A10 Networks, Inc.
Form 10-Q
November 03, 2016

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 September 30, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 001-36343

A10 NETWORKS, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	20-1446869
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
3 West Plumeria Drive San Jose, California	95134
(Address of Principal Executive Offices)	(Zip Code)

(408) 325-8668
(Registrant's Telephone Number, Including Area Code)

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 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 x
Non-accelerated filer ¨ (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

As of October 28, 2016, the number of outstanding shares of the registrant's common stock, par value $0.00001 per share, was 67,205,810.

A10 Networks, Inc.
Quarterly Report on Form 10-Q
For the Three and Nine Months Ended September 30, 2016

TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	2
Item 1. Condensed Consolidated Financial Statements (unaudited):	2
Condensed Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015	2
Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2016 and 2015	3
Condensed Consolidated Statements of Comprehensive Loss for the Three and Nine Months Ended September 30, 2016 and 2015	4
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2016 and 2015	5
Notes to Condensed Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Item 3. Quantitative and Qualitative Disclosures About Market Risk	33
Item 4. Controls and Procedures	33
PART II. OTHER INFORMATION	35
Item 1. Legal Proceedings	35
Item 1A. Risk Factors	35
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	58
Item 3. Defaults Upon Senior Securities	58
Item 4. Mine Safety Disclosures	59
Item 5. Other Information	59
Item 6. Exhibits	60
Signatures	61
Exhibit Index	62

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A10 NETWORKS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited, in thousands, except par value)

	September 30, 2016	December 31, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 31,380	$ 98,117
Marketable securities	85,385	—
Accounts receivable, net of allowances of $4,048 and $4,067 as of September 30, 2016 and December 31, 2015	48,903	57,778
Inventory	14,537	18,291
Prepaid expenses and other current assets	4,652	5,064
Total current assets	184,857	179,250
Property and equipment, net	8,851	8,903
Goodwill and intangible assets	8,300	867
Other non-current assets	3,752	3,531
Total Assets	$ 205,760	$ 192,551
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 9,419	$ 10,508
Accrued liabilities	29,427	27,757
Deferred revenue, current	53,484	49,572
Total current liabilities	92,330	87,837
Deferred revenue, non-current	29,759	23,232
Other non-current liabilities	1,052	1,414
Total Liabilities	123,141	112,483
Commitments and contingencies (Note 5)		
Stockholders' Equity:		
Common stock, par value $0.00001 — 500,000 shares authorized as of September 30, 2016 and December 31, 2015; 67,089 and 64,172 shares issued and outstanding as of September 30, 2016 and December 31, 2015	1	1
Additional paid-in capital	323,555	301,886
Accumulated other comprehensive income	36	—
Accumulated deficit	(240,973)	(221,819)
Total Stockholders' Equity	82,619	80,068
Total Liabilities and Stockholders' Equity	$ 205,760	$ 192,551

See accompanying notes to the Condensed Consolidated Financial Statements.

A10 NETWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited, in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue:				
Products	$35,275	$34,990	$110,446	$98,837
Services	19,793	15,788	55,556	43,494
Total revenue	55,068	50,778	166,002	142,331
Cost of revenue:				
Products	8,795	8,529	27,297	23,501
Services	4,153	4,186	13,087	11,601
Total cost of revenue	12,948	12,715	40,384	35,102
Gross profit	42,120	38,063	125,618	107,229
Operating expenses:				
Sales and marketing	24,331	25,774	77,872	75,258
Research and development	15,968	13,562	45,231	41,542
General and administrative	6,305	6,892	20,196	20,122
Litigation and settlement expense	66	469	2,059	1,939
Total operating expenses	46,670	46,697	145,358	138,861
Loss from operations	(4,550)	(8,634)	(19,740)	(31,632)
Other income (expense), net:				
Interest expense	(145)	(151)	(397)	(382)
Interest income and other income (expense), net	309	22	1,544	(167)
Total other income (expense), net	164	(129)	1,147	(549)
Loss before income taxes	(4,386)	(8,763)	(18,593)	(32,181)
Provision for income taxes	298	204	561	497
Net loss	$(4,684)	$(8,967)	$(19,154)	$(32,678)
Net loss per share:				
Basic and diluted	$(0.07)	$(0.14)	$(0.29)	$(0.53)
Weighted-average shares used in computing net loss per share:				
Basic and diluted	66,260	62,753	65,146	62,009

See accompanying notes to the Condensed Consolidated Financial Statements.

A10 NETWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(unaudited, in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net loss	$(4,684)	$(8,967)	$(19,154)	$(32,678)
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on marketable securities	(52)	—	36	—
Comprehensive loss	$(4,736)	$(8,967)	$(19,118)	$(32,678)

See accompanying notes to the Condensed Consolidated Financial Statements.

A10 NETWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	$(19,154)	$(32,678)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	5,919	6,784
Stock-based compensation	13,069	13,246
Other non-cash items	1,798	1,589
Changes in operating assets and liabilities:		
Accounts receivable, net	7,311	11,223
Inventory	2,303	922
Prepaid expenses and other assets	349	(97)
Accounts payable	(878)	(1,086)
Accrued liabilities	906	(1,492)
Deferred revenue	10,440	9,118
Other	(224)	104
Net cash provided by operating activities	21,839	7,633
Cash flows from investing activities:		
Purchases of marketable securities	(109,268)	—
Proceeds from sales and maturities of marketable securities	23,787	—
Payment for acquisition	(4,380)	—
Purchases of property and equipment	(4,256)	(2,558)
Purchase of intangible asset	(1,500)	—
Net cash used in investing activities	(95,617)	(2,558)
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee equity incentive plans, net of repurchases	7,116	3,238
Other	(75)	306
Net cash provided by financing activities	7,041	3,544
Net increase (decrease) in cash and cash equivalents	(66,737)	8,619
Cash and cash equivalents—beginning of period	98,117	91,905
Cash and cash equivalents—end of period	$31,380	$100,524
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Common stock issued under asset purchase agreement	$1,313	$—
Inventory transfers to property and equipment	$1,451	$2,213
Purchases of property and equipment included in accounts payable	$275	$327
Vesting of early exercised stock options	$169	$366

See accompanying notes to the Condensed Consolidated Financial Statements.

A10 Networks, Inc.

Notes to Condensed Consolidated Financial Statements
(unaudited)

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

A10 Networks, Inc. (together with our subsidiaries, the “Company”, “we”, “our” or “us”) was incorporated in California in 2004 and reincorporated in Delaware in March 2014. We are headquartered in San Jose, California and have wholly-owned subsidiaries throughout the world including Asia and Europe. Our solutions enable enterprises, service providers, Web giants and government organizations to accelerate, secure and optimize the performance of their data center applications and secure their users, applications and infrastructure from internet, web and network threats at scale. We offer four software based advanced application networking and network security solutions to address end-customer needs, including Application Delivery Controllers ("ADC") to optimize web and back-office application performance, Carrier Grade Network Address Translation ("CGN") to provide network address, protocol translation services for service provider networks, Threat Protection System ("TPS") for network-wide multi-vector DDoS security protection and Convergent Firewall ("CFW") for protecting data centers and mobile infrastructure, improving web security, and encrypting site-to-site communications. Our solutions are cloud-ready and available, in a variety of form factors such as optimized hardware appliances, in the cloud as software, and as virtual appliances.

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of A10 Networks, Inc., and our wholly owned subsidiaries. All inter-company 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 notes 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 presentation of our financial information. The results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for the year ending December 31, 2016 or for any other interim period or for any other future year. The balance sheet as of December 31, 2015 has been derived from audited financial statements at that date but does not include all of the information required by U.S. GAAP for complete financial statements.

The accompanying unaudited Condensed Consolidated Financial Statements should be read in conjunction with our audited Consolidated Financial Statements for the year ended December 31, 2015, which are included in our Annual Report on Form 10-K for the year ended December 31, 2015.

Use of Estimates

The preparation of the Condensed Consolidated Financial Statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the amounts reported in the Condensed Consolidated Financial Statements and accompanying notes. Those estimates and assumptions affect revenue recognition and deferred revenue,

allowance for doubtful accounts, sales return reserve, valuation of inventory, fair value of marketable securities, contingencies and litigation, acquisition purchase price allocations, accrued liabilities, and determination of fair value of stock-based compensation. These estimates are based on information available as of the date of the Condensed Consolidated Financial Statements; therefore, actual results could differ from management's estimates.

Significant Accounting Policies

The following are changes to our significant accounting policies as reported in our Annual Report on Form 10-K for the year ended December 31, 2015.

Marketable securities

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 current assets (included in marketable securities on the Condensed Consolidated Balance Sheets) based on their availability for use in current operations. Unrealized gains or losses are reported in accumulated

other comprehensive loss, net of taxes, in stockholders' equity. Realized gains and losses are determined based on the specific identification method, and are reflected in our Condensed Consolidated Statements of Operations. Realized gains or losses and charges for other-than-temporary declines in value, if any, on marketable securities are reported in interest income and other income (expense), net as incurred.

We regularly review our investment portfolio to identify and evaluate investments that have indicators of possible impairment. Investments are considered impaired when a decline in fair value is judged to be other-than-temporary. If the cost of an individual investment exceeds its fair value, we evaluate, among other factors, general market conditions, the duration and extent to which the fair value is less than cost, and our intent and ability to hold the investment. Once a decline in fair value is determined to be other-than-temporary, we will record an impairment charge and establish a new cost basis in the investment.

Goodwill

Goodwill is measured as the excess of consideration transferred and the net of the acquisition date fair value of assets acquired and liabilities assumed in a business acquisition. Goodwill is not amortized for accounting purposes. We review goodwill for possible impairment annually in the fourth quarter or whenever events or changes in circumstances indicate its carrying amount may not be recoverable. For annual goodwill impairment test in all periods to date, we operate under one reporting unit and the fair value of our reporting unit has been determined by our enterprise value.
When assessing goodwill for impairment, we first perform a qualitative assessment to determine whether further impairment testing is necessary. If, as a result of its qualitative assessment, it is more-likely-than-not (i.e. greater than 50% chance) that the fair value of our reporting unit is less than its carrying amount, the quantitative impairment test will be required. Otherwise, no further testing will be required.
Examples of events and circumstances that might indicate that a reporting unit's fair value is less than the carrying amount include macro-economic conditions such as (i) a significant adverse change in customer demand or a severe deterioration in the entity's operating environment and market conditions; (ii) entity-specific events such as increasing costs, declining financial performance, or loss of key personnel; or (iii) other events such as an expectation that a reporting unit will be sold or there will be a sustained decrease in the stock price on either an absolute basis or relative to peers.

If it is determined, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of our reporting unit is less than its carrying amount, we perform a two-step impairment test on goodwill. The first step requires the identification of the reporting units and comparison of the fair value of a reporting unit with our carrying amount, including goodwill. If the fair value of the reporting unit is less than our carrying value, an indication of goodwill impairment exists for the reporting unit, and the second step of the impairment test is performed to compute the amount of the impairment. Under the second step, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill.

Intangible Assets

Intangible assets consist primarily of developed technology, patents and acquired customer relationships resulting from acquisitions. Intangible assets are recorded at fair value and are amortized on a straight-line basis over their estimated useful lives, which range from five to ten years.

Impairment of Long-Lived Assets

We periodically evaluate whether changes have occurred that would render our long-lived assets not recoverable. If such circumstances arise, we use an estimate of the undiscounted value of expected future operating cash flows to determine whether the long-lived assets are impaired. If the aggregate undiscounted cash flows are less than the

carrying amount of the assets, the resulting impairment charge to be recorded is calculated based on the excess of the carrying amount of the assets over the fair value of such assets, with the fair value generally determined based on an estimate of discounted future cash flows.

Concentration of Credit Risk and Significant Customers

Financial instruments that potentially subject us to concentrations of credit risk consist of cash, cash equivalents, marketable securities and accounts receivable. Our cash, cash equivalents and marketable securities are invested in high-credit quality financial instruments maintained with banks and financial institutions. Management believes that the financial institutions that hold our cash, cash equivalents and marketable securities are financially sound and, accordingly, are subject to

minimal credit risk. In some instances, deposits held with banks and financial institutions may be in excess of insured limits provided on such deposits.

Our accounts receivable are unsecured and represent amounts due to us based on contractual obligations of our customers. We mitigate credit risk in respect to accounts receivable by performing periodic credit evaluations of our customers to assess the probability of accounts receivable collection based on a number of factors, including past transaction experience with the customer, evaluation of their credit history, limiting the credit extended and review of the invoicing terms of the contract.

Significant customers, including distribution channel partners and direct customers, are those which represent more than 10% of our total revenue for each period presented or our gross accounts receivable balance as of each respective balance sheet date. Revenue from our significant customers as a percentage of our total revenue for the three and nine months ended September 30, 2016 and 2015 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Customer A (a distribution channel partner)	19%	*	13%	*

* represents less than 10% of total revenue

As of September 30, 2016, one distribution channel partner (Customer A) accounted for 22% of our total gross accounts receivable. As of December 31, 2015, no customer accounted for 10% or more of our total gross accounts receivable.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2016-02, Leases (Topic 842). This new accounting standard primarily requires lessees to recognize most leases on their balance sheets but record expenses on their income statements in a manner similar to current accounting. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The guidance is effective for annual periods beginning after December 15, 2018 with early adoption permitted. We are currently evaluating the impact of this guidance on our financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The new guidance requires the recognition of the income tax effects of awards in the income statement when the awards vest or are settled, thus eliminating additional paid in capital pools. The guidance also allows for the employer to repurchase more of an employee’s shares for tax withholding purposes without triggering liability accounting. In addition, the guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. This guidance is effective for annual and interim reporting periods of public entities beginning after December 15, 2016 with early adoption permitted. We are currently evaluating the impact of this guidance on our financial statements.

In March and April 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) and ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. These accounting updates provide supplemental adoption guidance and clarification to ASC No. 2014-09 Revenue from Contracts with

Customers. ASU No. 2016-08 and ASU No. 2016-10 must be adopted concurrently with the adoption of ASU 2014-09. We are currently evaluating the impact of the adoption of ASU No. 2014-09, ASU No. 2016-08 and ASU No. 2016-10 on our financial statements.

There have been no other recent accounting pronouncements or changes in accounting pronouncements during the nine months ended September 30, 2016, as compared to the recent accounting pronouncements described in our Annual Report on Form 10-K for the year ended December 31, 2015, that are of significance or potential significance to us.

2. Marketable Securities and Fair Value Measurements

Marketable Securities

As of September 30, 2016, the estimated fair value of our marketable securities, classified as available for sale, are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit	$ 11,998	$ 17	$ (1)	12,014
Corporate securities	37,043	42	(14)	37,071
Commercial paper	20,549	4	(2)	20,551
Asset-backed securities	15,740	9	—	15,749
	$ 85,330	$ 72	$ (17)	$85,385

For the three and nine months ended September 30, 2016, realized gains were immaterial. During the three and nine months ended September 30, 2016, we did not reclassify any amount to earnings from accumulated other comprehensive income related to unrealized gains or losses. We did not have any marketable securities as of December 31, 2015.

The following table summarizes the cost and estimated fair value of marketable securities based on contractual maturities as of September 30, 2016 (in thousands):

	Amortized Cost	Fair Value
Less than 1 year	$ 56,291	$56,323
Mature in 1 - 3 years	29,039	29,062
	$ 85,330	$85,385

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

Marketable securities in an unrealized loss position as of September 30, 2016 consisted of the following (in thousands):

	Fair Value	Unrealized Losses
Certificates of deposit	$2,999	$ (1)
Corporate securities	8,391	(14)
Commercial paper	$5,374	(2)
	$16,764	$ (17)

As of September 30, 2016, no marketable securities were in a continuous unrealized loss position for more than twelve months. We do not intend to sell any of these investments, and it is not more likely than not that we would be required to sell these investments before recovery of their amortized cost basis, which may be at maturity. As a result, there is no other-than-temporary impairment for these marketable securities as of September 30, 2016.

Fair Value Measurements

Our financial instruments consist of cash, cash equivalents, marketable securities, accounts receivable, accounts payable and accrued liabilities. Accounts receivable, accounts payable and accrued liabilities are stated at their carrying value, which approximates fair value due to the short time to the expected receipt or payment. Our cash equivalents, which include money market funds, are measured and recorded at fair value on a recurring basis. Marketable securities are comprised of

certificates of deposit, corporate securities, commercial paper and asset-backed securities and we measure the fair value at the measurement date using the three-tier fair value hierarchy as described below.

Assets and liabilities recorded at fair value on a recurring basis in the Condensed Consolidated Balance Sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair values. Fair value is defined as the exchange price that would be received for an asset or an exit price that would be paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The authoritative guidance for measuring fair value establishes a three-level valuation hierarchy for disclosure of fair value measurements as follows:

Level 1 - Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities;

Our Level 1 assets consist of highly liquid money market funds that are included in cash and cash equivalents.

Level 2 - Inputs are observable, quoted prices for identical assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities;

Our Level 2 assets consist of certificates of deposit, corporate securities, commercial paper and asset-backed securities.

Level 3 - Unobservable inputs that are significant to the measurement of the fair value of the assets or liabilities that are supported by little or no market data.

We did not have any Level 3 assets or liabilities as of September 30, 2016 and December 31, 2015.

There were no transfers between Level 1 and Level 2 fair value measurement categories during the three and nine months ended September 30, 2016.

The following is a summary of our cash, cash equivalents and marketable securities measured at fair value on a recurring basis (in thousands):

	September 30, 2016			December 31, 2015		
	Cash and Cash Equivalents	Marketable Securities	Total	Cash and Cash Equivalents	Marketable Securities	Total
Cash	$20,166		$20,166	$27,036		$27,036
Level I						
Money market funds	$11,214	$ —	$11,214	$71,081	$ —	$71,081
	11,214	—	11,214	71,081	—	71,081
Level II						
Certificates of deposit	—	12,014	12,014	—	—	—
Corporate securities	—	37,071	37,071	—	—	—
Commercial paper	—	20,551	20,551	—	—	—
Asset-backed securities	—	15,749	15,749	—	—	—
	—	85,385	85,385	—	—	—
	$31,380	$ 85,385	$116,765	$98,117	$ —	$98,117

10

3. Condensed Consolidated Financial Statement Details

Inventory

	September 30, 2016	December 31, 2015
	(in thousands)	
Raw materials	$6,451	$ 9,418
Finished goods	8,086	8,873
Total inventory	$14,537	$ 18,291

Property and Equipment, net

	September 30, 2016	December 31, 2015
	(in thousands)	
Equipment	$40,901	$ 35,836
Software	3,801	3,548
Furniture and fixtures	864	864
Leasehold improvements	2,567	2,492
Construction in progress	—	83
Property and equipment, gross	48,133	42,823
Less: accumulated depreciation and amortization	(39,282)	(33,920)
Property and equipment, net	$8,851	$ 8,903

Depreciation expense on property and equipment was $1.9 million and $2.1 million for the three months ended September 30, 2016 and 2015, respectively, and $5.6 million and $6.7 million for the nine months ended September 30, 2016 and 2015, respectively.

Goodwill and Intangible Assets

Activity related to goodwill for the nine months ended September 30, 2016 is as follows (in thousands):

Balance as of December 31, 2015	$72
Acquisitions	1,235
Balance as of September 30, 2016	$1,307

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

	September 30, 2016			December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Developed technology	$5,050	$ (253)	$ 4,797	$—	$ —	$ —
Customer relationships	1,746	(1,746)	—	1,746	(1,746)	—
Patents	2,936	(740)	2,196	1,436	(641)	795
Total	$9,732	$ (2,739)	$ 6,993	$3,182	$ (2,387)	$ 795

Amortization expense related to purchased intangible assets was $0.3 million and $33,000 for the three months ended September 30, 2016 and 2015, respectively, and $0.4 million and $0.1 million for the nine months ended September

30, 2016 and 2015, respectively. Purchased intangible assets are amortized over a remaining weighted average useful life of 4.9 years.

