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

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

or

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

For the transition period from to

Commission File Number 001-36067

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

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

1440 McCarthy Blvd.
Milpitas, CA 95035
(408) 321-6300
(Address, including zip code, and telephone number, including area code, of registrant’s principal executive offices)

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

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

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

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

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

The number of shares of the registrant's common stock outstanding as of July 31, 2014 was 148,936,749.

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

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $171,620 | $173,918 |
| Short-term investments | 292,874 | — |
| Accounts receivable | 108,039 | 95,772 |
| Inventories | 5,198 | 5,663 |
| Deferred tax assets, current portion | 21,712 | 14,584 |
| Prepaid expenses and other current assets | 31,879 | 25,230 |
| Total current assets | 631,322 | 315,167 |
| Property and equipment, net | 78,390 | 64,765 |
| Goodwill | 750,132 | 706,327 |
| Intangible assets, net | 284,793 | 281,377 |
| Deposits and other long-term assets | 10,035 | 8,677 |
| TOTAL ASSETS | $1,754,672 | $1,376,313 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | $36,343 | $34,128 |
| Accrued and other current liabilities | 23,273 | 17,677 |
| Accrued compensation | 52,728 | 41,625 |
| Deferred revenue, current portion | 136,808 | 110,535 |
| Total current liabilities | 249,152 | 203,965 |
| Deferred revenue, non-current portion | 95,199 | 76,979 |
| Deferred tax liabilities, non-current portion | 41,044 | 45,147 |
| Other long-term liabilities | 5,580 | 2,120 |
| Total liabilities | 390,975 | 328,211 |
| Commitments and contingencies (NOTE 8) | | |
| Stockholders' equity: | | |
| Common stock, par value of $0.0001 per share; 1,000,000 shares authorized, 148,822 shares and 137,758 shares issued and outstanding as of June 30, 2014 and December 31, 2013, respectively | 15 | 14 |
| Additional paid-in capital | 1,805,328 | 1,271,590 |
| Accumulated other comprehensive loss | (110) | — |
| Accumulated deficit | (441,536) | (223,502) |
| Total stockholders' equity | 1,363,697 | 1,048,102 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $1,754,672 | $1,376,313 |

See accompanying notes to condensed consolidated financial statements.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenue: | | | | |
| Product | $37,683 | $17,240 | $61,935 | $32,228 |
| Subscription and services | 56,806 | 15,982 | 106,534 | 29,410 |
| Total revenue | 94,489 | 33,222 | 168,469 | 61,638 |
| Cost of revenue: | | | | |
| Product | 13,749 | 5,804 | 24,075 | 10,766 |
| Subscription and services | 27,831 | 4,482 | 52,798 | 6,402 |
| Total cost of revenue | 41,580 | 10,286 | 76,873 | 17,168 |
| Total gross profit | 52,909 | 22,936 | 91,596 | 44,470 |
| Operating expenses: | | | | |
| Research and development | 53,408 | 14,016 | 95,378 | 24,078 |
| Sales and marketing | 94,591 | 37,594 | 171,445 | 66,163 |
| General and administrative | 31,931 | 10,370 | 59,031 | 17,681 |
| Total operating expenses | 179,930 | 61,980 | 325,854 | 107,922 |
| Operating loss | (127,021) | (39,044) | (234,258) | (63,452) |
| Interest income | 183 | 48 | 228 | 52 |
| Interest expense | (4) | (132) | (11) | (276) |
| Other expense, net | (329) | (723) | (383) | (2,923) |
| Loss before income taxes | (127,171) | (39,851) | (234,424) | (66,599) |
| Provision for (benefit from) income taxes | (10,348) | 384 | (16,390) | 597 |
| Net loss attributable to common stockholders | $(116,823) | $(40,235) | $(218,034) | $(67,196) |
| Net loss per share attributable to common stockholders, basic and diluted | $(0.82) | $(2.15) | $(1.58) | $(3.98) |
| Weighted average shares used in computing net loss per share attributable to common stockholders, basic and diluted | 141,895 | 18,704 | 137,939 | 16,877 |

See accompanying notes to condensed consolidated financial statements.

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

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

See accompanying notes to condensed consolidated financial statements.

FIREEYE, INC.
Notes to Condensed Consolidated Financial Statements

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

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

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

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

We sell the majority of our products, subscriptions and services to end-customers through distributors, resellers, and strategic partners, with a lesser percentage of sales directly to end-customers.

Basis of Presentation and Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of FireEye, Inc. and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), and following the requirements of the Securities and Exchange Commission ("SEC"), for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. GAAP can be condensed or omitted. These financial statements have been prepared on the same basis as our annual financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, that are necessary for a fair statement of our financial information. The results of operations for the three and six months ended June 30, 2014 are not necessarily indicative of the results to be expected for the year ending December 31, 2014 or for any other interim period or for any other future year. The balance sheet as of December 31, 2013 has been derived from audited consolidated financial statements at that date but does not include all of the information required by U.S. GAAP for annual consolidated financial statements.

