A10 Networks, Inc.
Form 10-Q
August 03, 2017

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

Form 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
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 and 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, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer”, “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

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

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

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

As of July 26, 2017, the number of outstanding shares of the registrant's common stock, par value $0.00001 per share, was 70,766,245.

A10 NETWORKS, INC.
FORM 10-Q

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	June 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$46,385	$ 28,975
Marketable securities	85,773	85,372
Accounts receivable, net of allowances of $2,476 and $3,619, respectively	41,370	66,755
Inventory	15,385	15,070
Prepaid expenses and other current assets	7,336	5,137
Total current assets	196,249	201,309
Property and equipment, net	8,266	8,219
Goodwill and intangible assets	7,218	7,940
Other non-current assets	4,930	3,870
Total assets	$216,663	$ 221,338
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$8,318	$ 9,851
Accrued liabilities	25,396	31,525
Deferred revenue	61,840	61,334
Total current liabilities	95,554	102,710
Deferred revenue, non-current	30,671	31,574
Other non-current liabilities	794	988
Total liabilities	127,019	135,272
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Common stock, $0.00001 par value: 500,000 shares authorized; 70,573 and 67,873 shares issued and outstanding, respectively	1	1
Additional paid-in-capital	344,817	328,869
Accumulated other comprehensive loss	(46)	(45)
Accumulated deficit	(255,128)	(242,759)
Total stockholders' equity	89,644	86,066
Total liabilities and stockholders' equity	$216,663	$ 221,338

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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue:				
Products	$32,100	$38,797	$71,806	$75,171
Services	21,589	18,333	42,169	35,763
Total revenue	53,689	57,130	113,975	110,934
Cost of revenue:				
Products	8,070	9,804	17,854	18,502
Services	4,623	4,405	8,983	8,934
Total cost of revenue	12,693	14,209	26,837	27,436
Gross profit	40,996	42,921	87,138	83,498
Operating expenses:				
Sales and marketing	25,561	26,773	51,824	53,541
Research and development	16,490	14,486	33,532	29,263
General and administrative	6,989	7,230	14,150	13,891
Litigation and settlement expense	—	202	—	1,993
Total operating expenses	49,040	48,691	99,506	98,688
Loss from operations	(8,044)	(5,770)	(12,368)	(15,190)
Other income (expense), net:				
Interest expense	(64)	(126)	(108)	(252)
Interest and other income (expense), net	(26)	1,020	816	1,235
Total other income (expense), net	(90)	894	708	983
Loss before income taxes	(8,134)	(4,876)	(11,660)	(14,207)
Provision for income taxes	135	59	509	263
Net loss	$(8,269)	$(4,935)	$(12,169)	$(14,470)
Net loss per share:				
Basic and diluted	$(0.12)	$(0.08)	$(0.18)	$(0.22)
Weighted-average shares used in computing net loss per share:				
Basic and diluted	69,770	64,861	69,173	64,584

See accompanying notes to the condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net loss	$(8,269)	$(4,935)	$(12,169)	$(14,470)
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on marketable securities	—	32	(1)	88
Comprehensive loss	$(8,269)	$(4,903)	$(12,170)	$(14,382)

See accompanying notes to the condensed consolidated financial statements.

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

	Six Months Ended June 30, 2017	2016
Cash flows from operating activities:		
Net loss	$ (12,169)	$ (14,470)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	4,332	3,717
Stock-based compensation	9,279	8,481
Other non-cash items	386	1,051
Changes in operating assets and liabilities:		
Accounts receivable, net	25,071	17,535
Inventory	(2,214)	2,846
Prepaid expenses and other assets	(3,196)	(479)
Accounts payable	(1,810)	(2,668)
Accrued liabilities	(5,544)	348
Deferred revenue	(397)	2,960
Other	33	(65)
Net cash provided by operating activities	13,771	19,256
Cash flows from investing activities:		
Purchases of marketable securities	(47,074)	(92,682)
Proceeds from sales and maturities of marketable securities	46,542	7,609
Payment for acquisition	—	(4,380)
Purchases of property and equipment	(1,513)	(2,588)
Net cash used in investing activities	(2,045)	(92,041)
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee equity incentive plans	7,207	3,350

Repurchase and retirement of common stock	(816		)	—		
Payment of contingent consideration	(650		)	—		
Other	(57		)	(50		)
Net cash provided by financing activities	5,684			3,300		
Net increase (decrease) in cash and cash equivalents	17,410			(69,485		)
Cash and cash equivalents - beginning of period	28,975			98,117		
Cash and cash equivalents - end of period	$	46,385		$	28,632	
Non-cash investing and financing activities:						
Common stock issued under asset purchase agreement	$	—		$	1,313	
Inventory transfers to property and equipment	$	1,899		$	1,112	
Purchases of property and equipment included in accounts payable	$	440		$	428	

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, “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 our customers to secure and optimize the performance of their data center and cloud applications and secure their users, applications and infrastructure from internet, web and network threats at scale. Our product portfolio consists of six advanced application delivery and security products: Application Delivery Controllers (“ADC”), Lightning Application Delivery Service (“Lightning ADS”), Carrier Grade Network Address Translation (“CGN”), Threat Protection System (“TPS”), SSL Insight (“SSLi”) and Convergent Firewall (“CFW”). They are available in a variety of form factors, such as optimized hardware appliances, bare metal software, virtual appliances, and cloud-native software.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include those of A10 Networks, Inc. and its subsidiaries after elimination of all intercompany accounts and transactions.

We have prepared the accompanying unaudited condensed consolidated financial statement pursuant to the rules and regulations of the United States Securities and Exchange Commission (the “SEC”). As permitted under these rules and regulations, we have condensed or omitted certain financial information and footnote disclosures we normally include in our annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

These financial statements have been prepared on the same basis as our annual financial statements and, in management's opinion, reflect all adjustments consisting only of normal recurring adjustments that are necessary for a fair presentation of our financial information. Our interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year.

These financial statements and accompanying notes should be read in conjunction with the financial statements and accompanying notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2016 on file with the SEC (our “Annual Report”).

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 related purchase price allocations, accrued liabilities, and the 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

There have been no material changes to our significant accounting policies as compared to the significant accounting policies described in our Annual Report.

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 held and invested in high-credit quality financial instruments by recognized financial institutions and therefore subject to minimum credit risk.

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 based on a number of factors, including past transaction experience, evaluation of credit history and review of the invoicing terms of the contract. We generally do not require our customers to provide collateral to support accounts receivable.

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. Revenues from our significant customers as a percentage of our total revenue are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Customer A (a distribution channel partner)	10%	*	11%	*
Customer B (a distribution channel partner)	*	11%	*	11%
Customer C (a direct customer)	*	10%	*	*

* represents less than 10% of total revenue

As of June 30, 2017, one customer accounted for 15% of our total gross accounts receivable. As of December 31, 2016, three customers accounted for 15%, 13% and 11% of our total gross accounts receivable.