Total future amortization expense for purchased intangible assets as of September 30, 2016 is as follows (in thousands):

Fiscal Years Ending December 31,	
Remainder of 2016	$361
2017	1,442
2018	1,442
2019	1,442
2020	1,442
Thereafter	864
	$6,993

Accrued Liabilities

	September 30, 2016	December 31, 2015
	(in thousands)	
Accrued compensation and benefits	$20,458	$ 18,134
Accrued tax liabilities	2,639	4,520
Other	6,330	5,103
Total accrued liabilities	$29,427	$ 27,757

Deferred Revenue

	September 30, 2016	December 31, 2015
	(in thousands)	
Deferred revenue:		
Products	$2,899	$ 3,233
Services	80,344	69,571
Total deferred revenue	83,243	72,804
Less: current portion	(53,484)	(49,572)
Non-current portion	$29,759	$ 23,232

4. Credit Facilities

In September 2013, we entered into a credit agreement (the “2013 Credit Facility”) with Royal Bank of Canada, JPMorgan Chase Bank, N.A. and Bank of America, N.A. as lenders. The 2013 Credit Facility provided a three-year, $35.0 million, revolving credit facility, which included a maximum $10.0 million letter of credit facility. We were required to pay quarterly facility fees of 0.45% per annum on the average daily unused portion of the revolving credit facility. We had no outstanding borrowings under the 2013 Credit Facility as of December 31, 2015 or for any period during the nine months ended September 30, 2016. The 2013 Credit Facility expired on September 30, 2016.

In November 2016, we entered into a loan and security agreement (the “2016 Credit Facility”) with Silicon Valley Bank ("SVB"), as lender. The 2016 Credit Facility provides a three-year, $25.0 million revolving credit facility, which includes a maximum of $25.0 million letter of credit facility. The loans bear interest, at our option, at (i) the prime rate reported in The Wall Street Journal, minus 0.50% or (ii) a LIBOR rate determined in accordance with the 2016 Credit

Facility, plus 2.50%. We are required to pay customary closing fees, commitment fees and letter of credit fees for a facility of this size and type.

Our obligations under the 2016 Credit Facility are secured by substantially all of our assets, excluding our intellectual property. The 2016 Credit Facility contains customary affirmative and negative covenants. Through the date of this filing, we had no outstanding balance under the 2016 Credit Facility and were in compliance with all facility covenants.

5. Commitments and Contingencies

Legal Proceedings

From time to time, we may be party or subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business, including proceedings and claims that relate to intellectual property matters. Some of these proceedings involve claims that are subject to substantial uncertainties and unascertainable damages. Accordingly, except as disclosed, we have not established reserves or ranges of possible loss related to these proceedings, as at this time in the proceedings, if any, the matters do not relate to a probable loss and/or amounts cannot be reasonably estimated.

On January 29, 2015, the Company, the members of our Board of Directors, our Chief Financial Officer, and the underwriters of our March 21, 2014 initial public offering ("IPO") were named as defendants in a putative class action lawsuit alleging violations of the federal Securities Act of 1933 filed in the Superior Court of the State of California, County of Santa Clara, captioned City of Warren Police and Fire Retirement System v. A10 Networks, Inc., et al., 1-15-CV-276207. Several substantially identical lawsuits were subsequently filed in the same court, bringing the same claims against the same defendants, captioned Arkansas Teacher Retirement System v. A10 Networks, Inc., et al., 1-15-CV-278575 (filed March 25, 2015) and Kaveny v. A10 Networks, Inc., et al., 1-15-CV-279006 (filed April 6, 2015). On May 29, 2015, the aforementioned putative class actions were consolidated under the caption In re A10 Networks, Inc. Shareholder Litigation, 1-15-CV-276207.

On April 6, 2016, all parties entered into a memorandum of understanding reflecting an agreement in principle to settle all claims against all defendants asserted in the action and providing that we will make a payment of $0.8 million, net of the expected proceeds of insurance policies. The parties subsequently executed a stipulation of settlement, dated June 30, 2016, and filed a motion with the Court seeking preliminary approval of the settlement, which was granted on September 15, 2016. The payment was made in October 2016. The final fairness hearing is scheduled to be heard on January 13, 2017. The settlement releases all claims asserted against all defendants and includes the dismissal of all claims against all defendants without any liability or wrongdoing attributed to them. The settlement remains subject to stockholder notice, final court approval and other customary conditions.

On June 24, 2015, our directors and certain of our officers were named as defendants in a putative derivative lawsuit filed in the Superior Court of the State of California, County of Santa Clara, captioned Hornung v. Chen, et al., 1-15-CV-282286 (the “Derivative Action”). We were also named as a nominal defendant. The complaint seeks to allege breaches of fiduciary duties and other related claims, arising out of allegations that our officers and directors caused us to infringe patents and intellectual property, improperly approved the settlement of prior litigation, failed to adopt and implement effective internal controls, and caused us to issue false and misleading statements in connection with our IPO. Plaintiff seeks unspecified compensatory damages and other equitable relief. On May 24, 2016, all parties entered into a memorandum of understanding reflecting an agreement in principle to settle all claims against all defendants asserted in the action, which provides that we implement certain corporate governance measures following final settlement approval. The parties subsequently executed a stipulation of settlement, dated August 26, 2016, and filed a motion with the Court seeking preliminary approval of the settlement. On October 20, 2016, the Court issued an order continuing to November 18, 2016 on the motion for preliminary approval, to allow plaintiff to submit certain supplemental briefing. The settlement releases all claims asserted against all defendants and includes the dismissal of all claims against all defendants without any liability or wrongdoing attributed to them. The settlement remains

subject to execution of a formal settlement agreement, court approval and other customary conditions.

Lease Obligations and Other Commitments

We lease various operating spaces in the United States, Asia, and Europe under non-cancelable operating lease arrangements that expire on various dates through April 2020. These arrangements require us to pay certain operating expenses, such as taxes, repairs, and insurance and contain renewal and escalation clauses. We recognize rent expense under these arrangements on a straight-line basis over the term of the lease.

We have entered into agreements with some of our customers and channel partners that contain indemnification provisions in the event of claims alleging that our products infringe the intellectual property rights of a third party. Other

guarantees or indemnification arrangements include guarantees of product and service performance and standby letters of credit for lease facilities and corporate credit cards. We have not recorded a liability related to the indemnification and guarantee provisions and our guarantees and indemnification arrangements have not had any significant impact on our Condensed Consolidated Financial Statements to date.

6. Appcito Acquisition

On June 23, 2016, we entered into an asset purchase agreement with Appcito, Inc. ("Appcito"), a privately held company engaged in providing a unified set of services for applications deployed on cloud infrastructure with facilities located in Santa Clara, California and Bangalore, India. Under the terms of the purchase agreement, we acquired substantially all of the assets of Appcito. This acquisition enhances our position as a comprehensive secure application services leader, and it represents a strategic step in our vision to help our customers become more secure and agile as they bridge traditional and cloud application environments.

The total purchase consideration was $6.5 million. The fair value of the total purchase consideration was $6.3 million, which consisted of $5.0 million in cash consideration, less a holdback of $0.7 million to cover any indemnification claims within twelve months of the acquisition date, and 227,404 unregistered shares of our common stock with an aggregated fair value of $1.3 million. We allocated the total purchase consideration to the net assets acquired, including identifiable intangible assets, based on their respective fair values at the acquisition date.

The following table summarizes the allocation of the purchase price to the fair value of the assets acquired (in thousands):

Developed technology	$5,050
Goodwill	1,235
Other tangible assets	58
Total assets acquired	$6,343

Developed technology is amortized on a straight-line basis over the estimated useful life of five years. Goodwill of $1.2 million was recognized as part of this acquisition is attributable primarily to the expected synergies and other benefits from this acquisition including adding to our existing momentum around providing secure application service solutions that meet several key demands like application analytics, visibility, and centralized control. The acquisition is expected to introduce secure application service offerings that span traditional data centers, private clouds, public clouds, and hybrid clouds.

We incurred approximately $0.2 million in legal, accounting and other professional fees related to this acquisition, all of which were expensed during the three months ended June 30, 2016.

We do not consider the acquisition of Appcito to be material to our results of operations or financial position, and therefore, we are not presenting pro-forma financial information of the combined operations.

This acquisition was taxable for income tax purposes, and the acquired assets have been recorded at fair value for both book and income tax purposes. Therefore, no deferred taxes have been recorded. The goodwill of $1.2 million and the $0.2 million of acquisition costs are capitalized and amortized over 15 years for income tax purposes.

7. Equity Incentive Plans and Stock-Based Compensation

Equity Incentive Plans

2014 Equity Incentive Plan

Our 2014 Equity Incentive Plan (the "2014 Plan") was adopted by our Board of Directors and approved by our stockholders in March 2014. The 2014 Plan provides for the granting of stock options, restricted stock awards, restricted stock units, stock appreciation rights, performance units and performance shares to our employees, directors and consultants. In addition, effective as of June 10, 2015, our Board of Directors adopted and our stockholders approved an amendment and restatement of our 2014 Plan, which increased the number of shares available for issuance under the 2014 Plan by the number of shares available from the 2008 Stock Plan (the "2008 Plan") that were or may in the future be canceled or otherwise forfeited or repurchased by us after March 20, 2014. A maximum of 8,310,566 shares may become available from the 2008 Plan for issuance under the 2014 Plan.

As of December 31, 2015, we had 3,364,304 shares available for future grant. Annually, the shares authorized for the 2014 Plan will increase by the least of (i) 8,000,000 shares, (ii) 5% of the outstanding shares of common stock on the last day of our immediately preceding fiscal year, or (iii) such other amount as determined by our Board of Directors. On January 1, 2016, the number of shares in the 2014 Plan was increased by 4,851,535 shares, which consisted of 3,211,211 shares, representing 5% of the prior year end's common stock outstanding and 1,640,324 shares for awards under our 2008 Plan that had been canceled, forfeited or repurchased by us between March 21, 2014 and December 31, 2015.

During the nine months ended September 30, 2016, we granted 672,000 stock options and 4,272,388 stock awards under the 2014 Plan to our employees, directors and consultants. As of September 30, 2016, we had 4,312,753 shares available for future grant, excluding shares eligible to be added from the 2008 Plan as a result of awards that have been canceled, forfeited or repurchased by us after December 31, 2015.

As of September 30, 2016, 243,546 shares of our common stock had been added to the 2014 Plan share reserve which represents awards under our 2008 Plan that have been canceled, forfeited or repurchased by us during the nine months ended September 30, 2016.

2014 Employee Stock Purchase Plan

The 2014 Employee Stock Purchase Plan (the "2014 Purchase Plan") was adopted by our Board of Directors and approved by our stockholders in March 2014.

As of December 31, 2015, we had 542,030 shares available for future purchase. Under the provisions of the 2014 Purchase Plan, on the first day of each fiscal year, starting with January 1, 2015, the number of shares in the reserve will increase by the lesser of (i) 3,500,000 shares, (ii) 1% of the outstanding shares of our common stock on the last day of the immediately preceding fiscal year, or (iii) such other amount as determined by our Board of Directors or other committee administering the 2014 Purchase Plan. On January 1, 2016, the common shares reserved for future purchase was increased by 642,242 shares in accordance with the provisions of the 2014 Purchase Plan. In June 2016, our Board of Directors adopted, and our stockholders approved an amendment to our 2014 Purchase Plan which removed the automatic annual share increase and increased the number of shares available for issuance under the 2014 Purchase Plan by 4,000,000 shares.

Stock-Based Compensation

The following tables summarize the allocation of the stock-based compensation expense (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Stock-based compensation by type of award:				
Stock options	$1,028	$1,347	$3,209	$4,326
Stock awards	3,231	2,412	9,614	6,477
Employee stock purchase rights	329	849	246	2,443
	$4,588	$4,608	$13,069	$13,246
Stock-based compensation by category of expense:				
Cost of revenue	$332	$428	$921	$1,241
Sales and marketing	1,760	2,093	5,577	6,032

Research and development	1,730	1,489	4,251	4,347
General and administrative	766	598	2,320	1,626
	$4,588	$4,608	$13,069	$13,246

(1) Our 2014 Purchase Plan provides twenty-four month offering periods which consist of four six-month purchase periods. We record periodic stock-based compensation expense based on estimated contributions determined at the beginning of each offering period and record purchase adjustments for the difference between the estimated and actual contributions at the end of each purchase period. For the purchase period ended on May 20, 2016, the actual contributions were significantly lower than the estimated contributions due to lower stock price which caused more employees to reach the maximum purchase contribution limit.

As of September 30, 2016, we had $30.9 million of unrecognized stock-based compensation expense, net of estimated forfeitures, related to unvested stock-based awards which will be recognized over a weighted average period of 2.6 years.

Determination of Fair Value

We use the Black-Scholes option pricing model to determine the grant date fair value of stock options and stock purchases and generally recognize stock-based compensation expense on a straight-line basis over the requisite service period.

The determination of the fair value on the date of grant is affected by the estimated underlying common stock price, as well as assumptions regarding a number of complex and subjective variables. These variables include expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rates, and expected dividends.

The fair value of the stock options and employee stock purchases were determined using the Black-Scholes option pricing model and assumptions discussed below. Each of these inputs is subjective and generally requires significant judgment to determine.

• Expected Term. We estimate the expected life of options based on an analysis of our historical experience of employee exercise and post-vesting termination behavior considered in relation to the contractual life of the option. The expected term for the 2014 Purchase Plan is based on the term of the purchase period.

• Risk-Free Interest Rate. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for zero coupon U.S. Treasury notes with maturities approximately equal to the expected terms of stock options and shares to be issued under the 2014 Purchase Plan.

• Expected Volatility. Due to the limited trading history of our own common stock, we determined the share price volatility factor based on a combination of the historical volatility of our own common stock and the historical volatility of our peer group.

• Dividend Rate. The expected dividend was assumed to be zero as we have never paid dividends and have no current plans to do so.

The grant date fair value of RSUs that have time or performance based vesting conditions contingent upon meeting financial and operational targets are equal to the closing market price of our common stock on the grant date.

We estimate the grant date fair value of RSUs that have market based vesting conditions using the Monte Carlo simulation method.

Stock Options

The following tables summarize our stock option activities and related information (in thousands, except for years and per share amounts):

	Number of Shares Underlying Outstanding Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2015	9,291	$ 4.78		
Granted	672	$ 5.52		
Exercised	(1,191)	$ 4.17		
Canceled (1)	(562)	$ 6.20		
Outstanding as of September 30, 2016	8,210	$ 4.83	6.4	$ 48,821
Vested and expected to vest as of September 30, 2016	8,063	$ 4.82	6.4	$ 47,985
Vested and exercisable as of September 30, 2016	5,590	$ 4.50	5.7	$ 35,114

(1) Common shares granted under the 2008 Plan and canceled after March 20, 2014 are reallocated to the 2014 Plan's share reserve as they become available for issuance under the 2014 Plan. During the nine months ended September 30, 2016, 244 of the canceled stock options were reallocated to the 2014 Plan.

As of September 30, 2016, the aggregate intrinsic value represents the excess of the closing price of our common stock of $10.69 over the exercise price of the outstanding in-the-money options.

	Nine Months Ended September 30,	
	2016	2015
Fair value of options granted	$1,603	$869
Weighted-average fair value of options granted	$2.38	$2.13
Intrinsic value of options exercised	$5,003	$1,535

We did not grant stock options during the three months ended September 30, 2016 and 2015.

The estimated grant-date fair value of our stock options issued to employees was calculated using the Black-Scholes option-pricing model, based on the following assumptions:

	Nine Months Ended September 30,	
	2016	2015
Expected term (in years)	4.9	4.8
Risk-free interest rate	1.42%	1.60%
Volatility	49%	50%
Dividend rate	—%	—%

Stock Awards

We have granted time-based stock awards ("RSUs") to our employees, directors and consultants and performance-based stock awards ("PSUs") and market performance-based stock awards ("MSUs") to certain company executives.

The following table summarizes our stock award activities (in thousands):

	RSUs	PSUs	MSUs	Total
Outstanding as of December 31, 2015	2,872	—	580	3,452
Granted	3,725	547	—	4,272
Released	(915)	—	—	(915)
Canceled	(734)	(29)	—	(763)
Outstanding as of September 30, 2016	4,948	518	580	6,046

In February 2016, we granted 547,000 PSUs with certain financial and operational targets. These PSUs are also subject to service condition vesting requirements with 25% of the eligible PSUs scheduled to vest on each of the first, second, third and fourth year anniversary of the PSU grant date.

We granted MSUs covering 540,000 shares and 40,000 shares of our common stock to certain executives during 2014 and 2015, all of which were outstanding as of September 30, 2016. These MSUs will vest if the closing price of our common stock remains above certain predetermined target prices for 20 consecutive trading days within a 4-year period following the award's grant date, subject to continued service by the award holder.

The aggregate intrinsic value is the amount that would have been received by the unit holders had all RSUs been vested and released on September 30, 2016. This amount will fluctuate based on the fair market value of our stock. As of September 30, 2016, the aggregated intrinsic value for RSUs, MSUs and PSUs was $64.6 million with a weighted-average remaining service period of 2.8 years.

Employee Stock Purchase Plan

Employees purchased 552,554 shares at an average price of $3.88 and 542,102 shares at an average price of $3.45 for the nine months ended September 30, 2016 and 2015, respectively. As of September 30, 2016, 4,317,184 shares were available for future issuance under the 2014 Purchase Plan. The intrinsic value of shares purchased during the nine months ended September 30, 2016 and 2015 was $1.3 million and $1.4 million, respectively. The intrinsic value is calculated as the difference between the market value on the date of purchase and the purchase price of the shares.

We did not grant employee stock purchase rights during the three months ended September 30, 2016 and 2015.

The fair value of the employee stock purchase rights granted was estimated at the grant date using the Black-Scholes option pricing model with the following weighted-average assumptions:

	Nine Months Ended September 30,	
	2016	2015
Expected term (in years)	1.3	1.2
Risk-free interest rate	0.65%	0.32%
Expected volatility	42.6%	39.6%
Dividend rate	—%	—%

Stock Repurchase Program

On October 27, 2016, we announced that our board of directors authorized a share repurchase program for up to $20.0 million of our common stock over the next 12 months. Under the repurchase authorization, shares may be purchased from time to time, subject to general business and market conditions and other investment opportunities, through open market purchases, privately negotiated transactions or other means. The repurchase authorization may be commenced, suspended or discontinued at any time at our discretion.

8. Net Loss Per Share

The following table sets forth the computation of our basic and diluted net loss per share (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Basic and diluted net loss per share				
Numerator:				
Net loss	$(4,684)	$(8,967)	$(19,154)	$(32,678)
Denominator:				
Weighted-average shares outstanding - basic and diluted	66,260	62,753	65,146	62,009
Net loss per share:				
Basic and diluted	$(0.07)	$(0.14)	$(0.29)	$(0.53)

The following weighted-average outstanding shares of common stock equivalents were excluded from the computation of diluted net loss per share because including them would have been antidilutive (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Stock options, stock awards and employee stock purchase rights	14,163	11,058	12,878	11,063
Common stock subject to repurchase	21	90	21	90
	14,184	11,148	12,899	11,153

9. Income Taxes

We recorded income tax expense of $0.3 million and $0.2 million for the three months ended September 30, 2016 and 2015, respectively, and $0.6 million and $0.5 million for the nine months ended September 30, 2016 and 2015, respectively, which primarily consisted of foreign taxes. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in the financial statements and their respective tax bases using tax rates expected to be in effect during the years in which the basis differences reverse.

