

A10 Networks, Inc.  
Form 10-K  
March 01, 2016

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

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-36343

A10 NETWORKS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

20-1446869

(I.R.S. Employer Identification No.)

3 West Plumeria Drive, San Jose, California 95134  
(Address of Principal Executive Offices, including zip code)

(408) 325-8668

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Common Stock, \$.00001 Par Value

Securities registered pursuant to Section 12(g) of the Act:

None.

Name of Each Exchange on Which Registered

New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K. "

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of June 30, 2015 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately \$269.4 million, based upon the closing sale price of such stock on the New York Stock Exchange. For purposes of this disclosure, shares of common stock held or controlled by executive officers and directors of the registrant and by persons who hold more than 5% of the outstanding shares of common stock have been treated as shares held by affiliates. However, such treatment should not be construed as an admission that any such person is an "affiliate" of the registrant. The registrant has no non-voting common equity.

As of February 19, 2016 the number of outstanding shares of the registrant's common stock, par value \$0.00001 per share, was 64,307,946.

#### DOCUMENTS INCORPORATED BY REFERENCE

As noted herein, the information called for by Part III is incorporated by reference to specified portions of the Registrant's definitive proxy statement to be filed in conjunction with the Registrant's 2016 Annual Meeting of Stockholders, which is expected to be filed not later than 120 days after the Registrant's fiscal year ended December 31, 2015.

A10 NETWORKS, INC.  
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FOR THE YEAR ENDED DECEMBER 31, 2015  
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## FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward looking statements made pursuant to the provisions of Section 21E of the Securities Exchange Act of 1934. These forward looking statements are based on management's current expectations and beliefs, including estimates and projections about our industry. The following discussion and analysis contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words "believe," "may," "will," "potentially," "estimate," "continue," "anticipate," "intend," "could," "would," "prospectively," "expect," and similar 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;
- loss or delay of expected purchases by our largest end-customers;
- our ability to attract and retain end-customers;
- our ability to further penetrate our existing customer base;
- our ability to displace existing products in established markets;
- our ability to expand our leadership position in next-generation application delivery and server load balancing solutions;
- continued growth in markets relating to network security;
- our ability to timely and effectively scale and adapt our existing technology;
- our ability to innovate new products and bring them to market in a timely manner;
- our ability to expand internationally;
- the effects of increased competition in our market and our ability to compete effectively;
- the effects of seasonal trends on our results of operations;
- our expectations concerning relationships with third parties;
- the attraction and retention of qualified employees and key personnel;
- our ability to achieve or maintain profitability while continuing to invest in our sales, marketing and research and development teams;
- variations in product mix or geographic locations of our sales;
- fluctuations in currency exchange rates;
- increased cost requirements of being a public company and future sales of substantial amounts of our common stock in the public markets;
- the cost and potential outcomes of existing and future litigation;
- our ability to maintain, protect, and enhance our brand and intellectual property; and
- future acquisitions of or investments in complementary companies, products, services or technologies.

These forward-looking statements are subject to a number of risks, uncertainties, and assumptions, including those described in Item 1A Risk Factors and elsewhere in this Annual Report on Form 10-K. 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 Annual Report on Form 10-K may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

The forward-looking statements in this report speak only as of the time they are made and do not necessarily reflect our outlook at any other point in time. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future event, or for any other reason. However, readers should



carefully review the risk factors set forth in other reports or documents we file from time to time with the Securities and Exchange Commission.

As used herein, “A10 Networks,” the “Company,” “we,” “our,” and similar terms include A10 Networks, Inc. and its subsidiaries, unless the context indicates otherwise.

## PART I.

### BUSINESS

#### Overview

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

#### Our solutions

We currently offer four software based advanced application networking and network security solutions to address end-customer needs, including Application Delivery Controllers ("ADC"), to optimize web and back-office application performance, Carrier Grade Network Address Translation ("CGN") to provide network address and protocol translation services for service provider networks, a Threat Protection System ("TPS") for network-wide multi-vector DDoS security protection, and Convergent Firewall ("CFW") for protecting data centers and mobile infrastructure, improving web security, and encrypting site-to-site communications, which we expect to start shipping in the first quarter of 2016. Our solutions are cloud-ready and available in a variety of form factors such as optimized hardware appliances, in the cloud as software, and as virtual appliances.

Our ACOS platform architecture is optimized for modern 64-bit computer processors, or CPUs, which increasingly have multiple parallel processing cores that operate within a single CPU for higher efficiency and performance scalability. In order to maximize the capabilities of these increasingly dense multi-core CPUs, ACOS implements a proprietary shared memory architecture that provides all cores with simultaneous access to common memory. This shared memory architecture enables our products to utilize these multi-core CPUs efficiently and scale performance with increasing CPU cores. As a result, we believe our ACOS application networking platform enables us to provide our end-customers with products that can deliver superior price performance benefits over products that lack these capabilities. ACOS' high performance design enables our products to address a wide range of today's performance-driven networking challenges. For example, we have expanded our products' capabilities to defend against the rising volume of large scale, sophisticated cyber security threats, such as Distributed Denial of Service, or DDoS, and other increasingly sophisticated high volume network attacks. The flexible software design of ACOS enables our end-customers to deploy our products across a number of new models for Information Technology ("IT") operations, such as managed hosting of their network by a third party provider and Internet cloud-based applications and networks.

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 high-touch sales force engages directly or through indirect distribution channels with our end-customers. We believe that a high-touch, customer-focused selling process is important before, during and after the sale of our products to maximize our sales success. Product fulfillment is generally done through our original equipment manufacturers or distribution channel partners.

For the years ended December 31, 2015, 2014 and 2013, our total revenue was \$199.0 million, \$179.5 million and \$141.7 million, representing a compound annual growth rate of approximately 18.5% from 2013 to 2015. Our total revenue grew 27% in 2014 as compared to 2013 and grew 11% in 2015 as compared to 2014. For the years ended December 31, 2015, 2014 and 2013, our gross margin was 75.5%, 76.1% and 76.4%. We generated a net loss of \$40.0



million, \$34.7 million and \$27.1 million for the years ended December 31, 2015, 2014 and 2013.

#### Trends Driving Continued Evolution of Application Networking

Commercial damage and customer dissatisfaction from poor website, data center application and network performance can have a lasting negative impact well beyond the expenses related directly to the downtime. To optimize data center application and network performance and avoid unforeseen downtime, organizations deploy application networking technology to ensure the performance and security of data center resources. These organizations must simultaneously address significant networking industry trends such as:

- **Increased Adoption of Cloud Computing Applications.** As organizations move their business critical applications to the cloud, they need application networking solutions optimized for cloud computing that can scale with the performance demands and security expectations of this growth. Many enterprises are moving some of the non-core competency functions to the cloud. For example HR applications, employee expense related applications, payroll applications, and collaboration tools are some of the functions that can easily be moved to the cloud.
- **Increased Network Complexity Due to Software Defined Data Center Adoption.** Application networking technologies need to adapt to software defined data center ("SDDC") architectures, including new orchestration technologies, Network Function Virtualization ("NFV"), and Software Defined Networking ("SDN").
- **Rapid Growth of Internet-Connected Devices and the Exhaustion of the Existing IP Address Space.** The rapid growth of mobile and other Internet-connected devices has overwhelmed the current Internet Protocol addressing scheme, IPv4. To support this rapid growth of Internet-connected devices, application networking technology will play an increasingly significant role in managing two Internet connection standards simultaneously, extending the viability of IPv4 and enabling end-customers to move to the IPv6 standard.
- **Rapid growth of SSL and encrypted applications.** The number of applications that are using Secured Socket Layer ("SSL") protocol is growing at a very rapid pace, which is also increasing the demand for hardware based SSL offload (termination) functions in our ADC appliances. In addition cyber criminals are exploiting the SSL protocol to carry out attacks against organizations that are hidden in encrypted channels. This trend is driving the demand for SSL visibility and traffic management functions.
- **Increasing Risk from Cyber Security Threats.** Cyber criminals, foreign military intelligence organizations and amateur hackers are targeting the data centers of organizations of every type. Authentication, application security and encryption are necessary but insufficient defenses against increasingly sophisticated attacks. In one particular cyber threat, a DDoS attack, the perpetrator attempts to render the target network unavailable for its intended purpose by orchestrating coordinated attacks from massive worldwide networks of compromised computers, called botnets. DDoS attacks have become more frequent and sophisticated and can easily overwhelm an inadequately protected target network. As these and other types of attacks have become more frequent and sophisticated, organizations increasingly rely on application networking technologies for defense.
- **Exponential Growth in Data Center Speeds.** Organizations are enhancing the performance of their networks by increasing the data traffic speeds of their data center networks from the 1 and 10 Gigabit Ethernet rates in use over the last ten years to 40 Gigabit Ethernet currently and are now evolving to 100 Gigabit Ethernet. Organizations require high performance application networking technology to ensure data center application and network performance and security are maintained despite rapidly escalating data rates.

#### Need for Next-Generation High Performance Application Networking and Security

In order to address these increasingly complex network challenges, a new generation of application-aware networking solutions is needed in order to look deeply into application content, modify content for performance optimization or security purposes, and forward the traffic at rapidly escalating network data rates. Next-generation application networking solutions require:

- **Ability to Scale with High Speed Network Traffic.** As the number of Internet-connected devices continues to increase rapidly and the speed of network traffic continues to accelerate, architectural limitations in first-generation application networking approaches prevent them from responding effectively due to their inability to scale performance effectively with newer multi-core processor architectures. Next-generation application networking technologies must be able to analyze application data intelligently as they move through faster networks to take full advantage of the increasing computing power of modern multi-core processors.

- Platform to Provide Broad Application Extensibility. First-generation approaches to application networking use rigid system architectures that have been unable to respond effectively to the escalating security threats and the rapidly changing requirements of modern applications and cloud computing. Next-generation application networking technology must be flexible and agile to address the increasing array of networking and application challenges.
- Sophisticated Security Functionality. Next-generation application networking technology should be capable of detecting and mitigating the effects of large-scale, sophisticated cyber security threats such as DDoS and other attacks at the application level of the network. In order to defend against the rising volume of these sophisticated cyber-

attacks, which circumvent conventional network based security solutions, application networking solutions must have exceptional application content, inspection capabilities and processing speeds.

- **Ability to Accommodate a Variety of IT Delivery Models.** Enterprises are increasingly handling their information technology needs in a variety of ways, including operating their own conventional dedicated data centers, and outsourcing to managed IT hosting providers of cloud-based applications to multiple clients often known as Infrastructure-as-a-Service. Some application networking vendors offer products for only a subset of these IT delivery models, or provide inconsistent features and management across these products, which is unacceptable to customers using multiple IT delivery models. Organizations need consistent application networking features and functionality regardless of which IT model, or combination of models they use, and regardless of whether their networks are in virtual or physical forms.
- **Predictable Operational Performance.** As data center traffic grows, first-generation approaches have limitations that can cause unpredictable performance that cannot consistently meet expected service levels. Next-generation application networking needs to deliver appropriate levels of service at ever-increasing data traffic rates.

## Technology

### Our Advanced Core Operating System Platform

**ACOS Scalable Symmetrical Multi Processing Platform.** ACOS is a scalable, flexible and agile software based platform for next-generation application networking. Our proprietary ACOS 64-bit shared memory architecture is critical for current and future performance and scalability requirements. Because ACOS is software based, we can use merchant silicon and industry standard x86 processors to increase our product development velocity, decrease our product development costs, and expand into new product markets. All of our products are built on our ACOS platform and leverage its performance optimization and security features.

ACOS is a symmetric multiprocessing operating system that was built from the ground up to leverage industry trends toward higher density, multi-core processor architectures.

- **High Performance and Intelligent Network I/O Processing.** In order to maximize the efficiency of high density, multi-core processors, we have developed a high performance intelligent network I/O technology that can balance application traffic flows equitably across processor cores. Our Flexible Traffic Accelerator logic can be implemented either as software running within a standard x86 processor or a Field Programmable Gate Array, or FPGA, semiconductor. Our Flexible Traffic Accelerator also performs certain hardware-based security checks for each packet and can discard suspicious traffic before it can impact system performance.
- **Scalable and Efficient Memory Usage.** To improve the performance of our multi-core processor architecture, we have developed a shared memory technology to allow all processors to share common memory and the state of the system simultaneously. As a result, we avoid the overhead associated with Inter-Processor Communication

architectures deployed in first-generation approaches. We optimize memory to be visible to all cores simultaneously, while minimizing communication overhead and contention among processors for allocated memory space. Since all processors share a common memory pool, we can dynamically allocate memory space based upon the application processing requirements without constraints. Because configurations, policies and network databases are efficiently stored within a shared memory architecture, we can achieve greater performance and scalability from memory and processor resources.

- **Optimized Application Networking and Security.** Once data has been processed and placed into a shared memory, then a processor can begin to apply ACOS common services and function-specific logic. To ensure that every processor can be utilized to perform every function, and thereby achieve greater system utilization, we have designed ACOS to use all processor cores symmetrically for all functions and services. The ACOS common services perform a set of key operational functions, including configuration management, network I/O, aFleX scripting, Virtual Chassis System, or aVCS, aXAPI for management integration, Application Delivery Partitions, or ADP, virtualization to enable multi-tenancy, and common resource management such as buffer, system memory, timer management and other internal system management tasks. ACOS features a modular software design, which improves reliability by ensuring that modifications made to one module will not have unwanted side-effects on other system functions.

**Other ACOS Technologies.** ACOS incorporates a number of other technologies to provide a rich environment for developing Layer 4-7 application networking solutions, including:

- **aFleX Scripting.** aFleX scripting technology is based on industry-standard Tool Command Language and enables end-customers to write custom scripts to augment the application processing.
- **ADP.** ADP enables multi-tenancy in the ACOS common services so that multiple departments of an organization or multiple end-customers can share a physical/virtual appliance.
- **aVCS.** aVCS enables multiple physical/virtual appliances to be managed as a single chassis.
- **aXAPI.** aXAPI is an industry standard RESTful program interface to enable management integration for achieving automated management.

## Our Products

We offer our end-customers a portfolio of software based solutions that are built upon ACOS. Our premium Thunder Series product family, launched in the second quarter of 2013, has four solutions to address end-customer needs, including ADC to optimize web and back-office application performance, CGN to provide network address and protocol translation services for service provider networks, TPS for network-wide DDoS security protection and CFW (which we expect to start shipping in the first quarter of 2016) for protecting data centers and mobile infrastructure, improving web security, and encrypting site-to-site communications. Our AX Series is our original product family that was launched in 2007 and includes ADC and CGN solutions.

## Application Networking and Security Solutions

We currently offer four software based solutions that are built on top of our software based ACOS cloud-ready application networking platform and are delivered primarily on our optimized hardware appliances:

**Application Delivery Controller.** Our ADC solution provides advanced server load balancing, including global server load balancing, high availability, aFleX scripting, aVCS, ADP virtualization delivery for multi-tenancy, SSL, acceleration, SSL intercept, caching and compression, web application firewall, domain name server application firewall and others. ADC solutions are typically deployed in front of a server farm within a data center, including web,

application and database servers.