Recent Accounting Pronouncements Not Yet Effective

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), which will supersede most of the existing revenue recognition guidance under U.S. GAAP. This ASU requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and requires the capitalization of incremental customer acquisition costs and amortization of these costs over the contract period or estimated customer life which will result in the recognition of a contract asset on our balance sheets. This standard is effective for annual periods beginning after December 15, 2017 and interim periods within that reporting period. The ASU allows for either full retrospective or modified retrospective adoption. We intend to adopt the standard in the first quarter of 2018 applying the modified retrospective method. While we are continuing to assess all potential impacts of the new standard, we currently do not believe this standard will have a material impact on revenue recognized in our condensed consolidated financial statements. We are in the process of evaluating both the impact of capitalizing and amortizing incremental customer acquisition costs, such as sales commissions on our service contracts, and the disclosure requirements relating to this standard.

In February 2016, the FASB issued 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. This standard 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 condensed consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. As a result, under this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the impairment loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This standard is effective prospectively for annual periods beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed after January 1, 2017. We are currently evaluating the impact of this guidance on our condensed consolidated financial statements and related disclosures.

In May 2017, the FASB issued ASU No. 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting, to provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. This standard is effective for annual periods beginning after December 15, 2017 and interim periods within that reporting period. Early adoption is permitted, including adoption in any interim period. The amendments will be applied prospectively to an award modified on or after the adoption date. We are currently evaluating the impact of this guidance on our condensed consolidated financial statements.

There have been no other recent accounting pronouncements or changes in accounting pronouncements that are of significance or potential significance to us.

2. Marketable Securities and Fair Value Measurements

Marketable Securities

Marketable securities, classified as available-for-sale, consisted of the following (in thousands):

	June 30, 2017				December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit	$13,500	$ 4	$ (1)	$13,503	$12,499	$ 9	$ —	$12,508
Corporate securities	42,516	5	(31)	42,490	42,765	9	(42)	42,732
U.S. Treasury and agency securities	3,493	—	(12)	3,481	5,190	—	(14)	5,176
Commercial paper	9,463	2	(1)	9,464	11,470	1	(2)	11,469
Asset-backed securities	16,847	—	(12)	16,835	13,493	—	(6)	13,487
	$85,819	$ 11	$ (57)	$85,773	$85,417	$ 19	$ (64)	$85,372

During the six months ended June 30, 2017 and 2016, we did not reclassify any amount to earnings from accumulated other comprehensive loss related to unrealized gains or losses.

The following table summarizes the cost and estimated fair value of marketable securities based on stated effective maturities as of June 30, 2017 (in thousands):

	Amortized Cost	Fair Value
Less than 1 year	$ 50,898	$50,881
Mature in 1 - 3 years	34,921	34,892
	$ 85,819	$85,773

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 consisted of the following (in thousands):

	Less Than 12 Months		12 Months or More		Total	
As of June 30, 2017	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Certificates of deposit	$3,499	$ (1)	$—	$ —	$3,499	$ (1)
Corporate securities	30,063	(25)	1,498	(6)	31,561	(31)
U.S. Treasury and agency securities	3,480	(12)	—	—	3,480	(12)
Commercial paper	4,984	(1)	—	—	4,984	(1)
Asset-backed securities	16,835	(12)	—	—	16,835	(12)
	$58,861	$ (51)	$1,498	$ (6)	$60,359	$ (57)

As of December 31, 2016	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate securities	$28,537	$ (42)	$ —	$ —	$28,537	$ (42)
U.S. Treasury and agency securities	5,176	(14)	—	—	5,176	(14)
Commercial paper	8,974	(2)	—	—	8,974	(2)
Asset-backed securities	10,664	(6)	—	—	10,664	(6)
	$53,351	$ (64)	$ —	$ —	$53,351	$ (64)

Based on evaluation of securities that have been in a continuous loss position, we did not recognize any other-than-temporary impairment charges during the six months ended June 30, 2017 and 2016.

Fair Value Measurements

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

	June 30, 2017				December 31, 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash	$36,050	$—	$ —	$36,050	$18,672	$—	$ —	$18,672
Cash equivalents	10,335	—	—	10,335	10,303	—	—	10,303
Certificates of deposit	—	13,503	—	13,503	—	12,508	—	12,508
Corporate securities	—	42,490	—	42,490	—	42,732	—	42,732
U.S. Treasury and agency securities	—	3,481	—	3,481	—	5,176	—	5,176
Commercial paper	—	9,464	—	9,464	—	11,469	—	11,469
Asset-backed securities	—	16,835	—	16,835	—	13,487	—	13,487
	$46,385	$85,773	$ —	$132,158	$28,975	$85,372	$ —	$114,347

There were no transfers between Level 1 and Level 2 fair value measurement categories during the six months ended June 30, 2017 and 2016.

3. Condensed Consolidated Financial Statement Details

Inventory

	June 30, 2017	December 31, 2016
	(in thousands)	
Raw materials	$6,795	$ 6,669
Finished goods	8,590	8,401
Total inventory	$15,385	$ 15,070

Property and Equipment, Net

	Useful Life	June 30, 2017	December 31, 2016
	(in years)	(in thousands)	
Equipment	1-3	$45,252	$ 41,815
Software	1-3	3,824	3,801
Furniture and fixtures	1-3	865	865
Leasehold improvements	2-8	2,775	2,724
Construction in progress		—	258
Property and equipment, gross		52,716	49,463
Less: accumulated depreciation		(44,450)	(41,244)
Property and equipment, net		$8,266	$ 8,219

Depreciation expense on property and equipment was $1.8 million each for the three months ended June 30, 2017 and 2016, and $3.6 million and $3.7 million for the six months ended June 30, 2017 and 2016, respectively.

Goodwill and Intangible Assets

Goodwill as of June 30, 2017 and December 31, 2016 was $1.3 million.

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

	June 30, 2017			December 31, 2016		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Developed technology	$5,050	$ (1,010)	$4,040	$5,050	$ (505)	$4,545
Patents	2,936	(1,065)	1,871	2,936	(848)	2,088
Total	$7,986	$ (2,075)	$5,911	$7,986	$ (1,353)	$6,633

Amortization expense related to purchased intangible assets was $0.4 million and $33,000 for the three months ended June 30, 2017 and 2016, respectively, and $0.7 million and $0.1 million for the six months ended June 30, 2017 and 2016, respectively. Purchased intangible assets are amortized over a remaining weighted average useful life of 4.1 years.