We believe it is more likely than not that our federal and state net deferred tax assets will not be fully realized. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of a deferred tax asset will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. A valuation allowance is recorded for loss carryforwards and other deferred tax assets where it is more likely than not that such deferred tax assets will not be realized. Accordingly, we continue to maintain a valuation allowance against all of our U.S. and certain foreign net deferred tax assets as of September 30, 2016. We will continue to maintain a full valuation allowance against our net federal, state and certain foreign deferred tax assets until there is sufficient evidence to support recoverability of our deferred tax assets.

We had $3.0 million and $2.6 million of unrecognized tax benefits as of September 30, 2016 and December 31, 2015. We do not anticipate a material change to our unrecognized tax benefits over the next twelve months. Unrecognized tax benefits may change during the next twelve months for items that arise in the ordinary course of business.

Accrued interest and penalties related to unrecognized tax benefits are recognized as part of our income tax provision in our Condensed Consolidated Statements of Operations. All tax years remain open and are subject to future examinations by federal, state and foreign tax authorities. We are not under examination in any jurisdiction.

10. Segment Information

Our chief operating decision maker is our Chief Executive Officer who reviews financial information presented on a consolidated basis, accompanied by disaggregated information about revenue by geographic region for purposes of allocating resources and evaluating financial performance. Accordingly, we have a single reportable segment and operating segment.

The following table represents revenue by geographic areas based on customers' location, as determined by their ship to addresses (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
United States	$24,297	$25,059	$85,242	$75,365
Japan	16,008	8,764	37,846	24,222
Asia Pacific, excluding Japan	7,434	7,991	21,911	18,122
EMEA	6,046	7,317	16,973	20,372
Other	1,283	1,647	4,030	4,250
Total revenue	$55,068	$50,778	$166,002	$142,331

No other geographic regions comprised 10% or greater of our revenue for the three and nine months ended September 30, 2016 and 2015.

Our property and equipment, net is primarily located in the United States. No other geographic regions comprise 10% or more of our property and equipment, net as of September 30, 2016.

11. Related-Party Transactions

An affiliate of one of our significant stockholders is also acting as a reseller of our products. On May 27, 2015, the significant stockholder reduced its ownership of our common stock, and ceased to be a related party. During the nine months ended September 30, 2015, we recognized $2.2 million of revenue from this reseller while it was a related party.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our Condensed Consolidated Financial Statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q. The following discussion and analysis contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words "believe," "may," "will," "potentially," "estimate," "continue," "anticipate," "intend," "could," "would," "project," "plan" "expect," and similar expressions that conve uncertainty of future events or outcomes are intended to identify forward-looking statements.

These forward-looking statements include, but are not limited to, statements concerning the following:

- our ability to maintain an adequate rate of revenue growth;
- our ability to successfully anticipate market needs and opportunities;
- our business plan and our ability to effectively manage our growth;
- costs associated with defending intellectual property infringement and other claims;
- our ability to attract and retain end-customers;
- loss or delay of expected purchases by our largest end-customers;
- our ability to further penetrate our existing customer base;
- our ability to displace existing products in established markets;
- our ability to expand our leadership position in next-generation application delivery and server load balancing solutions;
- continued growth in markets relating to network security;
- 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;
- the effects of increased competition in our market and our ability to compete effectively;
- the effects of seasonal trends on our results of operations;
- our expectations concerning relationships with third parties;
- the attraction and retention of qualified employees and key personnel;
- our ability to achieve or maintain profitability while continuing to invest in our sales, marketing and research and development teams;
- variations in product mix or geographic locations of our sales;
- fluctuations in currency exchange rates;
- increased cost requirements of being a public company and future sales of substantial amounts of our common stock in the public markets;
- the cost and potential outcomes of existing and future litigation;
- our ability to maintain, protect, and enhance our brand and intellectual property; and
- future acquisitions of or investments in complementary companies, products, services or technologies.

These forward-looking statements are subject to a number of risks, uncertainties, and assumptions, including those described in "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment, and new risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties, and assumptions, the forward-looking events and circumstances discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking

21

statements. We undertake no obligation to update publicly any forward-looking statements for any reason after the date of this Quarterly Report on Form 10-Q to conform these statements to actual results or to changes in our expectations, except as required by law.

Overview

We are a leading provider of application networking and network security technologies. Our solutions enable enterprises, service providers, Web giants and government organizations to accelerate, secure and optimize the performance of their data center applications and secure their users, applications and infrastructure from internet, web and network threats at scale. Our products are built on our Advanced Core Operating System ("ACOS") platform of advanced network technologies, which is designed to enable our products to deliver substantially greater performance and security relative to prior generation application networking products. Our software based ACOS architecture also provides the flexibility that enables us to expand our business to offer additional products to solve a growing array of networking and security challenges arising from increased Internet cloud and mobile computing.

We currently offer four software based advanced application networking and network security solutions to address end-customer needs, including Application Delivery Controllers ("ADC") to optimize web and back-office application performance, Carrier Grade Network Address Translation ("CGN") to provide network address and protocol translation services for service provider networks, Threat Protection System ("TPS") for network-wide multi-vector DDoS security protection, and Convergent Firewall ("CFW") for protecting data centers and mobile infrastructure, improving web security, and encrypting site-to-site communications. Our solutions are cloud-ready and available in a variety of form factors as optimized hardware appliances, in the cloud as software, and as virtual appliances.

We derive revenue from sales of products and related support services. Products revenue is generated primarily by sales of hardware appliances with perpetual licenses to our embedded software solutions. We also derive revenue from licenses
to, or subscription services for, software-only versions of our solutions. We generate services revenue primarily from sales of maintenance and support contracts. Our end-customers predominantly purchase maintenance and support in conjunction with purchases of our products. In addition, we also derive revenues from the sale of professional services.

We sell our products globally to service providers and enterprises that depend on data center applications and networks to generate revenue and manage operations efficiently. Our end-customers operate in a variety of industries, including telecommunications, technology, industrial, retail, financial, education and government. Since inception, our customer base has grown rapidly. As of September 30, 2016, we had sold products to approximately 5,000 customers across 82 countries.

We sell substantially all of our solutions through our high-touch sales organization as well as distribution channel partners, including distributors, value added resellers and system integrators, and fulfill nearly all orders globally through such partners. We believe this sales approach allows us to obtain the benefits of channel distribution, such as expanding our market coverage, while still maintaining face-to-face relationships with our end-customers. We outsource the manufacturing of our hardware products to original design manufacturers. We perform quality assurance and testing at our San Jose, Taiwan and Japan distribution centers, as well as at our manufacturers' locations.

During the first nine months of 2016, 51% of our total revenue was generated from the United States, 23% from Japan, and 26% from other geographical regions. During the first nine months of 2015, 53% of our total revenue was generated from the United States, 17% from Japan, and 30% from other geographical regions. Our enterprise customers accounted for 57% and 58% of our total revenue during the first nine months of 2016 and 2015, respectively. Our service provider customers accounted for 43% and 42% of our total revenue during the first nine months of 2016 and 2015, respectively.

As a result of the nature of our target market and the current stage of our development, a substantial portion of our revenue comes from a limited number of large end-customers, including service providers, in any period. Purchases from our ten largest end-customers accounted for 38% and 30% of our total revenue during the nine months ended September 30, 2016 and 2015, respectively. Sales to these large end-customers have typically been characterized by large but irregular purchases with long sales cycles. The timing of these purchases and the delivery of the purchased products are difficult to predict. As a consequence, any acceleration or delay in anticipated product purchases, by or deliveries to, our largest end customers could materially impact our revenue and operating results in any quarterly period. This may cause our quarterly revenue and operating results to fluctuate from quarter to quarter and make them difficult to predict.

As of September 30, 2016, we had $31.4 million of cash and cash equivalents and $85.4 million of marketable securities. Cash provided by operating activities was $21.8 million during the first nine months of 2016 as compared to $7.6 million during the same period of 2015.

We intend to continue to invest for long-term growth. We have invested and expect to continue to invest in our product development efforts to deliver new products and additional features in our current products to address customer needs. In addition, we expect to continue to expand our global sales and marketing organizations, expand our distribution channel partner programs and increase awareness of our solutions on a global basis. Additionally, we will be investing in general and administrative resources to meet the requirements to operate as a public company. Our investments in growth in these areas may affect our short-term profitability.

Results of Operations

The following table provides a summary of our Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2016 (dollars in thousands):

	Three Months Ended September 30,					
	2016		2015		Increase (Decrease)	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue	Amount	Percent
Revenue:						
Products	$35,275	64.1 %	$34,990	68.9 %	$285	1 %
Services	19,793	35.9	15,788	31.1	4,005	25 %
Total revenue	55,068	100.0	50,778	100 %	4,290	8 %
Cost of revenue:						
Products	8,795	16.0	8,529	16.8	266	3 %
Services	4,153	7.5	4,186	8.2	(33)	(1)%
Total cost of revenue	12,948	23.5	12,715	25.0	233	2 %
Gross profit	42,120	76.5	38,063	75.0	4,057	11 %
Operating expenses:						
Sales and marketing	24,331	44.2	25,774	50.8	(1,443)	(6)%
Research and development	15,968	29.0	13,562	26.7	2,406	18 %
General and administrative	6,305	11.5	6,892	13.6	(587)	(9)%
Litigation and settlement expense	66	0.1	469	0.9	(403)	(86)%
Total operating expenses	46,670	84.8	46,697	92.0	(27)	0 %
Loss from operations	(4,550)	(8.3)	(8,634)	(17.0)	4,084	(47)%
Other income (expense), net:						
Interest expense	(145)	(0.3)	(151)	(0.3)	6	(4)%
Interest income and other income (expense), net	309	0.6	22	—	287	1,305 %
Total other income (expense), net	164	0.3	(129)	(0.3)	293	(227)%
Loss before income taxes	(4,386)	(8.0)	(8,763)	(17.3)	4,377	(50)%
Provision for income taxes	298	0.5	204	0.4 %	94	46 %
Net loss	$(4,684)	(8.5)%	$(8,967)	(17.7)%	$4,283	(48)%

	Nine Months Ended September 30,					
	2016		2015		Increase (Decrease)	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue	Amount	Percent
Revenue:						
Products	$110,446	66.5 %	$98,837	69.4 %	$11,609	12%
Services	55,556	33.5	43,494	30.6	12,062	28%
Total revenue	166,002	100.0	142,331	100.0	23,671	17%
Cost of revenue:						
Products	27,297	16.4	23,501	16.5	3,796	16%
Services	13,087	7.9	11,601	8.2	1,486	13%
Total cost of revenue	40,384	24.3	35,102	24.7	5,282	15%
Gross profit	125,618	75.7	107,229	75.3	18,389	17%
Operating expenses:						
Sales and marketing	77,872	47.0	75,258	52.9	2,614	3%
Research and development	45,231	27.2	41,542	29.2	3,689	9%
General and administrative	20,196	12.2	20,122	14.1	74	—%
Litigation and settlement expense	2,059	1.2	1,939	1.4	120	6%
Total operating expenses	145,358	87.6	138,861	97.6	6,497	5%
Loss from operations	(19,740)	(11.9)	(31,632)	(22.2)	11,892	(38)%
Other income (expense), net:						
Interest expense	(397)	(0.2)	(382)	(0.3)	(15)	4%
Interest income and other income (expense), net	1,544	0.9	(167)	(0.1)	1,711	(1,025)%
Total other income (expense), net	1,147	0.7	(549)	(0.4)	1,696	(309)%
Loss before income taxes	(18,593)	(11.2)	(32,181)	(22.6)	13,588	(42)%
Provision for income taxes	561	0.3	497	0.3	64	13%
Net loss	$(19,154)	(11.5)%	$(32,678)	(23.0)%	$13,524	(41)%

Revenue

Our products revenue primarily consists of revenue from sales of our hardware appliances upon which our software is installed. Such software includes our ACOS software platform plus one of our ADC, CGN, TPS, and CFW solutions. Purchase of a hardware appliance includes a perpetual license to the included software. We recognize products revenue at the time of shipment, provided that all other revenue recognition criteria have been met. As a percentage of revenue, our products revenue may vary from quarter to quarter based on, among other things, the timing of orders and delivery of products, cyclicality and seasonality, changes in currency exchange rates and the impact of significant transactions with unique terms and conditions.

We generate services revenue from sales of post contract support, or PCS, which is bundled with sales of products and professional services. We offer tiered PCS services under renewable, fee-based PCS contracts, primarily including technical support, hardware repair and replacement parts, and software upgrades on a when-and-if-released basis. We recognize services revenue ratably over the term of the PCS contract, which is typically one year, but can be up to five years.

A summary of our total revenue is as follows (dollars in thousands):

	Three Months Ended September 30,					
	2016		2015		Increase (Decrease)	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue	Amount	Percent
Revenue:						
Products	$35,275	64.1 %	$34,990	68.9 %	$285	1%
Services	19,793	35.9	15,788	31.1	4,005	25%
Total revenue	$55,068	100.0 %	$50,778	100.0 %	$4,290	8%
Revenue by geographic region:						
United States	$24,297	44.1 %	$25,059	49.4 %	$(762)	(3)%
Japan	16,008	29.1	8,764	17.3	7,244	83%
Asia Pacific, excluding Japan	7,434	13.5	7,991	15.7	(557)	(7)%
EMEA	6,046	11.0	7,317	14.4	(1,271)	(17)%
Other	1,283	2.3	1,647	3.2	(364)	(22)%
Total revenue	$55,068	100.0 %	$50,778	100.0 %	$4,290	8%

	Nine Months Ended September 30,					
	2016		2015		Increase (Decrease)	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue	Amount	Percent
Revenue:						
Products	$110,446	66.5 %	$98,837	69.4 %	$11,609	12%
Services	55,556	33.5	43,494	30.6	12,062	28%
Total revenue	$166,002	100.0 %	$142,331	100.0 %	$23,671	17%
Revenue by geographic location:						
United States	$85,242	51.4 %	$75,365	53.0 %	$9,877	13%
Japan	37,846	22.8	24,222	17.0	13,624	56%
Asia Pacific, excluding Japan	21,911	13.2	18,122	12.7	3,789	21%
EMEA	16,973	10.2	20,372	14.3	(3,399)	(17)%
Other	4,030	2.4	4,250	3.0	(220)	(5)%
Total revenue	$166,002	100.0 %	$142,331	100.0 %	$23,671	17%

Total revenue increased by $4.3 million, or 8%, during the third quarter of 2016 as compared to the same period of 2015. This increase was comprised of a $0.3 million increase in products revenue and a $4.0 million increase in services revenue. Total revenue increased primarily due to higher revenue from enterprise and service provider customers by 3% and 17%, respectively, during the third quarter of 2016 as compared to the same period of 2015.

Total revenue increased by $23.7 million, or 17%, during the first nine months of 2016 as compared to the same period of 2015. This increase was comprised of an $11.6 million increase in products revenue and a $12.1 million increase in services revenue. Revenue from enterprise and service provider customers increased 15% and 19%, respectively, during the first nine months of 2016 as compared to the same period of 2015.

Products revenue increased by $0.3 million, or 1%, during the third quarter of 2016 as compared to the same period of 2015 as the products revenue increase from Japan was partially offset by the products revenue decrease from the United States, Asia Pacific excluding Japan and EMEA. Products revenue increased by $11.6 million, or 12%, during the first nine months of 2016 as compared to the same period of 2015. The increase was primarily attributable to the products revenue increase from Japan, the United States and Asia Pacific excluding Japan, partially offset by the products revenue decrease from EMEA.

Services revenue increased by $4.0 million, or 25%, and $12.1 million, or 28%, during the third quarter and the first nine months of 2016 as compared to the same periods of 2015. The services revenue increase during the third quarter and the first nine months of 2016 was primarily due to the increase in PCS sales in connection with our increasing installed customer base as well as an increase in our professional services revenue. During the first nine months of 2016, services revenue recognized from our installed customer base with contracts existing prior to 2016 grew by 31% as compared to the same period of 2015.

During the third quarter of 2016, $24.3 million, or 44%, of total revenue was generated from the United States, which represents a 3% decrease as compared to the same period of 2015. The decrease was primarily due to lower products revenue, partially offset by higher services revenue. During the first nine months of 2016, $85.2 million, or 51%, of total revenue was generated from the United States, which represents a 13% increase as compared to the same period of 2015. The increase was primarily due to higher products revenue as well as higher PCS sales in connection with our increased installed customer base.

During the third quarter of 2016, $16.0 million, or 29%, of total revenue was generated from Japan, which represents an 83% increase as compared to the same period of 2015. During the first nine months of 2016, $37.8 million, or 23%, of total revenue was generated from Japan, which represents a 56% increase as compared to the same period of 2015. The increase during both periods was primarily due to higher products revenue from service provider customers. In addition, the favorable currency exchange impact of the Japanese Yen on the revenue was $2.2 million and $3.5 million for the third quarter and the first nine months of 2016, respectively.

During the third quarter of 2016, $7.4 million, or 13% of total revenue was generated from the Asia Pacific regions excluding Japan, which represents a 7% decrease as compared to the same period of 2015. The decrease was primarily due to lower products revenue, partially offset by higher services revenue. During the first nine months of 2016, $21.9 million, or 13%, of total revenue was generated from the Asia Pacific regions excluding Japan, which represents a 21% increase as compared to the same period of 2015. The increase was primarily due to higher products revenue resulting from our continuous efforts in expanding our presence in these regions as well as higher PCS sales in connection with our increased installed customer base.

During the third quarter of 2016, $6.0 million, or 11%, of total revenue was generated from EMEA, which represents a 17% decrease as compared to the same period of 2015. During the first nine months of 2016, $17.0 million, or 10%, of total revenue was generated from EMEA, which represents a 17% decrease as compared to the same period of 2015. The decrease during both periods was primarily due to lower products revenue as a result of overall economic weakness in the EMEA markets, partially offset by an increase in services revenue.

Cost of Revenue, Gross Profit and Gross Margin

Cost of revenue

Cost of products revenue is primarily comprised of cost of third-party manufacturing services and cost of component inventory for the hardware component of our products. It also includes warehouse personnel costs, shipping costs, inventory write-downs, certain allocated facilities and information technology infrastructure costs, and expenses associated with logistics and quality control.

Cost of services revenue is primarily comprised of personnel costs for our technical support, training and professional service teams. Cost of services revenue also includes the costs of inventory used to provide hardware replacements to end- customers under PCS contracts and certain allocated facilities and information technology infrastructure costs.

26

A summary of our cost of revenue for the three and nine months ended September 30, 2016 and 2015 is as follows (dollars in thousands):

	Three Months Ended September 30,		Increase (Decrease)	
	2016	2015	Amount	Percent
Cost of revenue:				
Products	$8,795	$8,529	$266	3%
Services	4,153	4,186	(33)	(1)%
Total cost of revenue	$12,948	$12,715	$233	2%

	Nine Months Ended September 30,		Increase (Decrease)	
	2016	2015	Amount	Percent
Cost of revenue:				
Products	$27,297	$23,501	$3,796	16%
Services	13,087	11,601	1,486	13%
Total cost of revenue	$40,384	$35,102	$5,282	15%

Gross Margin

Gross margin may vary and be unpredictable from period to period due to a variety of factors. These may include the mix of revenue from each of our regions, the mix of our products sold within a period, discounts provided to customers, inventory write-downs and foreign currency exchange rates.

Our sales are generally denominated in U.S. dollars, however, in Japan they are denominated in Japanese yen. Changes in the exchange rates between the U.S. dollar and Japanese yen will therefore affect our revenue and gross margin. Any of the factors noted above can generate either a favorable or unfavorable impact on gross margin.