The accompanying condensed consolidated financial statements and related financial information should be read in conjunction with the audited consolidated financial statements and the related notes thereto for the year ended December 31, 2013 included in our Annual Report on Form 10-K, which was filed with the SEC on March 3, 2014.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Such management estimates include, but are not limited to, the best estimate of selling price for our products and services, commissions expense, future taxable income, contract manufacturer liabilities, litigation and settlement costs and other loss contingencies, fair value of our common and preferred stock, stock options and preferred stock warrant liability, and the purchase price allocation of acquired businesses. We base our estimates on historical experience and also on assumptions that we believe are reasonable. Changes in facts or circumstances may cause us to change our assumptions and estimates in future periods, and it is possible that actual results could differ from current or revised future estimates.

Summary of Significant Accounting Policies

There have been no significant changes to our significant accounting policies as of and for the three and six months ended June 30, 2014, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2013, except for the inclusion of a new policy related to short-term investments.

Short-term Investments

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

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

Revenue Recognition

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

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

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This standard provides a single model for revenue arising from contracts with customers and supersedes current revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance is effective for us beginning in the first quarter of 2017. Early adoption is not permitted. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. We are currently evaluating the impact the adoption will have on our consolidated financial statements and related disclosures.

2. Fair Value Measurements

Fair Value Measurements

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

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

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

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

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

3. Short-Term Investments

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

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

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

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

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

Unrealized losses related to these investments are due to interest rate fluctuations as opposed to credit quality. In addition, we do not intend to sell, and it is not more likely than not that we would be required to sell, these investments before recovery of their cost basis. As a result, there is no other-than-temporary impairment for these investments as of June 30, 2014.

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

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

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

4. Property and Equipment

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

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

Depreciation and amortization expense related to property and equipment and demonstration units during the three months ended June 30, 2014 and 2013 was $10.2 million and $3.6 million, respectively. Depreciation and amortization expense related to property and equipment and demonstration units during the six months ended June 30, 2014 and 2013 was $19.9 million and $6.6 million, respectively.

5. Business Combinations

On May 9, 2014, we acquired all outstanding shares of privately held nPulse Technologies, Inc. (“nPulse”), a performance leader in network forensics based in Charlottesville, Virginia. The acquisition of nPulse strengthens our position as a leader in advanced threat detection and incident response management solutions.

The total purchase consideration of $56.6 million consisted of $55.2 million in cash, $0.1 million of equity awards assumed, and 54,319 shares of our common stock, with a fair value of $1.3 million which will vest upon the achievement of milestones. The number of shares was fixed at the completion of the acquisition, and is the maximum number of shares that can vest over a period of approximately three and half years from the acquisition date.

The acquisition of nPulse was accounted for in accordance with the acquisition method of accounting for business combinations with FireEye as the accounting acquirer. We expensed the related acquisition costs of $0.5 million in general and administrative expenses. Under the purchase method of accounting, the total purchase consideration is allocated to the preliminary tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The total purchase price was allocated using information currently available to us. As a result, we may continue to adjust the preliminary purchase price allocation after obtaining more information regarding asset valuations, liabilities assumed, and revisions of preliminary estimates. Total allocation of the preliminary purchase price allocation is as follows (in thousands):

| | Amount |
|---|---|
| Net tangible liabilities assumed | $(1,833) |
| Intangible assets | 24,700 |
| Deferred tax asset | 442 |
| Deferred tax liability | (8,235) |
| Goodwill | 41,538 |
| Total preliminary purchase price allocation | $56,612 |

None of the goodwill is expected to be deductible for U.S. federal income tax purposes.

Intangible assets consist primarily of developed technology, customer relationships and in-process research and development. Developed technology intangible includes a combination of patented and unpatented technology, trade secrets, computer software and research processes that represent the foundation for the existing and planned new products and services. Customer relationships intangible relates to nPulse’s ability to sell existing, in-process and future products and services to its existing and potential customers. The in-process research and development intangible represents the estimated fair value of acquired research projects which have not reached technological feasibility at acquisition date but are expected to be developed into products and services within one year of the acquisition date. The preliminary estimated useful life and fair values of the identifiable intangible assets are as follows (in thousands):

| | Preliminary Estimated Useful Life (in years) | Amount |
|---|---|---|
| Developed technology | 6 | $10,100 |
| Customer relationships | 8 | 8,000 |
| In-process research and development | N/A | 6,600 |
| Total | | $24,700 |

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

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

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

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

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

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

Goodwill and Purchased Intangible Assets

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

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

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

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

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

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

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

Out of Period Adjustments

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

## 6. Deferred Revenue

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

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

## 7. Credit Facility

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

## 8. Commitments and Contingencies

Leases

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

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

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

We are party to letters of credit totaling $0.9 million as of June 30, 2014 and December 31, 2013 issued in support of operating leases at several of our facilities. These letters of credit are collateralized by a line with our bank. No amounts have been drawn against these letters of credit.