Future amortization expense for purchased intangible assets as of June 30, 2017 is as follows (in thousands):

Fiscal Year	
Remainder of 2017	$721
2018	1,442
2019	1,442
2020	1,442
2021	864
	$5,911

Accrued Liabilities

	June 30, 2017	December 31, 2016
	(in thousands)	
Accrued compensation and benefits	$18,968	$ 22,326
Accrued tax liabilities	1,787	3,340
Other	4,641	5,859
Total accrued liabilities	$25,396	$ 31,525

Deferred Revenue

	June 30, 2017	December 31, 2016
	(in thousands)	
Deferred revenue:		
Products	$3,319	$ 4,182
Services	89,192	88,726
Total deferred revenue	92,511	92,908
Less: current portion	(61,840)	(61,334)
Non-current portion	$30,671	$ 31,574

4. Credit Facility

In November 2016, we entered into a loan and security agreement (the “2016 Credit Facility”) with Silicon Valley Bank ("SVB"), as the lender. The 2016 Credit Facility provides a three-year, $25.0 million revolving credit subfacility, which includes a maximum of $25.0 million letter of credit subfacility. When the balance of our cash, cash equivalents and marketable securities minus outstanding revolving loans and letters of credit equals or exceeds $50.0 million, loans may be advanced under the 2016 Credit Facility up to the full $25.0 million. When the balance of our cash, cash equivalents and marketable securities minus outstanding revolving loans and letters of credit 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. 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. In addition, the 2016 Credit Facility requires us to maintain compliance with an adjusted quick ratio of not less than 1.50:1.00, as determined in accordance with the 2016 Credit Facility. As of June 30, 2017, 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 have involved, and may involve in the future, claims that are subject to substantial uncertainties and unascertainable damages.

Lease 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 2022. 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.

Guarantees and Indemnifications

In the normal course of business, we provide indemnifications to customers against claims of intellectual property infringement made by third parties arising from the use of our products. 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 these indemnification and guarantee provisions, and our guarantees and indemnification arrangements have not had any significant impact on our consolidated financial statements to date.

6. Equity Incentive Plans and Stock-Based Compensation

Equity Incentive Plans

2014 Equity Incentive Plan

The 2014 Equity Incentive Plan (the “2014 Plan”) provides for the granting of stock options, restricted stock awards, restricted stock units (“RSUs”), performance-based RSUs (“PSUs”), stock appreciation rights, performance units and performance shares to our employees, consultants and members of our board of directors. In June 2015, our board of directors adopted and our stockholders approved an amendment and restatement of the 2014 Plan, which increased the number of shares available for issuance under the 2014 Plan by the number of shares granted under the 2008 Stock Plan (the “2008 Plan”) that were or may in the future be canceled or otherwise forfeited or repurchased after March 20, 2014. A maximum of 8,310,566 shares may become available from such awards granted under the 2008 Plan for issuance under the 2014 Plan.

As of December 31, 2016, we had 4,241,980 shares available for future grant. Annually, the shares authorized for the 2014 Plan 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, 2017, the number of shares in the 2014 Plan increased by 3,394,376 shares, representing 5% of the prior year end’s common stock outstanding. In addition, 266,799 shares granted under the 2008 Plan that had been canceled, forfeited or repurchased during the year ended December 31, 2016 became available for issuance under the 2014 Plan.

As of June 30, 2017, we had 5,927,133 shares available for future grant plus an additional 81,188 shares granted under the 2008 Plan that have been canceled, forfeited or repurchased during the six months ended June 30, 2017.

2014 Employee Stock Purchase Plan

The 2014 Employee Stock Purchase Plan (the "2014 Purchase Plan") provides for twenty-four month offering periods with four six-month purchase periods in each offering period. Employees purchase shares in each purchase period at 85% of the market value of our common stock at the beginning of the offering period or the end of the purchase period, whichever is lower. If the market value of our common stock at the end of the purchase period is less than the market value at the beginning of the offering period, participants will be withdrawn from the then current offering period following their purchase of shares, and automatically will be enrolled in the immediately following offering period. Participants may contribute up to 15% of their eligible compensation, subject to certain limits.

Employees purchased 524,101 shares at an average price of $6.49 and 552,554 shares at an average price of $3.88 for the six months ended June 30, 2017 and 2016, respectively. The intrinsic value of shares purchased during the six months ended June 30, 2017 and 2016 was $0.9 million and $1.3 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. As of June 30, 2017, we had 3,579,959 shares available for future issuance under the 2014 Purchase Plan.

Stock-Based Compensation

A summary of our stock-based compensation expense is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Stock-based compensation by type of award:				
Stock options	$791	$1,081	$1,610	$2,181
Stock awards	3,351	3,423	6,300	6,383
Employee stock purchase plan	821	(635)	1,369	(83)
	$4,963	$3,869	$9,279	$8,481
Stock-based compensation by category of expense:				
Cost of revenue	$382	$224	$665	$589
Sales and marketing	1,888	1,732	3,424	3,817
Research and development	1,823	1,090	3,487	2,521
General and administrative	870	823	1,703	1,554
	$4,963	$3,869	$9,279	$8,481

As of June 30, 2017, we had $47.2 million of unrecognized stock-based compensation expense related to unvested stock-based awards which will be recognized over a weighted-average period of 2.6 years.

The fair value of the options was estimated as of the grant date using the Black-Scholes option-pricing model with the following assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Expected term (in years)	4.7	*	4.7	4.9
Risk-free interest rate	1.74%	*	1.74%	1.42%
Volatility	42%	*	42%	49%
Dividend rate	—%	*	—%	—%

* We did not grant stock options during the three months ended June 30, 2016.

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

	Three and Six Months Ended June 30,	
	2017	2016
Expected term (in years)	1.3	1.3
Risk-free interest rate	1.12%	0.65%
Volatility	38%	43%
Dividend rate	—%	—%

Stock Options

The following tables summarize our stock option activities and related information:

	Number of Shares (thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (thousands)
Outstanding as of December 31, 2016	7,868	$ 4.82		
Granted	135	$ 8.42		
Exercised	(1,130)	$ 3.37		
Canceled (1)	(350)	$ 6.38		
Outstanding as of June 30, 2017	6,523	$ 5.07	5.7	$ 23,134
Vested and exercisable as of June 30, 2017	5,097	$ 4.93	5.1	$ 18,819

(1) Includes 81,188 shares of canceled stock options from the 2008 Plan that became available for issuance under the 2014 Plan.

As of June 30, 2017, the aggregate intrinsic value represents the excess of the closing price of our common stock of $8.44 over the exercise price of the outstanding in-the-money options.

The following table provides information pertaining to our stock options (in thousands, except weighted-average fair value):

	Six Months Ended June 30,	
	2017	2016
Fair value of options granted	$426	$1,603
Weighted-average fair value of options granted	$3.15	$2.38
Intrinsic value of options exercised	$6,429	$832

Stock Awards

We have granted RSUs to our employees, consultants and members of our board of directors, and PSUs and market performance-based restricted stock units (“MSUs”) to certain executives.

In 2014 and 2015, we granted 540,000 MSUs and 40,000 MSUs, respectively, to certain executives. 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 grant date, subject to continued service by the award holder. None of these MSUs were vested as of June 30, 2017.

In February 2016, we granted 547,000 PSUs with certain financial and operational targets. Actual performance resulted in participants achieving 80% of target, or approximately 414,000 shares, which will vest in annual tranches through February 2020 subject to continued service vesting requirements.