Carrier Grade Networking. Our CGN solution extends the life of increasingly scarce IPv4 address blocks and their associated infrastructure using Carrier-Grade NAT ("CGNAT"), and also provides migration solutions to the IPv6 addressing standard. Our CGN solution is typically deployed in service provider networks to provide standards-compliant address and protocol translation services between varying types of IP addresses.

Threat Protection System. Our TPS solution provides high volume, large scale detection and mitigation services to ensure that networks and server resources remain available throughout a massive DDoS attack. TPS solutions are

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typically deployed at the perimeter of customer networks to protect their internal network resources from large-scale, volumetric cyberattacks, protocol attacks and resource attacks from distributed networks of compromised machines, or botnets. TPS is augmented by the A10 Threat Intelligence Service which can block known bad connections (IP addresses) from entering protected networks, and this service is based on software we license from ThreatSTOP, Inc. Additionally, we have collaborated with Verisign, Inc. to enable a Hybrid DDoS protection service, through which our TPS customers can automatically signal to the Cloud based Verisign DDoS protection service in the event of their Internet pipe being overwhelmed.

**Convergent Firewall.** Our CFW solution is the industry's first security solution that consolidates multiple converged security solutions in one package. CFW includes:

- A High-performance Secure Web Gateway with integrated explicit proxy, URL filtering and SSL visibility. It enables security policy enforcement for client outbound HTTP/HTTPS traffic.

- A High-performance Data Center firewall with integrated network denial-of-service protection and server load balancing. It provides a Layer 4 stateful firewall and Layer 7 application-level gateway for protecting data center applications for emerging network and DDoS threats.

- A High-performance Gi/sGi firewall with integrated network DDoS and Carrier Grade NAT (CGN). The Gi/sGi firewall protects the mobile infrastructure of operators from internet based DDoS and other security threats.

- A High-performance IPSec site-to-site VPN that helps enterprises to secure application traffic between sites and global enterprises to use public networks to transport application traffic securely.

Our CFW solution delivers superior value to our enterprise, cloud-provider, web-giant and service provider customers by:

- Delivering unprecedented performance and scale in a small form factor.

- Lowering CAPEX and OPEX by consolidating multiple security and networking functions in a single appliance.

- Streamlining operations with a truly cloud-ready programmable platform.

We expect to start shipping CFW in the first fiscal quarter of 2016.

With the release of our ACOS 4.0 software version we now have the ability to operate ADC and CGN solutions on the same platform, resulting in operational benefits for us and our customers. Our ACOS 4.0 release represents the most significant enhancement to our operating system since the introduction of the 64-bit ACOS release in 2009. The ACOS 4.0 enhanced feature set includes programmability, policy engine and telemetry support for our A10 Harmony architecture, an architecture that lays the foundation of a rapid services integration platform for enterprise, cloud, and service provider networks. An example is our Thunder Series integration and certification with Cisco Application Centric Architecture (ACI) for agile deployment and management of our advanced L4-7 services.

## Product Families

We deliver these solutions as both physical and virtual appliances across our Thunder Series and certain AX Series product families.

**Thunder Series.** Our ADC, CGN, TPS and CFW (we expect to start shipping in the first quarter of 2016) solutions are available on our Thunder Series product family, including a range of physical appliances with throughput ranges from

5 gigabits per second, or Gbps, to 155 Gbps and a variety of other security and performance options. Our vThunder virtual appliances operate on all major hypervisor platforms, including VMware, Microsoft, Citrix Xen and Linux KVM. Our vThunder virtual appliance is also available from cloud IaaS providers, including Amazon Web Services ("AWS"), Microsoft Azure, and service providers offering our Pay-as-you-Go Licensing model.

AX Series. Our ADC and CGN solutions are available on select older AX Series products.



## Centralized Management Solution

Our aGalaxy multi-device network management solution enables a network administrator to manage multiple A10 devices for both base configurations or advanced ADC or TPS configurations. While full control of our appliances can be achieved effectively out-of-the-box, the benefit of central and automated management increases as more appliances are added. The user interface provides a quick, at-a-glance view of status using a standard web browser. aGalaxy is designed to provide lower operational costs, as staff are freed up from repetitive tasks, while also increasing precision and accuracy with centralized and automated tasks, reducing the potential for human error. The aGalaxy solution is available as a hardware appliance or a software only virtual machine.

## Support and Services

One of our founding principles is to provide superior customer and technical support. Our global support team is part of our engineering organization and is trained across all products and solutions. Our support team takes complete ownership of customer issues from the beginning to the end to achieve rapid response and resolution. 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. Accordingly, we offer a broad range of support services that include installation, phone support, repair and replacement, software updates, online tools, consulting and training services.

All customers receive warranty support for 90 days and greater than 95% of our end-customers purchase one of our maintenance products which entitles them to the support provided by our global support team. We offer a variety of support offerings, primarily three maintenance product options – Basic, Gold and Platinum Support. The average maintenance contract term is approximately 18 months. We invoice our channel partners or end-customers directly for maintenance contracts, in advance, at the time of hardware purchase. We generally provide discounts to our end-customers when they commit to longer term contracts. All our maintenance contracts are non-cancellable and are renewed through the same channel as originally purchased. Updates of our software are provided to all end-customers with a current maintenance contract on a when-and-if-available basis. We maintain technical support centers in the United States, Japan, China and the Netherlands.

We have a professional services team able to provide a full range of fee-based consulting services, including pre-sale network assessment, comprehensive network analysis and capacity planning, post-sale migration and implementation services, on-site installation and on-going support.

## Customers

We target organizations globally 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 and education. Since inception, our customer base has grown rapidly. As of December 31, 2015, we had sold our products to more than 4,700 customers across 77 countries. Our end-customers include three of the top four United States wireless carriers, seven of the top ten United States cable providers, and the top three wireless carriers in Japan, in addition to other global enterprises, Web giants and governmental organizations. Our business is geographically diversified with 54% of our total revenue from the United States, 18% from Japan and 28% from other geographic regions for the year ended December 31, 2015. During the years ended December 31, 2015, 2014 and 2013, purchases from our ten largest end-customers accounted for approximately 33%, 37% and 43% of our total revenue.

In 2015, no customer accounted for more than 10% of our total revenue. In 2014, one distribution channel partner, Itochu Techno-Solutions Corporation, accounted for 13% of our total revenue. In 2013, two end-customers, NTT DoCoMo, Inc., a Japanese wireless provider, and Microsoft Corp., an enterprise customer, both purchasing through resellers, accounted for 13% and 10% of total revenue; no other end-customer accounted for more than 10% of our

total revenue during the periods presented.

#### Backlog

As of December 31, 2015 and 2014, we had product backlog of approximately \$10.5 million and \$4.0 million. Backlog represents orders confirmed with a purchase order for products to be shipped generally within 90 days to customers with approved credit status. Orders are subject to cancellation, rescheduling by customers and product specification changes by customers. Although we believe that the backlog orders are firm, purchase orders may be canceled by the customer prior to shipment without significant penalty. For this reason, we believe that our product backlog at any given date is not a reliable indicator of future revenues.

## Sales and Marketing

**Sales.** We sell our products globally to service providers and enterprises that depend on networks and data centers to generate revenue and manage operations efficiently. Our high-touch sales force engages directly or through indirect distribution channels with service providers and enterprises. Depending on size, geography, and complexity, some end-customer sales are originated and completed by our OEM and distribution channel partners with little or no direct engagement with our sales personnel. We fulfill nearly all orders globally through our distribution channel partners, which include distributors, value added resellers and system integrators.

Revenue fulfilled through our distribution channel partners accounted for 81%, 85% and 85% of our total revenue for the years ended December 31, 2015, 2014 and 2013. In 2015, no customer accounted for more than 10% of our total revenue. In 2014, one distribution channel partner, Itochu Techno Solutions Corporation accounted for 13% of our total revenue. In 2013, two distribution channel partners, NEC Corporation and Adaptive Integration, accounted for 15% and 10% of our total revenue. We also work closely with OEM partners. We believe that our high-touch sales organization is unique given our deep focus on technology competence and partnership with our end-customers' network engineers and architects. We believe this sales approach allows us to leverage the benefits of the channel, such as expanding our market coverage, as well as maintain face-to-face relationships with our end-customers.

Our sales team is comprised of inside sales and field sales personnel who are organized by geography and maintain sales presence in 28 countries, including in the following countries and regions: United States, Western Europe, the Middle East, Japan, China, Taiwan, South Korea and Latin America. Our sales organization also includes sales engineers with deep technical domain expertise who are responsible for pre-sales technical support, solutions engineering for our end-customers, proof of concept work and technical training for our distribution channel partners. Our sales team is also comprised of a channel sales organization that is expanding our market reach through partners. We expect to continue to grow our sales headcount, including in geographies where we currently do not have a sales presence.

**Marketing.** Our marketing strategy is focused on building our brand and driving end-customer demand for our products and services through brand awareness and lead generation campaigns both direct and jointly with our channel and strategic alliance partners. Our direct marketing efforts include brand awareness and demand generation campaigns across traditional (e.g. events, tradeshow, public relations) and digital marketing (e.g. SEO/SEM, Display advertising, impression and site retargeting, social - LinkedIn, Twitter and Facebook) channels for each of the product areas we do business in and on a global scale. In addition to our direct marketing efforts we create additional awareness and demand via joint marketing campaigns with our channel partners and strategic alliance partners worldwide. We are also actively engaged in driving global thought leadership through industry analyst engagement, media outreach, blogs and social media, and speaking events.

## Manufacturing

We outsource the manufacturing of our hardware products to original design manufacturers. This approach allows us to benefit from the scale and experience of our manufacturing partners to reduce our costs, overhead and inventory while allowing us to adjust more quickly to changing end-customer demand. Our manufacturers are Lanner Electronics Inc., or Lanner, and AEWIN Technologies Co., Ltd., or AEWIN. These companies manufacture and assemble our hardware products using design specifications, quality assurance programs and standards that we establish. Our manufacturers procure components and assemble our products based on our demand forecasts and purchase orders. These forecasts represent our estimates of future demand for our products based upon historical trends and analysis from our sales and product management functions as adjusted for overall market conditions. The component parts incorporated into our products are sourced either by our manufacturing partners or directly by us.

We have agreements with both Lanner and AEWIN pursuant to which they manufacture, assemble, and test our products. The Lanner agreement has an initial one year term and the AEWIN agreement has an initial term of six years. Each agreement automatically renews for successive one-year terms unless either party gives notice that they do not want to renew the agreement. We do not have any long-term manufacturing contracts that guarantee us any fixed capacity or pricing. We perform quality assurance and testing at our San Jose, Taiwan and Japan distribution centers, as well as at our manufacturers' locations. We warehouse and deliver our products out of our San Jose warehouse for the Americas. We also outsource warehousing and delivery to a third-party logistics provider in some regions.

## Research and Development

Our research and development effort is focused on developing new products and on enhancing and improving our existing products, leveraging our ACOS platform. Our engineering team works closely with end-customers and technology partners to identify future needs. A majority of our research and development team is focused on software development, with substantial experience in networking, network management, application delivery, performance optimization, security, software quality engineering and automation.

We believe that innovation and timely development of new features and products is essential to meeting the needs of our end-customer and improving our competitive position. We supplement our own research and development effort with open source technologies and technologies that we license from third parties. We test our products thoroughly to certify and ensure interoperability with third-party hardware and software products.

Our engineering teams are located mainly in our headquarters in San Jose, California, Beijing, China and Taipei, Taiwan. For the years ended December 31, 2015, 2014 and 2013, our research and development expenses were \$54.8 million, \$49.9 million and \$33.3 million, representing 28% , 28% and 24% of our total revenue.

## Competition

We operate in the intensely competitive application networking and network security markets that are characterized by constant change and innovation. Changes in application delivery needs, cyber security threats, and the technology landscape result in evolving customer requirements to address application performance and security. In addition to server load-balancing and other functions normally associated with application delivery, our solutions have expanded our addressable market into DDoS protection, CGN and multiple areas of network security, where we compete with a number of companies not included among traditional ADC vendors. The agility and flexibility of the ACOS platform enables us to rapidly innovate and deploy solutions into adjacent markets to ADC. As a result, we believe the traditional definitions of our ADC market do not encompass all of the features, functions and capabilities of our solutions, or accurately represent the addressable market.

The ADC, CGN, DDoS protection and networking security markets are characterized by a set of identifiable participants. We do not consider any of these markets to include a single dominant company, nor do we consider the markets to be fragmented.

We believe that our main competitors fall into four categories:

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

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

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

- Companies that sell certain network security products, including Secure Web Gateways, SSL Insight/SSL Intercept, datacenter firewalls and Gi/SGi firewalls. We are a new entrant into most of these network security markets and first publicly announced this network security solution, CFW in November 2015 and we expect to start shipping in the first

quarter of 2016. We believe our principal competitors in these markets are Blue Coat Systems, Juniper Networks, F5 Networks and Fortinet.

We believe that the principal competitive factors in our markets include:

• Ability to innovate and respond to customer needs rapidly;

• Breadth and depth of product features and functionality;

• Level of customer satisfaction;

Price performance and efficiency;

Ability for products to scale with high speed network traffic;

Flexible and agile design of products;

Ability to detect and mitigate large-scale cyber security threats;

Ability to accommodate any IT delivery model or combination of models, regardless of form factor;

Brand awareness and reputation; and

- Strength of sales and marketing efforts.

We compete primarily based on the quality and performance of our products, the rich and comprehensive features and functionalities offered by our platform, our differentiated customer support offerings and our close and ongoing relationship with our end-customers. However, many of our competitors have substantially greater financial, technical and other resources, greater name recognition, larger sales and marketing budgets, broader distribution, and larger and more mature intellectual property portfolios.

#### Intellectual Property

We rely on a combination of patent, copyright, trademark and trade secret laws, and restrictions on disclosure to protect our intellectual property rights. As of December 31, 2015, we had 55 issued United States patents and 69 U.S. patent applications pending, and 84 patents or patent applications pending overseas. Our issued U.S. patents, excluding an older set of 14 patents that we acquired, expire between 2026 and 2034. Our future success depends in part on our ability to protect our proprietary rights to the technologies used in our principal products. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use trade secrets or other information that we regard as proprietary. In addition, the laws of some foreign countries do not protect our proprietary rights as fully as do the laws of the United States. Any issued patent may not preserve our proprietary position, and competitors or others may develop technologies similar to or superior to our technology. Our failure to enforce and protect our intellectual property rights could harm our business, operating results and financial condition.

We license software from third parties for development of or integration into our products, including proprietary and open source software. We pursue registration of our trademarks and domain names in the United States and other jurisdictions. See Part-I, Item 1A. Risk Factors included in this Annual Report on Form 10-K for the year ended December 31, 2015 for additional information regarding the risks associated with protecting our intellectual property.

#### Employees

As of December 31, 2015, we had 772 full-time employees, including 362 engaged in research and development and customer support, 338 in sales and marketing and 72 in general and administrative and other activities. None of our employees is represented by a labor union or is a party to any collective bargaining arrangement in connection with his or her employment with us. We have never experienced any work stoppages, and we consider our relations with our employees to be good.