Contract Manufacturer Commitments

Our independent contract manufacturers procure components and assemble our products based on our forecasts. These forecasts are based on estimates of future demand for our products, which are in turn based on historical trends and an analysis from our sales and product marketing organizations, adjusted for overall market conditions. In order to reduce manufacturing lead times and plan for adequate supply, we may issue forecasts and orders for components and products that are non-cancelable. As of June 30, 2014 and December 31, 2013, we had non-cancellable open orders of $21.1 million and $16.7 million, respectively. We are required to record a liability for firm, noncancelable, and unconditional purchase commitments with contract manufacturers and suppliers for quantities in excess of our future demand forecasts. To date we have not been required to accrue any costs for such noncancelable commitments.

Purchase Obligations

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

Litigation

We accrue for contingencies when we believe that a loss is probable and that we can reasonably estimate the amount of any such loss. We have made an assessment of the probability of incurring any such losses and whether or not those losses are estimable.

On June 20, 2014, a purported stockholder class action lawsuit was filed in the Superior Court of California, County of Santa Clara, against the Company, the members of our Board of Directors, our Chief Financial Officer, and the underwriters of our March 2014 follow-on public offering. On July 17, 2014, a substantially similar lawsuit was filed in the same court against the same defendants. The complaints allege violations of the federal securities laws on behalf of a purported class consisting of purchasers of the Company's common stock pursuant or traceable to the registration statement and prospectus for the follow-on public offering, and seek unspecified compensatory damages and other relief. The Company intends to defend the litigation vigorously. Based on information currently available, the Company has determined that the amount of any possible loss or range of possible loss is not reasonably estimable.

We are also subject to legal proceedings, claims and litigation, including intellectual property litigation, arising in the ordinary course of business. Such matters are subject to many uncertainties and outcomes and are not predictable with assurance.

To the extent there is a reasonable possibility that a loss exceeding amounts already recognized may be incurred and the amount of such additional loss would be material, we will either disclose the estimated additional loss or state that such an estimate cannot be made. We do not currently believe that it is reasonably possible that additional losses in connection with litigation arising in the ordinary course of business would be material.

Indemnification

Under the indemnification provisions of our standard sales related contracts, we agree to defend our customers against third-party claims asserting infringement of certain intellectual property rights, which may include patents, copyrights, trademarks, or trade secrets, and to pay judgments entered on such claims. Our exposure under these indemnification provisions is generally limited to the total amount paid by our customer under the agreement. However, certain agreements include indemnification provisions that could potentially expose us to losses in excess of the amount received under the agreement. In addition, we indemnify our officers, directors, and certain key employees while they are serving in good faith in such capacities. Through June 30, 2014, there have been no claims under any indemnification provisions.

9. Common Shares Reserved for Issuance

Under our amended and restated certificate of incorporation, we were authorized to issue 1,000,000,000 shares of common stock with a par value of $0.0001 per share as of June 30, 2014 and December 31, 2013. Each share of common stock is entitled to one vote. The holders of common stock are also entitled to receive dividends whenever funds are legally available and when declared by the Board of Directors, subject to the prior rights of holders of all classes of convertible preferred stock outstanding. There were no shares of convertible preferred stock outstanding as of June 30, 2014 or December 31, 2013.

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

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

10. Equity Award Plans

We have operated under our 2013 Equity Incentive Plan ("2013 Plan") since our initial public offering ("IPO") in September 2013. Our 2013 Plan provides for the issuance of restricted stock and the granting of options, stock appreciation rights, performance shares, performance units and restricted stock units to our employees, officers, directors, and consultants. Awards granted under the 2013 Plan vest over the periods determined by the Board of Directors or compensation committee of the Board of Directors, generally four years, and stock options granted under the 2013 Plan expire no more than ten years after the date of grant. In the case of an incentive stock option granted to an employee who at the time of grant owns stock representing more than 10% of the total combined voting power of all classes of stock, the exercise price shall be no less than 110% of the fair value per share on the date of grant, and the award shall expire five years from the date of grant. For options granted to any other employee, the per share exercise price shall be no less than 100% of the fair value per share on the date of grant. In the case of non-statutory stock options and options granted to consultants, the per share exercise price shall be no less than 100% of the fair value per share on the date of grant. A total of 14.0 million shares of our common stock was reserved for future grants as of June 30, 2014 under the 2013 Plan.