In October 2016, we granted 60,641 PSUs with certain financial and operational targets. To the extent they become eligible to vest upon achievement of the performance targets, these PSUs additionally are subject to service condition vesting requirements with scheduled vesting dates of March 2017 through June 2018. As of June 30, 2017, 12,128 shares had vested, 12,128 shares were forfeited, and the remaining shares were unvested and are eligible to vest based on achievement of performance targets.
In March 2017, we granted 395,383 PSUs with certain financial targets. These PSUs will vest between ranges of 0% and 150% based on the actual performance, and are subject to service condition vesting requirements

with 25% of the PSUs that become eligible to vest upon achievement of the performance targets scheduled to vest on each of the first, second, third and fourth year anniversaries following February 2017. None of these PSUs were vested as of June 30, 2017.

The following table summarizes our stock award activities and related information:

	Number of Shares (thousands)	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Vesting Term (years)	Aggregate Intrinsic Value (thousands)
Outstanding as of December 31, 2016	5,959	$ 5.81		
Granted	2,732	$ 8.73		
Released	(1,133)	$ 6.13		
Canceled	(623)	$ 5.64		
Outstanding as of June 30, 2017	6,935	$ 6.92	1.8	$ 58,533

The aggregate intrinsic value of outstanding awards is calculated based on the closing price of our common stock of $8.44 on June 30, 2017.

The aggregate fair value of stock awards released as of the respective vesting dates was approximately $10.2 million and $1.8 million for the six months ended June 30, 2017 and 2016, respectively.

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 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.

During the six months ended June 30, 2017, we repurchased 99,735 shares at an average price of $8.18 as a part of a publicly announced program. The repurchased shares were retired upon delivery to us. As of June 30, 2017, we had $17.4 million remaining authorized to repurchase shares.

7. Net Loss Per Share

Basic net loss per share is computed using the weighted average number of common shares outstanding for the period. Diluted net loss per share is computed using the weighted average number of common shares outstanding for the period plus potential dilutive common shares, including stock options, RSUs and employee stock purchase rights, unless the potential common shares are anti-dilutive. Since we had net losses in the three and six months ended June 30, 2017 and 2016, none of the potential dilutive common shares were included in the computation of diluted shares for these periods, as inclusion of such shares would have been anti-dilutive.

The following table presents common shares related to potentially dilutive shares excluded from the calculation of diluted net loss per share as their effect would have been anti-dilutive (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Stock options, RSUs and employee stock purchase rights	12,340	13,567	12,761	11,736
Common stock subject to repurchase	2	28	2	28
	12,342	13,595	12,763	11,764

8. Income Taxes

We recorded income tax expense of $0.1 million each for the three months ended June 30, 2017 and 2016 and $0.5 million and $0.3 million for the six months ended June 30, 2017 and 2016, 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 our 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 June 30, 2017. 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 $3.3 million of unrecognized tax benefits as of June 30, 2017 and December 31, 2016. 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.

We are subject to taxation in the United States, various states, and several foreign jurisdictions. Because we have net operating loss and credit carryforwards, there are open statutes of limitations in which federal, state and foreign taxing authorities may examine our tax returns for all years from 2004 through the current period. We are currently under examination by the Internal Revenue Service for our 2015 and 2014 tax returns.

9. Geographic Information

The following table is a summary of revenue by geographic regions based on ship to location (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
United States	$28,636	$31,345	$59,292	$60,945
Japan	8,406	10,954	21,485	21,838
Asia Pacific, excluding Japan	8,661	7,746	18,902	14,477
EMEA	6,786	5,860	11,994	10,927
Other	1,200	1,225	2,302	2,747
Total revenue	$53,689	$57,130	$113,975	$110,934

Our long-lived assets which include property and equipment, net and intangible assets, net is primarily located in the United States. No other geographic regions comprised 10% or more of our long-lived assets as of June 30, 2017 and December 31, 2016.

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 (“MD&A”) should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this document. In addition to historical information, the MD&A contains forward-looking statements. The words “believe,” “may,” “will,” “potentially,” “estimate,” “continue,” “anticipate,” “intend,” “could,” “would,” “project,” “plan” “expect,” and s expressions that convey 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, if any;
- 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 litigation, if any;
- our ability to maintain, protect, and enhance our brand and intellectual property;
- future acquisitions of or investments in complementary companies, products, services or technologies; and
- our ability to effectively integrate operations of entities we have acquired or may acquire.

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

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 software and hardware solutions designed to address our customers' needs for secure application services. Our solutions enable our customers to secure and optimize the performance of their data center and cloud applications and secure their users, applications and infrastructure from internet, web and network threats at scale. We deliver a broad portfolio of hardware, software, and cloud offerings to our customers. These solutions are designed to give customers the visibility, performance, and security their applications need across both on-premise and cloud environments to produce greater agility for their businesses. Our customers include cloud providers, web-scale companies, service providers, government organizations and enterprises.

Our product portfolio seeks to address many of the aforementioned challenges and solution requirements. The portfolio consists of six advanced application delivery and security products; Application Delivery Controllers ("ADC"), Lightning Application Delivery Service ("Lightning ADS"), Carrier Grade Network Address Translation ("CGN"), Threat Protection System ("TPS"), SSL Insight ("SSLi") and Convergent Firewall ("CFW"). They are available in a variety of form factors, such as optimized hardware appliances, bare metal software, virtual appliances, and cloud-native software.

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 customers predominantly purchase maintenance and support in conjunction with purchases of our products. In addition, we also derive revenue 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, gaming, education and government. Since inception, our customer base has grown rapidly. As of June 30, 2017, we had sold products to approximately 5,800 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 half of 2017, 52% of our total revenue was generated from the United States, 19% from Japan and 29% from other geographical regions. During the first half of 2016, 55% of our total revenue was generated from the United States, 20% from Japan and 25% from other geographical regions. Our enterprise customers accounted for 56% and 58% of our total revenue during the first half of 2017 and 2016, respectively. Our service provider customers accounted for 44% and 42% of our total revenue during the first half of 2017 and 2016, 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 customers, including service providers, in any period. During the first half of 2017 and 2016, purchases from our ten largest end-customers accounted for 40% and 35% of our total revenue, 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 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 June 30, 2017, we had $46.4 million of cash and cash equivalents and $85.8 million of marketable securities. Cash generated by operating activities was $13.8 million during the first half of 2017 as compared to $19.3 million during the same period of 2016.