#### Corporate Information

A10 Networks, Inc. was incorporated in the State of California in 2004 and subsequently reincorporated in the State of Delaware in March 2014. Our website is located at [www.A10networks.com](http://www.A10networks.com), and our investor relations website is located at <http://investors.A10networks.com>. The following filings are available through our investor relations website after we file them with the SEC: Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, as well as any amendments to such reports and all other filings pursuant to Section 13(a) or 15(d) of the Securities Act. These filings are also available for download free of charge on our investor relations website. Additionally, copies of materials filed by us with the SEC may be accessed at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 or at [www.sec.gov](http://www.sec.gov). For information about the SEC's Public Reference Room, contact 1-800-SEC-0330.



We announce material information to the public about A10, our products and services and other matters through a variety of means, including our website ([www.A10networks.com](http://www.A10networks.com)), the investor relations section of our website ([www.investors.A10networks.com](http://www.investors.A10networks.com)), press releases, filings with the Securities and Exchange Commission, public conference calls, and social media, including our corporate Twitter account (@A10Networks) and our corporate Facebook page (<https://www.facebook.com/a10networks>). The contents of our website and social media contents are not intended to be incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the Securities and Exchange Commission, or SEC, and any references to our websites are intended to be inactive textual references only. We encourage investors and others to review the information we make public in these locations, as such information could be deemed to be material information. Please note that this list may be updated from time to time.

## 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 years ended December 31, 2015, 2014 and 2013. Although we experienced revenue growth over these same periods and had achieved profitability in prior year periods, we may not be able to sustain or increase our revenue growth or achieve profitability in the future or on a consistent basis. During 2015, 2014 and 2013, we have invested in our sales, marketing and research and development teams in order to develop, market and sell our products. We expect to continue to invest significantly in these areas in the future. As a result of these increased expenditures, we will have to generate and sustain increased revenue, manage our cost structure and avoid significant liabilities to achieve future profitability. As a public company, we are incurring significant accounting, legal and other expenses that we did not incur as a private company.

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

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

Our operating results, in particular, revenue, margins and operating expenses, have fluctuated in the past, and we expect this will continue, which makes it difficult for us to predict our future operating results. The timing and size of sales of our products are highly variable and difficult to predict and can result in significant fluctuations in our revenue from period to period. This is particularly true of sales to our largest end-customers, such as service providers, Web giants and governmental organizations, who typically make large and concentrated purchases and for whom close or sales cycles can be long, as a result of their complex networks and data centers, as well as requests that may be made for customized features. Our quarterly results may vary significantly based on when these large end-customers place orders with us and the content of their orders. For example, during the three months ended September 30, 2014, we experienced a decline in our revenues primarily due to longer than expected close or sales cycles for certain large deals and lower North America service provider spending as compared to the same period in 2013, which may have contributed to a dramatic decline in our stock price.

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;

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- 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, 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.

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 years ended December 31, 2015, 2014 and 2013, purchases from our ten largest end-customers accounted for approximately 33%, 37% and 43% of our total revenue. The composition of the group of these ten largest end-customers changes from period to period, but often includes service providers, who accounted for approximately 45%, 46% and 47% of our total revenue during the years ended December 31, 2015 and 2014, and 2013.

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.

We have been and are, 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 are involved in disputes and licensing discussions with others regarding their patents and other claimed intellectual property and proprietary rights. Intellectual property infringement and misappropriation lawsuits and other claims are subject to inherent uncertainties due to the complexity of the technical and legal issues involved, and we cannot be certain that we will be successful in defending ourselves against such claims or in concluding licenses on reasonable terms or at all.

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

If we are found in the future to infringe the proprietary rights of others, or if we otherwise settle such claims, we could be compelled to pay damages or royalties and either obtain a license to those intellectual property rights or alter our

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

Many of our commercial agreements require us to indemnify our end-customers, distributors and resellers for certain third-party intellectual property infringement actions related to our technology, which may require us to defend or otherwise become involved in such infringement claims, and we could incur liabilities in excess of the amounts we

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

As part of the settlement of an intellectual property litigation matter with Brocade in 2013, we made a significant cash payment to Brocade, granted a license to Brocade to use all of our issued, pending and future patents, and received and granted certain covenants not to sue.

We may face risks related to shareholder litigation that could result in significant legal expenses and settlement or damage awards.

We are currently and may in the future become subject to claims and litigation alleging violations of securities laws or other related claims, including shareholder derivative litigation, which could harm our business, divert management attention and require us to incur significant costs. For example, in January 2015, a class action lawsuit was filed against us, our Board of Directors, our Chief Financial Officer and the underwriters of our initial public offering alleging violations of the Securities Act of 1933. Several substantially identical lawsuits were subsequently filed in the same court, bringing the same claims against the same defendants, and in May 2015, all three lawsuits were consolidated by the court. A related shareholder derivative action was filed in June 2015 and seeks unspecified compensatory damages and other relief. We are generally obliged, to the extent permitted by law, to indemnify our current and former directors and officers who are named as defendants in these types of lawsuits. We also have certain contractual obligations to the underwriters regarding the securities class action lawsuits. While a certain amount of insurance coverage is available for expenses or losses associated with these lawsuits, this coverage may not be sufficient. Based on information currently available, we are unable to reasonably estimate a possible loss or range of possible loss, if any, with regards to these lawsuits; therefore, no litigation reserve has been recorded in the accompanying Consolidated Balance Sheets. Although we plan to defend against these lawsuits vigorously, there can be no assurances that a favorable final outcome will be obtained. These lawsuits or future litigation may require significant attention from management and could result in significant legal expenses, settlement costs or damage awards that could have a material impact on our financial position, results of operations and cash flows.

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

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

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

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

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

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

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

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

- longer operating histories;

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

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

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

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• 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.

Some of our large end-customers demand favorable terms and conditions from their vendors and may request price concessions. 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, have requested 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.

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

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

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

these benefits is delayed, our growth rates will decline, and our gross margin would likely be adversely affected.

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. For example, in the fourth quarter of 2013 and the third quarter of 2014, our gross margin decreased to 74% and 73% due primarily to geographical mix and selling some end-of-life product at low margins.

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. For example, in the third and fourth quarters of 2014, our gross margin was adversely impacted by both an increase in our inventory reserve primarily due to obsolete inventory on hand and unfavorable exchange rate fluctuations between the U.S. dollar and the Japanese yen. We anticipate that our gross margin will continue to be impacted by these factors in subsequent periods.

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 years ended December 31, 2015, 2014 and 2013, approximately 46%, 52% and 52% of our total revenue was generated from customers located outside of the United States. If we are unable to maintain or continue to grow our revenue in these markets, our financial results may suffer.

As a result, we must hire and train experienced personnel to staff and manage our foreign operations. To the extent that we experience difficulties in recruiting, training, managing and retaining an international staff, and specifically sales management and sales personnel, we may experience difficulties in sales productivity in foreign markets. We also seek to enter into distributor and reseller relationships with companies in certain international markets where we do not have a local presence. If we are not able to maintain successful distributor relationships internationally or recruit additional companies to enter into distributor relationships, our future success in these international markets could be limited. Business practices in the international markets that we serve may differ from those in the United States and may require us in the future to include terms in customer contracts other than our standard terms. To the extent that we may enter into customer contracts in the future that include non-standard terms, our operating results may be adversely impacted.

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

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

- greater difficulty in enforcing contracts and accounts receivable collection and longer collection periods;

- increased expenses incurred in establishing and maintaining office space and equipment for our international operations;

• greater difficulty in recruiting local experienced personnel, and the costs and expenses associated with such activities;

• general economic and political conditions in these foreign markets;

• economic uncertainty around the world, including continued economic uncertainty as a result of sovereign debt issues in Europe;

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- 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, 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 U.S. Foreign Corrupt Practices Act, or FCPA, which generally prohibits U.S. companies and their employees and intermediaries from making payments to foreign officials for the purpose of obtaining or keeping business, securing an advantage, or directing business to another, and requires public companies to maintain accurate books and records and a system of internal accounting controls. Under the FCPA, U.S. companies may be held liable for actions taken by directors, officers, employees, agents, or other strategic or local partners or representatives. As such, if we or our intermediaries, such as channel partners and distributors, fail to comply with the requirements of the FCPA or similar legislation, governmental authorities in the United States and elsewhere could seek to impose civil and/or criminal fines and penalties which could have a material adverse effect on our business, operating results and financial condition.

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

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

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



Our success depends to a significant degree upon the continued contributions of our key management, product development, sales, marketing and finance personnel, many of whom may be difficult to replace. The complexity of our products, their integration into existing networks and ongoing support of our products requires us to retain highly trained professional services, customer support and sales personnel with specific expertise related to our business. Competition for qualified professional services, customer support, engineering and sales personnel in our industry is intense, because of the limited number of people available with the necessary technical skills and understanding of our products. Our ability to recruit and hire these personnel is harmed by tightening labor markets,

particularly in the engineering field, in several of our key geographic hiring areas. We may not be successful in attracting, integrating, or retaining qualified personnel to fulfill our current or future needs, nor may we be successful in keeping the qualified personnel we currently have. Our ability to hire and retain these personnel may be adversely affected by volatility or reductions in the price of our common stock, since these employees are generally granted equity-based awards. Also, to the extent we hire personnel from competitors, we may be subject to allegations that they have been improperly solicited, or that they have divulged proprietary or other confidential information, or that their former employers own their inventions or other work product.

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.

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

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

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

We are required to disclose material changes made in our internal control and procedures on a quarterly basis. However, our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act until the year following the date we are no longer an emerging growth company as defined in the JOBS Act, if we take advantage of the exemptions contained in the JOBS Act. To comply with these requirements, we may need to undertake various actions, such as implementing new internal controls and procedures and hiring accounting or internal audit staff.

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.

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.

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

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

These manufacturers typically fulfill our supply requirements on the basis of individual orders. We do not have long-term contracts with our manufacturers that guarantee capacity, the continuation of particular pricing terms, or the

extension of credit limits. Accordingly, they are not obligated to continue to fulfill our supply requirements, which could result in supply shortages, and the prices we are charged for manufacturing services could be increased on short notice. In addition, our orders may represent a relatively small percentage of the overall orders received by our manufacturers from their customers. As a result, fulfilling our orders may not be considered a priority by one or more of our manufacturers in the event the manufacturer is constrained in its ability to fulfill all of its customer obligations in a timely manner.

Although the services required to manufacture our hardware components may be readily available from a number of established manufacturers, it is time-consuming and costly to qualify and implement such relationships. If

we are required to change manufacturers, whether due to an interruption in one of our manufacturers' businesses, quality control problems or otherwise, or if we are required to engage additional manufacturers, our ability to meet our scheduled product deliveries to our customers could be adversely affected, which could cause the loss of sales to existing or potential customers, delayed revenue or an increase in our costs that could adversely affect our gross margin.

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

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

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

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

Because our products and services are complex, they have contained and may contain design or manufacturing defects or errors that are not detected until after their commercial release and deployment by our end-customers. Even if we discover those weaknesses, we may not be able to correct them promptly, if at all. Defects may cause our products to be vulnerable to security attacks, cause them to fail to help secure networks, or temporarily interrupt end-customers' networking traffic. Furthermore, our products may fail to detect or prevent malware, viruses, worms or similar threats for any number of reasons, including our failure to enhance and expand our platform to reflect industry trends, new technologies and new operating environments, the complexity of the environment of our end-customers and the sophistication of malware, viruses and other threats. Data thieves and hackers are increasingly sophisticated, often affiliated with organized crime and may operate large-scale and complex automated attacks. The techniques used to obtain unauthorized access or to sabotage networks change frequently and may not be recognized until launched against a target. Additionally, as a well-known provider of enterprise security solutions, our networks, products, and services could be targeted by attacks specifically designed to disrupt our business and harm our reputation. As our products are adopted by an increasing number of enterprises and governments, it is possible that the individuals and

organizations behind advanced attacks will focus on finding ways to defeat our products. In addition, defects or errors in our updates to our products could result in a failure of our services to effectively update end-customers' products and thereby leave our end-customers vulnerable to attacks. Our data centers and networks may experience technical failures and downtime, may fail to distribute appropriate updates, or may fail to meet the increased requirements of a growing installed end-customer base, any of which could temporarily or permanently expose our end-customers' networks, leaving their networks unprotected against security threats. Our end-customers may also misuse our products, which may result in loss or a breach of business data. For all of these reasons, we may be unable to anticipate all data security threats or provide a solution in time to protect our end-customers' networks. If

we fail to identify and respond to new and increasingly complex methods of attack and to update our products to detect or prevent such threats in time to protect our end-customers' critical business data, our business, operating results and reputation could suffer.

If any companies or governments that are publicly known to use our platform are the subject of an advanced cyberattack that becomes publicized, our other current or potential channel partners or end-customers may look to our competitors for alternatives to our products. Real or perceived security breaches of our end-customers' networks could cause disruption or damage to their networks or other negative consequences and could result in negative publicity to us, damage to our reputation, declining sales, increased expenses and end-customer relations issues. To the extent potential end-customers or industry analysts believe that the occurrence of any actual or perceived failure of our products to detect or prevent malware, viruses, worms or similar threats is a flaw or indicates that our products do not provide significant value, our reputation and business could be harmed.

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

- a loss of existing or potential end-customers or channel partners;
- delayed or lost revenue;
- a delay in attaining, or the failure to attain, market acceptance;

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

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

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

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

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

We cannot assure you that, despite the implementation of these security measures, we will not be subject to a security incident or other data breach or that this data will not be compromised. We may be required to expend significant capital and other resources to protect against security breaches or to alleviate problems caused by security breaches, or to pay penalties as a result of such breaches. Despite our implementation of security measures, techniques used to obtain unauthorized access or to sabotage systems change frequently and may not be recognized until launched against a target. As a result, we may be unable to anticipate these techniques or implement adequate preventative measures to protect this data. In addition, security breaches can also occur as a result of non-technical issues, including intentional or inadvertent breaches by our employees or service providers or by other persons or entities

with whom we have commercial relationships. Any compromise or perceived compromise of our security could damage our reputation with our end-customers, and could subject us to significant liability, as well as regulatory action, including financial penalties, which would materially adversely affect our brand, results of operations, financial condition, business and prospects.



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

Breaches of our security measures or those of our third-party service providers, or other security incidents, could result in: unauthorized access to our sites, networks and systems; unauthorized access to, misuse or misappropriation of information, including personally identifiable information, or other confidential or proprietary information of ourselves or third parties; viruses, worms, spyware or other malware being served from our sites, networks or systems; deletion or modification of content or the display of unauthorized content on our sites; interruption, disruption or malfunction of operations; costs relating to notification of individuals, or other forms of breach remediation; deployment of additional personnel and protection technologies; response to governmental investigations and media inquiries and coverage; engagement of third-party experts and consultants; litigation, regulatory investigations, prosecutions, and other actions; and other potential liabilities. If any of these events occurs, or is believed to occur, our reputation and brand could be damaged, our business may suffer, we could be required to expend significant capital and other resources to alleviate problems caused by such actual or perceived breaches, we could be exposed to a risk of loss, litigation or regulatory action and possible liability, and our ability to operate our business, including our ability to provide maintenance and support services to our channel partners and end-customers, may be impaired. If current or prospective channel partners and end-customers believe that our systems and solutions do not provide adequate security for their businesses' needs, our business and our financial results could be harmed. Additionally, actual, potential or anticipated attacks may cause us to incur increasing costs, including costs to deploy additional personnel and protection technologies, train employees and engage third-party experts and consultants.

