2017                    |
|  | (In thousands)            |                         |
| Cash used in operating activities                    | \$ (35,100)               | \$ (28,422)             |
| Cash used in investing activities                    | (42,361)                  | (23,232)                |
| Cash provided by (used in) financing activities      | 247,940                   | (17,571)                |
| Net increase (decrease) in cash and cash equivalents | \$ 170,479                | \$ (69,225)             |

As of June 30, 2018, our cash and cash equivalents of \$351.4 million were held for working capital, capital expenditures, investment in technology, debt servicing and business acquisition purposes, of which approximately \$52.2 million was held outside of the United States. We consider the undistributed earnings of our foreign subsidiaries as of June 30, 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.

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 six months ended June 30, 2018, our operating activities used cash of \$35.1 million. We incurred a net loss of \$144.7 million, which included net non-cash expenses of \$158.9 million, primarily consisting of stock-based compensation charges, depreciation and amortization expense, loss on the repurchase of our Series A Notes and non-cash interest expense related to our Series A Notes. Based on ASU 2016-15, we classified \$43.6 million of the \$330.4 million Series A Notes cash repayment as deemed repayment of Series A Notes accreted debt discount as a cash outflow for operating activities. Our net change in operating assets and liabilities used cash of \$5.7 million, primarily related to reductions in deferred revenue of \$30.5 million, accounts payable of \$4.2 million and increased prepaid expenses of \$4.9 million due to early payment of payroll taxes and commissions deferred, which was partially offset by cash sourced from a reduction in accounts receivable of \$24.9 million due to increased collections and increased accrued liabilities of \$0.9 million due to accretion of interest on Convertible Senior Notes.

During the six months ended June 30, 2017, our operating activities used cash of \$28.4 million. We incurred a net loss of \$145.6 million, which included net non-cash expenses of \$158.3 million, primarily consisting of stock-based compensation charges and depreciation and amortization expense. Our net change in operating assets and liabilities used cash of \$41.2 million, primarily related to decreases in deferred revenue of \$57.9 million and accrued liabilities of \$9.5 million, partially offset by cash sourced from a reduction in accounts receivable of \$16.2 million.

### ***Investing Activities***

Cash used in investing activities during the six months ended June 30, 2018 was \$42.4 million, primarily for capital expenditures to purchase property and equipment and demonstration units of \$26.6 million, net purchases of short-term investments of \$9.8 million and cash used in the acquisition of X15.

Cash used in investing activities during the six months ended June 30, 2017 was \$23.2 million, primarily for capital expenditures to purchase property and equipment and demonstration units of \$17.3 million and net purchases of short-term investments.

### ***Financing Activities***

During the six months ended June 30, 2018, financing activities provided \$247.9 million in cash, primarily from proceeds of \$584.4 million received from the issuance of our 2024 Notes, \$11.0 million from employee purchases of shares under the 2013 Employee Stock Purchase Plan ("ESPP") and \$4.6 million from exercises of employee stock options. These proceeds were partially offset by the \$286.8 million cash outflow attributable to the aggregate principal of the Series A Notes repurchased and \$65.2 million for the purchase of the Capped Calls related to our 2024 Notes.

During the six months ended June 30, 2017, financing activities used \$17.6 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 9 Convertible Senior Notes and 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 June 30, 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 ASC 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.

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### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

#### ***Foreign Currency Exchange Risk***

Our sales contracts are primarily denominated in U.S. dollars. A portion of our operating expenses are incurred outside the United States and are denominated in foreign currencies and are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Indian Rupee, British Pound Sterling, Japanese Yen and Euro. Additionally, fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our statement of operations. 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 June 30, 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 \$1,075.3 million and \$896.8 million as of June 30, 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 Series A Notes, Series B Notes and 2024 Notes have fixed interest rates at 1.000%, 1.625% and 0.875%, respectively. 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 June 30, 2018, the fair value of our Convertible Senior Notes was approximately \$1,104.2 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 June 30, 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 June 30, 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 June 30, 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 \$72.9 million and \$68.3 million during the three months ended June 30, 2018 and 2017, respectively, and net losses of \$144.7 million and \$145.6 million during the six months ended June 30, 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 platform, network or systems, or any other security breach or data security incident that we may suffer, could result in reputational harm and lost revenues, and 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 \$779.6 million as reported in the respective periods, which represents a compounded annual growth rate of approximately 82%. 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 or increasing 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' level of 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 them 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 or utilizing 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.

Many of our expenses are relatively fixed, at least in the short term. If our projections or assumptions on which we base our projections are incorrect, we may not be able to adjust our expenses rapidly enough to avoid an adverse impact on our profitability or cash flows.

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

- effectively attracting, training and integrating new employees, particularly members of our sales and management teams;
- further improving our key business applications, processes and IT infrastructure, including our data centers, to support our business needs;
- continuing to refine our ability to forecast our bookings, billings, revenues, expenses and cash flows;
- enhancing our information and communication systems to ensure that our employees and offices around the world are well coordinated and can effectively communicate with each other and our growing base of channel partners and customers;

- improving our internal control over financial reporting and disclosure controls and procedures to ensure timely and accurate reporting of our operational and financial results; and
- appropriately documenting and testing our IT systems and business processes.

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

***If the general level of advanced cyber attacks declines, or is perceived by our current or potential customers to have declined, our business could be harmed.***

Our business is substantially dependent on enterprises and governments recognizing that advanced cyber attacks are pervasive and are not effectively prevented by legacy security solutions. High visibility attacks on prominent enterprises and governments have increased market awareness of the problem of advanced cyber attacks and help to provide an impetus for enterprises and governments to devote resources to protecting against advanced cyber attacks, such as testing our platform, purchasing it, and broadly deploying it within their organizations. If advanced cyber attacks were to decline, or enterprises or governments perceived that the general level of advanced cyber attacks have declined, our ability to attract new customers and expand our offerings within existing customers could be materially and adversely affected. A reduction in the threat landscape, for example, as a result of the 2015 cybersecurity agreement between China and the U.S., may reduce the demand from customers or prospects for our solutions, and therefore could increase our sales cycles and harm our business, results of operations and financial condition.

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

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

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

In addition, there may also be system or network interruptions if new or upgraded systems are defective or not installed properly. Moreover, interruptions in our subscription updates could result in a failure of our DTI cloud to effectively update customers' hardware products and thereby leave our customers more vulnerable to attacks. Interruptions or failures in our service delivery could cause customers to terminate their subscriptions with us, could adversely affect our retention rates, and could harm our ability to attract new customers. Our business would also be harmed if our customers believe that our DTI cloud or other cloud-based products and services are unreliable.

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

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

Our future success is substantially dependent on our ability to attract, integrate, train, retain and motivate the members of our management team and other key employees throughout our organization, including key employees obtained through our acquisitions. Competition for highly skilled personnel is intense, especially in the San Francisco Bay Area and the Washington D.C. Area, where we have a substantial presence and need for highly skilled personnel. We may not be successful in attracting or retaining qualified

personnel to fulfill our current or future needs, and potential changes in U.S. immigration policy, including those that restrain the flow of technical and professional talent, may make it difficult to renew or obtain visas for highly skilled personnel that we have hired or are actively recruiting. We are also substantially dependent on the continued service of our existing engineering personnel because of the complexity of our platform. Our competitors may be successful in recruiting and hiring members of our management team or other key employees, including key employees obtained through our acquisitions, and it may be difficult for us to find suitable replacements on a timely basis, on competitive terms, or at all. Also, to the extent we hire employees from mature public companies with significant financial resources, we may be subject to allegations that such employees have been improperly solicited, or that they have divulged proprietary or other confidential information or that their former employers own such employees' inventions or other work product.