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 may 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

A summary of our condensed consolidated statements of operations for the three months ended June 30, 2017 and 2016 is as follows (dollars in thousands):

	Three Months Ended June 30,					
	2017		2016		Change	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue	Amount	Percent
Revenue:						
Products	$32,100	59.8 %	$38,797	67.9 %	$(6,697)	(17)%
Services	21,589	40.2	18,333	32.1	3,256	18 %
Total revenue	53,689	100.0	57,130	100.0	(3,441)	(6)%
Cost of revenue:						
Products	8,070	15.0	9,804	17.2	(1,734)	(18)%
Services	4,623	8.6	4,405	7.7	218	5 %
Total cost of revenue	12,693	23.6	14,209	24.9	(1,516)	(11)%
Gross profit	40,996	76.4	42,921	75.1	(1,925)	(4)%
Operating expenses:						
Sales and marketing	25,561	47.7	26,773	46.9	(1,212)	(5)%
Research and development	16,490	30.7	14,486	25.4	2,004	14 %
General and administrative	6,989	13.0	7,230	12.6	(241)	(3)%
Litigation and settlement expense	—	—	202	0.3	(202)	(100)%
Total operating expenses	49,040	91.4	48,691	85.2	349	1 %
Loss from operations	(8,044)	(15.0)	(5,770)	(10.1)	(2,274)	39 %
Other income (expense), net:						
Interest expense	(64)	(0.1)	(126)	(0.2)	62	(49)%
Interest and other income (expense), net	(26)	—	1,020	1.8	(1,046)	(103)%
Total other income (expense), net	(90)	(0.1)	894	1.6	(984)	(110)%
Loss before income taxes	(8,134)	(15.1)	(4,876)	(8.5)	(3,258)	67 %
Provision for income taxes	135	0.3	59	0.1	76	129 %
Net loss	$(8,269)	(15.4)%	$(4,935)	(8.6)%	$(3,334)	68 %

	Six Months Ended June 30,					
	2017		2016		Change	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue	Amount	Percent
Revenue:						
Products	$71,806	63.0 %	$75,171	67.8 %	$(3,365)	(4)%
Services	42,169	37.0	35,763	32.2	6,406	18 %
Total revenue	113,975	100.0	110,934	100.0	3,041	3 %
Cost of revenue:						
Products	17,854	15.7	18,502	16.7	(648)	(4)%
Services	8,983	7.9	8,934	8.0	49	1 %
Total cost of revenue	26,837	23.6	27,436	24.7	(599)	(2)%
Gross profit	87,138	76.4	83,498	75.3	3,640	4 %
Operating expenses:						
Sales and marketing	51,824	45.5	53,541	48.3	(1,717)	(3)%
Research and development	33,532	29.4	29,263	26.4	4,269	15 %
General and administrative	14,150	12.4	13,891	12.5	259	2 %
Litigation and settlement expense	—	—	1,993	1.8	(1,993)	(100)%
Total operating expenses	99,506	87.3	98,688	89.0	818	1 %
Loss from operations	(12,368)	(10.9)	(15,190)	(13.7)	2,822	(19)%
Other income (expense), net:						
Interest expense	(108)	(0.1)	(252)	(0.2)	144	(57)%
Interest and other income (expense), net	816	0.7	1,235	1.1	(419)	(34)%
Total other income, net	708	0.6	983	0.9	(275)	(28)%
Loss before income taxes	(11,660)	(10.3)	(14,207)	(12.8)	2,547	(18)%
Provision for income taxes	509	0.4	263	0.2	246	94 %
Net loss	$(12,169)	(10.7)%	$(14,470)	(13.0)%	$2,301	(16)%

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, SSLi or 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 (“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 June 30,					
	2017		2016		Change	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue	Amount	Percent
Revenue:						
Products	$32,100	60 %	$38,797	68 %	$(6,697)	(17)%
Services	21,589	40	18,333	32	3,256	18 %
Total revenue	$53,689	100 %	$57,130	100 %	$(3,441)	(6)%
Revenue by geographic region:						
United States	$28,636	53 %	$31,345	55 %	$(2,709)	(9)%
Japan	8,406	16	10,954	19	(2,548)	(23)%
Asia Pacific, excluding Japan	8,661	16	7,746	14	915	12 %
EMEA	6,786	13	5,860	10	926	16 %
Other	1,200	2	1,225	2	(25)	(2)%
Total revenue	$53,689	100 %	$57,130	100 %	$(3,441)	(6)%

	Six Months Ended June 30,					
	2017		2016		Change	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue	Amount	Percent
Revenue:						
Products	$71,806	63 %	$75,171	68 %	$(3,365)	(4)%
Services	42,169	37	35,763	32	6,406	18 %
Total revenue	$113,975	100 %	$110,934	100 %	$3,041	3 %
Revenue by geographic region:						
United States	$59,292	52 %	$60,945	55 %	$(1,653)	(3)%
Japan	21,485	19	21,838	20	(353)	(2)%
Asia Pacific, excluding Japan	18,902	17	14,477	13	4,425	31 %
EMEA	11,994	10	10,927	10	1,067	10 %
Other	2,302	2	2,747	2	(445)	(16)%
Total revenue	$113,975	100 %	$110,934	100 %	$3,041	3 %

Total revenue decreased by $3.4 million, or 6%, during the second quarter of 2017 as compared to the same period of 2016. This decrease was due to a $6.7 million decrease in products revenue, partially offset by $3.3 million increase in services revenue. Revenue from enterprise and service provider customers decreased 5% and 7%, respectively, in the second quarter of 2017 as compared to the same period of 2016.

Total revenue increased $3.0 million, or 3%, during the first half of 2017 as compared to the same period of 2016. This increase was due to a $6.4 million increase in services revenue, partially offset by a $3.4 million decrease in products revenue primarily attributable to a decline in ADC products revenue. Revenue from service provider and enterprise customers increased 8% and decreased 1%, respectively, during the first half of 2017 as compared to the same period of 2016.

Products revenue decreased $6.7 million, or 17%, and $3.4 million, or 4%, during the second quarter and the first half of 2017, respectively, as compared to the same periods of 2016. The decrease was primarily attributable to decreases from the United States and Japan as a number of deals in our pipeline did not close during the second quarter of 2017.

Services revenue increased $3.3 million, or 18%, and $6.4 million, or 18%, during the second quarter and the first half of 2017, respectively, as compared to the same periods of 2016. The increase was primarily attributable to the increase in PCS sales in connection with our increased installed customer base. During the first half of 2017, services revenue recognized from our installed customer base with contracts existing at the beginning of the year grew by 20% as compared to the same measure during the first half of 2016.

During the second quarter of 2017, $28.6 million, or 53% of total revenue, was generated from the United States, which represents a 9% decrease as compared to the same period of 2016. During the first half of 2017, $59.3 million, or 52% of total revenue, was generated from the United States, which represents a 3% decrease as compared to the same period of 2016. The decrease was primarily due to lower products revenue, partially offset by higher services revenue attributable to the increase in PCS sales in connection with our increased installed customer base.

During the second quarter of 2017, $8.4 million, or 16% of total revenue, was generated from Japan, which represents a 23% decrease as compared to the same period of 2016. During the first half of 2017, $21.5 million, or 19% of total revenue, was generated from Japan, which represents a 2% decrease as compared to the same period of 2016. The decrease was primarily due to lower products revenue, partially offset by higher services revenue from PCS sales in connection with our increased installed customer base.