Although we maintain privacy, data breach and network security liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all. Any actual or perceived compromise or breach of our security measures, or those of our third-party service providers, or any unauthorized access to, misuse or misappropriation of personally identifiable information, channel partners' or end-customers information, or other information, could violate applicable laws and regulations, contractual obligations or other legal obligations and cause significant legal and financial exposure, adverse publicity and a loss of confidence in our security measures, any of which could have a 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 may cause us to incur significant warranty and repair costs, divert the attention of our engineering personnel from our product development efforts and cause significant customer relations problems. We may also be subject to liability claims for damages related to product errors or defects. While we carry insurance policies covering this type of liability, these policies may not provide sufficient protection should a claim be asserted. A material product liability claim may harm our business and results of operations.

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

- expenditures of significant financial and product development resources in efforts to analyze, correct, eliminate or work around errors and defects or to address and eliminate vulnerabilities;

- loss of existing or potential end-customers or distribution channel partners;

- delayed or lost revenue;

- delay or failure to attain market acceptance;

- indemnification obligations under our agreements with resellers, distributors and/or end-customers;

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

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

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

We incorporate open source software such as the Linux operating system kernel into our products. We recently implemented a formal open source use policy, including written guidelines for use of open source software and business processes for approval of that use. We have developed and implemented our open source policies according to industry practice; however, best practices in this area are subject to change, because there is little reported case law on the interpretation of material terms of many open source licenses. We are in the process of reviewing our open source use and our compliance with open source licenses and implementing remediation and changes necessary to comply with the open source licenses related thereto. We cannot guarantee that our use of open source software has been, and will be, managed effectively for our intended business purposes and/or compliant with applicable open source licenses. We may face legal action by third parties seeking to enforce their intellectual property rights related to our use of such open source software. Failure to adequately manage open source license compliance and our use of open source software may result in unanticipated obligations regarding our products and services, such as a requirement that we license proprietary portions of our products or services on unfavorable terms, that we make available source code for modifications or derivative works we created based upon, incorporating or using open

source software, that we license such modifications or derivative works under the terms of the particular open source license and/or that we redesign the affected products or services, which could result, for example, in a loss of intellectual property rights, or delay in providing our products and services. From time to time, there have been claims against companies that distribute or use third-party open source software in their products and services, asserting that the open source software or its combination with the products or services infringes third parties' patents or copyrights, or that the companies' distribution or use of the open source software does not comply with the terms of the applicable open source licenses. Use of certain open source software can lead to greater risks than use of warranted third-party commercial software, as open source licensors generally do not provide warranties or controls on the origin of such open source software. From time to time, there have been claims against companies that use open source software in

their products, challenging the ownership of rights in such open source software. As a result, we could also be subject to suits by parties claiming ownership of rights in what we believe to be open source software and so challenging our right to use such software in our products. If any such claims were asserted against us, we could be required to incur significant legal expenses defending against such a claim. Further, if our defenses to such a claim were not successful, we could be, for example, subject to significant damages, be required to seek licenses from third parties in order to continue offering our products and services without infringing such third party's intellectual property rights, be required to re-engineer such products and services, or be required to discontinue making available such products and services if re-engineering cannot be accomplished on a timely or successful basis. The need to engage in these or other remedies could increase our costs or otherwise adversely affect our business, operating results and financial condition.

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

Our products must interoperate with our end-customers' existing infrastructure, specifically their networks, servers, software and operating systems, which may be manufactured by a wide variety of vendors and original equipment manufacturers. As a result, when problems occur in a network, it may be difficult to identify the source of the problem. The occurrence of software or hardware problems, whether caused by our products or another vendor's products, may result in the delay or loss of market acceptance of our products. In addition, when new or updated versions of our end-customers' software operating systems or applications are introduced, we must sometimes develop updated versions of our software so that our products will interoperate properly. We may not accomplish these development efforts quickly, cost-effectively or at all. These development efforts require capital investment and the devotion of engineering resources. If we fail to maintain compatibility with these applications, our end-customers may not be able to adequately utilize our products, and we may, among other consequences, fail to increase, or we may lose market share and experience a weakening in demand for our products, which would adversely affect our business, operating results and financial condition.

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

Many of our products include proprietary technologies licensed from third parties. In the future, it may be necessary to renew licenses for third party technology or obtain new licenses for other technology. These third-party licenses may not be available to us on acceptable terms, if at all. As a result, we could also face delays or be unable to make changes to our products until equivalent technology can be identified, licensed or developed and integrated with our products. Such delays or an inability to make changes to our products, if it were to occur, could adversely affect our business, operating results and financial condition. The inability to obtain certain licenses to third-party technology, or litigation regarding the interpretation or enforcement of license agreements and related intellectual property issues, could have a material adverse effect on our business, operating results and financial condition.

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

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

products we require at the time we need them, we may experience inventory shortages. Inventory shortages might delay shipments to resellers, distributors and customers and cause us to lose sales. These shortages may diminish the loyalty of our distribution channel partners or customers.

The difficulty in forecasting demand also makes it difficult to estimate our future financial condition and results of operations from period to period. A failure to accurately predict the level of demand for our products could adversely affect our total revenue and net income, and we are unlikely to forecast such effects with any certainty in advance. For example, we failed to predict the slowdown in the United States sales during the three months ended September 30, 2014 which resulted in lower revenues, 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. For example, during the three months ended September 30, 2014, we experienced longer than expected close and sales cycles for certain large deals and a 62% decrease in North America service provider revenue as compared to the same period in 2013 that adversely affected our revenue and may have contributed to a dramatic decline in our stock price.

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

We believe that our ability to provide consistent, high quality customer service and technical support is a key factor in attracting and retaining end-customers of all sizes and is critical to the deployment of our products. When support is purchased our end-customers depend on our support organization to provide a broad range of support services, including on-site technical support, 24-hour support and shipment of replacement parts on an expedited basis. If our support organization or our distribution channel partners do not assist our end-customers in deploying our products effectively, succeed in helping our end-customers resolve post-deployment issues quickly, or provide ongoing support, it could adversely affect our ability to sell our products to existing end-customers and could harm our reputation with potential end-customers. We currently have technical support centers in the United States, Japan, China and the Netherlands. As we continue to expand our operations internationally, our support organization will face additional challenges, including those associated with delivering support, training and documentation in languages other than English.

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

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

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

Demand for our products is linked to, among other things, growth in the size and complexity of network infrastructures and the demand for networking technologies addressing the security, management and analysis of such



infrastructures. These markets are dynamic and evolving. Our future financial performance will depend in large part on continued growth in the number of organizations investing in their network infrastructure and the amount they commit to such investments. If this demand declines, our results of operations and financial condition would be materially and adversely affected. Segments of the network infrastructure industry have in the past experienced significant economic downturns. Furthermore, the market for network infrastructure may not continue to grow at historic rates, or at all. The occurrence of any of these factors in the markets relating to network security, management and analysis could materially and adversely affect our results of operations and financial condition. For example, during the three months ended September 30, 2014, we experienced a 62% decrease in North America service provider revenue as compared to the same period in 2013 that adversely affected our revenue and may have contributed to a dramatic decline in our stock price.

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

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

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

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

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

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

We sell our products and services through multiple distribution channels in the United States and internationally. We may not be able to increase our number of distributor or reseller relationships or maintain our existing relationships. Recruiting and retaining qualified distribution channel partners and training them on our technologies requires significant time and resources. These distribution channel partners may also market, sell and support products and

services that are competitive with ours and may devote more resources to the marketing, sales and support of such competitive products. Our sales channel structure could subject us to lawsuits, potential liability and reputational harm if, for example, any of our distribution channel partners misrepresent the functionality of our products or services to end-customers or violate laws or our corporate policies. If we are unable to establish or maintain our sales channels or if our distribution channel partners are unable to adapt to our future sales focus and needs, our business and results of operations will be harmed.

The terms of our credit facility could restrict our operations, particularly our ability to respond to changes in our business or to take specified actions.

Our 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. Our credit facility requires us to satisfy specified financial covenants. In the past, we were not in compliance with one of the covenants on one occasion and were able to obtain a waiver from our lenders regarding the non-compliance. Our ability to meet those financial covenants can be affected by events beyond our control, and we may not be able to continue to meet those covenants or obtain waivers if we fail to meet a covenant. Upon the occurrence of an event of default, our lenders could elect to declare all amounts outstanding under the credit facility to be immediately due and payable and terminate all commitments to extend further credit. If our lenders accelerate the repayment, if any, we may not have sufficient funds to repay our existing debt. If we were unable to repay those amounts, our lenders could proceed against the collateral granted to them to secure such indebtedness. We have pledged substantially all of our assets, including our intellectual property, as collateral under the credit facility. As of December 31, 2015, we had no outstanding balance on our credit facility and were in compliance with the facility covenants.

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

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

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

Our business is subject to regulation by various federal, state, local and foreign governmental entities, including agencies responsible for monitoring and enforcing employment and labor laws, workplace safety, product safety, environmental laws, consumer protection laws, anti-bribery laws, import/export controls, federal securities laws, and tax laws and regulations. In certain jurisdictions, these regulatory requirements may be more stringent than those in the United States. Noncompliance with applicable regulations or requirements could subject us to investigations, sanctions, mandatory product recalls, enforcement actions, disgorgement of profits, fines, damages, civil and criminal penalties, or injunctions. If any governmental sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation, our business, operating results, and financial condition could be materially adversely affected. In addition, responding to any action will likely result in a significant diversion of management's attention and resources and an increase in professional fees. Enforcement actions and sanctions could harm our business, operating results and financial condition.

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

Our products are subject to U.S. export controls and may be exported outside the United States only with the required level of export license or through an export license exception because we incorporate encryption technology into our products. In addition, various countries regulate the import of certain encryption technology and have enacted laws that could limit our ability to distribute our products or our end-customers' ability to implement our products in those

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

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

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

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

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

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

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

Many of our business processes depend upon our information technology systems, the systems and processes of third parties, and on interfaces with the systems of third parties. If those systems fail or are interrupted, or if our ability to connect to or interact with one or more networks is interrupted, our processes may function at a diminished level or not at all. This could harm our ability to ship or support our products, and our financial results may be harmed.

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

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

We may make acquisitions of complementary companies, products or technologies. With respect to 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. Any future acquisitions may be viewed negatively by customers, financial markets or investors. There may be difficulty integrating the operations and personnel of an acquired business, and we may have difficulty retaining the key personnel of an acquired business. We may have difficulty in integrating acquired technologies or products with our existing product lines. Any integration process may require significant time and resources, and we may not be able to manage the process successfully. Our ongoing business and management's attention may be disrupted or diverted by transition or integration issues and the

complexity of managing geographically and culturally diverse locations. We may have difficulty maintaining uniform standards, controls, procedures and policies across locations. We may experience significant problems or liabilities associated with product quality, technology and other matters.

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

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

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

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

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

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

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

As our business grows, we are required to comply with increasingly complex taxation rules and practices. We are subject to tax in multiple U.S. tax jurisdictions and in foreign tax jurisdictions as we expand internationally. The development of our tax strategies requires additional expertise and may impact how we conduct our business. Our future effective tax rates could be unfavorably affected by changes in, or interpretations of, tax rules and regulations in the jurisdictions in which we do business, lapses of the availability of the U.S. research and development tax credit or

changes in the valuation of our deferred tax assets and liabilities. Furthermore, we provide for certain tax liabilities that involve significant judgment. We are subject to the examination of our tax returns by federal, state and foreign tax authorities, which could focus on our intercompany transfer pricing methodology as well as other matters. If our tax strategies are ineffective or we are not in compliance with domestic and international tax laws, our financial position, operating results and cash flows could be adversely affected.



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

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

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

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

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

Our executive officers and directors, together with affiliated entities, hold 32.5% of our outstanding common stock as of December 31, 2015. 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 may 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 following the initial public offering has fluctuated substantially. Following the completion of the initial public offering, the market price of our common stock has been higher or lower than the price you paid in the offering, depending on many factors, some of which are beyond our control and may not be related to our operating performance. These fluctuations could cause you to lose all or part of your investment in our common stock. Factors that could cause fluctuations in the trading price of our common stock include the following:

- announcements of new products, services or technologies, commercial relationships, acquisitions or other events by us or our competitors;

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

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

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

Sales of a substantial number of shares of our common stock in the public market, or the perception that such sales could occur, could adversely affect the market price of our common stock and may make it more difficult for you to sell your common stock at a time and price that you deem appropriate. As of December 31, 2015, there were approximately 5.7 million vested and exercisable options to purchase our common stock, in addition to the 64,172,326 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 of 1933, as amended, as well as our insider trading policy. In addition, holders of certain shares of our outstanding common stock, including an aggregate of 9,427,846 shares held by funds affiliated with Summit Partners, L.P. as of December 31, 2015, 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.

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

As a reporting company, we are incurring increased legal, accounting and other expenses, including costs associated with SEC reporting and corporate governance requirements. These requirements include compliance with Section 404 and other provisions of the Sarbanes-Oxley Act, as well as rules implemented by the SEC. In addition, our management team is adapting to the requirements of being a reporting company. The expenses incurred for reporting and corporate governance purposes are significant. We expect these rules and regulations to substantially increase our legal and financial compliance costs and to make some activities more time-consuming and costly.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs, and making some activities more time consuming. Additionally, implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, may also cause us to incur additional costs and subject us to risks if we are unable to fully comply. For instance, the SEC adopted new disclosure requirements in 2012 as part of implementation of the Dodd-Frank Act regarding the use of conflict minerals mined from the Democratic Republic of Congo and adjoining countries and procedures regarding a manufacturer’s efforts to prevent the sourcing of such conflict minerals. The implementation of these requirements could adversely affect our costs and our relationships with customers and suppliers. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations, and standards, and this investment may result in increased general and administrative expense and a diversion of management’s time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations, and standards differ from the activities

intended by regulatory or governing bodies, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

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

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

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

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

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

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

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

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

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

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

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

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

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



Proceeds received from the sale of our capital stock may be used for general corporate purposes, and we may not use such proceeds effectively.

We completed our public offering in March 2014. The principal purposes of the initial public offering were to raise additional capital, to create a public market for our common stock and to facilitate our future access to the public equity markets. We intend to use the net proceeds that we received in the initial public offering primarily for general corporate purposes, including working capital, sales and marketing activities, research and development activities, general and administrative matters and capital expenditures, and we may use a portion of the net proceeds for the acquisition of, or investment in, business products, services or technologies that complement our business.

Accordingly, our management will have broad discretion over the specific use of the net proceeds that we receive in the initial public offering and might not be able to obtain a significant return, if any, on investment of these net proceeds. We cannot assure you that we will use such proceeds effectively. If we do not use the net proceeds that we received in the initial public offering effectively, our business, results of operations and financial condition could be harmed.