A summary of gross profit and gross margin is as follows (dollars in thousands):

	Three Months Ended September 30,					
	2016		2015		Increase (Decrease)	
	Amount	Gross Margin	Amount	Gross Margin	Amount	Gross Margin
Gross profit:						
Products	$26,480	75.1%	$26,461	75.6%	$19	(0.5)%
Services	15,640	79.0%	11,602	73.5%	4,038	5.5%
Total gross profit	$42,120	76.5%	$38,063	75.0%	$4,057	1.5%

	Nine Months Ended September 30,					
	2016		2015		Increase (Decrease)	
	Amount	Gross Margin	Amount	Gross Margin	Amount	Gross Margin
Gross profit:						
Products	$83,149	75.3%	$75,336	76.2%	$7,813	(0.9)%
Services	42,469	76.4%	31,893	73.3%	10,576	3.1%
Total gross profit	$125,618	75.7%	$107,229	75.3%	$18,389	0.4%

Products gross margin remained relatively unchanged during the third quarter and the first nine months of 2016 as compared to the same periods of 2015.

Services gross margins increased by 5.5% and 3.1% during the third quarter and the first nine months of 2016 as compared to the same periods of 2015 primarily due to higher services revenue while the personnel costs related to support, professional services and maintenance increased only modestly during both periods.

Operating Expenses

Our operating expenses consist of sales and marketing, research and development, general and administrative and litigation expenses. The largest component of our operating expenses is personnel costs which consist of wages, benefits, bonuses, and, with respect to sales and marketing expenses, sales commissions. Personnel costs also include stock-based compensation. We expect our personnel costs to increase as our business continues to grow and we hire new employees.

A summary of our operating expenses is as follows (dollars in thousands):

	Three Months Ended September 30,		Increase (Decrease)	
	2016	2015	Amount	Percent
Operating expenses:				
Sales and marketing	$24,331	$25,774	$(1,443)	(6)%
Research and development	15,968	13,562	2,406	18%
General and administrative	6,305	6,892	(587)	(9)%
Litigation and settlement expense	66	469	(403)	(86)%
Total operating expenses	$46,670	$46,697	$(27)	—%

	Nine Months Ended September 30,		Increase	
	2016	2015	Amount	Percent
Operating expenses:				
Sales and marketing	$77,872	$75,258	$2,614	3%
Research and development	45,231	41,542	3,689	9%
General and administrative	20,196	20,122	74	—%
Litigation and settlement expense	2,059	1,939	120	6%
Total operating expenses	$145,358	$138,861	$6,497	5%

Sales and Marketing

Sales and marketing expenses are our largest functional category of total operating expenses and primarily consist of personnel costs. Sales and marketing expenses also include the cost of marketing programs, trade shows, consulting services, promotional materials, demonstration equipment, depreciation and certain allocated facilities and information technology infrastructure costs.

Sales and marketing expenses decreased by $1.4 million, or 6%, during the third quarter of 2016 as compared to the same period of 2015. The decrease was primarily due to a $0.7 million decrease in personnel costs mainly as a result of lower sales commissions, a $0.5 million decrease in travel and entertainment expense and a $0.2 million decrease in depreciation expense.

Sales and marketing expenses increased by $2.6 million, or 3%, during the first nine months of 2016 as compared to the same period of 2015. The increase was primarily due to a $4.1 million increase in personnel costs as a result of higher salaries and sales commissions, partially offset by a $0.8 million decrease in depreciation expense and a $0.6 million decrease in travel and entertainment expense.

We expect our sales and marketing expenses to increase in the future as we expand our sales presence in existing countries and into new countries.

Research and Development

Research and development efforts are focused on new product development and on developing additional functionality for our existing products. These expenses primarily consist of personnel costs, and, to a lesser extent, prototype materials, depreciation and certain allocated facilities and information technology infrastructure costs. We expense research and development costs as incurred.

Research and development expense increased by $2.4 million, or 18%, during the third quarter of 2016 as compared to the same period of 2015. This increase was primarily due to a $1.7 million increase in personnel costs mainly due to the impact of higher headcount from the acquisition of Appcito, a $0.3 million increase in depreciation and a $0.3 million increase in professional services.

Research and development expense increased by $3.7 million, or 9%, during the first nine months of 2016 as compared to the same period of 2015. This increase was primarily due to a $3.1 million increase in personnel costs mainly due to the impact of higher headcount from the acquisition of Appcito and a $0.5 million increase in professional services.

We expect our research and development expenses to increase in the future as we continue to develop new products and enhance our existing products.

General and Administrative

General and administrative expenses primarily consist of personnel costs, professional services and office expenses. General and administrative personnel costs include executive, finance, human resources, information technology, facility and legal (excluding litigation) related expenses. Professional services primarily consist of fees for outside accounting, tax, legal, recruiting and other administrative services.

General and administrative expenses decreased by $0.6 million, or 9%, during the third quarter of 2016 as compared to the same period of 2015. This decrease was primarily due to a $0.9 million decrease in professional services as a result of lower contractor and consultant headcount and lower legal fees and a $0.5 million decrease in bad debt expense, partially offset by a $0.5 million increase in personnel costs.

General and administrative expenses remained relatively unchanged during the first nine months of 2016 as compared to the same period of 2015 as a $2.3 million increase in personnel costs was partially offset by a $2.1 million decrease in professional services and a $0.2 million decrease in depreciation expense.

We expect our general and administrative expenses to increase in the future.

Litigation and Settlement Expense

Litigation and settlement expense is comprised of legal expenses incurred related to litigation and, if applicable, charges for litigation reserves. Litigation expenses consist of professional fees incurred in defending ourselves against litigation matters and are expensed as incurred when professional services are provided. The litigation reserve, if any, consists of accruals we make related to estimated losses in pending legal proceedings. Litigation reserves, if any, are adjusted as we change our estimates or make payments in damages or settlements.

Litigation and settlement expense decreased by $0.4 million during the third quarter of 2016 as compared to the same period of 2015 primarily due to less litigation related activities following the settlement of the class action and the Derivative Action lawsuits in the first half of 2016.

Litigation expense increased by $0.1 million during the first nine months of 2016 compared to the same period of 2015 primarily due to litigation activity leading up to and relating to the settlement of the class action and the Derivative Action lawsuits during the first nine months of 2016.

Interest Income and Other Income (Expense), Net

Interest income and other income (expense), net, increased by $0.3 million during the third quarter of 2016 as compared to the same period of 2015 primarily due to an increase in interest income. Interest income and other income (expense), net, increased by $1.7 million during the first nine months of 2016 as compared to the same period of 2015 primarily due to a $0.8 million increase in foreign exchange gains and a $0.7 million increase in interest income. The increase in foreign

exchange gains was primarily due to the impact of favorable currency exchange rates of the Japanese yen against the U.S. dollar during the third quarter and the first nine months of 2016. The higher interest income was primarily attributable to increases in our investment in marketable securities.

Provision for Income Taxes

We recorded income tax expense of $0.3 million and $0.2 million during the third quarter of 2016 and 2015, respectively, and $0.6 million and $0.5 million during the first nine months of 2016 and 2015, respectively. The income tax expense primarily consists of foreign taxes and is accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in the financial statements and their respective tax bases using tax rates expected to be in effect during the years in which the basis differences reverse.

We currently maintain a valuation allowance on federal and state deferred tax assets, and we will continue to maintain a valuation allowance against all of our U.S. and certain foreign deferred tax assets until there is sufficient evidence to support the reversal of all or some portion of this allowance.

Liquidity and Capital Resources

As of September 30, 2016, we had cash and cash equivalents of $31.4 million, including $3.0 million held outside the United States in our foreign subsidiaries, and $85.4 million of marketable securities. We currently do not have any plans to repatriate our earnings from our foreign operations. As of September 30, 2016, we had working capital of $92.5 million, accumulated deficit of $241.0 million and total stockholders' equity of $82.6 million.

We plan to continue to invest for long-term growth and anticipate our investment will continue to increase. We believe that our existing cash and cash equivalents, marketable securities and other available financial resources will be sufficient to meet our anticipated cash needs for at least the next 12 months. Our future capital requirements will depend on many factors, including our growth rate, the expansion of sales and marketing activities, the timing and extent of spending to support development efforts, the introduction of new and enhanced product and service offerings and the continuing market acceptance of our products. In the event that additional financing is required from outside sources, we may not be able to raise such financing on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, operating results and financial condition could be adversely affected.

On October 27, 2016, we announced that our board of directors authorized a share repurchase program for up to $20.0 million of our common stock over the next 12 months. Under the repurchase authorization, shares may be purchased from time to time, subject to general business and market conditions and other investment opportunities, through open market purchases, privately negotiated transactions or other means. The repurchase authorization may be commenced, suspended or discontinued at any time at our discretion.

In addition, as described in Note 5. Commitments and Contingencies in our Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q, we are currently, or may be from time to time be, involved in ongoing litigation. Any adverse settlements or judgments in any litigation could have a material adverse impact on our results of operations, cash balances and cash flows in the period in which such events occur.

Credit Agreements

In September 2013, we entered into the 2013 Credit Facility with Royal Bank of Canada, acting as administrative agent and lender, and JPMorgan Chase Bank, N.A. and Bank of America, N.A. as lenders. The 2013 Credit Facility provided a three-year $35.0 million revolving credit facility, which included a maximum $10.0 million letter of credit facility. The 2013 Credit Facility expired on September 30, 2016.

In November 2016, we entered into the 2016 Credit Facility with SVB, as lender. The 2016 Credit Facility provides a three-year, $25.0 million revolving credit facility, which includes a maximum of $25.0 million letter of credit facility.

Our obligations under the 2016 Credit Facility are secured by substantially all of our assets, excluding our intellectual property. The 2016 Credit Facility contains customary affirmative and negative covenants, in each case subject to customary exceptions. In addition, the 2016 Credit Facility provides that we must maintain compliance with an adjusted quick ratio of not less than 1.50:1.00, as determined in accordance with the 2016 Credit Facility. Upon an event of default, SVB may declare the

outstanding obligations payable by us to be immediately due and payable, terminate the commitments and exercise other rights and remedies provided for under the 2016 Credit Facility. The events of default under the 2016 Credit Facility include, among others, payment defaults, covenant defaults, bankruptcy and insolvency defaults, judgment defaults, inaccuracy of representations and warranties, cross-defaults to other material indebtedness and defaults relating to government approvals. Through the date of this filing, we had no outstanding balance under the 2016 Credit Facility and were in compliance with all facility covenants.

Statements of Cash Flows

The following table summarizes our cash flow related activities (in thousands):

	Nine Months Ended September 30,	
	2016	2015
Cash provided by (used in):		
Operating activities	$21,839	$7,633
Investing activities	(95,617)	(2,558)
Financing activities	7,041	3,544
Net increase (decrease) in cash and cash equivalents	$(66,737)	$8,619

Cash Flows from Operating Activities

Our cash provided by operating activities is driven primarily by sales of our products, management of working capital investments and, to a lesser extent, by up-front payments from end-customers under PCS contracts. Our primary uses of cash from operating activities have been for personnel-related expenditures, manufacturing costs, marketing and promotional expenses, costs related to our facilities and litigation expenses. Our cash flows from operating activities will continue to be affected principally by the extent to which we increase spending on personnel and sales and marketing activities, our working capital requirements, and litigation expenses.

During the nine months ended September 30, 2016, cash provided by operating activities was $21.8 million, consisting of a net loss of $19.2 million, non-cash charges of $20.8 million and a $20.2 million cash increase resulting from changes in net operating assets and liabilities. Our non-cash charges consisted of $13.1 million of stock-based compensation expense, $5.9 million of depreciation and amortization expenses and $1.8 million of other non-cash items (primarily a provision for doubtful accounts and sales returns allowance). The changes in our net operating assets and liabilities primarily reflect an inflow from the changes in deferred revenue of $10.4 million, accounts receivable of $7.3 million, inventory of $2.3 million and accrued liabilities of $0.9 million, and an outflow from the change in accounts payable of $0.9 million.

The increase in deferred revenue was primarily due to increased PCS sales in connection with higher installed customer base. The decrease in accounts receivable was primarily due to improved cash collections. The decrease in inventory was primarily due to improved management of inventory balances and increased inventory reserves. The decrease in accounts payable was largely due to the timing of vendor invoice payments.

During the nine months ended September 30, 2015, cash provided by operating activities was $7.6 million, consisting of a net loss of $32.7 million, non-cash charges of $21.6 million and an $18.7 million cash increase resulting from changes in net operating assets and liabilities. Our non-cash charges consisted of $13.2 million of stock-based compensation, $6.8 million of depreciation and amortization expenses and $1.6 million of other non-cash items (primarily a provision for doubtful accounts and sales returns allowance). The changes in our net operating assets and liabilities primarily reflect an inflow from the changes in accounts receivable of $11.2 million, deferred revenue of $9.1 million, inventory of $0.9 million, and an outflow from the aggregate change in accounts payable and accrued

liabilities of $2.6 million.

The decrease in accounts receivable was primarily due to improved cash collection in 2015 and the timing of billing, as a higher portion of the December 31, 2014 outstanding accounts receivable were billed during the latter part of the quarter compared to the September 30, 2015 outstanding accounts receivable. The increase in deferred revenue was due to timing of billings of support contracts, the increase in PCS sales in connection with our increasing installed customer base and an increase in deferred professional services revenue. The decrease in inventory was primarily due to increased consumption of existing inventory. The decreases in accounts payable and accrued liabilities were primarily attributable to a decrease in accrued compensation costs largely due to the payment of accrued commissions and bonuses and the timing of vendor invoice payments.

Cash Flows from Investing Activities

During the nine months ended September 30, 2016, cash used in investing activities was $95.6 million, primarily consisting of $85.5 million of net purchases of marketable securities, $4.4 million for payment for the acquisition of Appcito Inc., $4.3 million for purchases of property and equipment and $1.5 million for purchase of intangible assets.

During the nine months ended September 30, 2015, cash used in investing activities was $2.6 million, primarily for purchases of property and equipment.

Cash Flows from Financing Activities

During the nine months ended September 30, 2016 and 2015, cash provided by financing activities was $7.0 million and $3.5 million, respectively, primarily consisting of proceeds from common stock issuance under our employee stock purchase plan and the exercise of stock options.

Contractual Obligations

As of September 30, 2016, our contractual obligations consist of capital leases, operating leases, purchase commitments, and other contractual obligations. There have been no material changes to these obligations outside the ordinary course of business during the nine months ended September 30, 2016 compared to the contractual obligations disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the year ended December 31, 2015.

Off-Balance Sheet Arrangements

As of September 30, 2016, we did not have any relationships with any unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Critical Accounting Policies and Estimates

Our Condensed Consolidated Financial Statements are prepared in accordance with U.S. GAAP. The preparation of these Condensed Consolidated Financial Statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

The following are changes to our critical accounting policies as reported in our Annual Report on Form 10-K for the year ended December 31, 2015.

Goodwill

Goodwill represents the excess of the purchase price of an acquired business over the fair value of the underlying net tangible and intangible assets. We review goodwill for possible impairment annually in the fourth quarter or whenever events or changes in circumstances indicate its carrying amount may not be recoverable. Triggering events that may indicate impairment include, but are not limited to, a significant adverse change in customer demand or a severe deterioration in our operating environment and market conditions. These changes could affect the value of goodwill or a significant decrease in expected cash flows. We perform the impairment testing by first assessing qualitative factors

to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of our reporting unit is less than our carrying amount. If we determine it is more likely than not that the fair value of a reporting unit is less than our carrying amount, we perform a two-step impairment test. The first step requires the identification of the reporting units and comparison of the fair value of a reporting unit with our carrying amount, including goodwill. If the fair value of the reporting unit is less than our carrying value, an indication of goodwill impairment exists for the reporting unit and the second step of the impairment test is performed to compute the amount of the impairment. Under the second step, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill.

Impairment of Long-Lived Assets

Intangible assets consist primarily of developed technology, patent and acquired customer relationships resulting from acquisitions. Intangible assets are recorded at fair value and are amortized on a straight-line basis over their estimated useful lives, which ranges from five to ten years.

We review long-lived assets, including intangible assets, for impairment periodically or whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Triggering events that may indicate impairment include, but are not limited to, significant under performance relative to estimated results, significant changes in the manner of our use of the acquired assets or the strategy for our overall business and significant negative industry or economic trends. We determine the recoverability of intangible assets based on estimated undiscounted future cash flows resulting from the use of the asset and its eventual disposition. If intangible assets are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds the assets fair market value.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Risk

Our consolidated results of operations, financial position and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. Historically, the majority of our revenue contracts are denominated in U.S. dollars, with the most significant exception being Japan where we invoice primarily in Japanese yen. Our costs and expenses are generally denominated in the currencies where our operations are located, which is primarily in North America, Japan and to a lesser extent EMEA and the Asia Pacific region. As of September 30, 2016, we have not entered into any hedging arrangements with respect to foreign currency risk or other derivative instruments. Revenue resulting from selling in local currencies and costs and expenses incurred in local currencies are exposed to foreign currency exchange rate fluctuations which can affect our revenue and operating income. As exchange rates vary, operating income may differ from expectations.

The functional currency of our foreign subsidiaries is the U.S. dollar. At the end of each reporting period, monetary assets and liabilities are remeasured to the functional currency using exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are remeasured at historical exchange rates. Gains and losses related to remeasurement are recorded in interest income and other income (expense), net in the Condensed Consolidated Statements of Operations. A significant fluctuation in the exchange rates between our subsidiaries' local currencies, especially the Japanese yen and the Euro, and the U.S. dollar could have an adverse impact on our consolidated financial position and results of operations.

We recorded a $0.9 million foreign exchange gain and a $0.3 million foreign exchange loss during the nine months ended September 30, 2016 and 2015, respectively. The effect of a hypothetical 10% change in our exchange rate would not have a significant impact on our consolidated results of operations.

Interest Rate Sensitivity

We had cash, cash equivalents and marketable securities of $116.8 million and $98.1 million as of September 30, 2016 and December 31, 2015, respectively, consisting of bank deposits, money market funds, certificates of deposit, corporate securities, commercial paper and asset-backed securities. Some of these securities earn interest and carry a degree of interest rate risk. To date, fluctuations in interest income have not been significant.

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

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures, as required by Rule 13a-15(b) under the Securities Exchange Act of

1934, as amended, or the Exchange Act, as of September 30, 2016. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including our Chief Executive Officer and Chief Financial Officer, as the principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

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

Based upon our management’s evaluation of our disclosure controls and procedures as of September 30, 2016, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We have been and may currently be involved in various legal proceedings, the outcomes of which are not within our complete control or may not be known for prolonged periods of time. Management is required to assess the probability of loss and amount of such loss, if any, in preparing our Condensed Consolidated Financial Statements. We evaluate the likelihood of a potential loss from legal proceedings to which we are a party. We record a liability for such claims when a loss is deemed probable and the amount can be reasonably estimated. Significant judgment may be required in the determination of both probability and whether an exposure is reasonably estimable. Our judgments are subjective based on the status of the legal proceedings, the merits of our defenses and consultation with in-house and outside legal counsel. As additional information becomes available, we reassess the potential liability related to pending claims and may revise our estimates. Due to the inherent uncertainties of the legal processes in the multiple jurisdictions in which we operate, our judgments may be materially different than the actual outcomes, which could have material adverse effects on our business, financial conditions and results of operations.

Additional information with respect to this Item may be found in Note 5. Commitments and Contingencies, in the Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q, which is incorporated into this Item 1 by reference.

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information contained in this report, and in our other public filings. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that affect us. If any of the following risks occur, our business, financial condition, operating results, and prospects could be materially harmed. In that event, the trading price of our common stock could decline, perhaps significantly.

If we do not successfully anticipate market needs and opportunities or if the market does not continue to adopt our application networking products, our business, financial condition and results of operations could be significantly harmed.

The application networking market is rapidly evolving and difficult to predict. Technologies, customer requirements, security threats and industry standards are constantly changing. As a result, we must anticipate future market needs and opportunities and then develop new products or enhancements to our current products that are designed to address those needs and opportunities, and we may not be successful in doing so.