During the second quarter of 2017, $8.7 million, or 16% of total revenue, was generated from Asia Pacific regions excluding Japan, which represents a 12% increase as compared to the same period of 2016. During the first half of 2017, $18.9 million, or 17% of total revenue, was generated from Asia Pacific regions excluding Japan, which represents a 31% increase as compared to the same period of 2016. The increase was primarily due to higher products revenue and to a lesser degree higher services revenue from PCS sales in connection with our increased installed customer base.

During the second quarter of 2017, $6.8 million, or 13% of total revenue, was generated from EMEA, which represents a 16% increase as compared to the same period of 2016. During the first half of 2017, $12.0 million, or 10% of total revenue, was generated from EMEA, which represents a 10% increase as compared to the same period of 2016. The increase was primarily due to higher products revenue and higher services revenue from PCS sales in connection with our increased installed customer base.

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 inventory for the hardware component of our products. Cost of products revenue 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.

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

	Three Months Ended June 30,		Change	
	2017	2016	Amount	Percent
Cost of revenue:				

Products	$8,070	$9,804	$(1,734)	(18)%
Services	4,623	4,405	218	5 %
Total cost of revenue	$12,693	$14,209	$(1,516)	(11)%

	Six Months Ended June 30,		Change	
	2017	2016	Amount	Percent
Cost of revenue:				
Products	$17,854	$18,502	$(648)	(4)%
Services	8,983	8,934	49	1 %
Total cost of revenue	$26,837	$27,436	$(599)	(2)%

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 June 30,					
	2017		2016		Change	
	Amount	Gross Margin	Amount	Gross Margin	Amount	Gross Margin
Gross profit:						
Products	$24,030	74.9 %	$28,993	74.7 %	$(4,963)	0.2 %
Services	16,966	78.6 %	13,928	76.0 %	3,038	2.6 %
Total gross profit	$40,996	76.4 %	$42,921	75.1 %	$(1,925)	1.3 %

	Six Months Ended June 30,					
	2017		2016		Change	
	Amount	Gross Margin	Amount	Gross Margin	Amount	Gross Margin
Gross profit:						
Products	$53,952	75.1 %	$56,669	75.4 %	$(2,717)	(0.3)%
Services	33,186	78.7 %	26,829	75.0 %	6,357	3.7 %
Total gross profit	$87,138	76.5 %	$83,498	75.3 %	$3,640	1.2 %

Products gross margin remained relatively unchanged during the second quarter and the first half of 2017 as compared to the same periods of 2016.

Services gross margins increased 2.6% and 3.7% during the second quarter and the first half of 2017 as compared to the same periods of 2016, respectively, primarily due to higher services revenue while the personnel costs related to support, professional services and maintenance remained relatively constant.

Operating Expenses

Our operating expenses consist of sales and marketing, research and development, general and administrative and litigation and settlement 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 June 30,		Change	
	2017	2016	Amount	Percent
Operating expenses:				
Sales and marketing	$25,561	$26,773	$(1,212)	(5)%
Research and development	16,490	14,486	2,004	14 %
General and administrative	6,989	7,230	(241)	(3)%
Litigation and settlement expense	—	202	(202)	(100)%
Total operating expenses	$49,040	$48,691	$349	1 %

	Six Months Ended June 30,		Change	
	2017	2016	Amount	Percent
Operating expenses:				
Sales and marketing	$51,824	$53,541	$(1,717)	(3)%
Research and development	33,532	29,263	4,269	15 %
General and administrative	14,150	13,891	259	2 %
Litigation and settlement expense	—	1,993	(1,993)	(100)%
Total operating expenses	$99,506	$98,688	$818	1 %

Sales and Marketing

Sales and marketing expenses are our largest functional category of 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 $1.2 million, or 5%, during the second quarter of 2017 as compared to the same period of 2016 primarily attributable to a $1.0 million decrease in business and office expense and a $0.3 million decrease in personnel costs, partially offset by a $0.1 million increase in facilities expense.

Sales and marketing expenses decreased $1.7 million, or 3%, during the first half of 2017 as compared to the same period of 2016 primarily attributable to a $0.8 million decrease in personnel costs, a $0.6 million decrease in business and office expense and a $0.5 million decrease in travel and entertainment, partially offset by a $0.2 million increase in facilities expense.

Sales and marketing expenses may 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 $2.0 million, or 14%, during the second quarter of 2017 as compared to the same period of 2016 primarily attributable to a $1.4 million increase in personnel costs due to higher headcount, which includes a $0.7 million increase in stock-based compensation, a $0.3 million increase in depreciation expense and a $0.3 million increase in contractors and consultants.

Research and development expense increased $4.3 million, or 15%, during the first half of 2017 as compared to the same period of 2016 primarily attributable to a $3.0 million increase in personnel costs due to higher headcount, which includes a $1.0 million increase in stock-based compensation, a $0.7 million increase in depreciation expense and a $0.4 million increase in contractors and consultants.

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 $0.2 million, or 3%, during the second quarter of 2017 as compared to the same period of 2016 primarily attributable to a $0.3 million decrease in business and office expense, partially offset by a $0.1 million increase in personnel costs.

General and administrative expenses increased $0.3 million, or 2%, during the first half of 2017 as compared to the same period of 2016 primarily due to a $0.6 million increase in personnel costs, a $0.2 million increase in contractors and consultants and a $0.2 million increase in recruiting costs, partially offset by a $0.6 million decrease in business and office expense.

General and administrative expenses may 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.

We had no litigation and settlement expense during the first half of 2017. Litigation and settlement expense of $0.2 million and $2.0 million during the second quarter and the first half of 2016, respectively, was due to the class action and the derivative action lawsuits which were settled in the second quarter of 2016.

Interest Expense

Interest expense consists primarily of interest expense and amortization of debt issuance costs. At June 30, 2017, we had no outstanding balances on our credit facility. We expect to continue to incur commitment fees associated with the undrawn balance of our credit facility. At such time we choose to draw down on the credit facility, we would reduce the commitment fees accrued and increase the interest on outstanding balances.

Interest expense was immaterial and remained relatively unchanged during the second quarter and the first half of 2017 as compared to the same periods of 2016.

Interest and Other Income (Expense), Net

Interest income consists primarily of interest income earned on our cash and cash equivalents and marketable securities. Other income (expense) consists primarily of foreign currency exchange gains and losses.

Interest and other income (expense), net, decreased $1.0 million, or 103%, during the second quarter of 2017 as compared to the same period of 2016 primarily attributable to decrease in foreign exchange gains.

Interest and other income (expense), net, decreased $0.4 million, or 34%, during the first half of 2017 as compared to the same period of 2016 primarily due to a $0.7 million decrease in foreign exchange gains, partially offset by a $0.2 million increase in interest income attributable to increases in our investment in marketable securities.