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, our revolving credit facility currently restricts our ability to pay 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 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

Our corporate headquarters is located in San Jose, California, where we currently lease 79,803 square feet of space under a lease agreement that expires in February 2020. We leased an additional 29,230 square feet of space in San Jose under a lease agreement that expired in January 2016. We also lease space for offices internationally and for sales offices in locations throughout the United States and various international locations, including, among others, China, Japan, the United Kingdom, the Netherlands, Taiwan, Korea and Singapore. We believe that our current facilities are adequate to meet our current needs. We intend to expand our facilities or add new facilities as we add employees and enter new geographic markets. We believe that alternative or additional space suitable for our requirements will be available as needed to accommodate ongoing operations and any such growth. We do however expect to incur additional expenses in connection with any such new or expanded facilities.

We consider these current facilities suitable and adequate to meet our requirements.

## ITEM 3. LEGAL PROCEEDINGS

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

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

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## PART II.

## ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

## Market for Registrant's Common Equity

Our common stock has been quoted on the New York Stock Exchange ("NYSE") under the symbol "ATEN" since March 21, 2014. Prior to that time, there was no public market for our stock. The following table sets forth for the indicated periods, the high and low sale prices of our common stock.

	Fiscal Year 2015 Quarter Ended				Fiscal Year 2014 Quarter Ended			
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
Low	\$3.96	\$4.18	\$4.98	\$5.68	\$14.01	\$10.63	\$9.11	\$3.93
High	\$5.58	\$7.38	\$7.40	\$8.30	\$16.21	\$15.22	\$13.70	\$8.66

The closing price of our common stock on the NYSE was \$6.16 and \$6.56 on February 19, 2016 and December 31, 2015. As of February 19, 2016, there were approximately 205 stockholders of record. Because many shares of our common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these holders of record.

## Dividends

We have never declared or paid any cash dividends on our common stock. We currently intend to retain any future earnings and do not expect to pay any cash dividends on our common stock for the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our board of directors and will be dependent on a number of factors, including our earnings, capital requirements and overall financial conditions. Currently, the agreement for our revolving credit facility contains restrictions on our ability to pay dividends.

## Equity Compensation Plan Information

See Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters for information regarding securities authorized for issuance.

## Comparison of Stockholder Return

This graph compares, for the period ended December 31, 2015, the cumulative total return on our common stock, the NASDAQ Composite Index and the Russell 3000 Index. The graph assumes \$100 was invested on March 21, 2014 in the common stock of A10 Networks, Inc., the NASDAQ Composite Index and the Russell 3000 Index, and assumes the reinvestment of any dividends. The stock price performance on the following graph is not necessarily indicative of future stock price performance.

	March 21, 2014	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015
A10 Networks., Inc.	100.00	92.78	82.05	56.20	26.90	26.71	39.73	36.95	40.47
NASDAQ Composite	100.00	98.18	103.07	105.06	110.74	114.59	116.6	108.03	117.08
Russell 3000	100.00	100.07	104.44	103.96	108.89	110.33	109.96	101.48	108.29

## Unregistered Sales of Equity Securities

None.

## ITEM 6. Selected Financial Data

The following tables set forth the selected consolidated financial data for each of the years in the five-year period ended December 31, 2015. These selected consolidated financial data should be read in conjunction with the consolidated financial statements and accompanying notes, Management's Discussion and Analysis of Financial Condition and Results of Operations and other financial information is included elsewhere in this Annual Report on Form 10-K. We have derived the Consolidated statement of Operations Data for the years ended December 31, 2015, 2014 and 2013 and the Consolidated Balance Sheet Data as of December 31, 2015 and 2014 from the consolidated audited financial statements included in Item 8. Financial Statements and Supplemental Data in this Annual Report on Form 10-K. The Consolidated Statement of Operations data for the years ended December 31, 2012 and 2011 and the Consolidated Balance Sheet Data as of December 31, 2013, 2012 and 2011 were derived from the consolidated audited financial statements that are not included in this Annual Report on Form 10-K.

	Year Ended December 31,				
	2015	2014	2013	2012	2011
	(in thousands)				
<b>Consolidated Statement of Operations Data:</b>					
Revenue	\$ 198,955	\$ 179,507	\$ 141,738	\$ 120,066	\$ 91,278
Cost of revenue	\$ 48,768	\$ 42,937	\$ 33,396	\$ 24,510	\$ 18,475
Gross profit	\$ 150,187	\$ 136,570	\$ 108,342	\$ 95,556	\$ 72,803
Income (loss) from operations	\$(38,446 )	\$(30,271 )	\$(22,843 )	\$(87,020 )	\$ 9,013
Net income (loss) attributable to common stockholders	\$(40,034 )	\$(35,870 )	\$(29,078 )	\$(90,150 )	\$ 7,304
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 98,117	\$ 91,905	\$ 20,793	\$ 23,867	\$ 19,048
Working capital (deficit)	\$ 91,413	\$ 100,656	\$ 15,122	\$(61,460 )	\$ 19,064
Total assets	\$ 192,551	\$ 186,980	\$ 93,794	\$ 76,794	\$ 55,433
Total debt	\$ —	\$ —	\$ 20,000	\$ 5,631	\$ 1,654
Deferred revenue, net-current and long-term	\$ 72,804	\$ 57,220	\$ 41,232	\$ 27,707	\$ 18,050
Redeemable convertible preferred stock	\$ —	\$ —	\$ 81,426	\$ —	\$ —
Convertible preferred stock	\$ —	\$ —	\$ 44,749	\$ 41,737	\$ 41,665
Total stockholders' equity (deficit)	\$ 80,068	\$ 96,565	\$(134,880 )	\$(111,892 )	\$(25,590 )

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with Item 6. "Selected Financial Data," our consolidated financial statements and related notes included elsewhere in this document. In addition to historical information, the discussion below contains certain forward looking statements that involve risks and uncertainties. These forward-looking statements include, but are not limited to, those matters discussed under the heading "Forward-looking Statements." Our actual results could differ materially from those anticipated by these forward looking statements due to various factors, including, but not limited to, those set forth under Item 1A. Risk Factors in this Annual Report on Form 10-K and elsewhere in this document.

Overview

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

We currently offer four software based advanced application networking and network security solutions to address end-customer needs, including ADC to optimize web and back-office application performance, CGN to provide network address and protocol translation services for service provider networks, TPS for network-wide multi-vector DDoS security protection, and CFW (which we expect to start shipping in the first quarter of 2016) for protecting data centers and mobile infrastructure, improving web security, and encrypting site to-site communications. Our solutions are cloud-ready and available in a variety of form factors as optimized hardware appliances, in the cloud as software, and as virtual appliances.

We derive revenue from sales of products and related support services. Products revenue is generated primarily by sales of hardware appliances with perpetual licenses to our embedded software solutions. We generate services revenue primarily from sales of maintenance and support contracts. Our end-customers predominantly purchase maintenance and support in conjunction with purchases of our products. In addition, we also derive 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 and education. Since inception, our customer base has grown rapidly. As of December 31, 2015, we had sold products to more than 4,700 customers across 77 countries.

We sell a substantial portion 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 center facilities, as well as at our manufacturers' locations.

During the year ended December 31, 2015, 54% of our total revenue was generated from the United States, 18% from Japan, and 28% from other geographical regions. During 2014, 48% of our total revenue was generated from the United States, 26% from Japan and 26% from other geographical regions. During 2013, 48% of our total revenue was generated from the United States, 28% from Japan and 24% from other geographical regions. For the years ended December 2015, 2014 and 2013, our enterprise customers accounted for 55%, 54% and 53% of our total revenue. For the years ended December 31, 2015, 2014 and 2013, our service provider customers accounted for 45%, 46% and 47% of our total revenue.

As a result of the nature of our target market and the current stage of our development, a substantial portion of our revenue comes from a limited number of large end-customers, including service providers, in any period. During the years ended December 31, 2015, 2014 and 2013, purchases from our ten largest end-customers accounted for approximately 33%, 37% and 43% of our total revenue. 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 is difficult to

predict. As a consequence, any acceleration or delay in anticipated product purchases by or deliveries to our largest end-customers could materially impact our revenue and operating results in any quarterly period and cause our quarterly revenue and operating results to fluctuate from quarter to quarter and also be difficult to predict.

We had \$98.1 million of cash and cash equivalents as of December 31, 2015. Cash generated by operating activities was \$3.4 million in 2015 compared to \$30.5 million of cash used in operating activities in 2014.

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

## Results of Operations

The following tables provide a summary of our Consolidated Statements of Operations for the years ended December 31, 2015, 2014 and 2013 as derived from our consolidated financial statements included in Item 8 Financial Statements and Supplementary Data in this Annual Report on Form 10-K (in thousands, except for percentages).

	Years Ended December 31,				Net Change			
	2015		2014		Amount	Percent		
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue				
Revenue:								
Products	\$138,301	69.5 %	\$134,486	74.9 %	\$3,815	2.8 %		
Services	60,654	30.5 %	45,021	25.1 %	15,633	34.7 %		
Total revenue	198,955	100.0 %	179,507	100.0 %	19,448	10.8 %		
Cost of revenue:								
Products	33,096	16.6 %	31,084	17.4 %	2,012	6.5 %		
Services	15,672	7.9 %	11,853	6.6 %	3,819	32.2 %		
Total cost of revenue	48,768	24.5 %	42,937	23.9 %	5,831	13.6 %		
Gross profit	150,187	75.5 %	136,570	76.1 %	13,617	10.0 %		
Operating expenses:								
Sales and marketing	104,531	52.5 %	96,837	53.9 %	7,694	7.9 %		
Research and development	54,843	27.6 %	49,903	27.8 %	4,940	9.9 %		
General and administrative	27,055	13.6 %	22,938	12.8 %	4,117	17.9 %		
Litigation expense (benefit)	2,204	1.1 %	(2,837)	(1.6) %	5,041	(177.7) %		
Total operating expenses	188,633	94.8 %	166,841	92.8 %	21,792	13.1 %		
Loss from operations	(38,446)	(19.3) %	(30,271)	(16.9) %	(8,175)	(27.0) %		
Other expense, net:								
Interest expense	(509)	(0.3) %	(1,028)	(0.6) %	519	50.5 %		
Interest income and other income (expense), net	(332)	(0.2) %	(1,914)	(1.1) %	1,582	82.7 %		
Total other expense, net	(841)	(0.4) %	(2,942)	(1.6) %	2,101	71.4 %		
Loss before provision for income taxes	(39,287)	(19.7) %	(33,213)	(18.5) %	(6,074)	(18.3) %		
Provision for income taxes	747	0.4 %	1,507	0.8 %	(760)	(50.4) %		
Net loss	\$(40,034)	(20.1) %	\$(34,720)	(19.3) %	\$(5,314)	(15.3) %		





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	Years Ended December 31,				Net Change	
	2014	2013	2014	2013	2014	2013
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue	Amount	Percent
Revenue:						
Products	\$134,486	74.9%	\$112,045	79.1%	\$22,441	20.0%
Services	45,021	25.1%	29,693	20.9%	15,328	51.6%
Total revenue	179,507	100.0%	141,738	100.0%	37,769	26.6%
Cost of revenue:						
Products	31,084	17.4%	25,284	17.8%	5,800	22.9%
Services	11,853	6.6%	8,112	5.7%	3,741	46.1%
Total cost of revenue	42,937	23.9%	33,396	23.6%	9,541	28.6%
Gross profit	136,570	76.1%	108,342	76.4%	28,228	26.1%
Operating expenses:						
Sales and marketing	96,837	53.9%	70,756	49.9%	26,081	36.9%
Research and development	49,903	27.8%	33,348	23.5%	16,555	49.6%
General and administrative	22,938	12.8%	15,556	11.0%	7,382	47.5%
Litigation expense (benefit)	(2,837 )	(1.6)%	11,525	8.1%	(14,362 )	(124.6)%
Total operating expenses	166,841	92.8%	131,185	92.6%	35,656	27.2%
Loss from operations	(30,271 )	(16.9)%	(22,843 )	(16.1)%	(7,428 )	(32.5)%
Other expense, net:						
Interest expense	(1,028 )	(0.6)%	(1,495 )	(1.1)%	467	31.2%
Interest income and other income (expense), net	(1,914 )	(1.1)%	(2,118 )	(1.5)%	204	9.6%
Total other expense, net	(2,942 )	(1.6)%	(3,613 )	(2.5)%	671	18.6%
Loss before provision for income taxes	(33,213 )	(18.5)%	(26,456 )	(18.7)%	(6,757 )	(25.5)%
Provision for income taxes	1,507	0.8%	640	0.5%	867	135.5%
Net loss	\$(34,720 )	(19.3)%	\$(27,096 )	(19.1)%	\$(7,624 )	(28.1)%

## 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 or CFW solutions (which we expect to start shipping in the first quarter of 2016). 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, cyclicity and seasonality, changes in currency exchange rates and the impact of significant transactions with unique terms and conditions. We generate services revenue from sales of post contract support, or PCS, which is bundled with sales of products and professional services. We offer tiered PCS services under renewable, fee-based PCS contracts, primarily including technical support, hardware repair and replacement parts, and software upgrades on a when-and-if-released basis. We recognize services revenue ratably over the term of the PCS contract, which is typically one year, but can be up to five years. We expect our services revenue to increase in absolute dollars as we expand our installed base. A summary of our total revenue for the years ended December 31, 2015, 2014 and 2013 is as follows (in thousands, except for percentages):

	Years Ended December 31,		Net Change	
	2015	2014	Amount	Percent
Revenue:				
Products	\$ 138,301	\$ 134,486	\$ 3,815	2.8%
Services	60,654	45,021	15,633	34.7%
Total revenue	\$ 198,955	\$ 179,507	\$ 19,448	10.8%
Revenue by geographic location:				
United States	\$ 106,842	\$ 85,325	\$ 21,517	25.2%
Japan	35,636	45,787	(10,151)	(22.2)%
Asia Pacific, excluding Japan	23,847	20,434	3,413	16.7%
EMEA	27,193	19,254	7,939	41.2%
Other	5,437	8,707	(3,270)	(37.6)%
Total revenue	\$ 198,955	\$ 179,507	\$ 19,448	10.8%
	Years Ended December 31,		Net Change	
	2014	2013	Amount	Percent
Revenue:				
Products	\$ 134,486	\$ 112,045	\$ 22,441	20.0%
Services	45,021	29,693	15,328	51.6%
Total revenue	\$ 179,507	141,738	\$ 37,769	26.6%
Revenue by geographic location:				
United States	\$ 85,325	\$ 68,127	\$ 17,198	25.2%
Japan	45,787	39,581	6,206	15.7%
Asia Pacific, excluding Japan	20,434	15,052	5,382	35.8%
EMEA	19,254	12,087	7,167	59.3%
Other	8,707	6,891	1,816	26.4%
Total revenue	\$ 179,507	\$ 141,738	\$ 37,769	26.6%

## 2015 Revenue Compared to 2014 Revenue

Total revenue increased by \$19.4 million, or 11%, in 2015 compared to 2014, which consisted of a \$3.8 million increase in products revenue and a \$15.6 million increase in services revenue. Total revenue from enterprise and service provider customers increased 13% and 8%, respectively, in 2015 compared to 2014.