Even if we are able to anticipate, develop and commercially introduce new products and enhancements that address the market’s needs and opportunities, there can be no assurance that new products or enhancements will achieve widespread market acceptance. For example, organizations that use other conventional or first-generation application networking products for their needs may believe that these products are sufficient. In addition, as we launch new product offerings, organizations may not believe that such new product offerings offer any additional benefits as compared to the existing application networking products that they currently use. Accordingly, organizations may continue allocating their IT budgets for existing application networking products and may not adopt our products, regardless of whether our products can offer superior performance or security.

If we fail to anticipate market needs and opportunities or if the market does not continue to adopt our application networking products, then market acceptance and sales of our current and future application networking products could be substantially decreased or delayed, we could lose customers, and our revenue may not grow or may decline.

Any of such events would significantly harm our business, financial condition and results of operations.

Our success depends on our timely development of new products and features to address rapid technological changes and evolving customer requirements. If we are unable to timely develop and successfully introduce new products and features that adequately address these changes and requirements, our business and operating results could be adversely affected.

Changes in application software technologies, data center and communications hardware, networking software and operating systems, and industry standards, as well as our end-customers' continuing business growth, result in evolving application networking needs and requirements. Our continued success depends on our ability to identify, develop and

introduce in a timely and successful manner new products and new features for our existing products that meet these needs and requirements.

Our future plans include significant investments in research and development and related product opportunities. Developing our products and related enhancements is time-consuming and expensive. We have made significant investments in our research and development team in order to address these product development needs. Our investments in research and development may not result in significant design and performance improvements or marketable products or features, or may result in products that are more expensive than anticipated. We may take longer to generate revenue, or generate less revenue, than we anticipate from our new products and product enhancements. We believe that we must continue to dedicate a significant amount of resources to our research and development efforts to maintain our competitive position.

If we are unable to develop new products and features to address technological changes and new customer requirements in the application networking market or if our investments in research and development do not yield the expected benefits in a timely manner, our business and operating results could be adversely affected.

We have experienced net losses in recent periods, anticipate increasing our operating expenses in the future and may not achieve or maintain profitability in the future. If we cannot achieve or maintain profitability, our financial performance will be harmed and our business may suffer.

We experienced net losses for the nine months ended September 30, 2016 and the years ended December 31, 2015 and 2014. Although we experienced revenue growth over these same periods and had achieved profitability in prior year periods, we may not be able to sustain or increase our revenue growth or achieve profitability in the future or on a consistent basis. During 2015 and 2014 and the first nine months of 2016, we have invested in our sales, marketing and research and development teams in order to develop, market and sell our products. We expect to continue to invest significantly in these areas in the future. As a result of these increased expenditures, we will have to generate and sustain increased revenue, manage our cost structure and avoid significant liabilities to achieve future profitability.

Revenue growth may slow or decline, and we may incur significant losses in the future for a number of possible reasons, including our inability to develop products that achieve market acceptance, general economic conditions, increasing competition, decreased growth in the markets in which we operate, or our failure for any reason to capitalize on growth opportunities. Additionally, we may encounter unforeseen operating expenses, difficulties, complications, delays and other unknown factors that may result in losses in future periods. If these losses exceed our expectations or our revenue growth expectations are not met in future periods, our financial performance will be harmed and our stock price could be volatile or decline.

Our operating results are likely to vary significantly from period to period and may be unpredictable, which could cause the trading price of our common stock to decline.

Our operating results, in particular, revenue, margins and operating expenses, have fluctuated in the past, and we expect this will continue, which makes it difficult for us to predict our future operating results. The timing and size of sales of our products are highly variable and difficult to predict and can result in significant fluctuations in our revenue from period to period. This is particularly true of sales to our largest end-customers, such as service providers, Web giants and governmental organizations, who typically make large and concentrated purchases and for whom close or sales cycles can be long, as a result of their complex networks and data centers, as well as requests that may be made for customized features. Our quarterly results may vary significantly based on when these large end-customers place orders with us and the content of their orders.

Our operating results may also fluctuate due to a number of other factors, many of which are outside of our control and may be difficult to predict. In addition to other risks listed in this "Risk Factors" section, factors that may affect our operating results include:

- fluctuations in and timing of purchases from, or loss of, large customers;
- the budgeting cycles and purchasing practices of end-customers;
- our ability to attract and retain new end-customers;
- changes in demand for our products and services, including seasonal variations in customer spending patterns or cyclical fluctuations in our markets;

- our reliance on shipments at the end of our quarters;
- variations in product mix or geographic locations of our sales, which can affect the revenue we realize for those sales;
- the timing and success of new product and service introductions by us or our competitors;
- our ability to increase the size of our distribution channel and to maintain relationships with important distribution channel partners;
- our ability to improve our overall sales productivity, and successfully execute our marketing strategies;
- the effect of currency exchange rates on our revenue and expenses;
- the cost and potential outcomes of existing and future litigation;
- the effect of discounts negotiated by our largest end-customers for sales or pricing pressure from our competitors;
- changes in the growth rate of the application networking market or changes in market needs;
- inventory write downs, which may be necessary for our older products when our new products are launched and adopted by our end-customers; and
- our third-party manufacturers' and component suppliers' capacity to meet our product demand forecasts on a timely basis, or at all.

Any one of the factors above or the cumulative effect of some of these factors may result in significant fluctuations in our financial and other operating results. This variability and unpredictability could result in our failure to meet our or our investors' or securities analysts' revenue, margin or other operating results expectations for a particular period, resulting in a decline in the trading price of our common stock.

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

As a result of end-customer buying patterns and the efforts of our sales force and distribution channel partners to meet or exceed their sales objectives, we have historically received a substantial portion of purchase orders and generated a substantial portion of revenue during the last few weeks of each quarter. We can recognize such revenue in the quarter received, however, only if all of the requirements of revenue recognition, especially shipment, are met by the end of the quarter. In addition, any significant interruption in our information technology systems, which manage critical functions such as order processing, revenue recognition, financial forecasts, inventory and supply chain management, could result in delayed order fulfillment and thus decreased revenue for that quarter. If expected revenue at the end of any quarter is delayed for any reason, including the failure of anticipated purchase orders to materialize (including delays by our customers or potential customers in consummating such purchase orders), our third-party manufacturers' inability to manufacture and ship products prior to quarter-end to fulfill purchase orders received near the end of the quarter, our failure to manage inventory to meet demand, our inability to release new products on schedule, any failure of our systems related to order review and processing, or any delays in shipments or achieving specified acceptance criteria, our revenue for that quarter could fall below our, or our investors' or securities analysts' expectations, resulting in a decline in the trading price of our common stock. We have experienced such delays in revenue in the past, including the quarter ended September 30, 2016.

We face intense competition in our market, especially from larger, well-established companies, and we may lack sufficient financial or other resources to maintain or improve our competitive position.

The application networking market is intensely competitive, and we expect competition to increase in the future. To the extent that we sell our solutions in adjacent markets, we expect to face intense competition in those markets as well. We believe that our main competitors fall into four categories:

- Companies that sell products in the traditional ADC market which includes companies that are well established in this market, such as F5 Networks, Inc., and Citrix Systems, Inc.

- Companies that sell CGN products, products originally designed for other networking purposes, such as edge routers and security appliances from vendors such as Alcatel-Lucent USA Inc., Cisco Systems, Inc. and Juniper Networks, Inc.

- Companies that sell traditional DDoS mitigation products. We are a relatively new entrant into the DDoS market and first publicly launched our DDoS protection detection, and mitigation solution, TPS, in January 2014. We believe our principal competitors in this market are Arbor Networks, Inc., a subsidiary of NetScout Systems, Inc., and Radware, Ltd.

- Companies that sell certain network security products, including Secure Web Gateways, Secured Socket Layer (SSL) Insight/SSL Intercept, datacenter firewalls, and Gi/SGi firewalls. We are a new entrant into most of these network security markets and first publicly announced this network security solution, CFW, in our fourth quarter of 2015, which was available for shipping in the first quarter of 2016. We believe our principal competitors in these markets are Blue Coat Systems, Juniper Networks, F5 Networks, and Fortinet.

Many of our competitors are substantially larger and have greater financial, technical, research and development, sales and marketing, manufacturing, distribution and other resources and greater name recognition. In addition, some of our larger competitors have broader products offerings and could leverage their customer relationships based on their other products. Potential customers who have purchased products from our competitors in the past may also prefer to continue to purchase from these competitors rather than change to a new supplier regardless of the performance, price or features of the respective products. We could also face competition from new market entrants, which may include our current technology partners. As we continue to expand globally, we may also see new competitors in different geographic regions. Such current and potential competitors may also establish cooperative relationships among themselves or with third parties that may further enhance their resources.

Many of our existing and potential competitors enjoy substantial competitive advantages, such as:

- longer operating histories;

- the capacity to leverage their sales efforts and marketing expenditures across a broader portfolio of products and services at a greater range of prices;

- the ability to incorporate functionality into existing products to gain business in a manner that discourages users from purchasing our products, including through selling at zero or negative margins, product bundling or closed technology platforms;

- broader distribution and established relationships with distribution channel partners in a greater number of worldwide locations;

- access to larger end-customer bases;

- the ability to use their greater financial resources to attract our research and development engineers as well as other employees of ours;

- larger intellectual property portfolios; and

- the ability to bundle competitive offerings with other products and services.

Our ability to compete will depend upon our ability to provide a better solution than our competitors at a competitive price. We may be required to make substantial additional investments in research and development, marketing and sales in order to respond to competition, and there is no assurance that these investments will achieve any returns for us or that we will be able to compete successfully in the future. We also expect increased competition if our market continues to expand. Moreover, conditions in our market could change rapidly and significantly as a result of technological advancements or other factors.

In addition, current or potential competitors may be acquired by third parties that have greater resources available. As a result of these acquisitions, our current or potential competitors might take advantage of the greater resources of the larger organization to compete more vigorously or broadly with us. In addition, continued industry consolidation might adversely

impact end-customers' perceptions of the viability of smaller and even medium-sized networking companies and, consequently, end-customers' willingness to purchase from companies like us.

As a result, increased competition could lead to fewer end-customer orders, price reductions, reduced margins and loss of market share.

If we are unable to attract new end-customers, sell additional products to our existing end-customers or achieve the anticipated benefits from our investment in additional sales personnel and resources, our revenue may decline, and our gross margin will be adversely affected.

To maintain and increase our revenue, we must continually add new end-customers and sell additional products to existing end-customers. The rate at which new and existing end-customers purchase solutions depends on a number of factors, including some outside of our control, such as general economic conditions. If our efforts to sell our solutions to new end-customers and additional solutions to our existing end-customers are not successful, our business and operating results will suffer.

In recent periods, we have been adding personnel and other resources to our sales and marketing functions, as we focus on growing our business, entering new markets and increasing our market share. We expect to incur significant additional expenses by hiring additional sales personnel and expanding our international operations in order to seek revenue growth. The return on these and future investments may be lower, or may be realized more slowly, than we expect, if realized at all. If we do not achieve the benefits anticipated from these investments, or if the achievement of these benefits is delayed, our growth rates will decline, and our gross margin would likely be adversely affected.

If we are not able to maintain and enhance our brand and reputation, our business and operating results may be harmed in tangible or intangible ways.

We believe that maintaining and enhancing our brand and reputation are critical to our relationships with, and our ability to attract, new end-customers, technology partners and employees. The successful promotion of our brand will depend largely upon our ability to continue to develop, offer and maintain high-quality products and services, our marketing and public relations efforts, and our ability to differentiate our products and services successfully from those of our competitors. Our brand promotion activities may not be successful and may not yield increased revenue. In addition, extension of our brand to products and uses different from our traditional products and services may dilute our brand, particularly if we fail to maintain the quality of products and services in these new areas. We have in the past, and may in the future, become involved in litigation that could negatively affect our brand. If we do not successfully maintain and enhance our brand and reputation, our growth rate may decline, we may have reduced pricing power relative to competitors with stronger brands or reputations, and we could lose end-customers or technology partners, all of which would harm our business, operating results and financial condition.

A limited number of our end-customers, including service providers, make large and concentrated purchases that comprise a significant portion of our revenue. Any loss or delay of expected purchases by our largest end-customers could adversely affect our operating results.

As a result of the nature of our target market and the current stage of our development, a substantial portion of our revenue in any period comes from a limited number of large end-customers, including service providers. During the nine months ended September 30, 2016 and the years ended December 31, 2015 and 2014, purchases from our ten largest end-customers accounted for approximately 38%, 33% and 37% of our total revenue. The composition of the group of these ten largest end-customers changes from period to period, but often includes service providers, who accounted for approximately 43%, 45%, and 46% of our total revenue during the nine months ended September 30, 2016 and the years ended December 31, 2015 and 2014.

Sales to these large end-customers have typically been characterized by large but irregular purchases with long initial sales cycles. After initial deployment, subsequent purchases of our products typically have a more compressed sales cycle. The timing of these purchases and of the requested delivery of the purchased product is difficult to predict. As a consequence, any acceleration or delay in anticipated product purchases by or requested deliveries to our largest end-customers could materially affect our revenue and operating results in any quarter and cause our quarterly revenue and operating results to fluctuate from quarter to quarter.

We cannot provide any assurance that we will be able to sustain or increase our revenue from our largest end-customers nor that we will be able to offset any absence of significant purchases by our largest end-customers in any particular period with purchases by new or existing end-customers in that or a subsequent period. We expect that sales of our products to a

limited number of end-customers will continue to contribute materially to our revenue for the foreseeable future. The loss of, or a significant delay or reduction in purchases by, a small number of end-customers could have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Some of our large end-customers demand favorable terms and conditions from their vendors and may request price or other concessions from us. As we seek to sell more products to these end-customers, we may agree to terms and conditions that may have an adverse effect on our business.

Some of our large end-customers have significant purchasing power and, accordingly, may request from us and received more favorable terms and conditions, including lower prices than we typically provide. As we seek to sell products to this class of end-customer, we may agree to these terms and conditions, which may include terms that reduce our gross margin and have an adverse effect on our business.

Our gross margin may fluctuate from period to period based on the mix of products sold, the geographic location of our customers, price discounts offered, required inventory write downs and current exchange rate fluctuations.

Our gross margin may fluctuate from period to period in response to a number of factors, such as the mix of our products sold and the geographic locations of our sales. Our products tend to have varying gross margins in different geographic regions. We also may offer pricing discounts from time to time as part of a targeted sales campaign or as a result of pricing pressure from our competitors. In addition, our larger end-customers may negotiate pricing discounts in connection with large orders they place with us. The sale of our products at discounted prices could have a negative impact on our gross margin. We also must manage our inventory of existing products when we introduce new products.

If we are unable to sell the remaining inventory of our older products prior to or following the launch of such new product offerings, we may be forced to write down inventory for such older products, which could also negatively affect our gross margin. Our gross margin may also vary based on international currency exchange rates. In general, our sales are denominated in U.S. dollars; however, in Japan they are denominated in Japanese yen. Changes in the exchange rate between the U.S. dollar and the Japanese yen may therefore affect our actual revenue and gross margin.

We have been, may presently be, or in the future may be, a party to litigation and claims regarding intellectual property rights, resolution of which has been and may in the future be time-consuming, expensive and adverse to us, as well as require a significant amount of resources to prosecute, defend, or make our products non-infringing.

Our industry is characterized by the existence of a large number of patents and by increasingly frequent claims and related litigation based on allegations of infringement or other violations of patent and other intellectual property rights. In the ordinary course of our business, we have been and may presently be in disputes and licensing discussions with others regarding their patents and other claimed intellectual property and proprietary rights. Intellectual property infringement and misappropriation lawsuits and other claims are subject to inherent uncertainties due to the complexity of the technical and legal issues involved, and we cannot be certain that we will be successful in defending ourselves against such claims or in concluding licenses on reasonable terms or at all.

We may have fewer issued patents than some of our major competitors, and therefore may not be able to utilize our patent portfolio effectively to assert defenses or counterclaims in response to patent infringement claims or litigation brought against us by third parties. Further, litigation may involve patent holding companies or other adverse patent owners that have no relevant products revenue and against which our potential patents may provide little or no deterrence. In addition, many potential litigants have the capability to dedicate substantially greater resources than we can to enforce their intellectual property rights and to defend claims that may be brought against them. We expect that infringement claims may increase as the numbers of product types and the number of competitors in our market increases. Also, to the extent we gain greater visibility, market exposure and competitive success, we face a higher

risk of being the subject of intellectual property infringement claims.

If we are found in the future to infringe the proprietary rights of others, or if we otherwise settle such claims, we could be compelled to pay damages or royalties and either obtain a license to those intellectual property rights or alter our products such that they no longer infringe. Any license could be very expensive to obtain or may not be available at all. Similarly, changing our products or processes to avoid infringing the rights of others may be costly, time-consuming or impractical. Alternatively, we could also become subject to an injunction or other court order that could prevent us from offering our products. Any of these claims, regardless of their merit, may be time-consuming, result in costly litigation and diversion of technical and management personnel, or require us to cease using infringing technology, develop non-infringing technology or enter into royalty or licensing agreements.

Many of our commercial agreements require us to indemnify our end-customers, distributors and resellers for certain third-party intellectual property infringement actions related to our technology, which may require us to defend or otherwise become involved in such infringement claims, and we could incur liabilities in excess of the amounts we have received for the relevant products and/or services from our end-customers, distributors or resellers. These types of claims could harm our relationships with our end-customers, distributors and resellers, may deter future end-customers from purchasing our products or could expose us to litigation for these claims. Even if we are not a party to any litigation between an end-customer, distributor or reseller, on the one hand, and a third party, on the other hand, an adverse outcome in any such litigation could make it more difficult for us to defend our intellectual property rights in any subsequent litigation in which we are a named party.

We may not be able to adequately protect our intellectual property, and if we are unable to do so, our competitive position could be harmed, or we could be required to incur significant expenses to enforce our rights.

We rely on a combination of patent, copyright, trademark and trade secret laws, and contractual restrictions on disclosure of confidential and proprietary information, to protect our intellectual property. Despite the efforts we take to protect our intellectual property and other proprietary rights, these efforts may not be sufficient or effective at preventing their unauthorized use. In addition, effective trademark, patent, copyright and trade secret protection may not be available or cost-effective in every country in which we have rights. There may be instances where we are not able to protect intellectual property or other proprietary rights in a manner that maximizes competitive advantage. If we are unable to protect our intellectual property and other proprietary rights from unauthorized use, the value of those assets may be reduced, which could negatively impact our business.

We also rely in part on confidentiality and/or assignment agreements with our technology partners, employees, consultants, advisors and others. These protections and agreements may not effectively prevent disclosure of our confidential information and may not provide an adequate remedy in the event of unauthorized disclosure. In addition, others may independently discover our trade secrets and intellectual property information we thought to be proprietary, and in these cases we would not be able to assert any trade secret rights against those parties. Despite our efforts to protect our intellectual property, unauthorized parties may attempt to copy or otherwise obtain and use our intellectual property or technology. Monitoring unauthorized use of our intellectual property is difficult and expensive. We have not made such monitoring a priority to date and will not likely make this a priority in the future. We cannot be certain that the steps we have taken or will take will prevent misappropriation of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States.

If we fail to protect our intellectual property adequately, our competitors might gain access to our technology, and our business might be harmed. In addition, even if we protect our intellectual property, we may need to license it to competitors, which could also be harmful. For example, we have already licensed all of our issued patents, pending applications, and future patents and patent applications that we may acquire, obtain, apply for or have a right to license to Brocade until May 2025, for the life of each such patent. In addition, we might incur significant expenses in defending our intellectual property rights. Any of our patents, copyrights, trademarks or other intellectual property rights could be challenged by others or invalidated through administrative process or litigation.