In addition, we believe that it is important to establish and maintain a corporate culture that facilitates the maintenance and transfer of institutional knowledge within our organization and also fosters innovation, teamwork, a passion for customers and a focus on execution. Our Chief Executive Officer, our President, our Chief Financial Officer, our Executive Vice President of Worldwide Sales, our Executive Vice President of Global Services and Intelligence, our Executive Vice President of Global Engineering & Security Products and our Chief Marketing Officer and certain other key members of our management and finance teams have only been working together for a relatively short period of time. If we are not successful in integrating these key employees into our organization, such failure could delay or hinder our product development efforts and the achievement of our strategic objectives, which could adversely affect our business, financial condition and results of operations.

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

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

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

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

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

***We rely on revenue from sales of products, subscriptions, and maintenance and support, and because we recognize revenue from these sales over the term of the relevant useful life or subscription period, downturns or upturns in sales are not immediately reflected in full in our results of operations.***

Revenue from sales of our products, subscriptions, and maintenance and support accounts for a significant portion of our total revenue. New or renewal sales of subscription and maintenance and support contracts may decline or fluctuate as a result of a number of factors, including customers' level of satisfaction with our products and subscriptions, the actual or perceived efficacy of our security solutions, the prices of our products and subscriptions, the prices of products and subscriptions offered by our competitors or reductions

in our customers' spending levels. If our sales of new or renewal subscription and service contracts decline, our revenue and revenue growth rate may decline and adversely affect our business. In addition, we recognize revenue from most of our security appliances sales ratably over the useful life, and we recognize revenue from our subscriptions and maintenance and support contracts revenue ratably over the term of the relevant contract period, which is generally between one to five years. As a result, much of the product, subscription and support revenue we report each quarter is derived from sales in prior quarters. Consequently, a decline in new or renewal sales in any one quarter will not be fully reflected in revenue in that quarter but will negatively affect our revenue in future quarters. Accordingly, the effect of significant decreases in the market acceptance of, or demand for, our intelligence-dependent security appliances, subscriptions or maintenance and support contracts may not be immediately apparent from our results of operations until future periods. Also, it is difficult for us to rapidly increase our revenue through additional sales in any period, as the majority of our revenue is derived from sales of our products, subscriptions and services sold in prior periods. Furthermore, any increases in the average term of our subscriptions or maintenance and support contracts would result in a longer revenue recognition period, and could reduce the amount of revenue recognized in each period.

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

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

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

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

We have identified a number of new products and enhancements to our platform that we believe are important to our continued success in the IT security market, including our FireEye Helix platform and enhancements to our endpoint solution. There can be no assurance that we will be successful in developing and marketing, on a timely basis, such new products or enhancements or that our new products or enhancements will adequately address the changing needs of the marketplace. In addition, some of our new products and enhancements may require us to develop new hardware architectures that involve complex, expensive and time-consuming research and development processes. Although the market expects rapid introduction of new products and enhancements to respond to new threats, the development of these products and enhancements is difficult and the timetable for commercial release and availability is uncertain, as there can be significant time lags between initial beta releases and the commercial availability of new products and enhancements. We may experience unanticipated delays in the availability of new products and enhancements to our platform and fail to meet customer expectations with respect to the timing of such availability. If we do not quickly respond to the rapidly changing and rigorous needs of our customers by developing, releasing and making available on a timely basis new products and enhancements to our platform, such as our FireEye Helix platform and enhancements to our endpoint solution, that can adequately respond to advanced threats and our customers' needs, our competitive position and business prospects will be harmed. Furthermore, from time to time, we or our competitors may announce new products with capabilities or technologies that could have the potential to replace or shorten the life cycles of our existing products. There can be no assurance that announcements of new products will not cause customers to defer purchasing our existing products.

Additionally, the process of developing new technology is expensive, complex and uncertain. The success of new products and enhancements depends on several factors, including appropriate component costs, timely completion and introduction, differentiation of new products and enhancements from those of our competitors, and market acceptance. To maintain our competitive position, we

must continue to commit significant resources to developing new products or enhancements to our platform before knowing whether these investments will be cost-effective or achieve the intended results. There can be no assurance that we will successfully identify new product opportunities, develop and bring new products or enhancements to market in a timely manner, or achieve market acceptance of our platform, or that products and technologies developed by others will not render our platform obsolete or noncompetitive. If we expend significant resources on researching and developing products or enhancements to our platform and such products or enhancements are not successful, our business, financial position and results of operations may be adversely affected.

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

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

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

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

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

In addition, because security breaches with respect to larger, high-profile enterprises are likely to be heavily publicized, there is increased reputational risk associated with serving such customers. If we are unable to increase sales of our platform to large enterprise and government customers while mitigating the risks associated with serving such customers, our business, financial position and results of operations may suffer.

***Seasonality may cause fluctuations in our revenue.***

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

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

Technology companies frequently enter into litigation based on allegations of patent infringement or other violations of intellectual property rights. In addition, patent holding companies seek to monetize patents they have purchased or otherwise obtained. As we face increasing competition and gain an increasingly higher profile, the possibility of intellectual property rights claims against us grows. From time to time, third parties have asserted, and we expect that third parties will continue to assert, claims of infringement of intellectual property rights against us. For example, on December 29, 2017, we executed Confidential Patent License Agreements with Finjan Holdings, Inc. ("Finjan"), whereby we resolved all pending litigation matters. Under the terms of the settlement agreement, we paid Finjan a one-time net cash settlement amount of \$12.5 million in December 2017, in exchange for the resolution and settlement of all claims between FireEye and Finjan and for cross-licenses between the companies of certain issued patents and patent applications. Other security companies have paid amounts to the same plaintiff to license some of the patents asserted against us. Third parties may

in the future also assert claims against our customers or channel partners, whom our standard license and other agreements obligate us to indemnify against claims that our products infringe the intellectual property rights of third parties. While we intend to increase the size of our patent portfolio, many of our competitors and others may now and in the future have significantly larger and more mature patent portfolios than we have. In addition, future litigation may involve patent holding companies or other patent owners who have no relevant product offerings or revenue and against whom our own patents may therefore provide little or no deterrence or protection. Any claim of intellectual property infringement by a third party, even a claim without merit, could cause us to incur substantial costs defending against such claim, could distract our management from our business and could require us to cease use of such intellectual property. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by the discovery process.

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

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

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

Further, the portion of our appliances used in our platform that are sourced outside the United States may be subject to additional logistical risks or risks associated with complying with local rules and regulations in foreign countries. Significant changes to existing international trade agreements could lead to sourcing or logistics disruption resulting from import delays or the imposition of increased tariffs on our sourcing partners. For example, the United States and Chinese governments have each enacted, and discussed more potential, import tariffs. These tariffs, depending on their ultimate scope and how they are implemented, could negatively impact our business by increasing our costs and impair our ability to fulfill orders.

In addition, our reliance on third-party manufacturers exposes us to the risk that certain minerals, known as “conflict minerals,” that are contained in our products have originated in the Democratic Republic of the Congo or an adjoining country. As a result of the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the SEC adopted disclosure requirements for public companies whose products contain conflict minerals that are necessary to the functionality or production of such products. Although the SEC has provided guidance with respect to a portion of the conflict minerals filing requirements that somewhat reduced the reporting required, we have incurred and expect to incur additional costs to comply with the disclosure requirements, including costs related to determining the source of the conflict minerals used in our products. Moreover, the implementation of these requirements could adversely affect the sourcing, availability and pricing of materials used in the manufacture of our products to the extent that there may be only a limited number of suppliers offering “conflict free” minerals that can be used in our products. There can be no assurance that we will be able to obtain such minerals in sufficient quantities or at competitive prices. We may also encounter customers who require that all of the components of our products be certified as conflict free. If we are not able to meet customer requirements, such customers may choose to not purchase our products, which could impact our sales.

Our third-party manufacturers typically fulfill our supply requirements on the basis of individual orders. We are subject to a risk of supply shortages and changes in pricing terms because we do not have long-term contracts with our third-party manufacturers that guarantee capacity, the continuation of particular pricing terms or the extension of credit limits. Our contract with our primary manufacturer permits it to terminate such contract at its convenience, subject to prior notice requirements. Any production interruptions for any reason, such as a natural disaster, epidemic, capacity shortages, or quality problems at one of our manufacturing partners would negatively affect sales of our products and adversely impact our business and results of operations.