Our 2013 Employee Stock Purchase Plan ("ESPP") allows eligible employees to acquire shares of our common stock at 85% of the lower of the fair market value of our common stock on the first trading day of each offering period or on the exercise date. Our ESPP provides for annual increases in the number of shares available for issuance on the first day of each fiscal year beginning in 2014. As of June 30, 2014, an aggregate of 3,272,660 shares of common stock were available for future issuance under our ESPP, including 1,377,575 shares of common stock that became available under the ESPP on January 1, 2014 pursuant to the provisions of the ESPP that automatically increase the share reserve under such plan each year.

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

Stock Option Activity

A summary of the activity for our stock option changes during the reporting periods and a summary of information related to options exercisable, vested, and expected to vest are presented below (in thousands, except per share amounts):

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

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

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

| | Number of Shares | Weighted-Average Grant Date Fair Value Per Share | Weighted-Average Contractual Life (years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Unvested balance— December 31, 2013 | 3,602 | | 1.70 | $ 157,108 |
| Granted | 4,184 | $ 48.05 | | |
| Vested | (677 ) | | | |
| Cancelled/forfeited | (149 ) | | | |
| Unvested balance —June 30, 2014 | 6,960 | | 1.97 | 282,272 |
| Expected to vest—June 30, 2014 | 6,416 | | 1.97 | $ 260,164 |

We issued into escrow 241,362 restricted stock awards, with an estimated fair value of $6.4 million, for certain employees from the nPulse acquisition. These awards will be released from escrow to such employees if specified performance milestones are met within approximately three and a half years from the acquisition date. These awards are also contingent upon the related employees' continuous employment with us and we have determined that it is probable that such performance milestones will be met. As such, compensation expense is being recorded over the requisite service period of three and half years. These restricted stock awards are reflected within amounts granted in the table above.

Stock-Based Compensation

We record stock-based compensation based on fair value of stock options on grant date using the Black-Scholes option-pricing model. We determine the fair value of common shares to be issued under the ESPP using the

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

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

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

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

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

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

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

As of June 30, 2014, total compensation cost related to stock-based awards not yet recognized was $338.4 million, net of estimated forfeitures, which is expected to be amortized on a straight-line basis over the weighted-average remaining vesting period of approximately three years.

## 11. Income Taxes

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

Our benefit (expense) for income taxes for the three months ended June 30, 2014 and 2013 reflects an effective tax rate of 8.14% and (0.96)%, respectively. Our benefit (expense) for income taxes for the six months ended June 30, 2014 and 2013 reflects an effective tax rate of 6.99% and (0.90)%, respectively. The tax benefit for the three and six month periods ended June 30, 2014 is primarily due to an increase in U.S. deferred tax assets primarily related to current year operating losses and stock-based compensation for which no U.S. valuation allowance is required. The valuation allowance is not required because of the recording of a deferred tax liability on the acquisition-related intangibles during the three months ended June 30, 2014. In addition the tax benefit was due to reduction in U.S. deferred tax liabilities previously established in purchase accounting, partially offset by foreign and state income tax expense. The tax expense for the three and six months ended June 30, 2013 is primarily due to foreign and state income tax expense.

12. Net Loss per Share

Basic loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period, less shares subject to repurchase, and excludes any dilutive effects of employee share based awards and warrants. Diluted net income per common share is computed giving effect to all potential dilutive common shares, including common stock issuable upon exercise of stock options, and unvested restricted common stock and stock units. As we had net losses for the three and six months ended June 30, 2014 and 2013, all potential common shares were determined to be anti-dilutive.

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

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

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

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

13. Employee Benefit Plan

401(k) Plan

We have established a 401(k) tax-deferred savings plan (the “401(k) Plan”) which permits participants to make contributions by salary deduction pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended. We maintain the 401(k) Plan that provides our eligible employees other than Mandiant employees with an opportunity to save for retirement on a tax-advantaged basis. In addition, we maintain a tax qualified plan for employees of the Mandiant subsidiary that was assumed in the Mandiant acquisition. All participants’ interests in their deferrals are 100% vested when contributed under both 401(k) plans. We have made no matching contributions into our 401(k) plan since inception. The Mandiant 401(k) plan provides for a match of 100% of the first 4% of an eligible employee’s compensation contributed. Matching contributions under the Mandiant 401(k) plan are 100% vested when made. Under both 401(k) plans, pre-tax contributions are allocated to each participant’s individual account and are then invested in selected investment alternatives according to the participants’ directions. Each 401(k) plan is intended to qualify under Sections 401(a) and 501(a) of the Code. As a tax-qualified retirement plan, contributions to each 401(k) plan and earnings on those contributions are not taxable to the employees until distributed from the 401(k) plan, and all contributions are deductible by us when made. Our contributions to the Mandiant 401(k) plan were $0.7 million and $1.4 million for the three and six months ended June 30, 2014, respectively.