We may in the future initiate claims or litigation against third parties for infringement of our proprietary rights or to establish the validity of our proprietary rights. Any litigation, whether or not resolved in our favor, could result in significant expense to us and divert the efforts of our management and technical personnel, as well as cause other claims to be made against us, which might adversely affect our business, operating results and financial condition.

We generate a significant amount of revenue from sales to distributors, resellers, and end-customers outside of the United States, and we are therefore subject to a number of risks that could adversely affect these international sources of our revenue.

A significant portion of our revenue is generated in international markets, including Japan, Western Europe, China, Taiwan and South Korea. During the nine months ended September 30, 2016 and the years ended December 31, 2015 and 2014, approximately 49%, 46% and 52% of our total revenue was generated from customers located outside of the United States. If we are unable to maintain or continue to grow our revenue in these markets, our financial results may suffer.

As a result, we must hire and train experienced personnel to staff and manage our foreign operations. To the extent that we experience difficulties in recruiting, training, managing and retaining an international staff, and specifically sales management and sales personnel, we may experience difficulties in sales productivity in foreign markets. We also seek to enter

into distributor and reseller relationships with companies in certain international markets where we do not have a local presence. If we are not able to maintain successful distributor relationships internationally or recruit additional companies to enter into distributor relationships, our future success in these international markets could be limited. Business practices in the international markets that we serve may differ from those in the United States and may require us in the future to include terms in customer contracts other than our standard terms. To the extent that we may enter into customer contracts in the future that include non-standard terms, our operating results may be adversely impacted.

We have a significant presence in international markets and plan to continue to expand our international operations, which exposes us to a number of risks that could affect our future growth.

Our sales team is comprised of field sales and inside sales personnel who are organized by geography and maintain sales presence in 28 countries, including in the following countries and regions: United States, Western Europe, Japan, China, Taiwan and South Korea. We expect to continue to increase our sales headcount in all markets, particularly in markets where we currently do not have a sales presence. As we continue to expand our international sales and operations, we are subject to a number of risks, including the following:

- greater difficulty in enforcing contracts and accounts receivable collection and longer collection periods;
- increased expenses incurred in establishing and maintaining office space and equipment for our international operations;
- greater difficulty in recruiting local experienced personnel, and the costs and expenses associated with such activities;
- general economic and political conditions in these foreign markets;
- economic uncertainty around the world, including continued economic uncertainty as a result of sovereign debt issues in Europe and the United Kingdom's decision to exit the European Union (commonly referred to as "Brexit");
- management communication and integration problems resulting from cultural and geographic dispersion;
- risks associated with trade restrictions and foreign legal requirements, including the importation, certification, and localization of our products required in foreign countries;
- greater risk of unexpected changes in regulatory practices, tariffs, and tax laws and treaties;
- the uncertainty of protection for intellectual property rights in some countries;
- greater risk of a failure of foreign employees to comply with both U.S. and foreign laws, including antitrust regulations, the U.S. Foreign Corrupt Practices Act, or FCPA, and any trade regulations ensuring fair trade practices; and
- heightened risk of unfair or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements that may impact financial results and result in restatements of, or irregularities in, financial statements.

Because of our worldwide operations, we are also subject to risks associated with compliance with applicable anticorruption laws. One such applicable anticorruption law is the FCPA, which generally prohibits U.S. companies and their employees and intermediaries from making payments to foreign officials for the purpose of obtaining or keeping business, securing an advantage, or directing business to another, and requires public companies to maintain

accurate books and records and a system of internal accounting controls. Under the FCPA, U.S. companies may be held liable for actions taken by directors, officers, employees, agents, or other strategic or local partners or representatives. As such, if we or our intermediaries, such as channel partners and distributors, fail to comply with the requirements of the FCPA or similar legislation, governmental authorities in the United States and elsewhere could seek to impose civil and/or criminal fines and penalties which could have a material adverse effect on our business, operating results and financial condition.

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

Our consolidated results of operations, financial position and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. Historically, the majority of our revenue contracts are denominated in U.S. dollars, with the most significant exception being Japan, where we invoice primarily in the Japanese yen. Our expenses are generally denominated in the currencies in which our operations are located, which is primarily in North America and Japan. Revenue resulting from selling in local currencies and costs incurred in local currencies are exposed to foreign currency exchange rate fluctuations that can affect our operating income. For example, a hypothetical 10% adverse movement in the exchange rate between the U.S. dollar and the Japanese yen would have resulted in a $3.6 million decrease in our total revenue and a $2.6 million increase in our operating loss for the year ended December 31, 2015, and a hypothetical 10% favorable movement in the exchange rate between the U.S. dollar and the Japanese yen would have resulted in a $3.6 million increase in our total revenue and a $2.6 million decrease in operating loss for the year ended December 31, 2015. As exchange rates vary, our operating income may differ from expectations. To the extent our foreign currency exposures become more material, we may elect to deploy normal and customary hedging practices designed to more proactively mitigate such exposure. The use of such hedging activities may not offset any, or more than a portion, of the adverse financial effects of unfavorable movements in currency exchange rates over the limited time the hedges are in place and would not protect us from long term shifts in currency exchange rates.

Our success depends on our key personnel and our ability to hire, retain and motivate qualified product development, sales, marketing and finance personnel.

Our success depends to a significant degree upon the continued contributions of our key management, product development, sales, marketing and finance personnel, many of whom may be difficult to replace. The complexity of our products, their integration into existing networks and ongoing support of our products requires us to retain highly trained professional services, customer support and sales personnel with specific expertise related to our business. Competition for qualified professional services, customer support, engineering and sales personnel in our industry is intense, because of the limited number of people available with the necessary technical skills and understanding of our products. Our ability to recruit and hire these personnel is harmed by tightening labor markets, particularly in the engineering field, in several of our key geographic hiring areas. We may not be successful in attracting, integrating, or retaining qualified personnel to fulfill our current or future needs, nor may we be successful in keeping the qualified personnel we currently have. Our ability to hire and retain these personnel may be adversely affected by volatility or reductions in the price of our common stock, since these employees are generally granted equity-based awards.

Our future performance also depends on the continued services and continuing contributions of our senior management to execute on our business plan and to identify and pursue new opportunities and product innovations. In particular, Lee Chen, our founder and Chief Executive Officer, and Rajkumar Jalan, our Chief Technology Officer, are critical to the development of our technology and the future vision and strategic direction of our company. The loss of services of senior management could significantly delay or prevent the achievement of our development and strategic objectives, which could adversely affect our business, financial condition, and operating results.

Adverse general economic conditions or reduced information technology spending may adversely impact our business.

A substantial portion of our business depends on the demand for information technology by large enterprises and service providers, the overall economic health of our current and prospective end-customers and the continued growth and evolution of the Internet. The timing of the purchase of our products is often discretionary and may involve a significant commitment of capital and other resources. Volatility in the global economic market or other effects of global or regional economic weakness, including limited availability of credit, a reduction in business confidence and activity, deficit-driven austerity measures that continue to affect governments and educational institutions, and other difficulties may affect one or more of the industries to which we sell our products and services. If economic

conditions in the United States, Europe and other key markets for our products continue to be volatile or do not improve or those markets experience another downturn, many end-customers may delay or reduce their IT spending. This could result in reductions in sales of our products and services, longer sales cycles, slower adoption of new technologies and increased price competition. Any of these events would likely harm our business, operating results and financial condition. In addition, there can be no assurance that IT spending levels will increase following any recovery.

Exposure to UK political developments, including the outcome of the UK referendum on membership in the European Union, could have a material adverse effect on us.

On June 23, 2016, a referendum was held on the United Kingdom's membership in the European Union, the outcome of which was a vote in favor of leaving the European Union (commonly referred to as “Brexit”). The Brexit vote creates an uncertain political and economic environment in the United Kingdom and potentially across other European Union member states, which may last for a number of months or years.

The result of the Brexit vote means that the nature of the United Kingdom's long-term relationship with the European Union is unclear and that there is considerable uncertainty as to when any such relationship will be agreed and implemented. In the interim, there is a risk of economic instability for both the United Kingdom and the European Union, which could adversely affect our results, financial condition and prospects.

The political and economic uncertainty created by the Brexit vote has caused and may continue to cause significant volatility in global financial markets and in the value of the Pound Sterling currency or other currencies, including the Euro. Depending on the terms reached regarding any exit from the European Union, it is possible that there may be adverse practical and/or operational implications on our business.

Consequently, no assurance can be given as to the overall impact of the Brexit and, in particular, no assurance can be given that our operating results, financial condition and prospects would not be adversely impacted by the result.

We are dependent on third-party manufacturers, and changes to those relationships, expected or unexpected, may result in delays or disruptions that could harm our business.

We outsource the manufacturing of our hardware components to third-party original design manufacturers who assemble these hardware components to our specifications. Our primary manufacturers are Lanner Electronics, Inc. and AEWIN Technologies Co., Ltd., each of which is located in Taiwan. Our reliance on these third-party manufacturers reduces our control over the manufacturing process and exposes us to risks, including reduced control over quality assurance, product costs, and product supply and timing. Any manufacturing disruption at these manufacturers could severely impair our ability to fulfill orders. Our reliance on outsourced manufacturers also may create the potential for infringement or misappropriation of our intellectual property rights or confidential information. If we are unable to manage our relationships with these manufacturers effectively, or if these manufacturers suffer delays or disruptions for any reason, experience increased manufacturing lead-times, experience capacity constraints or quality control problems in their manufacturing operations, or fail to meet our future requirements for timely delivery, our ability to ship products to our end-customers would be severely impaired, and our business and operating results would be seriously harmed.

These manufacturers typically fulfill our supply requirements on the basis of individual orders. We do not have long-term contracts with our manufacturers that guarantee capacity, the continuation of particular pricing terms, or the extension of credit limits. Accordingly, they are not obligated to continue to fulfill our supply requirements, which could result in supply shortages, and the prices we are charged for manufacturing services could be increased on short notice. In addition, our orders may represent a relatively small percentage of the overall orders received by our manufacturers from their customers. As a result, fulfilling our orders may not be considered a priority by one or more of our manufacturers in the event the manufacturer is constrained in its ability to fulfill all of its customer obligations in a timely manner.

Although the services required to manufacture our hardware components may be readily available from a number of established manufacturers, it is time-consuming and costly to qualify and implement such relationships. If we are required to change manufacturers, whether due to an interruption in one of our manufacturers’ businesses, quality control problems or otherwise, or if we are required to engage additional manufacturers, our ability to meet our scheduled product deliveries to our customers could be adversely affected, which could cause the loss of sales to existing or potential customers, delayed revenue or an increase in our costs that could adversely affect our gross margin.

Because some of the key components in our products come from limited sources of supply, we are susceptible to supply shortages or supply changes, which could disrupt or delay our scheduled product deliveries to our

end-customers and may result in the loss of sales and end-customers.

Our products incorporate key components, including certain integrated circuits that we and our third-party manufacturers purchase on our behalf from a limited number of suppliers, including some sole-source providers. In addition, the lead times associated with these and other components of our products can be lengthy and preclude rapid changes in quantities and delivery schedules. Moreover, long-term supply and maintenance obligations to our end-customers increase the duration for which specific components are required, which may further increase the risk we may incur component shortages or the cost of carrying inventory. If we are unable to obtain a sufficient quantity of these components in a timely manner for any reason, sales and/or shipments of our products could be delayed or halted, which would seriously affect present and future sales

and cause damage to end-customer relationships, which would, in turn, adversely affect our business, financial condition and results of operations.

In addition, our component suppliers change their selling prices frequently in response to market trends, including industry-wide increases in demand, and because we do not necessarily have contracts with these suppliers, we are susceptible to price fluctuations related to raw materials and components. If we are unable to pass component price increases along to our end-customers or maintain stable pricing, our gross margin and operating results could be negatively impacted. Furthermore, poor quality in sole-sourced components or certain other components in our products could also result in lost sales or lost sales opportunities. If the quality of such components does not meet our standards or our end-customers' requirements, if we are unable to obtain components from our existing suppliers on commercially reasonable terms, or if any of our sole source providers cease to continue to manufacture such components or to remain in business, we could be forced to redesign our products and qualify new components from alternate suppliers. The development of alternate sources for those components can be time-consuming, difficult and costly, and we may not be able to develop alternate or second sources in a timely manner. Even if we are able to locate alternate sources of supply, we could be forced to pay for expedited shipments of such components or our products at dramatically increased costs.

Real or perceived defects, errors, or vulnerabilities in our products or services or the failure of our products or services to block a threat or prevent a security breach could harm our reputation and adversely impact our results of operations.

Because our products and services are complex, they have contained and may contain design or manufacturing defects or errors that are not detected until after their commercial release and deployment by our end-customers. Even if we discover those weaknesses, we may not be able to correct them promptly, if at all. Defects may cause our products to be vulnerable to security attacks, cause them to fail to help secure networks, or temporarily interrupt end-customers' networking traffic. Furthermore, our products may fail to detect or prevent malware, viruses, worms or similar threats for any number of reasons, including our failure to enhance and expand our platform to reflect industry trends, new technologies and new operating environments, the complexity of the environment of our end-customers and the sophistication of malware, viruses and other threats. Data thieves and hackers are increasingly sophisticated, often affiliated with organized crime and may operate large-scale and complex automated attacks. The techniques used to obtain unauthorized access or to sabotage networks change frequently and may not be recognized until launched against a target. Additionally, as a well-known provider of enterprise security solutions, our networks, products, and services could be targeted by attacks specifically designed to disrupt our business and harm our reputation. As our products are adopted by an increasing number of enterprises and governments, it is possible that the individuals and organizations behind advanced attacks will focus on finding ways to defeat our products. In addition, defects or errors in our updates to our products could result in a failure of our services to effectively update end-customers' products and thereby leave our end-customers vulnerable to attacks. Our data centers and networks may experience technical failures and downtime, may fail to distribute appropriate updates, or may fail to meet the increased requirements of a growing installed end-customer base, any of which could temporarily or permanently expose our end-customers' networks, leaving their networks unprotected against security threats. Our end-customers may also misuse our products, which may result in loss or a breach of business data. For all of these reasons, we may be unable to anticipate all data security threats or provide a solution in time to protect our end-customers' networks. If we fail to identify and respond to new and increasingly complex methods of attack and to update our products to detect or prevent such threats in time to protect our end-customers' critical business data, our business, operating results and reputation could suffer.

If any companies or governments that are publicly known to use our platform are the subject of an advanced cyberattack that becomes publicized, our other current or potential channel partners or end-customers may look to our competitors for alternatives to our products. Real or perceived security breaches of our end-customers' networks could cause disruption or damage to their networks or other negative consequences and could result in negative publicity to us, damage to our reputation, declining sales, increased expenses and end-customer relations issues. To the extent

potential end-customers or industry analysts believe that the occurrence of any actual or perceived failure of our products to detect or prevent malware, viruses, worms or similar threats is a flaw or indicates that our products do not provide significant value, our reputation and business could be harmed.

Any real or perceived defects, errors, or vulnerabilities in our products, or any failure of our products to detect a threat, could result in:

• a loss of existing or potential end-customers or channel partners;

• delayed or lost revenue;

• a delay in attaining, or the failure to attain, market acceptance;

- the expenditure of significant financial and product development resources in efforts to analyze, correct, eliminate, or work around errors or defects, to address and eliminate vulnerabilities, or to identify and ramp up production with third-party providers;

- an increase in warranty claims, or an increase in the cost of servicing warranty claims, either of which would adversely affect our gross margins;

- harm to our reputation or brand; and

- litigation, regulatory inquiries, or investigations that may be costly and further harm our reputation.

Failure to protect and ensure the confidentiality and security of data could lead to legal liability, adversely affect our reputation and have a material adverse effect on our operating results, business and reputation.

We may collect, store and use certain confidential information in the course of providing our services, and we have invested in preserving the security of this data. We may also outsource operations to third-party service providers to whom we transmit certain confidential data. There are no assurances that any security measures we have in place, or any additional security measures that our subcontractors may have in place, will be sufficient to protect this confidential information from unauthorized security breaches.

We cannot assure you that, despite the implementation of these security measures, we will not be subject to a security incident or other data breach or that this data will not be compromised. We may be required to expend significant capital and other resources to protect against security breaches or to alleviate problems caused by security breaches, or to pay penalties as a result of such breaches. Despite our implementation of security measures, techniques used to obtain unauthorized access or to sabotage systems change frequently and may not be recognized until launched against a target. As a result, we may be unable to anticipate these techniques or implement adequate preventative measures to protect this data. In addition, security breaches can also occur as a result of non-technical issues, including intentional or inadvertent breaches by our employees or service providers or by other persons or entities with whom we have commercial relationships. Any compromise or perceived compromise of our security could damage our reputation with our end-customers, and could subject us to significant liability, as well as regulatory action, including financial penalties, which would materially adversely affect our brand, results of operations, financial condition, business and prospects.

We have incurred, and expect to continue to incur, significant costs to protect against security breaches. We may incur significant additional costs in the future to address problems caused by any actual or perceived security breaches.

Breaches of our security measures or those of our third-party service providers, or other security incidents, could result in: unauthorized access to our sites, networks and systems; unauthorized access to, misuse or misappropriation of information, including personally identifiable information, or other confidential or proprietary information of ourselves or third parties; viruses, worms, spyware or other malware being served from our sites, networks or systems; deletion or modification of content or the display of unauthorized content on our sites; interruption, disruption or malfunction of operations; costs relating to notification of individuals, or other forms of breach remediation; deployment of additional personnel and protection technologies; response to governmental investigations and media inquiries and coverage; engagement of third-party experts and consultants; litigation, regulatory investigations, prosecutions, and other actions; and other potential liabilities. If any of these events occurs, or is believed to occur, our reputation and brand could be damaged, our business may suffer, we could be required to expend significant capital and other resources to alleviate problems caused by such actual or perceived breaches, we could be exposed to a risk of loss, litigation or regulatory action and possible liability, and our ability to operate our business, including our ability to provide maintenance and support services to our channel partners and end-customers, may be impaired. If

current or prospective channel partners and end-customers believe that our systems and solutions do not provide adequate security for their businesses' needs, our business and our financial results could be harmed. Additionally, actual, potential or anticipated attacks may cause us to incur increasing costs, including costs to deploy additional personnel and protection technologies, train employees and engage third-party experts and consultants.

Although we maintain privacy, data breach and network security liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all. Any actual or perceived compromise or breach of our security measures, or those of our third-party service providers, or any unauthorized access to, misuse or misappropriation of personally identifiable information, channel partners' or end-customers information, or other information, could violate applicable laws and regulations, contractual obligations or other legal obligations and cause significant legal and financial exposure, adverse publicity and a loss of

confidence in our security measures, any of which could have an material adverse effect on our business, financial condition and operating results.

Our failure to adequately protect personal data could have a material adverse effect on our business.

A wide variety of provincial, state, national, foreign, and international laws and regulations apply to the collection, use, retention, protection, disclosure, transfer, and other processing of personal data. These data protection and privacy-related laws and regulations are evolving and being tested in courts and may result in ever-increasing regulatory and public scrutiny and escalating levels of enforcement and sanctions. Our failure to comply with applicable laws and regulations, or to protect such data, could result in enforcement action against us, including fines, imprisonment of company officials and public censure, claims for damages by end-customers and other affected persons and entities, damage to our reputation and loss of goodwill (both in relation to existing and prospective channel partners and end-customers), and other forms of injunctive or operations-limiting relief, any of which could have a material adverse effect on our operations, financial performance, and business. Evolving and changing definitions of personal data and personal information, within the European Union, the United States, and elsewhere, especially relating to classification of Internet Protocol (IP) addresses, machine identification, location data, and other information, may limit or inhibit our ability to operate or expand our business, including limiting strategic partnerships that may involve the sharing of data. We may be required to expend significant resources to modify our solutions and otherwise adapt to these changes, which we may be unable to do on commercially reasonable terms or at all, and our ability to develop new solutions and features could be limited. These developments could harm our business, financial condition and results of operations. Even if not subject to legal challenge, the perception of privacy concerns, whether or not valid, may harm our reputation and inhibit adoption of our products by current and prospective end-customers.