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

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

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

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

***Our products and subscriptions contain third-party open source software components, and failure to comply with the terms of the underlying open source software licenses could restrict our ability to sell our products and subscriptions.***

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

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

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

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

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

- government certification requirements applicable to our products may change and, in doing so, restrict our ability to sell into the U.S. federal government sector until we have attained the revised certification;
- government demand and payment for our products and services may be impacted by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our products and services;
- we sell our platform to governmental agencies through our indirect channel partners, and these agencies may have statutory, contractual or other legal rights to terminate contracts with our distributors and resellers for convenience or due to a default, and any such termination may adversely impact our future results of operations;
- governments routinely investigate and audit government contractors' administrative processes, and any unfavorable audit could result in the government refusing to continue buying our platform, which would adversely impact our revenue and results of operations, or institute fines or civil or criminal liability if the audit were to uncover improper or illegal activities; and
- governments may require certain products purchased by it to be manufactured in the United States and other relatively high-cost manufacturing locations, and we may not manufacture all products in locations that meet these requirements, affecting our ability to sell these products to governmental agencies.

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

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

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

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

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

- maintain and expand our customer base and the ways in which customers use our products and services;
- expand revenue from existing customers through increased or broader use of our products and services within their organizations;
- convince customers to allocate a fixed portion of their annual IT budgets to our products and services;
- improve the performance and capabilities of our platform through research and development;

- effectively expand our business domestically and internationally, which will require that we fill key management positions, particularly internationally; and
- successfully compete with other companies that currently provide, or may in the future provide, solutions like ours that protect against next-generation advanced cyber attacks.

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

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

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

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

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

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

We do not have volume purchase contracts with any of our component suppliers, and they could cease selling to us at any time. In addition, our component suppliers change their selling prices frequently in response to market trends, including industry-wide increases in demand, and because we do not have contracts with these suppliers, we are susceptible to price fluctuations related to raw materials and components. If we are unable to pass component price increases along to our customers or maintain stable pricing, our gross margins and results of operations could be negatively impacted. If we are unable to obtain a sufficient quantity of these components in a timely manner for any reason, sales of our products could be delayed or halted or we could be forced to expedite shipment of such components or our products at dramatically increased costs, which would negatively impact our revenue and gross margins. Additionally, poor quality in any of the sole-sourced components in our products could result in lost sales or lost sales opportunities. If the quality of the components does not meet our or our customers' requirements, if we are unable to obtain components from our existing suppliers on commercially reasonable terms, or if any of our sole source providers cease to remain in business or continue to manufacture such components, we could be forced to redesign our products and qualify new components from alternate suppliers. The resulting stoppage or delay in selling our products and the expense of redesigning our products could result in lost sales opportunities and damage to customer relationships, which would adversely affect our business and results of operations.

***If we fail to adequately protect personal information or other information we process or maintain, our business, financial condition and operating results could be adversely affected.***

A wide variety of provincial, state, national, and international laws and regulations apply to the collection, use, retention, protection, disclosure, transfer and other processing of personal data. These data protection and privacy-related laws and regulations are evolving and may result in ever-increasing regulatory and public scrutiny and escalating levels of enforcement and sanctions. For example, the European Union General Data Protection Regulation, which became fully effective on May 25, 2018, imposes more stringent data protection requirements than previously effective European Union data protection law and provides for penalties for noncompliance of up to the greater of €20 million or four percent of worldwide annual revenues.

Evolving and changing definitions of personal data and personal information within the European Union, the United States, and elsewhere, especially relating to classification of IP addresses, machine identification, location data and other information, may limit or inhibit our ability to operate or expand our business, including limiting technology alliance partners that may involve the sharing of data. Even the perception of privacy or information security concerns, whether or not valid, may harm our reputation, inhibit adoption of our products by current and future customers, or adversely impact our ability to attract and retain workforce talent. If our security measures are or are believed to be inadequate or breached as a result of third-party action, employee negligence, error or malfeasance, product defects, social engineering techniques or otherwise, and this results in, or is believed to result in, the disruption of the confidentiality, integrity or availability of our systems or networks or any data we process or maintain, or the loss, destruction or corruption of such data, we could incur significant liability, we could face a loss of revenues, and our business may suffer and our reputation and competitive position may be damaged. Additionally, our service providers may suffer, or be perceived to suffer, data security breaches or other incidents that may compromise data stored or processed for us that may give rise to any of the foregoing.

Our actual or perceived failure to adequately comply with applicable laws and regulations, or to protect personal data and other data we process or maintain, could result in regulatory fines and enforcement actions against us fines, penalties and other liabilities, imprisonment of company officials and public censure, claims for damages by customers and other affected individuals, required efforts to mitigate or otherwise respond to incidents, litigation, damage to our reputation and loss of goodwill (both in relation to existing customers and prospective customers), any of which could have a material adverse effect on our operations, financial performance and business.

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

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

Technology alliance partnerships require significant coordination between the parties involved, particularly if a partner requires that we integrate its products with our products. This could involve a significant commitment of time and resources by our technical staff and their counterparts within our technology alliance partner. The integration of products from different companies may be more difficult than we anticipate, and the risk of integration difficulties, incompatible products and undetected programming errors or defects may be higher than the risks normally associated with the introduction of new products. It may also be more difficult to market and sell products developed through technology alliance partnerships than it would be to market and sell products that we develop on our own. Sales and marketing personnel may require special training, as the new products may be more complex than our other products.

We invest significant time, money and resources to establish and maintain relationships with our technology alliance partners, but we have no assurance that any particular relationship will continue for any specific period of time. Generally, our agreements with these technology alliance partners are terminable without cause with no or minimal notice or penalties. If we lose a significant technology alliance partner, we could lose the benefit of our investment of time, money and resources in the relationship. In addition, we could be required to incur significant expenses to develop a new strategic alliance or to determine and implement an alternative plan to pursue the opportunity that we targeted with the former partner.

***If our estimates or judgments relating to our critical accounting policies are based on assumptions that change or prove to be incorrect, our results of operations could fall below our publicly announced guidance or the expectations of securities analysts and investors, resulting in a decline in our stock price.***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as provided in the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” the results of which form the basis for making judgments about the carrying values of assets, liabilities, equity, revenue and expenses that are not readily apparent from other sources. Additionally, we adopted the new revenue standard and management has made and will make judgments and assumptions based on its interpretation of the new standard, which may vary from company to company based on the unique facts and circumstances surrounding their business. It is possible that interpretation, industry practice, and guidance may continue to evolve during the early stages of adoption of the new standard. Our results of operations may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our results of operations to fall below our publicly announced guidance or the expectations of securities analysts and investors, resulting in a decline in our stock price. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to assets, liabilities, revenue, expenses and related disclosures.

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

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

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

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

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

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

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

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

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

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

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

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

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

- greater difficulty in enforcing contracts and managing collections, as well as longer collection periods;
- higher costs of doing business internationally, including costs incurred in establishing and maintaining office space and equipment for our international operations;
- fluctuations in exchange rates between the U.S. dollar and foreign currencies in markets where we do business, such as the British Pound Sterling, which experienced a sharp decline in value compared to the U.S. dollar and other currencies;
- management communication and integration problems resulting from cultural and geographic dispersion;
- risks associated with trade restrictions and foreign legal requirements, including any importation, certification, and localization of our platform that may be required in foreign countries and any changes in trade relations and restrictions as a result of the 2016 U.S. presidential election;
- greater risk of unexpected changes in foreign and domestic regulatory practices, tariffs and tax laws and treaties, including regulatory and trade policy changes adopted by the new administration;
- compliance with anti-bribery laws, including, without limitation, compliance with the U.S. Foreign Corrupt Practices Act of 1977, as amended, the U.S. Travel Act and the UK Bribery Act 2010, violations of which could lead to significant fines, penalties and collateral consequences for our Company;
- heightened risk of unfair or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements that may impact financial results and result in restatements of, or irregularities in, financial statements;
- the uncertainty of protection for intellectual property rights in some countries;
- foreign exchange controls or tax regulations that might prevent us from repatriating cash earned outside the United States;
- general economic and political conditions in these foreign markets, including the perception of doing business with U.S. based companies and changes in regulatory requirements that impact our operating strategies, access to global markets or hiring;
- political and economic instability in some countries, such as those caused by the 2016 U.S. presidential election and the referendum on June 23, 2016, in which voters in the U.K. approved an exit from the EU, commonly referred to as "Brexit," and, in March 2017, began the process to leave the EU by April 2019; and
- double taxation of our international earnings and potentially adverse tax consequences due to changes in the tax laws of the United States or the foreign jurisdictions in which we operate.