## 14. Segment Information

We conduct business globally and are primarily managed on a geographic basis. Our chief executive officer, who is our chief operating decision maker, reviews financial information presented on a consolidated basis accompanied by information about revenue by geographic region for purposes of allocating resources and evaluating financial performance. We have one business activity, and there are no segment managers who are held accountable for operations, operating results, and plans for levels, components, or types of products or services below the consolidated unit level. Accordingly, we are considered to be in a single reportable segment and operating unit structure.

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

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

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K filed with the SEC on March 3, 2014. The following discussion and analysis contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include, but are not limited to, statements regarding:

- beliefs and objectives for future operations, financial condition and prospects, including trends in revenue and other financial metrics;
- our business plan and our ability to effectively manage our growth and associated investments;
- our ability to timely and effectively scale and adapt our existing technology;
- our ability to innovate new products and bring them to market in a timely manner;
- our ability to expand internationally;
- our ability to further penetrate our existing customer base;
- our expectations concerning renewal rates for subscriptions and services by existing customers;
- cost of revenue, including changes in costs associated with production, manufacturing and customer support;
- operating expenses, including changes in research and development, sales and marketing, and general and administrative expenses;
- our expectations concerning relationships with third parties, including channel partners and logistics providers;
- economic and industry trends or trend analysis;
- the effects of seasonal trends on our results of operations;
- the attraction and retention of qualified employees and key personnel;
- future acquisitions of or investments in complementary companies, products, subscriptions or technologies; and
- the sufficiency of our existing cash and investments to meet our cash needs for at least the next 12 months

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

Overview

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

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

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

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

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

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

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

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

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

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

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

Our Business Model

We generate revenue from sales of our products, subscriptions and services. Our product revenue consists primarily of revenue from the sale of our threat prevention portfolio of software-based appliances, consisting of our Web Threat Prevention, Email Threat Prevention and File Threat Prevention, as well as sales of our Forensic Analysis System and Central Management System appliances. We offer this portfolio as a complete solution to protect the various entry points of a customer's network from the next generation of cyber attacks. Because the typical customer's network has more Web entry points to protect than email and file entry points, customers that purchase our threat prevention portfolio generally purchase more Web Threat Prevention appliances than Email or File Threat Prevention appliances. As a result, Web Threat Prevention accounts for the largest portion of our threat prevention product revenue. In addition, because most malicious attacks occur through the Web threat vector, smaller customers and customers who do not have the budget to purchase the full threat prevention portfolio often only purchase Web Threat Prevention. We introduced our Email Threat Prevention and File Threat Prevention appliances in 2011 and 2012, respectively. While both do not yet represent a significant percentage of our product revenue, they continue to grow at a steady pace.

We require customers to purchase a subscription to our DTI cloud and support and maintenance services when they purchase any part of our product portfolio. Our customers generally purchase these subscriptions and services for a one or three year term, and revenue from such subscriptions is recognized ratably over the subscription period. Sales of these subscriptions and services have increased our deferred revenue. As of June 30, 2014 and December 31, 2013, our total deferred revenue was $232.0 million and $187.5 million, respectively. For the three months ended June 30, 2014 and 2013, subscription and services revenue as a percentage of total revenue was 60% and 48%, respectively. For the six months ended June 30, 2014 and 2013, subscription and services revenue as a percentage of total revenue was 63% and 48%, respectively. Our subscription and services revenue as a percentage of total revenue for the three and six months ended June 30, 2014 increased over the comparative periods in the prior year as a result of sales of professional services, including our Incident Response offering, and subscriptions, including our Managed Defense offering. Subscription and services revenue as a percentage of total revenue has also increased as a result of amortization of our growing deferred revenue resulting from larger sales of subscription and services and growth in our installed base. A large contributing factor to the growth in our subscription and services revenue relates to the amortization of the initial subscription and services agreements. Renewals of such agreements have also contributed to this growth. Our renewal rate for subscription and services agreements expiring in the 12 months ended June 30, 2014 was in excess of 90%, and we expect to maintain high renewal rates in the future due to the significant value we believe these subscriptions and services add to the efficacy of our product portfolio.

Key Business Metrics

We monitor the key business metrics set forth below to help us evaluate growth trends, establish budgets, measure the effectiveness of our sales and marketing efforts, and assess operational efficiencies. We discuss revenue and gross margin below under "–Components of Operating Results." Deferred revenue, billings, net cash flow provided by (used in) operating activities, and free cash flow are discussed immediately below the following table.

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

Deferred revenue. Our deferred revenue consists of amounts that have been invoiced but have not yet been recognized as revenue as of the period end. The majority of our deferred revenue consists of the unamortized balance of revenue from subscriptions to our DTI cloud, Managed Defense offerings and support and maintenance contracts. Because invoiced amounts for subscriptions and services can be for multiple years, we classify our deferred revenue as current or non-current depending on when we expect to recognize the related revenue. If the deferred revenue is expected to be recognized within 12 months, it is classified as current. Otherwise, the deferred revenue is classified as non-current. We monitor our deferred revenue balance because it represents a significant portion of revenue to be recognized in future periods.