Products revenue increased \$3.8 million, or 3%, in 2015 compared to 2014, which is primarily attributable to increases from the United States, EMEA and Asia Pacific, excluding Japan, partially offset by lower product revenue from Japan. In 2014, our products revenue from Japan was positively impacted by a higher backlog entering the year that resulted from strong demand for our products in Japan in the fourth quarter of 2013. In addition, Japan's total revenue was more adversely impacted by the unfavorable changes in currency exchange rates between the Japanese yen against the U.S. dollar in 2015 compared to 2014. Product revenue from enterprise customers and service provider customers increased 4% and 2% in 2015 as compared to 2014.

Services revenue increased \$15.6 million, or 35%, in 2015 compared to 2014, which is primarily attributable to the increase in PCS revenue in connection with our increasing installed customer base, as well as increases in our professional services revenue. Over 95% of our end-customers purchase one of our maintenance service products when purchasing our hardware products. During 2015, services revenue recognized from contracts existing prior to 2015 grew by 41% as compared to 2014 services revenue related to contracts existing prior to 2014. Services revenue from enterprise and service provider customers increased 42% and 25%, in 2015 compared to 2014.

During 2015, \$106.8 million, or 54% of total revenue was generated from the United States, which represents a 25% increase compared to 2014. This increase was primarily attributable to increased product revenue from service provider customers as well as higher PCS sales in connection with our increased installed customer base. We continue to see growth in our EMEA and Asia Pacific, excluding Japan, with total revenue increasing by 41% and 17%, respectively, in 2015 compared to 2014, primarily due to our efforts to continue expanding our presence in these regions. In 2015, \$35.6 million, or 18%, of total revenue was generated from Japan, a 22% decrease compared to 2014 primarily due to strong 2013 demand which resulted in higher backlog entering into 2014. This decrease was partially offset by an increase in services revenue. In addition, Japan's total revenue was adversely impacted by the unfavorable changes in currency exchange rates between the Japanese yen against the U.S. dollar during 2015 compared to 2014.

#### 2014 Revenue Compared to 2013 Revenue

Total revenue increased by \$37.8 million, or 27%, in 2014 compared to 2013, which consisted of a \$22.4 million increase in product revenue and \$15.3 million increase in services revenue. Total revenue from enterprise customers and service providers increased by 30% and 23%, respectively, in 2014 compared to 2013.

Products revenue increased \$22.4 million, or 20%, in 2014 compared to 2013 which is primarily attributable to greater adoption of our solutions by new and existing customers. In addition, there was a high adoption rate of our Thunder Series products introduced in the second quarter of 2013 which accounted for the majority of products revenue in the second half of 2014. Our Thunder Series of products include our ADC, CGN and TPS product lines.

Services revenue increased \$15.3 million or 52% in 2014 compared to the same period in 2013 primarily attributable to the increase in PCS sales in connection with our increasing installed customer base as well as increases in our professional services revenue. Over 95% of our end-customers purchase one of our maintenance service products when purchasing our hardware products. During 2014, services revenue recognized from contracts existing prior to the start of 2014 grew by 50% as compared to 2013 services revenue related to contracts existing prior to 2013.

During 2014, \$85.3 million, or 48%, of total revenue was generated from the United States, which represents a 25% increase compared to 2013. During 2014, \$45.8 million, or 26%, of total revenue was generated from Japan, which represents a 16% increase compared to 2013. We continued to see growth in our EMEA and Asia Pacific, excluding

Japan regions with total revenue increasing by 59% to \$19.3 million and 36% to \$20.4 million in 2014 compared to 2013 primarily due to our efforts to expand our presence in these regions.

## Cost of Revenue, Gross Profit and Gross Margin

### Cost of revenue

Cost of products revenue is primarily comprised of cost of third-party manufacturing services and cost of component inventory for the hardware component of our products. 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 for the years ended December 31, 2015, 2014 and 2013 is as follows (in thousands, except for percentages):

	Years Ended December 31,		Net Change		
	2015	2014	Amount	Percent	
Cost of revenue:					
Products	\$33,096	\$31,084	\$2,012	6.5	%
Services	15,672	11,853	3,819	32.2	%
Total cost of revenue	\$48,768	\$42,937	\$5,831	13.6	%
	Years Ended December 31,		Net Change		
	2014	2013	Amount	Percent	
Cost of revenue:					
Products	\$31,084	\$25,284	\$5,800	22.9	%
Services	11,853	8,112	3,741	46.1	%
Total cost of revenue	\$42,937	\$33,396	\$9,541	28.6	%

### 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 international currency exchange rates.

Our sales are generally denominated in U.S. dollars, however, in Japan they are denominated in the 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 positive or negative impact on gross margin as compared to another period.

A summary of gross profit and gross margin for the years ended December 31, 2015, 2014 and 2013 is as follows (in thousands, except for gross margins):

	Years Ended December 31, 2015		2014		Net Change	
	Amount	Gross Margin	Amount	Gross Margin	Amount	Gross Margin
Gross profit:						
Products	\$105,205	76.1%	\$103,402	76.9%	\$1,803	(0.8)%
Services	44,982	74.2%	33,168	73.7%	11,814	0.5%
Total gross profit	\$150,187	75.5%	\$136,570	76.1%	\$13,617	(0.6)%
	Years Ended December 31, 2014		2013		Net Change	
	Amount	Gross Margin	Amount	Gross Margin	Amount	Gross Margin
Gross profit:						
Products	\$103,402	76.9%	\$86,761	77.4%	\$16,641	(0.5)%
Services	33,168	73.7%	21,581	72.7%	11,587	1.0%
Total gross profit	\$136,570	76.1%	\$108,342	76.4%	\$28,228	(0.5)%

#### 2015 Gross Margin to 2014 Gross Margin

Products gross margin decreased by 0.8% in 2015 as compared to 2014 primarily due to the impact of unfavorable changes in currency exchange rates as the Japanese yen exchange rates continued to devalue against the U.S. dollar during 2015, partially offset by improved geographic sales mix. We experienced higher sales volumes from geographic regions and products with generally higher gross margins in 2015 as compared to 2014, which had a positive impact on our 2015 gross margins.

Services gross margin increased by 0.5% in 2015 as compared to 2014, as a result of growth in services revenue and partially offset by the impact of increases in cost of services. Our services revenue recognized from our installed base with existing contracts prior to 2015 grew by 41% compared to similar revenue generated during 2014. The increase in cost of services was primarily as a result of our investment to expand our service and support group in anticipation of future growth in our installed base.

#### 2014 Gross Margin to 2013 Gross Margin

Products gross margin decreased 0.5% in 2014 as compared to 2013 primarily due to an unfavorable shift in our geographical sales mix and a devaluation of the Japanese yen against the U.S. dollar. We also experienced higher sales volumes from geographic regions with generally higher gross margins in 2013 compared to 2014, which benefited our gross margin in 2013.

Services gross margin increased 1.0% in 2014 compared to 2013, as a result of growth in services revenue and partially offset by the impact of increases in cost of services. Our services revenue recognized from our installed base with existing contracts prior to 2014 grew by 50% compared to revenue generated during 2013. The increase in cost of services was primarily a result of our investment to expand our service and support group in anticipation of future growth in our installed base. We increased our average support, training and professional services headcount by 47% during 2014 as compared to 2013.

#### Operating Expenses

Our operating expenses consist of sales and marketing, research and development, general and administrative and litigation expenses. The largest component of our operating expenses is personnel costs which consist of wages,

benefits, bonuses, and, with respect to sales and marketing expenses, sales commissions. Personnel costs also include stock-based compensation and travel expenses. We expect personnel costs to continue to increase in absolute dollars as we hire new employees to continue to grow our business.



A summary of our operating expenses for the years ended December 31, 2015, 2014 and 2013 is as follows (in thousands, except for percentages):

	Years Ended December 31,		Net Change	
	2015	2014	Amount	Percent
Operating expenses:				
Sales and marketing	\$104,531	\$96,837	\$7,694	7.9%
Research and development	54,843	49,903	4,940	9.9%
General and administrative	27,055	22,938	4,117	17.9%
Litigation expense (benefit)	2,204	(2,837 )	5,041	(177.7)%
Total operating expenses	\$188,633	\$166,841	\$21,792	13.1%
	Years Ended December 31,		Net Change	
	2014	2013	Amount	Percent
Operating expenses:				
Sales and marketing	\$96,837	\$70,756	\$26,081	36.9%
Research and development	49,903	33,348	16,555	49.6%
General and administrative	22,938	15,556	7,382	47.5%
Litigation expense (benefit)	(2,837 )	11,525	(14,362 )	(124.6)%
Total operating expenses	\$166,841	\$131,185	\$35,656	27.2%

#### Sales and Marketing

Sales and marketing expenses are our largest functional category of total operating expenses. These expenses primarily consist of personnel costs related to our employees engaged in sales and marketing activities. 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 increased \$7.7 million or 8%, in 2015 as compared to 2014 primarily attributable to an \$8.1 million increase in personnel and related costs and a \$0.7 million increase in company meeting expenses. The increase in personnel related costs, which includes a \$4.5 million increase in sales commission and a \$1.9 million increase in stock-based compensation was primarily attributable to higher sales and marketing headcount and higher bonus attainment and sales commissions in 2015 as compared to 2014. These increases were partially offset by a \$1.1 million decrease in trade show and market development costs.

Sales and marketing expenses increased \$26.1 million, or 37%, in 2014 as compared to 2013 primarily attributable to a \$17.2 million increase in personnel related costs, which includes a \$3.6 million increase in stock-based compensation. The increase in personnel related costs was a result of higher sales and marketing headcount in 2014 compared to 2013. The increase was also attributable to a \$2.9 million increase in marketing and promotion costs associated with advertising and trade shows, and a \$2.1 million increase in professional services fees, as we increased our sales and marketing efforts to grow our revenue and expand our international sales presence. Depreciation expense and allocated facilities and information technology infrastructure costs also increased by \$2.2 million as a result of higher headcount and increased depreciation expense on our evaluation equipment.

We expect our sales and marketing expenses to continue to increase in absolute dollars as we increase the size of our sales and marketing organization and as we increase our sales presence in existing countries and expand 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 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 expenses increased \$4.9 million, or 10%, in 2015 as compared to 2014 primarily attributable to a \$6.5 million increase in personnel and related costs, which includes a \$1.5 million increase in stock-based compensation. The increase in personnel related costs was primarily attributable to higher salaries and benefits and to a lesser extent higher headcount in 2015 compared to 2014. The increase in personnel related research and development expense was partially offset by a \$0.7 million decrease in professional services fees due to lower product certification related activities in 2015 compared to 2014 and a \$0.8 million decrease in depreciation expense as a result of certain assets being fully depreciated.

Research and development expenses increased \$16.6 million, or 50%, in 2014 as compared to 2013 primarily attributable to a \$14.0 million increase in personnel and related costs, which includes a \$2.6 million increase in stock-based compensation. The increase in personnel related costs was a result of higher research and development headcount in 2014 compared to 2013. In addition, the increases in research and development expenses also reflected a \$1.0 million increase in professional services fees largely attributable to certification fees on our new products and a \$1.2 million increase in depreciation and allocated facilities and information technology infrastructure costs in 2014 compared to 2013.

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

## General and Administrative

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

General and administrative expenses increased \$4.1 million, or 18% in 2015 as compared to 2014 primarily attributable to a \$3.1 million increase in personnel related costs due to higher headcount and increased salaries and benefits, and a \$1.5 million increase in bad debt expense. These increases were partially offset by a \$0.8 million decrease in sales and use tax expense largely as a result of the completion of several state sales tax registration processes and adjustments resulting from our reassessment of previously accrued sales and use tax liabilities.

General and administrative expenses increased \$7.4 million, or 48%, in 2014 as compared to 2013, primarily attributable to a \$3.3 million increase in personnel related costs which includes a \$1.0 million increase in stock-based compensation. The increase in personnel related costs was a result of higher general and administrative headcount in 2014 compared to 2013. In addition, professional services costs increased by \$3.2 million in 2014 compared to 2013 primarily related to increased general legal and consultant fees in connection with scaling our organization to support increased business activity and costs associated with being a public company.

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

## Litigation Expense (Benefit)

Litigation expense (benefit) 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 for damages or settlements.

Litigation expense increased \$5.0 million, from \$2.8 million litigation benefit in 2014 to \$2.2 million of litigation expense in 2015. This increase in litigation expense was primarily attributable to the \$7.0 million litigation benefit recognized in the second quarter of 2014 following a settlement agreement in May 2014 with one of our legal services providers which resulted in the reduction of a previously accrued contractual liability, partially offset by a \$2.0 million decrease in other litigation expense largely attributable to a reduction in litigation related activities in 2015 as compared to 2014.

Litigation expense decreased \$14.4 million, from \$11.5 million litigation expense in 2013 to \$2.8 million of litigation benefit in 2014. The \$2.8 million of litigation benefit in the year ended December 31, 2014 is primarily comprised of a benefit of \$7.0 million from a settlement agreement with one of our legal services providers which resulted in the reduction of a previously accrued contractual liability, partially offset by other litigation expenses of \$4.2 million.

#### Interest Expense

Interest expense consists primarily of interest expense and amortization of debt issuance costs on our debt obligations. At December 31, 2015, we have 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 decreased \$0.5 million in 2015 compared to 2014, primarily due to lower borrowing related activities in 2015 compared to 2014. During 2014, we recorded a \$0.3 million contingent payment due to a lender upon completion of our initial public offering and \$0.2 million of interest expense related to our revolving credit facility. We completed our initial public offering and repaid the outstanding balance under our revolving credit facility in March 2014.

Interest expense decreased \$0.5 million in 2014 compared to 2013 due to a \$1.1 million interest charge related to an unsecured convertible promissory note we issued to Brocade in 2013, partially offset by a \$0.3 million contingent payment in 2014 due upon completion of the initial public offering to a lender and \$0.2 million higher amortization of debt issuance costs related to our revolving credit facility recorded in 2014.

#### Interest Income and Other Income (Expense), Net

Interest income consists primarily of interest income earned on our cash and cash equivalents balances. Other income (expense) consists primarily of foreign currency exchange gains and losses and, through February 2013, fair value adjustments related to then-outstanding warrants to purchase our convertible preferred stock. Foreign currency exchange gains and losses relate to transactions and asset and liability balances denominated in currencies other than the U.S. dollar. We expect our foreign currency gains and losses to continue to fluctuate in the future due to changes in foreign currency exchange rates.

We recorded \$0.3 million, \$1.9 million and \$2.1 million in net expense in interest income and other income (expense) for the years ended December 31, 2015, 2014 and 2013, which primarily consisted of currency exchanges losses.