Further, the interpretation and application of international laws and regulations in many cases is uncertain, and our legal and regulatory obligations in foreign jurisdictions are subject to frequent and unexpected changes, including the potential for various regulatory or other governmental bodies to enact new or additional laws or regulations or to issue rulings that invalidate prior laws or regulations.

For example, "Brexit" could also lead to further legislative and regulatory changes. A Data Protection Bill that substantially implements the European Union's General Data Protection Regulation has been implemented in the United Kingdom, effective in May 2018. It is unclear, however, how United Kingdom data protection laws or regulations will develop in the medium to longer term, and how data transfers to and from the United Kingdom will be regulated.

Additionally, with regard to transfers of personal data from our European customers and employees to the U.S., we historically relied on compliance with the EU-U.S. and Swiss-U.S. Safe Harbor Frameworks as agreed to by the U.S. Department of Commerce,

and the EU and Switzerland, which established means for legitimizing the transfer of personal data by U.S. companies from the European Economic Area, or EEA, and Switzerland, to the U.S. In a 2015 ruling by the Court of Justice of the European Union in Case C-362/14 (Schrems v. Data Protection Commissioner), the EU-U.S. Safe Harbor Framework was deemed an invalid method of compliance with EU restrictions regarding the transfer of personal data outside of the EEA. EU and U.S. political authorities reached political agreement in February 2016 regarding the EU-U.S. Privacy Shield, which provided a new mechanism for companies to transfer EU personal data to the United States. Although the EU-U.S. Privacy Shield was granted an adequacy decision by the EU College of Commissioners on July 12, 2016, and became available to U.S. companies on August 1, 2016, with us subsequently having self-certified under the EU-U.S. Privacy Shield and a related program, the U.S.-Swiss Privacy Shield, the U.S.-EU Privacy Shield has been challenged and may be suspended or invalidated. It is uncertain that the U.S.-EU Privacy Shield will continue to remain intact and serve as an appropriate means for us to meet European requirements for personal data transfers from the EEA or Switzerland to the United States. Developments in the legal landscape affecting the transfer of personal data from the EEA may cause us to find it necessary or desirable to modify our data handling practices, and may serve as a basis for our personal data handling practices, or those of our customers and vendors, to be challenged and may otherwise adversely impact our business, financial condition and operating results.

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

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

Our sales contracts are denominated in U.S. dollars, and therefore our revenue is not subject to foreign currency risk. However, strengthening of the U.S. dollar increases the real cost of our products, subscriptions and services to our customers outside of the United States, which could lead to delays in the purchase of our products and services and the lengthening of our sales cycle. In addition, we are incurring an increasing portion of our operating expenses outside the United States. These expenses are denominated in foreign currencies and are subject to fluctuations due to changes in foreign currency exchange rates.

Additionally, Brexit 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. A significantly weaker British Pound Sterling compared to the U.S. dollar could have a significantly negative effect on our financial condition and results of operations.

We do not currently hedge against the risks associated with currency fluctuations but may do so in the future.

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

Our business is subject to regulation by various U.S. federal, state, local and foreign governments. In certain jurisdictions, these regulatory requirements may be more stringent than those in the United States. Noncompliance with applicable regulations or requirements could subject us to investigations, sanctions, mandatory product recalls, enforcement actions, disgorgement of profits, fines, damages, civil and criminal penalties, injunctions or other collateral consequences. If any governmental sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation, our business, results of operations, and financial condition could be materially adversely affected. In addition, responding to any action will likely result in a significant diversion of management's attention and resources and an increase in professional fees. U.S. regulations surrounding our operating activities in foreign jurisdictions are not always consistent with, and at times are in contravention to, the local regulations or laws in such jurisdictions. Enforcement actions and sanctions could harm our business, reputation, results of operations and financial condition.

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

Our products are subject to U.S. export controls, specifically the Export Administration Regulations and economic sanctions enforced by the Office of Foreign Assets Control. We incorporate standard encryption algorithms into our products, which, along with the underlying technology, may be exported outside of the U.S. only with the required export authorizations, including by license, license exception or other appropriate government authorizations, which may require the filing of an encryption registration and classification request. Furthermore, U.S. export control laws and economic sanctions prohibit the shipment of certain products and services to countries, governments, and persons targeted by U.S. sanctions. While we have taken precautions to prevent our products and services from being exported in violation of these laws, in certain instances in the past we shipped our encryption products prior to obtaining the required export authorizations and/or submitting the required requests, including a classification request and request for an encryption registration number, resulting in an inadvertent violation of U.S. export control laws. As a result, in February 2013, we filed a Voluntary Self Disclosure with the U.S. Department of Commerce's Bureau of Industry and Security, or BIS, concerning these potential violations. In June 2013, BIS notified us that it had completed its review of this matter and closed its review with the issuance of a warning letter. No monetary penalties were assessed. Even though we take precautions to ensure that our channel partners comply with all relevant regulations, any failure by our channel partners to comply with such regulations could have negative consequences, including reputational harm, government investigations and penalties.

In addition, various countries regulate the import of certain encryption technology, including through import permit and license requirements, and have enacted laws that could limit our ability to distribute our products or could limit our customers' ability to implement our products in those countries. Changes in our products or changes in export and import regulations may create delays in the introduction of our products into international markets, prevent our customers with international operations from deploying our products globally or, in some cases, prevent the export or import of our products to certain countries, governments or persons altogether. Any change in export or import regulations, economic sanctions or related legislation, shift in the enforcement or scope of existing regulations, or change in the countries, governments, persons or technologies targeted by such regulations, could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential customers with international operations. Any decreased use of our products or limitation on our ability to export to or sell our products in international markets would likely adversely affect our business, financial condition and results of operations.

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

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

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

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

Our failure to comply with past, present, and future laws could result in reduced sales of our products, substantial product inventory write-offs, reputational damage, penalties, and other sanctions, any of which could harm our business and financial condition. We also expect that our products will be affected by new environmental laws and regulations on an ongoing basis. To date, our expenditures for environmental compliance have not had a material impact on our results of operations or cash flows, and although we cannot predict the future impact of such laws or regulations, they will likely result in additional costs and may increase penalties associated with violations or require us to change the content of our products or how they are manufactured, which could have a material adverse effect on our business, results of operations and financial condition.

***The United States recently passed a comprehensive tax reform bill that could adversely affect our financial performance***

On December 22, 2017 the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act of 2017, or the Tax Act. The Tax Act makes broad and complex changes to the U.S. tax code. The changes include, but are not limited to, reducing the U.S. federal corporate tax rate from 35% to 21%, imposing a mandatory one-time transition tax on certain unrepatriated earnings of foreign subsidiaries, imposing certain additional limitations on the use of deferred tax assets, introducing bonus depreciation that will allow for full expensing of qualified property, eliminating the corporate alternative minimum tax, or AMT, and changing how existing AMT credits can be realized. Notwithstanding the reduction in the corporate income tax rate, the overall impact of the new federal tax law is uncertain, and our financial performance could be adversely affected. In addition, it is uncertain if, and to what extent, various states will conform to the new tax law and foreign countries will react by adopting tax legislation or taking other actions that could adversely affect our business.