Provision for Income Taxes

We recorded income tax provision of $0.1 million each for the three months ended June 30, 2017 and 2016 and $0.5 million and $0.3 million for the six months ended June 30, 2017 and 2016, respectively, which primarily consisted of foreign taxes. Incomes 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 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 June 30, 2017, we had cash and cash equivalents of $46.4 million, including $3.9 million held outside the United States in our foreign subsidiaries, and $85.8 million of marketable securities. We currently do not have any plans to repatriate our earnings from our foreign operations. As of June 30, 2017, we had working capital of $100.7 million, accumulated deficit of $255.1 million and total stockholders' equity of $89.6 million.

We plan to continue to invest for long-term growth and our investment may 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 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. During the six months ended June 30, 2017, we repurchased 99,735 shares at an average price of $8.18 per share and used approximately $0.8 million of cash. As of June 30, 2017, we had $17.4 million remaining authorized to repurchase shares.

In addition, as described in Note 5. Commitments and Contingencies to the condensed consolidated financial statements, we may be from time to time involved in 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 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 subfacility. When the balance of our cash, cash equivalents and marketable securities minus outstanding revolving loans and letters of credit equals or exceeds $50.0 million, loans may be advanced under the 2016 Credit Facility up to the full $25.0 million. When the balance of our cash, cash equivalents and marketable securities minus outstanding revolving loans and letters of credit 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. 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%.

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, and customary events of default. In addition, the 2016 Credit Facility requires us to maintain compliance with an adjusted quick ratio of not less than 1.50:1.00, as determined in accordance with the 2016 Credit Facility. As of June 30, 2017, 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):

	Six Months Ended June 30,	
	2017	2016
Cash provided by (used in):		
Operating activities	$13,771	$19,256
Investing activities	(2,045)	(92,041)
Financing activities	5,684	3,300
Net increase (decrease) in cash and cash equivalents	$17,410	$(69,485)

Cash Flows from Operating Activities

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

During the six months ended June 30, 2017, cash provided by operating activities was $13.8 million, consisting of a net loss of $12.2 million, non-cash charges of $14.0 million and cash increase resulting from the net change in operating assets and liabilities of $11.9 million. Our non-cash charges consisted primarily of stock-based compensation expense of $9.3 million and depreciation and amortization expenses of $4.3 million. The net change in our operating assets and liabilities primarily reflects an inflow from the changes in accounts receivable of $25.1 million, and an outflow from the changes in accrued liabilities of $5.5 million, prepaid expenses and other assets of $3.2 million, inventory of $2.2 million, accounts payable of $1.8 million and deferred revenue of $0.4 million.

The decrease in accounts receivable was primarily due to improved cash collections. The decrease in accrued liabilities was primarily due to lower accrued bonuses and commissions. The increase in prepaid expenses and other assets was primarily due to prepaid insurance and software subscription renewals. The increase in inventory was primarily due to the inventory build-up for anticipated future demand. The decrease in accounts payable was primarily due to the timing of vendor invoice payments. The decrease in deferred revenue was primarily due to lower contract renewals.

During the six months ended June 30, 2016, cash provided by operating activities was $19.3 million, consisting of a net loss of $14.5 million, non-cash charges of $13.2 million and cash increase resulting from the net change in operating assets and liabilities of a $20.5 million. Our non-cash charges consisted primarily of stock-based compensation expense of $8.5 million, depreciation and amortization expenses of $3.7 million and other non-cash items of $1.1 million. The net changes in our operating assets and liabilities primarily reflects an inflow from the changes in accounts receivable of $17.5 million, deferred revenue of $3.0 million and inventory of $2.8 million, and an outflow from the changes in accounts payable of $2.3 million and prepaid expenses and other assets of $0.5 million.

The decrease in accounts receivable was primarily due to improved cash collections. The increase in deferred revenue was due to an increase in PCS sales in connection with our increased installed customer base. The decrease in accounts payable and accrued liabilities was primarily due to the timing of vendor invoice payments.

Cash Flows from Investing Activities

During the six months ended June 30, 2017, cash used in investing activities was $2.0 million, consisting of purchases of property and equipment of $1.5 million and net purchases of marketable securities of $0.5 million.

During the six months ended June 30, 2016, cash used in investing activities was $92.0 million, consisting of net purchases of marketable securities of $85.1 million, payment for the acquisition of Appcito Inc. of $4.4 million and purchases of property and equipment of $2.6 million.

Cash Flows from Financing Activities

During the six months ended June 30, 2017, cash provided by financing activities was $5.7 million, primarily consisting of proceeds from common stock issuances under our equity incentive plans of $7.2 million, partially offset by repurchase and retirement of common stock of $0.8 million and payment of contingent consideration of $0.7 million.

During the six months ended June 30, 2016, cash provided by financing activities was $3.3 million, primarily consisting of proceeds from common stock issuances under our equity incentive plans.

Contractual Obligations

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 six months ended June 30, 2017 as compared to the contractual obligations disclosed in MD&A of our Annual Report on Form 10-K for the year ended December 31, 2016.

Off-Balance Sheet Arrangements

As of June 30, 2017, 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.

There have been no significant changes in our critical accounting policies and estimates during the six months ended June 30, 2017 as compared to the critical accounting policies and estimates disclosed in MD&A of our Annual Report on Form 10-K for the year ended December 31, 2016.

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. In 2016, we initiated a hedging program with respect to foreign currency risk. 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 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, British Pound and Euro, and the U.S. dollar could have an adverse impact on our consolidated financial position and results of operations.

We recorded $0.2 million and $0.9 million foreign exchange gains during the six months ended June 30, 2017 and 2016, respectively. The effect of a hypothetical 10% change in the exchange rate would not have a significant impact on our consolidated results of operations.

Interest Rate Sensitivity

Our exposure to interest rates risk relates to our 2016 Credit Facility with variable interest rates, where an increase in interest rates may result in higher borrowing costs. Since we have no outstanding borrowings under our 2016 Credit Facility as of June 30, 2017, the effect of a hypothetical 10% change in interest rates would not have any impact on our interest expense.

Our exposure to market risk for changes in interest rates relates primarily to our marketable securities. Our marketable securities are comprised of certificates of deposit, corporate securities, U.S. Treasury and agency securities, commercial paper and asset-backed securities. At June 30, 2017, our investment portfolio included marketable securities with an aggregate fair market value and amortized cost basis of $85.8 million.

The following table presents the hypothetical fair values of our marketable securities assuming immediate parallel shifts in the yield curve of 50 basis points ("BPS"), 100 BPS and 150 BPS as of June 30, 2017 (in thousands):

	(150 BPS)	(100 BPS)	(50 BPS)	Fair Value as of 6/30/2017	50 BPS	100 BPS	150 BPS
Marketable securities	$86,524	$86,292	$86,032	$ 85,773	$85,513	$85,254	$84,994

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 June 30, 2017. 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 June 30, 2017, 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 during the quarter ended June 30, 2017 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

See Note 5. Commitments and Contingencies to the condensed consolidated financial statements regarding our legal proceedings.