Billings. Billings is a non-GAAP financial metric that we define as revenue recognized in accordance with generally accepted accounting principles, or GAAP, plus the change in deferred revenue from the beginning to the end of the period. We consider billings to be a useful metric for management and investors, as a supplement to the corresponding GAAP measure, because billings drive deferred revenue, which is an important indicator of the health and visibility of trends in our business and represents a significant percentage of revenue. However, it is important to note that other companies, including companies in our industry, may not use billings, may calculate billings differently, may have different billing frequencies, or may use other financial measures to evaluate their performance, all of which could reduce the usefulness of billings as a comparative measure. A reconciliation of billings to revenue, the most directly comparable financial measure calculated and presented in accordance with GAAP, is provided below:

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

Net cash provided by (used in) operating activities. We monitor net cash provided by (used in) operating activities as a measure of our overall business performance. Our net cash provided by (used in) operating activities is driven in large part by sales of our products and from up-front payments for both subscriptions and support and maintenance services. Monitoring net cash provided by (used in) operating activities enables us to analyze our financial performance without the non-cash effects of certain items such as depreciation, amortization, and stock-based compensation costs, thereby allowing us to better understand and manage the cash needs of our business.

Free cash flow. Free cash flow is a non-GAAP financial measure we define as net cash provided by (used in) operating activities, the most directly comparable GAAP financial measure, less purchases of property and equipment and demonstration units. We consider free cash flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated by our business that, after the purchases of property and equipment and demonstration units, can be used by us for strategic opportunities, including investing in our business, making strategic acquisitions and strengthening our balance sheet. However, it is important to note that other companies, including companies in our industry, may not use free cash flow, may calculate free cash flow differently, or may use other financial measures to evaluate their performance, all of which could reduce the usefulness of free cash flow as a comparative measure. A reconciliation of free cash flow to cash flow provided by (used in) operating activities is provided below:

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

Factors Affecting our Performance

Market Adoption. We rely on market education to raise awareness of today’s next-generation cyber attacks, articulate the need for our virtual machine-based security solution and, in particular, the reasons to purchase our products. Our prospective customers often do not have a specific portion of their IT budgets allocated for products that address the next generation of advanced cyber attacks. We invest heavily in sales and marketing efforts to increase market awareness, educate prospective customers and drive adoption of our solution. This market education is critical to creating new IT budget dollars or allocating IT budget dollars across enterprises and governments for next-generation threat protection solutions, and in particular, our platform. Our investment in market education has also increased awareness of us and our solution in international markets. However, we believe that we will need to invest additional resources in targeted international markets to drive awareness and market adoption. The degree to which prospective customers recognize the mission critical need for next-generation threat protection solutions, and subsequently allocate budget dollars for our platform, will drive our ability to acquire new customers and increase renewals and follow-on sales opportunities, which, in turn, will affect our future financial performance.

Sales Productivity. Our sales organization consists of a direct sales team, made up of field and inside sales personnel, and indirect channel sales teams to support our channel partner sales. We utilize a direct-touch sales model whereby we work with our channel partners to secure prospects, convert prospects to customers, and pursue follow-on sales opportunities. To date, we have primarily targeted large enterprise and government customers, who typically have sales cycles from three to six months. We have also recently expanded our inside sales teams to pursue customers in the small and medium enterprise, or SME, market.

Our growth strategy contemplates increased sales and marketing investments internationally. Newly hired sales and marketing resources will require several months to establish prospect relationships and drive overall sales productivity. In addition, sales teams in international regions will face local markets that have not had significant market education about advanced security threats that our platform addresses. All of these factors will influence timing and overall levels of sales productivity, impacting the rate at which we will be able to convert prospects to sales and drive revenue growth.

Renewal Rates. New or existing customers that purchase one of our appliances are required to purchase a minimum of a one-year subscription to our DTI cloud as well as support and maintenance services. New or existing customers that purchase one of our Central Management System appliances are required to purchase support and maintenance services for a minimum of one year.

We believe our renewal rate is an important metric to measure the long-term value of customer agreements and our ability to retain our customers. We calculate our renewal rate by dividing the number of renewing customers that were due for renewal in any rolling 12 month period by the number of customers that were due for renewal in that rolling

12 month period. Our renewal rate for subscription and service agreements expiring in the 12 months ended June 30, 2014 and 2013 was approximately 90%. These high renewal rates are primarily attributable to the incremental value added to our appliances by our product subscriptions and support and maintenance services. As product subscriptions and support and maintenance services represented 43% and 47% of our total revenue during the six months ended June 30, 2014 and 2013, respectively, we expect our ability to maintain high renewal rates for these subscriptions and services to have a material impact on our future financial performance.