***Uncertainties in the interpretation and application of the 2017 Tax Cuts and Jobs Act could materially affect our tax obligations, effective tax rate and operating results.***

The Tax Act was enacted on December 22, 2017, and significantly affected U.S. tax law by changing how the U.S. imposes income tax on multinational corporations. The U.S. Department of Treasury has broad authority to issue regulations and interpretive guidance that may significantly impact our tax obligations, effective tax rate and our results of operations. The Tax Act will likely be subject to ongoing technical guidance and accounting interpretation, which we will continue to monitor and assess. At this time, it is not possible to measure the potential impact on our business, prospects or results of operations.

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

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

***We could be subject to additional tax liabilities.***

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

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

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

**Risks Related to Our Convertible Senior Notes**

***We are leveraged financially, which could adversely affect our ability to adjust our business to respond to competitive pressures and to obtain sufficient funds to satisfy our future growth, business needs and development plans.***

We have substantial existing indebtedness. In June 2015, we issued \$460.0 million principal amount of 1.000% Convertible Senior Notes due 2035 and \$460.0 million principal amount of 1.625% Convertible Senior Notes due 2035 (together, the "2035 Notes"). During the three months ended June 30, 2018, we issued \$600.0 million aggregate principal amount of 0.875% Convertible Senior Notes due 2024 (the "2024 Notes" and, together with the 2035 Notes, the "convertible notes") and repurchased approximately \$340.2 million aggregate principal amount of certain of the 2035 Notes. As a result, as of June 30, 2018, we had approximately \$1.2 billion aggregate principal amount of convertible notes outstanding.

The degree to which we are leveraged could have negative consequences, including, but not limited to, the following:

- we may be more vulnerable to economic downturns, less able to withstand competitive pressures and less flexible in responding to changing business and economic conditions;
- our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate or other purposes may be limited;
- a substantial portion of our cash flows from operations in the future may be required for the payment of the principal amount of our existing indebtedness when it becomes due; and
- we may elect to make cash payments upon any conversion of the convertible notes, which would reduce our cash on hand.

Our ability to meet our payment obligations under our convertible notes depends on our ability to generate significant cash flow in the future. This, to some extent, is subject to general economic, financial, competitive, legislative, and regulatory factors as well as other factors that are beyond our control. There can be no assurance that our business will generate cash flow from operations, or that additional capital will be available to us, in an amount sufficient to enable us to meet our debt payment obligations and to fund other liquidity needs. If we are unable to generate sufficient cash flow to service our debt obligations, we may need to refinance or restructure our debt, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we were unable to implement one or more of these alternatives, we may be unable to meet our debt payment obligations, which could have a material adverse effect on our business, results of operations, or financial condition.

***The conditional conversion feature of each series of convertible notes, if triggered, may adversely affect our financial condition and operating results.***

In the event the conditional conversion feature of a series of convertible notes is triggered, holders of such series of convertible notes will be entitled to convert their convertible notes at any time during specified periods at their option. If one or more holders of such convertible notes elect to convert their convertible notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders of such series of convertible notes do not elect to convert their convertible notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of such series of convertible notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

***The accounting method for convertible debt securities that may be settled in cash, such as the convertible notes, is subject to changes that could have a material effect on our reported financial results.***

In May 2008, the Financial Accounting Standards Board, which we refer to as FASB, issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement), which has subsequently been codified as Accounting Standards Codification 470-20, Debt with Conversion and Other Options, which we refer to as ASC 470-20. Under ASC 470-20, an entity must separately account for the liability and equity components of the convertible debt instruments (such as the convertible notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The effect of ASC 470-20 on the accounting for each series of convertible notes is that the equity component is required to be included in the additional paid-in capital section of stockholders' equity on our consolidated balance sheet and the value of the equity component would be treated as original issue discount for purposes of accounting for the debt component of such series of convertible notes. As a result, we will be required to record a greater amount of non-cash interest expense in current periods presented as a result of the amortization of the discounted carrying value of the convertible notes to their face amount over the term of the convertible notes. We will report lower net income in our financial results because ASC 470-20 will require interest to include both the current period's amortization of the debt discount and the instrument's non-convertible coupon interest for such series of convertible notes, which could adversely affect our reported or future financial results and the trading price of our common stock.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). This standard clarifies how certain cash receipts and payments should be classified in the statement of cash flows, including the cash settlement for each series of our convertible notes. Upon cash settlement, repayment of the principal amount will be bifurcated between cash outflows for operating activities for the portion related to accreted interest attributable to debt discounts arising from the difference between the coupon interest rate and the effective interest rate, and financing activities for the remainder. This will require us to classify the \$310.4 million of accreted interest as cash used in operating activities in our consolidated financial statements upon cash settlement, which could adversely affect our future financial results.

In addition, under certain circumstances, convertible debt instruments (such as the convertible notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that any shares issuable upon

conversion of any series of convertible notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of such series of convertible notes exceeds their principal amount of such series of convertible notes. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess conversion value, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the convertible notes, then our diluted earnings per share would be adversely affected.

***Transactions related to our convertible notes may affect the market price of our common stock.***

The conversion of any of our series of convertible notes, if such conversion occurs, will dilute the ownership interests of then-existing stockholders to the extent we deliver shares upon conversion of any of the convertible notes. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the convertible notes may encourage short selling by market participants because any conversion of the convertible notes could be used to satisfy short positions, or anticipated conversion of the convertible notes into shares of our common stock could depress the price of our common stock.

In addition, in connection with our issuance of the 2024 Notes, we entered into capped call transactions with certain financial institutions (the “option counterparties”). The capped call transactions are expected generally to reduce the potential dilution to our common stock upon any conversion of the 2024 Notes and/or offset any cash payments we are required to make in excess of the principal amount of such 2024 Notes converted, as the case may be, with such reduction and/or offset subject to a cap. From time to time, the option counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivative transactions with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the 2024 Notes. This activity could cause a decrease in the market price of our common stock.

***We are subject to counterparty risk with respect to the capped call transactions.***

The option counterparties to our capped call transactions are financial institutions, and we will be subject to the risk that one or more of the counterparties may default or otherwise fail to perform, or may exercise certain rights to terminate, their obligations under the capped call transactions. Our exposure to the credit risk of the option counterparties will not be secured by any collateral. Adverse global economic conditions may result in the actual or perceived failure or financial difficulties for financial institutions, including one or more of our option counterparties. If an option counterparty becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at that time under our transactions with that option counterparty. Our exposure will depend on many factors but, generally, our exposure will increase if the market price or the volatility of our common stock increases. In addition, upon a default or other failure to perform, or a termination of obligations, by an option counterparty, we may suffer adverse tax consequences and more dilution than we currently anticipate with respect to our common stock. We can provide no assurances as to the financial stability or viability of the option counterparties.

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

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

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

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

We have provided and may continue to provide guidance about our business and future operating results. In developing this guidance, our management must make certain assumptions and judgments about our future performance. Furthermore, analysts and investors may develop and publish their own projections of our business, which may form a consensus about our future performance. Our business results may vary significantly from such guidance or that consensus due to a number of factors, many of which are outside of our control, and which could adversely affect our operations and operating results. Such factors may include the possibility that interpretation, industry practice, and accounting guidance may continue to evolve during the early stages of adoption of the new revenue standard. Furthermore, if we make downward revisions of our previously announced guidance, or if our publicly announced guidance of future operating results fails to meet expectations of securities analysts, investors or other interested parties, the price of our common stock would decline.

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

The trading price of our common stock has been volatile since our initial public offering, and is likely to continue to be volatile. Since the date of our initial public offering, the price of our common stock has ranged from \$10.35 to \$97.35 through July 31, 2018, and the last reported sale price on July 31, 2018 was \$15.53. The trading price of our common stock may fluctuate widely in response to various factors, some of which are beyond our control. These factors include:

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

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

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

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

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

Our amended and restated certificate of incorporation authorizes us to issue up to 1,000,000,000 shares of common stock and up to 100,000,000 shares of preferred stock with such rights and preferences as may be determined by our board of directors. Subject to compliance with applicable rules and regulations, we may issue shares of common stock or securities convertible into our common

stock from time to time in connection with a financing, acquisition, investment, our stock incentive plans, the conversion of our convertible notes or otherwise. 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. In addition, we issued \$920.0 million aggregate principal amount of 2035 Notes, of which approximately \$579.8 million aggregate principal remains outstanding, and we issued \$600.0 million aggregate principal amount of the 2024 Notes during the three months ended June 30, 2018. Any future issuances could result in substantial dilution to our existing stockholders and cause the trading price of our common stock to decline.