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 six months ended June 30, 2017 and the years ended December 31, 2016 and 2015. 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 the six months ended June 30, 2017 and the years ended December 31, 2016 and 2015, we have invested in our sales, marketing and research and development teams in order to develop, market and sell our products. We may continue to invest in these areas in the future. As a result of these expenditures, we may 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 have varied and are likely to continue 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 the following categories:

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

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Companies that sell open source, software-only, cloud-based ADC services, which include many startups. These companies include Avi Networks, NGiNX, and HAProxy

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

- Companies that sell traditional DDoS protection products, such as Arbor Networks and Radware

- Companies that sell SSL decryption and inspection products, such as Symantec Corporation (through its acquisition of Blue Coat Systems Inc. in 2016) and F5 Networks and

- Companies that sell certain network security products, including Secure Web Gateways, SSL Insight/SSL Intercept, data center firewalls and Gi/SGi firewalls.

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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.

Cloud-based computing trends present competitive and execution risks.

We are experiencing an industry-wide trend of customers considering transitioning from purely on-premise network architectures to a computing environment that may utilize a mixture of existing solutions and various new cloud-based solutions. Concurrently with this transition, pricing and delivery models are also evolving. Many companies in our industry, including some of our competitors, are developing and deploying cloud-based solutions for their customers. In addition, the emergence of new cloud infrastructures may enable new companies to compete with our business. These new competitors may include large cloud providers who can provide their own ADC functionality as well as smaller companies targeting applications that are developed exclusively for delivery in the cloud. We are dedicating significant resources to develop and offer our customers new cloud-based solutions. Also, some of our largest customers are cloud providers that utilize our existing solutions and we believe that as cloud infrastructures continue to grow our existing solutions may provide benefits to other cloud providers. While we believe our expertise and dedication of resources to developing new cloud-based solutions, together with the benefits that our existing solutions offer cloud providers, represent advantages that provide us with a strong foundation to compete, it is uncertain whether our efforts to develop new cloud-based solutions or our efforts to market and sell our existing solutions to cloud providers will attract the customers or generate the revenue necessary to successfully compete in this new business model. Nor is it clear when or in what manner this new business model will evolve, and this uncertainty may delay purchasing decisions by our customers or prospective customers. Whether we are able to successfully compete depends on our execution in a number of areas, including maintaining the utility, compatibility and performance of our software on the growing assortment of cloud computing platforms and the enhanced interoperability requirements associated with orchestration of cloud computing environments. Any failure to adapt to these evolving trends may reduce our revenues or operating margins and could have a material adverse effect on our business, results of operations and financial condition.

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 certain recent periods, we have added personnel and other resources to our sales and marketing functions, as we focused on growing our business, entering new markets and increasing our market share. We may incur 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 six months ended June 30, 2017 and the years ended December 31, 2016 and 2015, purchases from our ten largest end-customers accounted for approximately 40%, 35% and 33% of our total revenue, respectively. 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 44%, 41% and 45% of our total revenue during the six months ended June 30, 2017 and the years ended December 31, 2016 and 2015, respectively.

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.

Our business could be adversely impacted by changes demanded by our customers in the deployment and payment models for our products

Our customers have traditionally demanded products deployed in physical, appliance-based on-premise data centers that are paid in full at the time of purchase and include perpetual licenses for our software products. While these products remain central to our business, new deployment and payment models are emerging in our industry that may provide some of our customers with additional technical, business agility and flexibility options. These new models include cloud-based applications provided as SaaS and software subscription licenses where license and service fees are ratable and correlate to the type of service used, the quantity of services consumed or the length of time of the subscription. These models have accounting treatments that may require us to recognize revenue ratably over an extended period of time. If a substantial portion of our customers transition from on-premise-based products to such cloud-based, consumption and subscription-based models, this could adversely affect our operating results and could make it more difficult to compare our operating results during such transition period with our historical operating results.

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 number 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 six months ended June 30, 2017 and the years ended December 31, 2016 and 2015, approximately 48%, 48% and 46% of our total revenue, respectively, 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 30 countries, including in the following countries and regions: United States, Western Europe, the Middle East, Japan, China, Taiwan, South Korea, Southeast Asia and Latin America. 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 ("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. The currency exchange impact of the foreign exchange rates on our net loss was $0.2 million favorable for the six months ended June 30, 2017 and $1.6 million unfavorable for the year ended December 31, 2016. 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 and AEWIN, 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, data being inaccessible due to a "ransomware" attack, or other security incidents. 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 a 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.

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.

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 have 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, India 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 16%, 11% and 27% in 2016, 2015 and 2014 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 certain prior periods and may experience rapid growth at certain times in the future, 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 certain 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 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.

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 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 trial software was inadvertently available for download by any international user and, on limited occasions, was downloaded by individuals located in a U.S. sanctioned country. We implemented corrective actions and filed a Voluntary Self Disclosure in February 2017 with the U.S. Department of Commerce and U.S. Department of Treasury regarding these technical violations. Both agencies closed their review without any fines or penalties.

While the U.S. Department of Commerce has closed its review without any fines or penalties, we are awaiting a response from the U.S. Department of Treasury. We do not believe the potential imposition of any fines by the U.S. government would be material to us.

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 ("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 completed the acquisition of substantially all of the assets of Appcito in June 2016 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, including the current examination by the Internal Revenue Service of our 2015 and 2014 tax returns.

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.

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, own 35.9% of our outstanding common stock as of June 30, 2017. 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 initial public offering ("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, a related shareholder derivative action was filed. Both the consolidated securities law action and the derivative action were settled in 2016 and dismissed in Q1 2017. Any future securities litigation, including any related 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 June 30, 2017, there were approximately 5.1 million vested and exercisable options to purchase our common stock, in addition to the 70.6 million 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 9.5 million shares held by funds affiliated with Summit Partners, L.P. as of June 30, 2017 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. 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.

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;

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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

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 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.

Share repurchase activity during the three months ended June 30, 2017 was as follows:

Period	Shares Repurchased	Average Price Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands)
Beginning repurchase authority				$ 18,205
Shares repurchased:				
April 1, 2017 - April 30, 2017	—	—	—	$ 18,205
May 1, 2017 - May 31, 2017	49,735	$ 7.97	49,735	$ 17,809
June 1, 2017 - June 30, 2017	50,000	$ 8.39	50,000	$ 17,390
Total	99,735		99,735	

ITEM 3. DEFAULT UPON SENIOR SECURITIES
Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES
Not applicable.

ITEM 5. OTHER INFORMATION

None.

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: August 3, 2017

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

Date: August 3, 2017

By: /s/ Tom Constantino
Tom Constantino
Executive Vice President and Chief Financial Officer
(Principal Accounting and Financial Officer)

EXHIBIT INDEX

Exhibit Number	Description
10.1	Offer Letter, dated May 14, 2017, by and between the Registrant and Tom Constantino.
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.