Follow-On Sales. After the initial sale to a new customer, we focus on expanding our relationship with such customer to sell additional products, subscriptions and services. To grow our revenue, it is important that our customers make additional purchases of our platform. Sales to our existing customer base can take the form of incremental sales of appliances, subscriptions and services, either to deploy our platform into additional parts of their network or to protect additional threat vectors. Our opportunity to expand our customer relationships through follow-on sales will increase as we add new customers, broaden our product portfolio to support more threat vectors, increase network performance and enhance functionality. Follow-on sales lead to increased revenue over the lifecycle of a customer relationship and can significantly increase the return on our sales and marketing investments. With some of our most significant customers, we have realized follow-on sales that were multiples of the value of their initial purchases.

## Components of Operating Results

### Revenue

We generate revenue from the sales of our products, subscriptions and services. As discussed further in "–Critical Accounting Policies and Estimates–Revenue Recognition" under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for our year ended December 31, 2013 filed with the SEC on March 3, 2014, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured.
Our total revenue consists of the following:

- Product revenue. Our product revenue is generated from sales of our Web Threat Prevention, Email Threat Prevention and File Threat Prevention appliances, as well as our Forensic Analysis System and Control Management System appliances. In June 2014, we started shipping all Email Threat Prevention appliances with software which allows customers to benefit from the product without the associated subscription services. Consistent with our Web and File Threat Prevention products, revenue therefore is recognized at the time of shipment. From June 2014, we recognize product revenue on all appliances at the time of shipment, provided that all other revenue recognition criteria have been met.

- Subscription and services revenue. Subscription and services revenue is generated primarily from our DTI cloud and support and maintenance services. Our DTI cloud subscription is determined as a percentage of the price of the related appliance. We recognize revenue from subscriptions and support and maintenance services over the contract term. Professional services revenue is recognized upon delivery or completion of performance. Our professional service consists primarily of time and materials based contracts, and the revenue is recognized as costs are incurred at amounts represented by the agreed-upon billing amounts. Revenue from fixed-price professional services engagements are recognized under the proportional performance method of accounting.

### Cost of Revenue

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

- Cost of product revenue. Cost of product revenue primarily consists of costs paid to our third-party contract manufacturers for our appliances and personnel and other costs in our manufacturing operations department. Our cost of product revenue also includes product testing costs, allocated costs and shipping costs. We expect our cost of product revenue to increase as our product revenue increases.

- Cost of subscription and services revenue. Cost of subscription and services revenue consists of personnel costs for our global professional services and customer support organizations and related allocated costs to each organization. We expect our cost of subscription and services revenue to increase as our customer base grows and as we hire additional professional services personnel.

### Gross Margin

Gross margin, or gross profit as a percentage of revenue, is affected by a variety of factors, including the average sales price of our products, subscriptions and services, personnel costs, manufacturing costs, the mix of products sold, and the mix of revenue among products, subscriptions and services. We expect our gross margin to fluctuate over time depending on the factors described above.

Operating Expenses

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

- Research and development. Research and development expense consists primarily of personnel costs and allocated overhead. Research and development expense also includes prototype-related expenses. We expect research and development expense to continue to increase in absolute dollars as we continue to invest in our research and product development efforts to enhance our product capabilities, address new threat vectors and access new customer markets, although such expense may fluctuate as a percentage of total revenue.

- Sales and marketing. Sales and marketing expense consists primarily of personnel costs, incentive commission costs and allocated overhead. We expense commission costs as incurred. Sales and marketing expense also includes costs for market development programs, promotional and other marketing activities, travel, office equipment, depreciation of proof-of-concept evaluation units and outside consulting costs. We expect sales and marketing expense to continue to increase in absolute dollars as we increase the size of our sales and marketing organizations and expand our international operations, although such expense may fluctuate as a percentage of total revenue.

- General and administrative. General and administrative expense consists of personnel costs, professional services and allocated overhead. General and administrative personnel include our executive, finance, human resources, facilities and legal organizations. Professional services consist primarily of legal, auditing, accounting and other consulting costs. We expect general and administrative expense to continue to increase in absolute dollars as we have recently incurred, and expect to continue to incur, additional general and administrative expenses as we grow our operations as a public company, including higher legal, corporate insurance, and accounting expenses.

Interest Income

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

Interest Expense

Interest expense historically has consisted of interest on our outstanding debt.

Other Expense, Net

Other expense, net historically has consisted of the change in fair value of our preferred stock warrant liability. Upon the completion of our initial public offering, the preferred stock warrant liability was reclassified into stockholders' equity, at which time it was no longer subject to fair value accounting. Other factors impacting other expense, net include gains or losses on the disposal of fixed assets, foreign currency re-measurement gains and losses and foreign currency transaction gains and losses. We expect other expense, net to fluctuate depending on foreign exchange rate movements.