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

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

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

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the listing requirements of the NASDAQ Stock Market and other applicable securities rules and regulations. Compliance with these rules and regulations has increased and will continue to increase our legal and financial compliance costs, has made and will continue to make some activities more difficult, time-consuming or costly, and has increased and will continue to increase demand on our systems and resources. Among other things, the Exchange Act requires that we file annual, quarterly and current reports with respect to our business and results of operations and maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could harm our business and results of operations. Although we have already hired additional employees to comply with these requirements, we may need to hire even more employees in the future, which will increase our costs and expenses.

We are subject to the independent auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act ("Section 404"), enhanced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. While we were able to determine in our management's report for fiscal 2017 that our internal control over financial reporting is effective, as well as provide an unqualified attestation report from our independent registered public accounting firm to that effect, we have and will continue to consume management resources and incur significant expenses for Section 404 compliance on an ongoing basis. In the event that our Chief Executive Officer, Chief Financial Officer, or independent registered public accounting firm determines in the future that our internal control over financial reporting is not effective as defined under Section 404, we could be subject to one or more investigations or enforcement actions by state or federal regulatory agencies, stockholder lawsuits or other adverse actions requiring us to incur defense costs, pay fines, settlements or judgments and causing investor perceptions to be adversely affected and potentially resulting in a decline in the market price of our stock.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs, and making some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations, and standards, and this investment will increase our general and administrative expense and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations, and standards are unsuccessful, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

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

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

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

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

While we were able to determine in our management's report for fiscal 2017 that our internal control over financial reporting is effective, as well as provide an unqualified attestation report from our independent registered public accounting firm to that effect, we may not be able to complete our evaluation, testing, and any required remediation in a timely fashion or our independent registered public accounting firm may not be able to formally attest to the effectiveness of our internal control over financial reporting in the future. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting that we are unable to remediate before the end of the same fiscal year in which the material weakness is identified, we will be unable to assert that our internal controls are effective. If we are unable to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to attest to the effectiveness of our internal controls or determine we have a material weakness in our internal controls, we could lose investor confidence in the accuracy and completeness of our financial reports, which would cause the price of our common stock to decline.

***Our charter documents and Delaware law, as well as certain provisions of our convertible notes, could discourage takeover attempts and lead to management entrenchment, which could also reduce the market price of our common stock.***

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

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

In addition, as a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law, which may prohibit large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us for a specified period of time. Additionally, certain provisions of our convertible notes could make it more difficult or more expensive for a third party to acquire us. The application of Section 203 or certain provisions of our convertible notes also could have the effect

of discouraging, delaying or preventing a transaction involving a change in control of us. Any of these provisions could, under certain circumstances, depress the market price of our common stock.

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

On May 24, 2018, we issued \$525.0 million aggregate principal amount of 0.875% Convertible Senior Notes due 2024 (“2024 Notes”), in a private placement exempt from the registration requirements of the Securities Act of 1933, as amended (the “Securities Act”). In addition, on June 5, 2018, we issued an additional \$75.0 million aggregate principal amount of 2024 Notes pursuant to the full exercise of the initial purchasers’ over-allotment option, in a private placement exempt from the registration requirements of the Securities Act. The 2024 Notes are convertible into shares of our common stock on the terms set forth in the indenture governing the 2024 Notes. Additional disclosure concerning the issuance of the 2024 Notes can be found in our Current Report on Form 8-K filed with the Securities and Exchange Commission on May 25, 2018.

## Item 3. Defaults Upon Senior Securities

None.

## Item 4. Mine Safety Disclosures

Not applicable.

## Item 5. Other Information

None.

## Item 6. Exhibits

| Exhibit No.           | Description of Exhibit  |
|-----------------------|---|
| <a href="#">4.1</a>   | <a href="#">Indenture, dated as of May 24, 2018, between the Registrant and U.S. Bank National Association (incorporated herein by reference to Exhibit 4.1 to the Registrant’s Current Report on Form 8-K, Commission File No. 001-36067, filed on May 25, 2018)</a> |
| <a href="#">4.2</a>   | <a href="#">Form of Global 0.875% Convertible Senior Note due 2024 (included in Exhibit 4.1) (incorporated herein by reference to Exhibit 4.2 to the Registrant’s Current Report on Form 8-K, Commission File No. 001-36067, filed on May 25, 2018)</a>               |
| <a href="#">10.1</a>  | <a href="#">Form of Capped Call Confirmation (incorporated herein by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K, Commission File No. 001-36067, filed on May 25, 2018)</a>  |
| <a href="#">10.2</a>  | <a href="#">Data Processing Addendum to Flextronics Design and Manufacturing Services Agreement, dated as of April 9, 2018, by and between the Registrant and Flextronics Telecom Systems, Ltd.</a>   |
| <a href="#">31.1</a>  | <a href="#">Rule 13a-14(a) / 15(d)-14(a) Certification of Principal Executive Officer</a>   |
| <a href="#">31.2</a>  | <a href="#">Rule 13a-14(a) / 15(d)-14(a) Certification of Principal Financial Officer</a>   |
| <a href="#">32.1*</a> | <a href="#">Section 1350 Certifications</a>   |
| 101.INS               | XBRL Instance Document  |
| 101.SCH               | XBRL Taxonomy Extension Schema Document   |
| 101.CAL               | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF               | XBRL Taxonomy Extension Definition Linkbase Document  |
| 101.LAB               | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE               | XBRL Taxonomy Extension Presentation Linkbase Document  |

\* Furnished herewith.

† Indicates a management contract or compensatory plan or arrangement.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**FIREEYE, INC.**

Dated: August 3, 2018

By: /s/ Frank E. Verdecanna  
Frank E. Verdecanna  
*Executive Vice President, Chief Financial Officer and Chief  
Accounting Officer  
(Principal Financial and Accounting Officer and duly authorized  
signatory)*

**Data Processing Addendum**

**To**

**Flextronics Design and Manufacturing Services Agreement**

**Between**

**Flextronics Telecom Systems, Ltd. and FireEye, Inc**

This **Data Processing Addendum** to the **Flextronics Design and Manufacturing Services Agreement** (hereinafter referred to as the “Data Processing Addendum” or “Addendum”) is dated and made effective as of 9th day of April 2018 (the “Addendum Effective Date”), and is by and between Flextronics Telecom Systems, Ltd., with a place of business located at Level 3, Alexander House, 35 Cybercity, Ebene, Mauritius, including some of its affiliates and wholly owned subsidiaries in accordance with Section 12.10(i) of the Agreement (hereinafter collectively referred to as “Flextronics” or “Service Provider”) and FireEye, Inc., a Delaware corporation, with offices located at 601 McCarthy Blvd., Milpitas, CA 95035, and FireEye Ireland Limited, a company organized and existing under the laws of Ireland, having a place of business at First Floor, Block B, City Gate Park, Mahon, Cork, Ireland (hereinafter referred to collectively as “FireEye” or “Customer” as defined in the Agreement). This Addendum is an amendment to the **Flextronics Design and Manufacturing Services Agreement** (and referred to as the “Agreement”) that was entered into by the parties on or about September 28, 2012.

For clarity, this Addendum only applies if and to the extent to Personal Data relating to FireEye and its personnel that is received by Service Provider from or on behalf of FireEye for Processing as a data importer while performing those functions or activities as required by the Agreement.