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

Our security business may be dependent on enterprises and governments recognizing that advanced cyberattacks are pervasive and are not effectively prevented by legacy security solutions. High visibility attacks on prominent companies and governments have increased market awareness of advanced cyberattacks and help to provide an impetus for enterprises and governments to devote resources to protecting against advanced cyberattacks, which may include testing, purchasing, and deploying our products. If advanced cyberattacks were to decline, or enterprises or governments perceived a decline in the general level of advanced cyberattacks, our ability to attract new channel partners and end-customers and expand our offerings within existing channel partners and end-customers could be materially and adversely affected. An actual or perceived reduction in the threat landscape could increase our sales cycles and harm our business, results of operations and financial condition.

Undetected software or hardware errors may harm our business and results of operations.

Our products may contain undetected errors or defects when first introduced or as new versions are released. We have experienced these errors or defects in the past in connection with new products and product upgrades. We expect that these errors or defects will be found from time to time in new or enhanced products after commencement of commercial distribution. These problems have in the past and may in the future cause us to incur significant warranty and repair costs, divert the attention of our engineering personnel from our product development efforts and cause significant customer relations problems. We may also be subject to liability claims for damages related to product errors or defects. While we carry insurance policies covering this type of liability, these policies may not provide sufficient protection should a claim be asserted. A material product liability claim may harm our business and results of operations.

Any errors, defects or vulnerabilities in our products could result in:

- expenditures of significant financial and product development resources in efforts to analyze, correct, eliminate or work around errors and defects or to address and eliminate vulnerabilities;
- loss of existing or potential end-customers or distribution channel partners;
- delayed or lost revenue;
- delay or failure to attain market acceptance;
- indemnification obligations under our agreements with resellers, distributors and/or end-customers;

- an increase in warranty claims compared with our historical experience or an increased cost of servicing warranty claims, either of which would adversely affect our gross margin; and

- litigation, regulatory inquiries, or investigations that may be costly and harm our reputation.

Our use of open source software in our products could negatively affect our ability to sell our products and subject us to possible litigation.

We incorporate open source software such as the Linux operating system kernel into our products. We recently implemented a formal open source use policy, including written guidelines for use of open source software and business processes for approval of that use. We have developed and implemented our open source policies according to industry practice; however, best practices in this area are subject to change, because there is little reported case law on the interpretation of material terms of many open source licenses. We are in the process of reviewing our open source use and our compliance with open source licenses and implementing remediation and changes necessary to comply with the open source licenses related thereto. We cannot guarantee that our use of open source software has been, and will be, managed effectively for our intended business purposes and/or compliant with applicable open source licenses. We may face legal action by third parties seeking to enforce their intellectual property rights related to our use of such open source software. Failure to adequately manage open source license compliance and our use of open source software may result in unanticipated obligations regarding our products and services, such as a requirement that we license proprietary portions of our products or services on unfavorable terms, that we make available source code for modifications or derivative works we created based upon, incorporating or using open source software, that we license such modifications or derivative works under the terms of the particular open source license and/or that we redesign the affected products or services, which could result, for example, in a loss of intellectual property rights, or delay in providing our products and services. From time to time, there have been claims against companies that distribute or use third-party open source software in their products and services, asserting that the open source software or its combination with the products or services infringes third parties' patents or copyrights, or that the companies' distribution or use of the open source software does not comply with the terms of the applicable open source licenses. Use of certain open source software can lead to greater risks than use of warranted third-party commercial software, as open source licensors generally do not provide warranties or controls on the origin of such open source software. From time to time, there have been claims against companies that use open source software in their products, challenging the ownership of rights in such open source software. As a result, we could also be subject to suits by parties claiming ownership of rights in what we believe to be open source software and so challenging our right to use such software in our products. If any such claims were asserted against us, we could be required to incur significant legal expenses defending against such a claim. Further, if our defenses to such a claim were not successful, we could be, for example, subject to significant damages, be required to seek licenses from third parties in order to continue offering our products and services without infringing such third party's intellectual property rights, be required to re-engineer such products and services, or be required to discontinue making available such products and services if re-engineering cannot be accomplished on a timely or successful basis. The need to engage in these or other remedies could increase our costs or otherwise adversely affect our business, operating results and financial condition.

Our products must interoperate with operating systems, software applications and hardware that are developed by others and if we are unable to devote the necessary resources to ensure that our products interoperate with such software and hardware, we may fail to increase, or we may lose market share and we may experience a weakening demand for our products.

Our products must interoperate with our end-customers' existing infrastructure, specifically their networks, servers, software and operating systems, which may be manufactured by a wide variety of vendors and original equipment manufacturers. As a result, when problems occur in a network, it may be difficult to identify the source of the problem. The occurrence of software or hardware problems, whether caused by our products or another vendor's products, may result in the delay or loss of market acceptance of our products. In addition, when new or updated

versions of our end-customers' software operating systems or applications are introduced, we must sometimes develop updated versions of our software so that our products will interoperate properly. We may not accomplish these development efforts quickly, cost-effectively or at all. These development efforts require capital investment and the devotion of engineering resources. If we fail to maintain compatibility with these applications, our end-customers may not be able to adequately utilize our products, and we may, among other consequences, fail to increase, or we may lose market share and experience a weakening in demand for our products, which would adversely affect our business, operating results and financial condition.

We license technology from third parties, and our inability to maintain those licenses could harm our business.

Many of our products include proprietary technologies licensed from third parties. In the future, it may be necessary to renew licenses for third party technology or obtain new licenses for other technology. These third-party licenses may not be

available to us on acceptable terms, if at all. As a result, we could also face delays or be unable to make changes to our products until equivalent technology can be identified, licensed or developed and integrated with our products. Such delays or an inability to make changes to our products, if it were to occur, could adversely affect our business, operating results and financial condition. The inability to obtain certain licenses to third-party technology, or litigation regarding the interpretation or enforcement of license agreements and related intellectual property issues, could have a material adverse effect on our business, operating results and financial condition.

Failure to prevent excess inventories or inventory shortages could result in decreased revenue and gross margin and harm our business.

We purchase products from our manufacturers outside of, and in advance of, reseller or end-customer orders, which we hold in inventory and sell. We place orders with our manufacturers based on our forecasts of our end-customers' requirements and forecasts provided by our distribution channel partners. These forecasts are based on multiple assumptions, each of which might cause our estimates to be inaccurate, affecting our ability to provide products to our customers. There is a risk we may be unable to sell excess products ordered from our manufacturers. Inventory levels in excess of customer demand may result in obsolete inventory and inventory write-downs. The sale of excess inventory at discounted prices could impair our brand image and have an adverse effect on our financial condition and results of operations. Conversely, if we underestimate demand for our products or if our manufacturers fail to supply products we require at the time we need them, we may experience inventory shortages. Inventory shortages might delay shipments to resellers, distributors and customers and cause us to lose sales. These shortages may diminish the loyalty of our distribution channel partners or customers.

The difficulty in forecasting demand also makes it difficult to estimate our future financial condition and results of operations from period to period. A failure to accurately predict the level of demand for our products could adversely affect our total revenue and net income, and we are unlikely to forecast such effects with any certainty in advance. For example, we failed to predict the slowdown in the United States sales during the three months ended September 30, 2014 which resulted in lower revenue, gross margin and net income than expected.

Our sales cycles can be long and unpredictable, primarily due to the complexity of our end-customers' networks and data centers and the length of their budget cycles. As a result, our sales and revenue are difficult to predict and may vary substantially from period to period, which may cause our operating results to fluctuate significantly.

The timing of our sales is difficult to predict because of the length and unpredictability of our products' sales cycles. A sales cycle is the period between initial contact with a prospective end-customer and any sale of our products. Our sales cycle, in particular to our large end-customers, may be lengthy due to the complexity of their networks and data centers. Because of this complexity, prospective end-customers generally consider a number of factors over an extended period of time before committing to purchase our products. End-customers often view the purchase of our products as a significant and strategic decision that can have important implications on their existing networks and data centers and, as a result, require considerable time to evaluate, test and qualify our products prior to making a purchase decision and placing an order to ensure that our products will successfully interoperate with our end-customers' complex network and data centers. Additionally, the budgetary decisions at these entities can be lengthy and require multiple organization reviews. The length of time that end-customers devote to their evaluation of our products and decision making process varies significantly. The length of our products' sales cycles typically ranges from three to 12 months but can be longer for our large end-customers. In addition, the length of our close or sales cycle can be affected by the extent to which customized features are requested, in particular in our large deals.

For all of these reasons, it is difficult to predict whether a sale will be completed or the particular fiscal period in which a sale will be completed, both of which contribute to the uncertainty of our future operating results. If our close or sales cycles lengthen, our revenue could be lower than expected, which would have an adverse impact on our operating results and could cause our stock price to decline.

Our ability to sell our products is highly dependent on the quality of our support and services offerings, and our failure to offer high-quality support could have a material adverse effect on our business, revenue and results of operations.

We believe that our ability to provide consistent, high quality customer service and technical support is a key factor in attracting and retaining end-customers of all sizes and is critical to the deployment of our products. When support is purchased our end-customers depend on our support organization to provide a broad range of support services, including on-site technical support, 24-hour support and shipment of replacement parts on an expedited basis. If our support organization or our distribution channel partners do not assist our end-customers in deploying our products effectively, succeed in helping our end-customers resolve post-deployment issues quickly, or provide ongoing support, it could adversely affect our ability to sell our products to existing end-customers and could harm our reputation with potential end-customers. We currently have technical

support centers in the United States, Japan, China and the Netherlands. As we continue to expand our operations internationally, our support organization will face additional challenges, including those associated with delivering support, training and documentation in languages other than English.

We typically sell our products with maintenance and support as part of the initial purchase, and a substantial portion of our support revenue comes from renewals of maintenance and support contracts. Our end-customers have no obligation to renew their maintenance and support contracts after the expiration of the initial period. If we are unable to provide high quality support, our end-customers may elect not to renew their maintenance and support contracts or to reduce the product quantity under their maintenance and support contracts, thereby reducing our future revenue from maintenance and support contracts.

Our failure or the failure of our distribution channel partners to maintain high-quality support and services could have a material and adverse effect on our business, revenue and operating results.

We depend on growth in markets relating to network security, management and analysis, and lack of growth or contraction in one or more of these markets could have a material adverse effect on our results of operations and financial condition.

Demand for our products is linked to, among other things, growth in the size and complexity of network infrastructures and the demand for networking technologies addressing the security, management and analysis of such infrastructures. These markets are dynamic and evolving. Our future financial performance will depend in large part on continued growth in the number of organizations investing in their network infrastructure and the amount they commit to such investments. If this demand declines, our results of operations and financial condition would be materially and adversely affected. Segments of the network infrastructure industry have in the past experienced significant economic downturns. Furthermore, the market for network infrastructure may not continue to grow at historic rates, or at all. The occurrence of any of these factors in the markets relating to network security, management and analysis could materially and adversely affect our results of operations and financial condition.

Our revenue growth rate in recent periods may not be indicative of our future performance.

You should not consider our revenue growth rate in recent periods as indicative of our future performance. We have recently experienced revenue growth rates of 11%, 27% and 18% in 2015, 2014 and 2013 as compared to the same prior periods. We may not achieve similar revenue growth rates in future periods. You should not rely on our revenue for any prior quarterly or annual periods as any indication of our future revenue or revenue growth. If we are unable to maintain consistent revenue or revenue growth, our stock price could be volatile, and it may be difficult to achieve and maintain profitability.

Our business and operations have experienced rapid growth in recent periods, and if we do not effectively manage any future growth or are unable to improve our controls, systems and processes, our operating results will be adversely affected.

In recent periods, we have significantly increased the number of our employees and independent contractors. As we hire new employees and independent contractors and expand into new locations outside the United States, we are required to comply with varying local laws for each of these new locations. We anticipate that further expansion of our infrastructure and headcount will be required. Our rapid growth has placed, and will continue to place, a significant strain on our administrative and operational infrastructure and financial resources. Our ability to manage our operations and growth across multiple countries will require us to continue to refine our operational, financial and management controls, human resource policies, and reporting systems and processes.

We need to continue to improve our internal systems, processes, and controls to effectively manage our operations and growth. We may not be able to successfully implement improvements to these systems, processes and controls in an efficient or timely manner. In addition, our systems and processes may not prevent or detect all errors, omissions, or fraud. We may experience difficulties in managing improvements to our systems, processes, and controls or in connection with third-party software, which could impair our ability to provide products or services to our customers in a timely manner, causing us to lose customers, limit us to smaller deployments of our products, increase our technical support costs, or damage our reputation and brand. Our failure to improve our systems and processes, or their failure to operate in the intended manner, may result in our inability to manage the growth of our business and to accurately forecast our revenue, expenses, and earnings, or to prevent certain losses, any of which may harm our business and results of operations.

We may not be able to sustain or develop new distributor and reseller relationships, and a reduction or delay in sales to significant distribution channel partners could hurt our business.

We sell our products and services through multiple distribution channels in the United States and internationally. We may not be able to increase our number of distributor or reseller relationships or maintain our existing relationships. Recruiting and retaining qualified distribution channel partners and training them on our technologies requires significant time and resources. These distribution channel partners may also market, sell and support products and services that are competitive with ours and may devote more resources to the marketing, sales and support of such competitive products. Our sales channel structure could subject us to lawsuits, potential liability and reputational harm if, for example, any of our distribution channel partners misrepresent the functionality of our products or services to end-customers or violate laws or our corporate policies. If we are unable to establish or maintain our sales channels or if our distribution channel partners are unable to adapt to our future sales focus and needs, our business and results of operations will be harmed.

The terms of the 2016 Credit Facility could restrict our operations, particularly our ability to respond to changes in our business or to take specified actions.

The 2016 Credit Facility contains a number of restrictive covenants that impose operating and financial restrictions on us, including restrictions on our ability to take actions that may be in our best interests. The 2016 Credit Facility requires us to satisfy a specified financial covenant. Our ability to meet the financial covenant can be affected by events beyond our control, and we may not be able to continue to meet the covenant. Upon the occurrence of an event of default, SVB could elect to declare all amounts outstanding under the 2016 Credit Facility to be immediately due and payable and terminate all commitments to extend further credit. If SVB accelerates the repayment, if any, we may not have sufficient funds to repay our existing debt. If we were unable to repay those amounts, SVB could proceed against the collateral granted to it to secure such indebtedness. We have pledged substantially all of our assets, excluding our intellectual property, as collateral under the 2016 Credit Facility. Through the date of this filing, we had no outstanding balance under the 2016 Credit Facility and were in compliance with all facility covenants.

Our sales to governmental organizations are subject to a number of challenges and risks.

We sell to governmental organization end-customers. Sales to governmental organizations are subject to a number of challenges and risks. Selling to governmental organizations can be highly competitive, expensive and time consuming, often requiring significant upfront time and expense without any assurance that these efforts will generate a sale. We have not yet received security clearance from the United States government, which prevents us from being able to sell directly for certain governmental uses. There can be no assurance that such clearance will be obtained, and failure to do so may adversely affect our operating results. Governmental organization demand and payment for our products may be impacted by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our products. Governmental organizations may have statutory, contractual or other legal rights to terminate contracts with our distributors and resellers for convenience or due to a default, and any such termination may adversely impact our future operating results.

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

Our business is subject to regulation by various federal, state, local and foreign governmental entities, including agencies responsible for monitoring and enforcing employment and labor laws, workplace safety, product safety, environmental laws, consumer protection laws, anti-bribery laws, import/export controls, federal securities laws, and tax laws and regulations. In certain jurisdictions, these regulatory requirements may be more stringent than those in the United States. Noncompliance with applicable regulations or requirements could subject us to investigations, sanctions, mandatory product recalls, enforcement actions, disgorgement of profits, fines, damages, civil and criminal penalties, or injunctions. If any governmental sanctions are imposed, or if we do not prevail in any possible civil or

criminal litigation, our business, operating results, and financial condition could be materially adversely affected. In addition, responding to any action will likely result in a significant diversion of management's attention and resources and an increase in professional fees. Enforcement actions and sanctions could harm our business, operating results and financial condition.

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

Our products are subject to U.S. export controls and may be exported outside the United States only with the required level of export license or through an export license exception because we incorporate encryption technology into our products.

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

We discovered that we inadvertently reported incorrect information to the U.S. Census Bureau when reporting certain exports, although the underlying exports were authorized under the Export Administration Regulations. We implemented corrective actions and filed a Voluntary Self Disclosure with the U.S. Census Bureau regarding these technical violations. The Census Bureau closed the voluntary self-disclosure in October, 2014 without imposition of any fines or penalties.

We are subject to various environmental laws and regulations that could impose substantial costs upon us.

Our company must comply with local, state, federal, and international environmental laws and regulations in the countries in which we do business. We are also subject to laws, which restrict certain hazardous substances, including lead, used in the construction of our products, such as the European Union Restriction on the Use of Hazardous Substances in electrical and electronic equipment directive. We are also subject to the European Union Directive, known as the Waste Electrical and Electronic Equipment Directive, or WEEE Directive, which requires producers of certain electrical and electronic equipment to properly label products, register as a WEEE producer, and provide for the collection, disposal, and recycling of waste electronic products. Failure to comply with these environmental directives and other environmental laws could result in the imposition of fines and penalties, inability to sell covered products in certain countries, the loss of revenue, or subject us to third-party property damage or personal injury claims, or require us to incur investigation, remediation or engineering costs. Our operations and products will be affected by future environmental laws and regulations, but we cannot predict the ultimate impact of any such future laws and regulations at this time.

Our products must conform to industry standards in order to be accepted by end-customers in our markets.

Generally, our products comprise only a part of a data center. The servers, network, software and other components and systems of a data center must comply with established industry standards in order to interoperate and function efficiently together. We depend on companies that provide other components of the servers and systems in a data center to support prevailing industry standards. Often, these companies are significantly larger and more influential in driving industry standards than we are. Some industry standards may not be widely adopted or implemented uniformly, and competing standards may emerge that may be preferred by our end-customers. If larger companies do not support the same industry standards that we do, or if competing standards emerge, market acceptance of our products could be adversely affected and we may need to incur substantial costs to conform our products to such standards, which could harm our business, operating results and financial condition.

We are dependent on various information technology systems, and failures of or interruptions to those systems could harm our business.

Many of our business processes depend upon our information technology systems, the systems and processes of third parties, and on interfaces with the systems of third parties. If those systems fail or are interrupted, or if our ability to

connect to or interact with one or more networks is interrupted, our processes may function at a diminished level or not at all. This could harm our ability to ship or support our products, and our financial results may be harmed.

In addition, reconfiguring or upgrading our information technology systems or other business processes in response to changing business needs may be time-consuming and costly and is subject to risks of delay or failed deployment. To the extent this impacts our ability to react timely to specific market or business opportunities, our financial results may be harmed.

Future acquisitions we may undertake may not result in the financial and strategic goals that are contemplated at the time of the transaction.

We recently completed the acquisition of substantially all of the assets of Appcito and may make future acquisitions of complementary companies, products or technologies. With respect to the Appcito acquisition or any other future acquisitions

we may undertake, we may find that the acquired businesses, products or technologies do not further our business strategy as expected, that we paid more than what the assets are later worth or that economic conditions change, all of which may generate future impairment charges. The Appcito acquisition or any future acquisitions may be viewed negatively by customers, financial markets or investors. There may be difficulty integrating the operations and personnel of an acquired business, and we may have difficulty retaining the key personnel of an acquired business. We may have difficulty in integrating acquired technologies or products with our existing product lines. Any integration process may require significant time and resources, and we may not be able to manage the process successfully. Our ongoing business and management's attention may be disrupted or diverted by transition or integration issues and the complexity of managing geographically and culturally diverse locations. We may have difficulty maintaining uniform standards, controls, procedures and policies across locations. We may experience significant problems or liabilities associated with product quality, technology and other matters.