#### Provision for Income Taxes

We recorded income tax provision of \$0.7 million, \$1.5 million and \$0.6 million for the years ended December 31, 2015, 2014 and 2013. Our provision for income taxes consists primarily of income and withholding taxes in foreign jurisdictions in which we conduct business, state income taxes in the United States and the effect of unrecognized tax benefits. We estimate income taxes in each of the jurisdictions in which we operate. This process involves determining income tax expense together with calculating the deferred income tax expense related to temporary differences resulting from the differing treatment of items for tax and accounting purposes. We maintain a full

valuation allowance against our U.S. deferred tax assets as management does not believe that it is more likely than not that said deferred taxes will be realized. As a result, our provision for income taxes primarily relates only to foreign taxes at this time.

#### Liquidity and Capital Resources

As of December 31, 2015, cash and cash equivalents was \$98.1 million, including approximately \$3.0 million held outside the United States in our foreign subsidiaries. We currently do not have any plans to repatriate our earnings from our foreign operations. As of December 31, 2015, we had working capital of \$91.4 million, an accumulated deficit of \$221.8 million and total stockholders' equity of \$80.1 million.

We plan to continue to invest for long-term growth and anticipate our investment will continue to increase in absolute dollars. We believe that our existing cash and cash equivalents and our cash inflow from operations 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 would be adversely affected.

In addition, as described in the section Note 5. Commitments and Contingencies in the notes to the consolidated financial statements, we are currently involved in ongoing litigation. Any adverse settlements or judgments in any litigation could have a material adverse impact on our results of operations, cash balances and cash flows in the period in which such events occur.

### Credit Agreement

In September 2013, we entered into a credit agreement with Royal Bank of Canada, acting as administrative agent and lender, and JPMorgan Chase Bank, N.A. and Bank of America, N.A. as lenders. The credit agreement provides a three-year \$35.0 million revolving credit facility, which includes a maximum \$10.0 million letter of credit facility. The revolving credit facility expires on September 30, 2016. As of December 31, 2013, we had outstanding borrowings under the revolving credit facility of \$20.0 million, which was paid in full in March 2014.

Our obligations under the credit agreement are secured by a security interest on substantially all of our assets, including our intellectual property. The credit agreement contains customary non-financial covenants, and also requires us to comply with financial covenants. One financial covenant requires us to maintain a total leverage ratio, which is defined as total consolidated debt divided by adjusted EBITDA (defined as earnings before interest expense, tax expense, depreciation, amortization and stock-based compensation, adjusted for certain other non-cash or non-recurring income or expenses such as specified litigation settlement payments and litigation expenses) for the trailing four quarters. In addition, we must maintain a minimum amount of liquidity based on our unrestricted cash and availability under the revolving credit facility. The covenant requires us to maintain a minimum liquidity of \$25.0 million provided that at least \$10.0 million of such liquidity is comprised of unrestricted cash and cash equivalents. The credit agreement includes customary events of default which, if triggered, could result in the acceleration of our obligations under the revolving credit facility, the termination of any obligation by the lenders to extend further credit and the right of the lenders to exercise their remedies as a secured creditor and foreclose upon the collateral securing our obligation under the credit agreement; however, we also have the ability, in certain instances, to cure non-compliance with the financial covenants through qualified equity contributions by certain holders of our equity. Currently, the agreement for our revolving credit facility contains restrictions on our ability to pay dividends. As of December 31, 2015 and 2014 we had no outstanding balance on our credit facility and were in compliance with our covenants.

### Statements of Cash Flows

The following table summarizes our cash flow related activities for the years ended December 31, 2015, 2014 and 2013 (in thousands):

	Years Ended December 31,		
	2015	2014	2013
Operating activities	\$3,391	\$(30,538)	\$(25,133)
Investing activities	(3,477)	(6,100)	(2,993)
Financing activities	6,298	107,750	25,052
Net increase (decrease) in cash and cash equivalents	\$6,212	\$71,112	\$(3,074)

### Cash Flows from Operating Activities

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

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During the year ended December 31, 2015, cash provided by operating activities was \$3.4 million, consisting of a net loss of \$40.0 million and a \$15.4 million increase in net operating assets and liabilities offset by non-cash charges of \$28.0 million. Our non-cash charges consisted primarily of stock-based compensation of \$16.9 million, \$8.7 million in depreciation and amortization and \$2.5 million in provision for doubtful accounts and sales returns allowance. The change in our net operating assets and liabilities was primarily due to a \$15.6 million increase in deferred revenue and a \$6.5 million increase in accounts payable and accrued liabilities partially offset by a \$6.0 million increase in accounts receivable.

The increase in deferred revenue was due to timing of billings of support contracts, the increase in PCS sales in connection with our increasing installed customer base and an increase in deferred professional services revenue. The increase in accounts payable and accrued liabilities was primarily attributable to an increase in accrued compensation costs and the timing of vendor invoice payments.

During the year ended December 31, 2014, cash used in operating activities was \$30.5 million, consisting of a net loss of \$34.7 million and a \$12.2 million increase in net operating assets and liabilities offset by non-cash charges of \$16.4 million. Our non-cash charges consisted primarily of stock-based compensation of \$12.4 million and depreciation and amortization of \$10.1 million, partially offset by a \$7.0 million gain on the settlement of a contractual liability primarily attributable to a \$5.0 million payment we made under the terms of a settlement of a contractual liability we reached with one of our legal services providers in May 2014 as well as lower litigation activities in 2014 compared to 2013. The change in our net operating assets and liabilities was primarily due to a \$17.3 million increase in accounts receivable, \$8.9 million increase in inventory, \$6.1 million decrease in accrued litigation expenses and a \$3.0 million increase in prepaid expense and other current assets, partially offset by a \$16.0 million increase in deferred revenue and an \$7.6 million increase in accounts payable and accrued liabilities.

During the year ended December 31, 2013, cash used in operating activities was \$25.1 million, consisting of a net loss of \$27.1 million and an \$11.1 million decrease in net operating assets and liabilities offset by non-cash charges of \$13.1 million. Our non-cash charges consisted of depreciation and amortization of \$7.1 million, stock-based compensation of \$4.3 million, and provision for doubtful accounts and sales returns of \$1.8 million. The change in our net operating assets and liabilities was due primarily to a \$15.5 million increase in accounts receivable and a \$8.5 million increase in inventory associated with the growth in our business combined with a \$6.8 million decrease in accrued litigation expenses due to the payment of the legal fees as a result of settling the Brocade litigation. These changes were offset by a \$13.5 million increase in deferred revenue due to increased sales of our PCS contracts, a \$2.1 million increase in accrued liabilities attributable to higher accrued personnel costs due to growth in headcount and accrued tax liabilities, a \$2.5 million increase in accounts payable due to the growth in our business activities, and a \$1.6 million decrease in prepaid expenses and other assets due to a decrease in prepaid state income taxes receivable.

#### Cash Flows from Investing Activities

During the years ended December 31, 2015, 2014 and 2013, cash used in investing activities was \$3.5 million, \$6.1 million and \$3.0 million, primarily for purchases of property and equipment.

#### Cash Flows from Financing Activities

During 2015, cash provided by financing activities was \$6.3 million, primarily consisting of proceeds from common stock issuances under our equity incentive plans, net of repurchases of common stock.

Cash provided by financing activities was \$107.8 million in 2014, primarily consisting of \$121.0 million in net proceeds from the issuance of our common stock to outside investors in our IPO and \$7.0 million proceeds from common stock issuance under our equity incentive plans, net of repurchases of common stock, partially offset by a



\$20.0 million repayment of our revolving credit facility.

Cash provided by financing activities was \$25.1 million in 2013, primarily consisting of \$79.4 million in aggregate net proceeds from the issuance of our Series D redeemable convertible preferred stock to outside investors, a net \$14.0 million in net borrowings from our revolving credit facility, \$0.8 million in proceeds from the exercise of our Series C convertible preferred stock warrants and \$2.4 million in proceeds from the exercise of stock options, net of repurchases of common stock, offset by a \$70.0 million in repayment of a promissory note. In July 2013, in conjunction with our litigation settlement with Brocade, we entered into a convertible promissory note with Brocade for \$70.0 million, which we repaid in September 2013.

## Contractual Obligations

Our contractual commitments will have an impact on our future liquidity. Our contractual obligations represent material expected or contractually committed future obligations with terms in excess of one year. We believe that we will be able to fund these obligations through cash generated from operations and from our existing cash balances.

The following table summarizes our contractual obligations as of December 31, 2015 (in thousands).

	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years
Operating lease obligations	\$8,371	\$2,525	\$3,874	\$1,972
Minimum purchase obligations	6,113	6,113	—	—
Technology licensing agreement	560	140	280	\$140
Capital lease obligations	287	105	182	—
Total	\$15,331	\$8,883	\$4,336	\$2,112

The contractual obligations table above excludes \$2.6 million of tax liabilities related to uncertain tax positions because we are unable to make a reasonably reliable estimate of the timing of settlement, if any, of these future payments.

In September 2013, we entered into a credit agreement with Royal Bank of Canada, JPMorgan Chase Bank, N.A. and Bank of America, N.A. as lenders. The credit agreement provides a three year \$35.0 million revolving credit facility, which includes a maximum \$10.0 million letter of credit facility. We have no outstanding borrowings under this credit facility as of December 31, 2015 and 2014.

## Off-Balance Sheet Arrangements

As of December 31, 2015, 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 consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States and include our accounts and the accounts of our wholly-owned subsidiaries. The preparation of these consolidated financial statements requires our management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the applicable periods. We base our estimates, assumptions and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances. Different assumptions and judgments would change the estimates used in the preparation of our consolidated financial statements, which, in turn, could change the results from those reported. We evaluate our estimates, assumptions and judgments on an ongoing basis.

The critical accounting estimates, assumptions and judgments that we believe have the most significant impact on our consolidated financial statements are described below.

## Revenue Recognition

We derive revenue from two sources: (i) products revenue, which includes hardware and perpetual software license revenue; and (ii) services revenue, which include post contract support (“PCS”), professional services, and training. A substantial portion of our revenue is from sales of our products and services through distribution channel partners, such as resellers and distributors. Revenue is recognized, net of applicable taxes, when all of the following criteria are met: persuasive evidence of an arrangement exists, delivery or performance has occurred, the sales price is fixed or determinable, and collection is reasonably assured.

We define each of the four criteria above as follows:

Persuasive evidence of an arrangement exists. Evidence of an arrangement consists of a purchase order issued pursuant to the terms and conditions of a master sales agreement.

Delivery or performance has occurred. We use shipping documents or written evidence of customer acceptance, when applicable, to verify delivery or performance. We recognize product revenue upon transfer of title and risk of loss, which primarily is upon shipment to customers. We do not have significant obligations for future performance, such as customer acceptance provisions, rights of return, or pricing credits, associated with our sales.

The sales price is fixed or determinable. We assess whether the sales price is fixed or determinable based on payment terms and whether the sales price is subject to refund or adjustment. Standard payment terms to customers range from 30 to 90 days.

Collection is reasonably assured. We assess probability of collection on a customer-by-customer basis. Our customers are subjected to a credit review process that evaluates their financial condition and ability to pay for products and services.

PCS revenue includes arrangements for software support and technical support for our products. PCS is offered under renewable, fee-based contracts, which include technical support, hardware repair and replacement parts, bug fixes, patches, and unspecified upgrades on a when-and-if available basis. Revenue for PCS services is recognized on a straight-line basis over the service contract term, which is typically one year, but can be up to five years. Unearned PCS revenue is included in deferred revenue.

Professional service revenue primarily consists of the fees we earn related to installation and consulting services. We recognize revenue from professional services upon delivery or completion of performance. Professional service arrangements are typically short term in nature and are largely completed within 30 to 90 days from the start of service.

#### Multiple-Element Arrangements

Our hardware with the embedded software solutions (which is a proprietary operating system that together with the hardware delivers the functionality desired by our customers), is considered a separate unit of accounting from PCS because it has value to the customer on a standalone basis and our sales arrangements do not include a right of return for delivered products. For multiple-element arrangements, we allocate revenue to each unit of accounting based on an estimated selling price at the inception of the arrangement. The total arrangement consideration is allocated to each separate unit of accounting using the relative selling price method. We limit the amount of revenue recognized for delivered elements to an amount that is not contingent upon future delivery of additional products or service.

When applying the relative selling price method, we determine the selling price for each element using (i) vendor-specific objective evidence, or VSOE, of selling price, if available; (ii) third-party evidence, or TPE, of selling price, if VSOE is not available; and (iii) best estimate of selling price, or BEBP, if neither VSOE nor TPE is available.

- VSOE. We determine VSOE based on our historical pricing and discounting practices for the specific products and services when sold separately. In determining VSOE, we require that a substantial majority of the stand-alone selling prices fall within a reasonably narrow pricing range.
- TPE. When VSOE cannot be established for deliverables in multiple-element arrangements, we apply judgment with respect to whether we can establish a selling price based on TPE. TPE is determined based on competitor prices for interchangeable products or services when sold separately to similarly situated customers. However, as our products

contain a significant element of proprietary technology and our solutions offer substantially different features and functionality, the comparable pricing of products with similar functionality typically cannot be obtained. Additionally, as we are unable to reliably determine what competitors products' selling prices are on a stand-alone basis, we are not typically able to determine TPE.

- **BESP.** When we are unable to establish selling price using VSOE or TPE, we use BESP in our allocation of arrangement consideration.

The objective of BESP is to determine the price at which we would transact a sale if the product or service was sold regularly on a standalone basis. As we have not been able to establish VSOE or TPE for our products and some of our services, we determine BESP for the purposes of allocating the arrangement, primarily based on historical transaction pricing. Historical transactions are segregated based on our pricing model and go-to-market strategy, which include factors such as the geographies in which our products and services were sold (domestic or international), offering type (product series, and level of support for PCS) and type of sales channel. The determination of BESP is made through consultation with and approval by management.

We may occasionally accept returns to address customer satisfaction issues or solution-fit issues even though there is no contractual provision for such returns. We estimate returns for sales to customers based on historical returns rates applied against current-period gross revenues. Specific customer returns and allowances are considered within this estimate. Management also analyzes changes in customer demand and acceptance of products when evaluating the adequacy of returns and sales allowances.

#### Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses in the collection of accounts receivable. We make estimates regarding the future ability of our customers to make required payments based on historical credit experience and expected future trends. If actual customer financial conditions are less favorable than projected by management, additional accounts receivable write offs may be necessary, which could unfavorably affect future operating results.

#### Inventory Valuation

Inventory consists primarily of finished goods and related component parts and is stated at the lower of standard cost, (which approximates actual cost on a first-in, first-out basis), or market value (estimated net realizable value). A provision is recorded when inventory is determined to be in excess of anticipated demand or obsolete, to adjust inventory to its estimated realizable value. Significant judgment is used in establishing our forecasts of future demand and obsolete material exposures. If the actual component usage and product demand are significantly lower than forecast, which may be caused by factors within and outside of our control, or if there were a higher incidence of inventory obsolescence because of rapidly changing technology and our customer requirements, we may be required to increase our inventory write-downs.

#### Contingencies and Litigation

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

#### Income Taxes

We account for income taxes using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in our financial statements or in our tax returns. Estimates and judgments occur in the calculation of certain tax liabilities and in the determination of the recoverability of certain deferred income tax assets, which arise from temporary differences and carryforwards. Deferred income tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. We regularly assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe, based upon the weight of available evidence, that it is more likely than not that all or a portion of deferred tax assets will not be realized, a valuation allowance is established through an adjustment to income tax expense.