The parties hereby agree as follows:

- 1. General Definitions.** All capitalized terms not otherwise defined herein shall have the meanings set forth in the Agreement.
- 2. Scope of Addendum.** As of the Addendum Effective Date and for any period of time thereafter during which Service Provider is a data importer and has possession of or access to FireEye Personal Data in connection with the Services until expiration or termination of the Agreement, Service Provider shall have implemented at its Facilities, and shall thereafter maintain policies, procedures and practices that satisfy the applicable requirements set forth in this Data Processing Addendum. Additionally, at all times during the duration of the Agreement and for any period of time thereafter during which Service Provider is a data importer and has possession of or access to FireEye Personal Data in connection with the Services, Service Provider shall maintain compliance with all applicable Data Protection Laws, including, when it comes into force, Regulation 2016/EC/679 (“General Data Protection Regulation” or “GDPR”). Notwithstanding the foregoing, if Service Provider cannot provide such compliance for whatever reasons, it agrees to promptly inform FireEye of its inability to comply, in which case the FireEye is entitled to suspend the transfer of Personal Data and/or terminate the related Design Services or Work as provided in Section 11.2 of the Agreement.

**3. Data Processing/Privacy Definitions.** For purposes of this Data Processing Addendum, "Personal Data", "Process(ing)" and "Data Subject(s)" will have the meaning given to these terms in accordance with the applicable country-specific Data Protection Laws, including but not limited to, the EU General Data Protection Directive (GDPR). During the term of the Agreement:

"FireEye Personal Data" means the Personal Data about FireEye and its personnel that Service Provider receives from FireEye, or otherwise Processes for or on behalf of FireEye in order to provide the Services (including any products) under the Agreement.

"Data Protection Laws" means any law covering "Personal Data", "Process(ing)" and "Data Subject(s)", including the GDPR and all other country's privacy laws, including Member State's data protection laws and regulations applicable to Service Provider as a data importer of FireEye Personal Data in the performance of the Services under the Agreement.

"Facilities" or "Facility" means the Service Provider's facility(s) used now or in the future to perform Design Services and/or Work pursuant to the Agreement that have access, store, Process or use FireEye Personal Data.

"Member State" means a country that is a member of the European Union or the European Economic Area.

"Personnel" means all workers, including but not limited to Service Provider's employees, temporary personnel, and others employed or contracted by Service Provider that have access, store, Process or use FireEye Personal Data.

Service(s) means the Design Services and/or Work provided by Service Provider pursuant to the Agreement.

"Subcontractor" means Service Provider's vendors, agents, subcontractors, and all other persons, entities, or organizations, exclusive of non-contingent FireEye employees who are subject to the direction, supervision, and control of Service Provider.

"Sub-processor" means any Subcontractor engaged by Service Provider to Process FireEye Personal Data who are identified in Appendix 1 of this Addendum.

- 4. Processing.** In performing its obligations in the Agreement, if Service Provider at any time from the Addendum Effective Date and until termination of the Services or the Agreement undertakes Processing of Personal Data for or on behalf of FireEye, Service Provider will process all Personal Data fairly and lawfully, respecting the Data Subject's privacy, and in accordance with all Data Protection Laws applicable to such Processing of Personal Data. Service Provider will take reasonable measures to require that all of its Personnel and each of its Sub-processors process all Personal Data in a similar manner as further described in Section 5 below. Service Provider will only Process FireEye Personal Data for the purposes of and in compliance with the terms set out in the Agreement or this Data Processing Addendum and in compliance with mutually agreed FireEye's instructions as issued from time to time. Service Provider will not (i) obtain any rights to any Personal Data by virtue of complying with its obligations in the Agreement and/or this Addendum; (ii) except with respect to approved Sub-processors or pursuant to applicable law, transfer or disclose any Personal Data (in part or in whole) to any third party, except as stipulated in this Data Processing Addendum, (iii) except as technically necessary to perform its obligations under the Agreement, transfer, access or store any Personal Data outside of the country in which the applicable Service Provider Facility is established ( the "Country Of Origination"), including via cloud services, without the explicit prior consent of FireEye, or (iv) Process or use any Personal Data for its own purposes or benefit. Service Provider will keep all Personal Data confidential and secure.
- 5. Third Parties & Sub-processors.** Service Provider may subcontract its processing work that relates to Personal Data under the Agreement only with prior written consent of FireEye. Additionally, Service

Provider must provide a list of current Sub-processors under Appendix 1 of this Addendum. Such sub-processor list shall include the identities of those Sub-processors and their country of location and have been consented to by FireEye. If Service Provider decides at a later date to use Sub-processors, Service Provider must inform FireEye in writing. Service Provider must inform FireEye prior to any changes or replacements of Sub-processors and request FireEye's explicit approval for such change. FireEye shall not unreasonably object to such changes or replacements. If Service Provider is authorized by FireEye to subcontract to a third party any of its performance obligations under the Agreement with respect to Processing FireEye Personal Data, Service Provider shall require that its Sub-processors also maintain adequate measures (reasonably appropriate to such subcontractor's storage, maintenance or processing activities) that comply in all material respects with the relevant obligations in this Addendum, including, but not limited to, the obligations of data privacy, confidentiality, information security and international transfers. Subject to the limitations set forth herein and in Section 10.6 of the Agreement, to the extent caused by Service Provider will be held accountable and liable to FireEye for any Personal Data privacy violations or security breaches within the Service scope, to the extent caused by Service Provider's breach of its obligations under this Addendum.

6. **International Transfers.** All transfers of FireEye Personal Data outside of the Country Of origination by Service Provider (if any) will be in strict compliance with the relevant provisions of the Data Protection Laws in the originating country. Where the Personal Data originates in the EU, transfers can only occur either to a country with adequate Data Protection Laws or pursuant to Privacy Shield, the EU Standard Contractual Clauses, or Binding Corporate Rules. All transfers of Personal Data by Service Provider not technically necessary to perform its obligations under the Agreement will be done with the prior written consent of FireEye and will be made in strict accordance with applicable Data Protection Laws or contractual obligations on such transfers provided such contractual obligations do not violate applicable Data Protection Laws. All transfers of Personal Data outside of Canada, or countries within Asia Pacific and Latin America will be done so in accordance with applicable Data Protection Laws.
7. **Cooperation & Enquiries.** Service Provider will inform FireEye without undue delay if Service Provider receives any enquiry, complaint or claim from any court, governmental official, third parties or individuals (including but not limited to the Data Subjects) arising out of the Services and will provide FireEye reasonable support and cooperation in a timely manner in responding to any such request. Should FireEye, on the basis of applicable law, be obliged to provide access or information to a Data Subject about the Processing of Personal Data relating to him or her, Service Provider will, without levying a fee, reasonably assist FireEye in providing such access or information.
8. **Confidentiality & Information Security.** In addition to any other agreement and/or terms governing confidentiality between the parties, Service Provider will adopt adequate (taking into account the nature of Processing and the information available to Service Provider) technical and organizational measures reasonably necessary to secure the Personal Data and to prevent unauthorized access, alteration or loss of the same, including measures required by applicable Data Protection Laws. Service Provider will also ensure confidentiality of the Personal Data, including taking appropriate measures to ensure the same of its Personnel and Sub-processors. At the reasonable written request of FireEye, Service Provider will provide the former with a comprehensive and up-to-date data protection and security concept for the FireEye Personal Data obtained under the Agreement while performing the Services under the Agreement.
9. **Privacy Violations, Security and Data Breach Incidents.** When known or reasonably suspected by Service Provider while performing the Services under the Agreement, Service Provider will inform FireEye promptly if: (i) Service Provider or its Personnel infringe the applicable Data Protection Laws or obligations under the Agreement, (ii) significant failures during the Processing occur, or (iii) third parties have unauthorized or unintended access to the Personal Data. The parties are aware that the applicable Data Protection Law may impose a duty to inform the competent authorities or affected Data Subjects in the event of the loss or unlawful disclosure of Personal Data or access to it. These incidents should therefore be notified by Service Provider to FireEye without delay, regardless of their origin. This also applies to serious operational faults or where there is any suspicion of an infringement of provisions relating to the

protection of Personal Data or other irregularities in the handling of Personal Data belonging to FireEye. In consultation with FireEye, Service Provider must take appropriate measures, within the Service scope, to address the Breach, including, where appropriate, measures to secure the Personal Data and work in good faith to reduce risk to the Data Subjects whose Personal Data was involved. Service Provider must coordinate the messaging related to any privacy violation, security breach or data breach incident with the FireEye prior to making any public disclosures.