Our inability to successfully operate and integrate future acquisitions appropriately, effectively and in a timely manner, or to retain key personnel of any acquired business, could have a material adverse effect on our revenue, gross margin and expenses.

Our ability to use our net operating loss carryforwards may be subject to limitation and may result in increased future tax liability to us.

Generally, a change of more than 50% in the ownership of a corporation's stock, by value, over a three-year period constitutes an ownership change for U.S. federal income tax purposes. An ownership change may limit a company's ability to use its net operating loss carryforwards attributable to the period prior to such change. In the event we have undergone an ownership change under Section 382 of the Internal Revenue Code, if we earn net taxable income, our ability to use our pre-change net operating loss carryforwards to offset U.S. federal taxable income may become subject to limitations, which could potentially result in increased future tax liability to us.

Unanticipated changes in effective tax rates or adverse outcomes resulting from examination of our income or other tax returns could adversely affect our operating results and financial condition.

We are subject to income taxes in the United States and various foreign jurisdictions, and our domestic and international tax liabilities will be subject to the allocation of expenses in differing jurisdictions. Our future effective tax rates could be subject to volatility or adversely affected by a number of factors, including:

- changes in the valuation of our deferred tax assets and liabilities;
- expected timing and amount of the release of tax valuation allowances;
- expiration of, or detrimental changes in, research and development tax credit laws;
- tax effects of stock-based compensation;
- costs related to intercompany restructurings;
- changes in tax laws, regulations, accounting principles or interpretations thereof;
- future earnings being lower than anticipated in countries where we have lower statutory tax rates and higher than anticipated earnings in countries where we have higher statutory tax rates; or
- examinations by US federal, state or foreign jurisdictions that disagree with interpretations of tax rules and regulations in regards to positions taken on tax filings.

Changes in our effective tax rate could adversely affect our results of operations.

As our business grows, we are required to comply with increasingly complex taxation rules and practices. We are subject to tax in multiple U.S. tax jurisdictions and in foreign tax jurisdictions as we expand internationally. The development of our tax strategies requires additional expertise and may impact how we conduct our business. Our future effective tax rates could be unfavorably affected by changes in, or interpretations of, tax rules and regulations in the jurisdictions in which we do business or changes in the valuation of our deferred tax assets and liabilities. Furthermore, we provide for certain tax liabilities that involve significant judgment. We are subject to the examination of our tax returns by federal, state and foreign tax authorities, which could focus on our intercompany transfer pricing methodology as well as other matters. If our tax strategies

are ineffective or we are not in compliance with domestic and international tax laws, our financial position, operating results and cash flows could be adversely affected.

Our business is subject to the risks of warranty claims, product returns, product liability, and product defects.

Real or perceived errors, failures or bugs in our products could result in claims by end-customers for losses that they sustain. If end-customers make these types of claims, we may be required, or may choose, for customer relations or other reasons, to expend additional resources in order to help correct the problem. Historically, the amount of warranty claims has not been significant, but there are no assurances that the amount of such claims will not be material in the future. Liability provisions in our standard terms and conditions of sale, and those of our resellers and distributors, may not be enforceable under some circumstances or may not fully or effectively protect us from customer claims and related liabilities and costs, including indemnification obligations under our agreements with resellers, distributors or end-customers. The sale and support of our products also entail the risk of product liability claims. We maintain insurance to protect against certain types of claims associated with the use of our products, but our insurance coverage may not adequately cover any such claims. In addition, even claims that ultimately are unsuccessful could result in expenditures of funds in connection with litigation and divert management's time and other resources.

We are exposed to the credit risk of our distribution channel partners and end-customers, which could result in material losses and negatively impact our operating results.

Most of our sales are on an open credit basis, with typical payment terms ranging from 30 to 90 days depending on local customs or conditions that exist in the sale location. If any of the distribution channel partners or end-customers responsible for a significant portion of our revenue becomes insolvent or suffers a deterioration in its financial or business condition and is unable to pay for our products, our results of operations could be harmed.

Concentration of ownership among our existing executive officers, a small number of stockholders, directors and their affiliates may prevent new investors from influencing significant corporate decisions.

Our executive officers and directors, together with affiliated entities, hold 31.2% of our outstanding common stock as of September 30, 2016. Accordingly, these stockholders, acting together, have significant influence over the election of our directors, over whether matters requiring stockholder approval are approved or disapproved and over our affairs in general. The interests of these stockholders could conflict with your interests. These stockholders may also have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their investments, even though such transactions might involve risks to you. In addition, this concentration of ownership could have the effect of delaying or preventing a liquidity event such as a merger or liquidation of our company.

We may need to raise additional funds in future private or public offerings, and such funds may not be available on acceptable terms, if at all. If we do raise additional funds, existing stockholders will suffer dilution.

We may need to raise additional funds in private or public offerings, and these funds may not be available to us when we need them or on acceptable terms, if at all. If we raise additional funds through further issuances of equity or convertible debt securities, you could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of our then-existing capital stock. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities. If we cannot raise additional funds when we need them, our business and prospects could fail or be materially and adversely affected.

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

Technology stocks have historically experienced high levels of volatility. The trading price of our common stock has been and is likely to continue to be volatile and subject to fluctuations in response to many factors, some of which are beyond our control and may not be related to our operating performance. These fluctuations could cause you to lose all or part of your investment in our common stock. Factors that could cause fluctuations in the trading price of our common stock include the following:

- announcements of new products, services or technologies, commercial relationships, acquisitions or other events by us or our competitors;
- price and volume fluctuations in the overall stock market from time to time;

- significant volatility in the market price and trading volume of technology companies in general and of companies in our industry;
- fluctuations in the trading volume of our shares or the size of our public float;
- actual or anticipated changes or fluctuations in our results of operations;
- whether our results of operations meet the expectations of securities analysts or investors;
- actual or anticipated changes in the expectations of investors or securities analysts;
- litigation or investigations involving us, our industry, or both;
- regulatory developments in the United States, foreign countries or both;
- general economic conditions and trends;
- major catastrophic events;
- sales of large blocks of our common stock; or
- departures of key personnel.

In addition, if the market for technology stocks or the stock market in general experiences a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, results of operations or financial condition. The trading price of our common stock might also decline in reaction to events that affect other companies in our industry even if these events do not directly affect us. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. The price of our common stock has been highly volatile since our IPO in March 2014. In January 2015, several substantially identical lawsuits alleging violations of securities laws were filed against us, our directors and certain of our executive officers (which actions were consolidated on May 29, 2015) and in June 2015, the related Derivative Action was filed. These and any future securities litigation, including any related to shareholder derivative litigation, could result in substantial costs and divert our management's attention and resources from our business. This could have a material adverse effect on our business, results of operations and financial condition.

Sales of substantial amounts of our common stock in the public markets, or the perception that such sales might occur, could reduce the price that our common stock might otherwise attain and may dilute your voting power and your ownership interest in us.

Sales of a substantial number of shares of our common stock in the public market, or the perception that such sales could occur, could adversely affect the market price of our common stock and may make it more difficult for you to sell your common stock at a time and price that you deem appropriate. As of September 30, 2016, there were approximately 5.6 million vested and exercisable options to purchase our common stock, in addition to the 67,088,850 common shares outstanding as of such date. All outstanding shares and all shares issuable upon exercise of outstanding and vested options are freely tradable, subject in some cases to volume and other restrictions of Rules 144 and 701 under the Securities Act, as well as our insider trading policy. In addition, holders of certain shares of our outstanding common stock, including an aggregate of 9,451,468 shares held by funds affiliated with Summit Partners, L.P. as of September 30, 2016 are entitled to rights with respect to registration of these shares under the Securities Act pursuant to an investors' rights agreement.

If these holders of our common stock, by exercising their registration rights, sell a large number of shares, they could adversely affect the market price for our common stock. If we file a registration statement for the purposes of selling additional shares to raise capital and are required to include shares held by these holders pursuant to the exercise of their registration rights, our ability to raise capital may be impaired. Sales of substantial amounts of our common stock in the public market, or the perception that these sales could occur, could cause the market price of our common stock to decline.

We are an emerging growth company, and any decision on our part to comply only with certain reduced disclosure requirements applicable to emerging growth companies could make our common stock less attractive to investors.

We are an emerging growth company, and, for as long as we continue to be an emerging growth company, we may choose to take advantage of exemptions from various reporting requirements applicable to other public companies but not to "emerging growth companies," including, but not limited to, not being required to have our independent registered public accounting firm audit our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We could be an emerging growth company for up to five years following the completion of our initial public offering. We will remain an emerging growth company until the earliest of: (a) the last day of the year (i) following the fifth anniversary of the completion of the initial public offering, (ii) in which we have total annual gross revenue of at least $1.0 billion, or (iii) in which we qualify as a large accelerated filer, which means the market value of our common stock that is held by non-affiliates exceeds $700 million as of the prior June 30, or (b) the date on which we have issued more than $1.0 billion in non-convertible debt securities during the prior three-year period. We cannot predict if investors will find our common stock less attractive if we choose to rely on these exemptions. If some investors find our common stock less attractive as a result of any choices to reduce future disclosure, there may be a less active trading market for our common stock and the price of our common stock may be more volatile.

Under the JOBS Act, emerging growth companies can also delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this accommodation allowing for delayed adoption of new or revised accounting standards, and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

We are obligated to implement and maintain effective internal control over financial reporting. We may not complete our analysis of our internal control over financial reporting in a timely manner, or our internal control over financial reporting may not be determined to be effective, or we may discover significant deficiencies or material weakness in our internal control over financial reporting in the future, all of which may adversely affect investor confidence in our company and, as a result, the value of our common stock.

We are required, pursuant to the Exchange Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting for each fiscal year. This assessment will need to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting.

We have, in the past, experienced issues with our internal control over financial reporting, such as the material weakness discovered in connection with our review of internal control over financial reporting as of December 31, 2014, related to an incorrect methodology used to compute share-based compensation associated with our 2014 Purchase Plan for the fourth quarter of 2014, and which resulted in a material adjustment to decrease share-based compensation in our fourth quarter ended December 31, 2014. While we believe that this material weakness was remediated during the year ended December 31, 2015, it is possible that we may discover significant deficiencies or material weaknesses in our internal control over financial reporting in the future. If we are unable to conclude that our internal control over financial reporting is effective, or if we are required to restate our financial statements as a result of ineffective internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, which would cause the price of our common stock to decline.

We are required to disclose material changes made in our internal control and procedures on a quarterly basis. However, our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act until the year

following the date we are no longer an emerging growth company as defined in the JOBS Act, if we take advantage of the exemptions contained in the JOBS Act. To comply with these requirements, we may need to undertake various actions, such as implementing new internal controls and procedures and hiring accounting or internal audit staff.

The requirements of being a public company increase costs and may divert management attention.

As a reporting company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, the listing requirements of the New York Stock Exchange, or NYSE, and other applicable securities rules and regulations. Compliance with these rules and regulations will increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly and increase demand on our systems and resources, particularly after we are no longer an emerging growth company, as

defined in the JOBS Act. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and operating results. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could adversely affect our business and operating results. Although we have already hired additional employees to comply with these requirements, we may need to hire more employees in the future or engage outside consultants, which will increase our costs and expenses.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs, and making some activities more time consuming. For instance, the SEC adopted disclosure requirements in 2012 as part of implementation of the Dodd-Frank Act regarding the use of conflict minerals mined from the Democratic Republic of Congo and adjoining countries and procedures regarding a manufacturer's efforts to prevent the sourcing of such conflict minerals. The implementation of these requirements could adversely affect our costs and our relationships with customers and suppliers. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations, and standards, and this investment may result in increased general and administrative expense and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations, and standards differ from the activities intended by regulatory or governing bodies, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

The increased costs associated with operating as a reporting company may decrease our net income or increase our net loss, and may require us to reduce costs in other areas of our business or increase the prices of our products or services. Additionally, if these requirements divert our management's attention from other business concerns, they could have a material adverse effect on our business, financial condition and results of operations.

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

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

Our charter documents and Delaware law could discourage takeover attempts and lead to management entrenchment.

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

- a classified board of directors with three-year staggered terms, which could delay the ability of stockholders to change the membership of a majority of our board of directors;

-

the ability of our board of directors to issue shares of preferred stock and to determine the price and other terms of those shares, including preference and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquirer;

- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of our board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;

- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;

- the requirement that a special meeting of stockholders may be called only by the chairman of our board of directors, our Chief Executive Officer, our secretary, or a majority vote of our board of directors, which could delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors;

- the requirement for the affirmative vote of holders of at least 66-2/3% of the voting power of all of the then-outstanding shares of the voting stock, voting together as a single class, to amend the provisions of our restated certificate of incorporation relating to the issuance of preferred stock and management of our business or our bylaws, which may inhibit the ability of an acquirer to effect such amendments to facilitate an unsolicited takeover attempt;

- the ability of our board of directors, by majority vote, to amend the bylaws, which may allow our board of directors to take additional actions to prevent an unsolicited takeover and inhibit the ability of an acquirer to amend the bylaws to facilitate an unsolicited takeover attempt; and

- advance notice procedures with which stockholders must comply to nominate candidates to our board of directors or not to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquiror's own slate of directors or otherwise attempting to obtain control of us.

In addition, as a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law. These provisions may prohibit large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us for a certain period of time.

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

A significant natural disaster, such as an earthquake, fire, a flood, or significant power outage could have a material adverse impact on our business, operating results, and financial condition. Our corporate headquarters are located in the San Francisco Bay Area, a region known for seismic activity. In addition, our two primary manufacturers are located in Taiwan, which is near major earthquake fault lines and subject to typhoons during certain times of the year. In the event of a major earthquake or typhoon, or other natural or man-made disaster, our manufacturers in Taiwan may face business interruptions, which may impact quality assurance, product costs, and product supply and timing. In the event our or our service providers' information technology systems or manufacturing or logistics abilities are hindered by any of the events discussed above, shipments could be delayed, resulting in missed financial targets, such as revenue and shipment targets, and our operations could be disrupted, for the affected quarter or quarters. In addition, cyber security attacks, acts of war or terrorism, or other geo-political unrest could cause disruptions in our business or the business of our supply chain, manufacturers, logistics providers, partners, or end-customers or the economy as a whole. Any disruption in the business of our supply chain, manufacturers, logistics providers, partners or end-customers that impacts sales at the end of a quarter could have a significant adverse impact on our quarterly results. All of the aforementioned risks may be further increased if the disaster recovery plans for us and our suppliers prove to be inadequate. To the extent that any of the above should result in delays or cancellations of customer orders, or the delay in the manufacture, deployment or shipment of our products, our business, financial condition and operating results would be adversely affected.

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

We intend to retain any earnings to finance the operation and expansion of our business, and we do not anticipate paying any cash dividends in the future. In addition, the 2016 Credit Facility currently restricts our ability to pay cash dividends while this facility remains outstanding. As a result, you may only receive a return on your investment in our common stock if the value of our common stock increases.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULT UPON SENIOR SECURITIES
Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES
Not applicable.

ITEM 5. OTHER INFORMATION
Subsequent Event

We have elected to include the following information with respect to an event that occurred on November 1, 2016 in this Quarterly Report on Form 10-Q in lieu of reporting it in a separately filed Current Report on Form 8-K. This information would otherwise have been reported in a Form 8-K under the headings “Item 1.01 Entry into a Material Definitive Agreement.” and “Item 2.03 Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.”
On November 1, 2016, we entered into a Loan and Security Agreement (the “2016 Credit Facility”) with Silicon Valley Bank ("SVB"), as lender.

The 2016 Credit Facility provides for a $25.0 million revolving credit facility, which includes a $25.0 million letter of credit facility. When our net cash equals or exceeds $50.0 million, loans may be advanced under the 2016 Credit Facility up to the full $25.0 million. When our net cash falls below $50.0 million, loans may be advanced under the 2016 Credit Facility based on a borrowing base equal to a specified percentage of the value of our eligible accounts receivable. Loan proceeds may be used for general corporate purposes. We may prepay loans under the 2016 Credit Facility in whole or in part at any time without premium or penalty. Through the date of this filing, we had no outstanding balance under the 2016 Credit Facility and were in compliance with all facility covenants.

The loans bear interest, at our option, at (i) the prime rate reported in The Wall Street Journal, minus 0.50% or (ii) a LIBOR rate determined in accordance with the 2016 Credit Facility, plus 2.50%. Interest is due and payable in arrears monthly for prime rate loans and at the end of an interest period for LIBOR rate loans (or at each three month interval in the case of loans with interest periods greater than three months). Principal, together with all accrued and unpaid interest, is due and payable on November 1, 2019 (the “Maturity Date”). We are required to pay customary closing fees, commitment fees and letter of credit fees for a facility of this size and type.

All of our future domestic subsidiaries are required to guaranty our obligations under the 2016 Credit Facility. Our obligations are secured by substantially all of our assets, excluding intellectual property, and subject to certain exceptions and limitations.

The 2016 Credit Facility contains customary affirmative and negative covenants, in each case subject to customary exceptions. In addition, the 2016 Credit Facility provides that we must maintain compliance with an adjusted quick ratio of not less than 1.50:1.00, as determined in accordance with the 2016 Credit Facility.

Upon an event of default, SVB may declare the outstanding obligations payable by us to be immediately due and payable, terminate the commitments and exercise other rights and remedies provided for under the 2016 Credit Facility. The events of default under the 2016 Credit Facility include, among others, payment defaults, covenant defaults, bankruptcy and insolvency defaults, judgment defaults, inaccuracy of representations and warranties, cross-defaults to other material indebtedness and defaults relating to government approvals. A default interest rate will apply on all obligations during the existence of an event of default under the 2016 Credit Facility at a per annum rate of interest equal to 5.00% above the applicable interest rate; except that LIBOR advances will be subject to a per annum rate of interest equal to 5.00% above the prime rate reported in The Wall Street Journal in the event the applicable interest period applicable to such LIBOR advance expires during the existence of an event of default.

SVB and its affiliates have engaged in, and may in the future engage in, banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees

and commissions for these transactions.

The foregoing description of the 2016 Credit Facility is qualified in its entirety by reference to the full text of the 2016 Credit Facility, a copy of which is filed as Exhibit 10.1 of this Quarterly Report on Form 10-Q.

ITEM 6. EXHIBITS

See the Exhibit Index of this Quarterly Report on Form 10-Q for a list of exhibits filed or incorporated herein by reference.

SIGNATURES

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

A10 NETWORKS, INC.

Date: November 3, 2016

By: /s/ Lee Chen
Lee Chen
Chief Executive Officer and President
(Principal Executive Officer)

Date: November 3, 2016

By: /s/ Greg Straughn
Greg Straughn
Chief Financial Officer
(Principal Accounting and Financial Officer)

EXHIBIT INDEX

Exhibit Number	Description
10.1	Loan and Security Agreement, dated as of November 1, 2016, between A10 Networks, Inc. and Silicon Valley Bank.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act
32.1*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act
32.2*	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act
101.INS	XBRL Instant Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Extension Calculation Linkbase Document
101.DEF	XBRL Extension Definition Linkbase Document
101.LAB	XBRL Extension Labels Linkbase Document
101.PRE	XBRL Extension Presentation Linkbase Document

* The certifications attached as Exhibit 32.1 and 32.2 that accompany this Quarterly Report on Form 10 Q are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of A10 Networks, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10 Q, irrespective of any general incorporation language contained in such filing.