Provision for (Benefit from) Income Taxes

Provision for (benefit from) income taxes consists primarily of federal and state income taxes in the United States and income taxes in certain foreign jurisdictions in which we conduct business. Income in certain countries may be taxed at statutory tax rates that are lower than the U.S. statutory tax rate. As a result, our overall effective tax rate over the long term may be lower than the U.S. federal statutory tax rate due to a larger proportion of net income which was subject to foreign income tax rates that are lower than the U.S. federal statutory rate.

Results of Operations

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

| | Three Months Ended June 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | | | | 2013 | | | |
| | Amount | | % of total revenue | | Amount | | % of total revenue | |
| | (Dollars In thousands) | | | | | | | |
| Revenue: | | | | | | | | |
| Product | $37,683 | | 40 | % | $17,240 | | 52 | % |
| Subscription and services | 56,806 | | 60 | % | 15,982 | | 48 | % |
| Total revenue | 94,489 | | 100 | % | 33,222 | | 100 | % |
| Cost of revenue: | | | | | | | | |
| Product | 13,749 | | 15 | % | 5,804 | | 17 | % |
| Subscription and services | 27,831 | | 29 | % | 4,482 | | 14 | % |
| Total cost of revenue | 41,580 | | 44 | % | 10,286 | | 31 | % |
| Total gross profit | 52,909 | | 56 | % | 22,936 | | 69 | % |
| Operating expenses: | | | | | | | | |
| Research and development | 53,408 | | 57 | % | 14,016 | | 42 | % |
| Sales and marketing | 94,591 | | 100 | % | 37,594 | | 113 | % |
| General and administrative | 31,931 | | 34 | % | 10,370 | | 32 | % |
| Total operating expenses | 179,930 | | 191 | % | 61,980 | | 187 | % |
| Operating loss | (127,021 | ) | (135 | )% | (39,044 | ) | (118 | )% |
| Interest income | 183 | | — | % | 48 | | — | % |
| Interest expense | (4 | ) | — | % | (132 | ) | — | % |
| Other expense, net | (329 | ) | — | % | (723 | ) | (2 | )% |
| Loss before income taxes | (127,171 | ) | (135 | )% | (39,851 | ) | (120 | )% |
| Provision for (benefit from) income taxes | (10,348 | ) | (11 | )% | 384 | | 1 | % |
| Net loss attributable to common stockholders | $(116,823 | ) | (124 | )% | $(40,235 | ) | (121 | )% |

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

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

Revenue

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

Product revenue increased by $20.4 million, or 119%, during the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The increase in product revenue is attributable to growth in our installed base of customers, which grew from approximately 1,000 as of June 30, 2013 to approximately 2,500 as of June 30, 2014. Additionally, product sales resulting from our acquisition of Mandiant, which was completed in December 2013, and follow-on purchases from customers expanding their initial deployments of our product portfolio also contributed to this increase in product revenue. Our Web Threat Prevention product continued to account for the largest portion of our product revenue as customers that purchase our portfolio generally purchase more Web Threat Prevention appliances than Email Threat Prevention or File Threat Prevention appliances, reflecting the fact that their networks typically have more Web entry points than email or file entry points to protect. The increase in product revenue from the inclusion of Mandiant is primarily attributable to revenue from the HX Endpoint Threat Prevention Platform.

Subscription and service revenue increased by $40.8 million, or 255%, during the three months ended June 30, 2014 compared to the three months ended June 30, 2013. This increase is comprised of an increase in professional services revenue of $16.6 million, an increase in subscription revenue of $18.4 million and an increase in support and maintenance revenue of $5.8 million. The increase in professional services revenue of $16.6 million for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013 is primarily due to professional services revenue from the inclusion of Mandiant. The increase from subscription revenue of $18.4 million and the increase in support and maintenance revenue of $5.8 million for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013 is primarily from initial customer purchases of $14.2 million, including subscription revenue from the inclusion of Mandiant for the three months ended June 30, 2014. Additionally, there was an increase of $9.7 million in amortization of deferred subscription and support and maintenance revenue related to renewals for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013. Given our high renewal rate and increasing base of customers, we expect revenue from the amortization of deferred subscription and services revenue related to renewals to increase as a percentage of our total revenue from deferred subscription and services revenue. Our renewal rate for subscription and services agreements expiring in the 12 months ended June 30, 2014 was in excess of 90%.

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

Cost of Revenue and Gross Margin

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

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

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

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

Operating Expenses

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

Research and Development

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

Sales and Marketing

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

General and Administrative

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

Interest Income

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

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

Interest Expense

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

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

Other Expense, Net

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

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

Provision for (Benefit from) Income Taxes

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

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

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

Revenue

| | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | 2013 | | Change | |
| | Amount | % of Total Revenue | Amount | % of Total Revenue | Amount | % |
| | (Dollars in thousands) | | | | | |
| Revenue: | | | | | | |