**10. Inspection & Audit Rights.** Upon at least 30 days prior written notice as described in Section 12.11 of the Agreement and subject to the obligations herein, FireEye may inspect Service Provider's operating Facilities or conduct an audit (each an "Audit"), Service Provider's security, manufacturing processes, quality processes and environmental systems controls used for processing FireEye Personal Data to ascertain compliance with this Data Processing Addendum at FireEye's expense (although FireEye shall in no way be responsible for any expenses or costs incurred by Service Provider's commercially reasonable support in assisting FireEye with the Audit or allowing FireEye to inspect their Facilities, and in the event a violation of Service Provider's obligations under this Addendum is found that has the potential to compromise FireEye Personal Data, Service Provider shall be responsible for all reasonable costs and expenses incurred by FireEye in conducting the Audit). To the extent applicable to Service Provider's obligations under this Addendum, this Audit may include, but is not limited to, the verification of whether the procedures for the technical and organizational requirements of data protection and information security are appropriate in accordance with FireEye's Third Party Information Security Requirements Addendum (or similar obligations negotiated by the parties either in an agreement and/or separate amendment/addendum). Service Provider will provide FireEye with any reasonably necessary information and documents during the Audit. The Audit may be carried out once a year by FireEye's data protection officer or a mutually accepted authorized representative unless a violation of Service Provider's obligations under this Data Processing Addendum is found, and in such an event, FireEye may conduct another Audit within six months or if FireEye reasonably believes that Service Provider is not complying with the obligations contained in this Addendum. All Audits will be performed during normal working hours; subject to Service Provider's reasonable security, safety, and confidentiality requirements; and in such a way that the Audit does not disrupt or compromise Service Provider's infrastructure or ability to process normal business operations. In addition, Service Provider will reasonably allow and assist in the Audit of its obligations (at its own expense) under this Addendum. In addition, Service Provider will cooperate with any audit ordered by a relevant Data Protection Authority that arises from its performance under the Agreement.

Notwithstanding the forgoing, any Audit, shall not entitle FireEye to view, or in any way access records and/or processes:

- i. Not directly related to FireEye Data Processed by Service Provider;
- ii. Not directly related to the Design Services or Work provided to FireEye under the Agreement;
- iii. In violation of applicable laws; and/or
- iv. In violation of Service Provider's confidentiality obligations owed to a third party

For clarity, Audits will only be performed if the parties have mutually agreed in writing on the scope of the Audit prior to any Audit. FireEye will provide prior written notice, including a written explanation of the reason for the Audit, to the Service Provider no later than 30 days before any such Audit commences. Prior to any Audit, both parties shall agree to pursue, in good faith, other means of reconciling the documents that would render such Audits not necessary. The mutually accepted third party auditor will sign Service Provider's standard, confidential disclosure agreement, which will limit the third party auditor's rights to disclose to FireEye anything other than the results of Service Provider's compliance or non-compliance with the Audit. Audit Costs and expenses shall be mutually agreed upon between the parties in writing prior to any Audit.

**11. Indemnity.** Subject to the remaining provisions of this Section 11, the parties hereby agree that Service Provider shall have the obligation of defense and indemnification for any Claim incurred by or assessed

against any Customer Indemnitee by third party for any willful or negligent acts or omissions by Service Provider or any violation of this Addendum or the Data Protection Laws but to the extent such violation has been caused by the Service Provider's willful or negligent acts or omissions while Processing FireEye Personal Data as a data importer under this Addendum and this obligation shall be added to the Agreement as Section 10.2(d).

Notwithstanding anything contained in the Agreement, this Addendum or any other amendment or addendum, the parties agree (i) that if one party is held liable for a violation of the Data Protection Laws committed by the other party, the latter will, to the extent to which it is liable, indemnify the other party for any cost, charge, damages, expenses or loss it has incurred as part of its obligations to indemnify under Sections 10.1 and 10.2, as applicable; and (ii) the limitations and exceptions in Section 10.6 (Limitation of Liability) of the Agreement, including Service Provider's total liability cap, applies to this Section 11.

The non-indemnifying party shall:

- (i) promptly notify the other party upon learning of a Claim; and
- (ii) cooperate in the defense and settlement of the Claim.

- 12. Return of Personal Data.** Following termination of the Agreement, Service Provider, except to the extent prohibited by applicable law, at the sole discretion and written request of FireEye, will return to FireEye or destroy and delete all FireEye Personal Data subject to Processing. Service Provider must certify in writing to FireEye that it has complied with the foregoing obligations.
- 13. Counterparts.** This Addendum may be executed in counterparts, each of which when executed and delivered shall constitute an original of the Addendum, but all the counterparts shall together constitute the same document. No counterpart shall be effective until each party has executed at least one counterpart. Facsimile or electronic signatures shall be binding to the same extent as original signatures.
- 14. Integration.** Except as otherwise set forth in this Addendum, all terms and conditions contained in the Agreement and not amended herein shall remain in full force and effect. In the event of a conflict between the Agreement and this Addendum or any other confidentiality term in an agreement between the parties, the order of precedence in respect of the Processing of FireEye Personal Data shall be: this Addendum and then the Agreement.

**IN WITNESS WHEREOF**, the parties hereto have executed this Addendum through their authorized representatives identified below.

On behalf of the data exporter: **FireEye, Inc.**

Name (written out in full): Joe Zuccaro

Position: Sr. Director - Contracts

Address: 601 McCarthy Blvd, Milpitas, CA

Other information necessary in order for the contract to be binding (if any):

Signature /s/ Joe Zuccaro

On behalf of the data exporter: **FireEye Ireland Limited**

Name (written out in full): Ruth.Kelleher

Position: Director, FireEye Ireland Limited

Address: 2 ParK Place, City Gate Park, Cork, Ireland

Other information necessary in order for the contract to be binding (if any):

Signature /s/ Ruth Kelleher

On behalf of the data importer: **Flextronics Telecom Systems, Ltd.**

Name (written out in full): Manny Marimuthu

Position: Director

Address:

Other information necessary in order for the contract to be binding (if any):

Signature /s/ Manny Marimuthu

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**Appendix 1 to the Addendum  
List of agreed Sub-processors**

| Name of Sub-processor | Country Location of Sub-processor |
|-----------------------|-----------------------------------|
| none                  |                                   |
|                       |                                   |

## CERTIFICATION

I, Kevin R. Mandia, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of FireEye, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2018

/s/ Kevin R. Mandia

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Kevin R. Mandia

*Chief Executive Officer*

*(Principal Executive Officer)*

## CERTIFICATION

I, Frank E. Verdecanna, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of FireEye, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2018

/s/ Frank E. Verdecanna

Frank E. Verdecanna

*Executive Vice President, Chief Financial Officer and Chief Accounting Officer*

*(Principal Financial and Accounting Officer)*

## SECTION 1350 CERTIFICATIONS

I, Kevin R. Mandia, certify to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, that the Quarterly Report of FireEye, Inc. on Form 10-Q for the quarterly period ended June 30, 2018 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of FireEye, Inc.

Date: August 3, 2018

/s/ Kevin R. Mandia

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Kevin R. Mandia

*Chief Executive Officer*

*(Principal Executive Officer)*

I, Frank E. Verdecanna, certify to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, that the Quarterly Report of FireEye, Inc. on Form 10-Q for the quarterly period ended June 30, 2018 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of FireEye, Inc.

Date: August 3, 2018

/s/ Frank E. Verdecanna

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Frank E. Verdecanna

*Executive Vice President, Chief Financial Officer and Chief Accounting Officer*

*(Principal Financial and Accounting Officer)*