The factors used to assess the likelihood of realization of our deferred tax assets include our forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. Assumptions represent management's best estimates and involve inherent uncertainties and the application of management's judgment.

We account for uncertainty in income taxes recognized in our financial statements by regularly reviewing our tax positions and benefits to be realized. We recognize tax liabilities based upon our estimate of whether, and the extent to which, additional taxes will be due when such estimates are more-likely-than-not to be sustained. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained upon examination by taxing authorities.

#### Stock-Based Compensation

We recognize stock-based compensation cost for only those shares ultimately expected to vest on a straight-line basis over the requisite service period of the award. We estimate the fair value of market-performance based restricted stock units using a Monte Carlo simulation model which requires the input of assumptions, including expected term, stock price volatility and the risk-free rate of return. In addition, judgment is required in estimating the number of stock-based awards that are expected to be forfeited. Forfeitures are estimated based on historical experience at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management's judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future.

#### Recent Accounting Pronouncements

Information with respect to recent accounting pronouncements may be found in Note 1. Description of Business and Summary of Significant Accounting Policies in the notes to the consolidated financial statements included in this Annual Report on Form 10-K, which section is incorporated herein by reference.



## Supplementary Financial Information

## Selected Quarterly Consolidated Financial Data (Unaudited, in thousands)

The following tables set forth our unaudited quarterly consolidated statements of operations data for each of the eight quarters ended December 31, 2015. In management's opinion, the data has been prepared on the same basis as the audited Consolidated Financial Statements included in this report, and reflects all necessary adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of this data (in thousands):

	For the Three Months Ended			
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015
Revenue:				
Products	\$30,516	\$33,331	\$34,990	\$39,464
Services	13,501	14,205	15,788	17,160
Total revenue	44,017	47,536	50,778	56,624
Cost of revenue:				
Products	7,063	7,909	8,529	9,595
Services	3,723	3,692	4,186	4,071
Total cost of revenue	10,786	11,601	12,715	13,666
Gross profit	33,231	35,935	38,063	42,958
Operating expenses:				
Sales and marketing	24,522	24,962	25,774	29,273
Research and development	14,309	13,671	13,562	13,301
General and administrative	7,527	5,703	6,892	6,933
Litigation expense	445	1,025	469	265
Total operating expenses	46,803	45,361	46,697	49,772
Loss from operations	(13,572	) (9,426	) (8,634	) (6,814
Other expense, net:				
Interest expense	(127	) (104	) (151	) (127
Interest income and other income (expense), net	27	(216	) 22	(165
Total other expense, net	(100	) (320	) (129	) (292
Loss before provision for income taxes	(13,672	) (9,746	) (8,763	) (7,106
Provision for income taxes	62	231	204	250
Net loss	\$(13,734	) \$(9,977	) \$(8,967	) \$(7,356

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	For the Three Months Ended			
	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
Revenue:				
Products	\$36,417	\$34,122	\$31,601	\$32,346
Services	9,328	11,010	11,827	12,856
Total revenue	45,745	45,132	43,428	45,202
Cost of revenue:				
Products	7,427	7,410	8,818	7,429
Services	2,626	2,930	2,935	3,362
Total cost of revenue	10,053	10,340	11,753	10,791
Gross profit	35,692	34,792	31,675	34,411
Operating expenses:				
Sales and marketing	21,563	23,975	24,651	26,648
Research and development	11,205	11,869	12,342	14,487
General and administrative	5,363	5,531	5,141	6,903
Litigation expense (benefit)	1,846	(5,859)	) 910	266
Total operating expenses	39,977	35,516	43,044	48,304
Loss from operations	(4,285)	) (724)	) (11,369)	) (13,893)
Other expense, net:				
Interest expense	(587)	) (125)	) (192)	) (124)
Interest income and other income (expense), net	(25)	) (138)	) (510)	) (1,241)
Total other expense, net	(612)	) (263)	) (702)	) (1,365)
Loss before provision for income taxes	(4,897)	) (987)	) (12,071)	) (15,258)
Provision for income taxes	205	309	233	760
Net loss	(5,102)	) (1,296)	) (12,304)	) (16,018)
Accretion of redeemable convertible preferred stock dividend	(1,150)	) —	—	—
Net loss attributable to common stockholders	\$(6,252)	) \$(1,296)	) \$(12,304)	) \$(16,018)

## ITEM 7A. 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 the Japanese yen. Our costs and expenses are generally denominated in the currencies where our operations are located, which is primarily in North America, Japan and to a lesser extent EMEA and the Asia Pacific region. As of December 31, 2015, we have not entered into any hedging transactions with respect to foreign currency risk or other derivative instruments. Revenue resulting from selling in local currencies and costs and expenses incurred in local currencies are exposed to foreign currency exchange rate fluctuations which can affect our revenue and operating income. As exchange rates vary, operating income may differ from expectations.

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

We recorded \$0.5 million, \$2.0 million and \$2.1 million foreign exchange loss during the years ended December 31, 2015, 2014 and 2013. The effect of a hypothetical 10% change in our exchange rate would not have a significant impact on our consolidated results of operations.

### Interest Rate Sensitivity

Our exposure to market risk for changes in interest rates relates primarily to our cash and cash equivalents and our indebtedness. Our cash and cash equivalents are held in cash deposits and money market funds with maturities of less than 90 days from the date of purchase. Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of the interest rates in the United States. However, because of the short-term nature of the instruments in our portfolio, a sudden change in market interest rates would not be expected to have a material impact on our consolidated financial statements.

Our exposure to interest rates risk relates to our revolving 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 credit facility as of December 31, 2015, the effect of a hypothetical 10% change in interest rates would not have any impact on our interest expense.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA  
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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of A10 Networks, Inc.  
San Jose, California

We have audited the accompanying Consolidated Balance Sheets of A10 Networks, Inc. and subsidiaries (the "Company") as of December 31, 2015 and 2014, and the related Consolidated Statements of Operations, Stockholders' Equity (Deficit), and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of A10 Networks, Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP  
San Jose, California  
February 29, 2016

A10 NETWORKS, INC.  
 CONSOLIDATED BALANCE SHEETS

(in thousands, except par value)

	December 31, 2015	December 31, 2014
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$98,117	\$91,905
Accounts receivable, net of allowances of \$4,067 and \$3,246 as of December 31, 2015 and December 31, 2014	57,778	54,003
Inventory	18,291	20,701
Prepaid expenses and other current assets	5,064	4,732
Total current assets	179,250	171,341
Property and equipment, net	8,903	10,780
Other non-current assets	4,398	4,859
Total Assets	\$192,551	\$186,980
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$10,508	\$8,994
Accrued liabilities	27,757	22,435
Deferred revenue, current	49,572	39,256
Total current liabilities	87,837	70,685
Deferred revenue, non-current	23,232	17,964
Other non-current liabilities	1,414	1,766
Total Liabilities	112,483	90,415
Commitments and contingencies (Note 5)		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, par value \$0.00001 — 500,000 shares authorized as of December 31, 2015 and December 31, 2014; 64,172 and 61,377 shares issued and outstanding as of December 31, 2015 and December 31, 2014	1	1
Additional paid-in capital	301,886	278,349
Accumulated deficit	(221,819)	(181,785)
Total Stockholders' Equity	80,068	96,565
Total Liabilities And Stockholders' Equity	\$192,551	\$186,980

The accompanying notes are an integral part of these consolidated financial statements.

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

	Years Ended December 31,		
	2015	2014	2013
Revenue:			
Products	\$ 138,301	\$ 134,486	\$ 112,045
Services	60,654	45,021	29,693
Total revenue	198,955	179,507	141,738
Cost of revenue:			
Products	33,096	31,084	25,284
Services	15,672	11,853	8,112
Total cost of revenue	48,768	42,937	33,396
Gross profit	150,187	136,570	108,342
Operating expenses:			
Sales and marketing	104,531	96,837	70,756
Research and development	54,843	49,903	33,348
General and administrative	27,055	22,938	15,556
Litigation expense (benefit)	2,204	(2,837)	11,525
Total operating expenses	188,633	166,841	131,185
Loss from operations	(38,446)	(30,271)	(22,843)
Other expense, net:			
Interest expense	(509)	(1,028)	(1,495)
Interest income and other income (expense), net	(332)	(1,914)	(2,118)
Total other expense, net	(841)	(2,942)	(3,613)
Loss before provision for income taxes	(39,287)	(33,213)	(26,456)
Provision for income taxes	747	1,507	640
Net loss	\$(40,034)	\$(34,720)	\$(27,096)
Accretion of redeemable convertible preferred stock dividend	—	(1,150)	(1,982)
Net loss attributable to common stockholders	\$(40,034)	\$(35,870)	\$(29,078)
Net loss per share attributable to common stockholders:			
Basic and Diluted	\$(0.64)	\$(0.74)	\$(3.14)
Weighted-average shares used in computing net loss per share attributable to common stockholders			
Basic and diluted	62,428	48,682	9,262

The accompanying notes are an integral part of these consolidated financial statements.

A10 NETWORKS, INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)  
(in thousands)

	Redeemable Convertible Preferred Stock		Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance at January 1, 2013	—	—	30,122	41,737	9,246	—	\$8,077	\$ (119,969 )	\$ (111,892 )
Stock based compensation expense	—	—	—	—	—	—	4,282	—	4,282
Issuance of Series D redeemable convertible preferred stock, net of issuance costs of \$556	80	79,444	—	—	—	—	—	—	—
Accretion of Series D redeemable convertible preferred stock dividend	—	1,982	—	—	—	—	(1,982 )	—	(1,982 )
Issuance of Series C convertible preferred stock upon exercise of Series C convertible preferred stock warrants for cash	—	—	447	3,012	—	—	—	—	—
Common stock issued under employee equity incentive plans, net of unvested portion	—	—	—	—	822	—	1,174	—	1,174
Vesting of early exercise stock options, net of repurchases	—	—	—	—	(36 )	—	634	—	634
Net loss	—	—	—	—	—	—	—	(27,096 )	(27,096 )
Balance at December 31, 2013	80	81,426	30,569	44,749	10,032	—	\$12,185	\$ (147,065 )	\$ (134,880 )
Stock based compensation expense	—	—	—	—	—	—	12,359	—	12,359
	—	1,150	—	—	—	—	(1,150 )	—	(1,150 )



Accretion of Series D redeemable convertible preferred stock dividend									
Issuance of common stock in connection with initial public offering net of offering costs	—	—	—	—	9,000	—	120,286	—	120,286
Conversion of preferred stock to common stock in connection with initial public offering	(80 )	(82,576 )	(30,569 )	(44,749 )	39,997	1	127,324	—	127,325
Common stock issued under employee equity incentive plans, net of unvested portion	—	—	—	—	2,352	—	6,574	—	6,574
Vesting of early exercise stock options, net of repurchases	—	—	—	—	(4 )	—	771	—	771
Net loss	—	—	—	—	—	—	—	(34,720 )	(34,720 )
Balance at December 31, 2014	—	—	—	—	61,377	1	\$278,349	\$ (181,785 )	\$ 96,565
Stock based compensation expense	—	—	—	—	—	—	16,861	—	16,861
Common stock issued under employee equity incentive plans, net of unvested portion	—	—	—	—	2,700	—	6,232	—	6,232
Vesting of early exercise stock options, net of repurchases	—	—	—	—	95	—	444	—	444
Net loss	—	—	—	—	—	—	—	(40,034 )	(40,034 )
Balance at December 31, 2015	—	—	—	—	64,172	1	\$301,886	\$ (221,819 )	\$ 80,068

The accompanying notes are an integral part of these consolidated financial statements.

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

	Years Ended December 31,		
	2015	2014	2013
Cash flows from operating activities:			
Net loss	\$(40,034	) \$(34,720	) \$(27,096
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	8,716	10,121	7,080
Stock-based compensation	16,861	12,359	4,282
Gain on settlement of contractual liability (Note 5)	—	(6,993	) —
Provision for doubtful accounts and sales returns	2,531	935	1,788
Other non cash items	(82	) 32	2
Changes in operating assets and liabilities:			
Accounts receivable, net	(5,977	) (17,281	) (15,549
Inventory	(430	) (8,914	) (8,489
Prepaid expenses and other assets	(405	) (3,017	) 1,588
Accounts payable	1,109	903	2,495
Accrued liabilities	5,345	6,724	2,133
Accrued litigation expenses	6	(6,066	) (6,797
Deferred revenue	15,584	15,989	13,525
Other	167	(610	) (95
Net cash provided by (used in) operating activities	3,391	(30,538	) (25,133
Cash flows from investing activities:			
Purchases of property and equipment	(3,477	) (6,100	) (2,993
Net cash used in investing activities	(3,477	) (6,100	) (2,993
Cash flows from financing activities:			
Proceeds from issuance of common stock under employee equity incentive plans, net of repurchases	6,019	7,030	2,392
Proceeds from initial public offering, net of offering costs	—	121,017	(656
Proceeds from issuance of Series D redeemable convertible preferred stock, net of issuance costs	—	—	79,444
Principal payments on convertible promissory note in relation to settlement of litigation	—	—	(70,000
Proceeds from revolving credit facility	—	—	33,988
Principal payments on revolving credit facility	—	(20,000	) (20,000
Principal payments on term loan	—	—	(631
Proceeds from exercise of convertible preferred stock warrants	—	—	813
Other	279	(297	) (298
Net cash provided by financing activities	6,298	107,750	25,052
Net increase (decrease) in cash and cash equivalents	6,212	71,112	(3,074
Cash and cash equivalents—beginning of period	91,905	20,793	23,867
Cash and cash equivalents—end of period	\$98,117	\$91,905	\$20,793
Supplemental Disclosures of Cash Flow Information:			
Cash paid for income taxes, net of refunds	\$980	\$1,108	\$698
Cash paid for interest	\$170	\$503	\$1,208

The accompanying notes are an integral part of these consolidated financial statements.



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

	Years Ended December 31,		
	2015	2014	2013
Supplemental Disclosure of Non-Cash Investing and Financing Activities:			
Inventory transfers to property and equipment	\$2,840	\$5,379	\$5,638
Vesting of early exercised stock options	\$444	\$771	\$654
Purchases of property and equipment included in accounts payable and accrued liabilities	\$486	\$78	\$167
Conversion of preferred stock into common stock	\$—	\$127,325	\$—
Accretion of Series D redeemable convertible preferred stock	\$—	\$1,150	\$1,982
Costs related to the initial public offering included in accounts payable and accrued liabilities	\$—	\$75	\$1,776
Issuance of convertible promissory note in relation to settlement of litigation	\$—	\$—	\$70,000
Reclassification of the convertible preferred stock warrant liability to additional paid-in capital upon the exercise of the convertible preferred stock warrants	\$—	\$—	\$2,199

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

1. Description of Business and Summary of Significant Accounting Policies

Description of Business and Basis of Presentation

A10 Networks, Inc. (together with our subsidiaries, the “Company”, “we”, “our” or “us”) was incorporated in California in 2004 and reincorporated in Delaware in 2014. We are headquartered in San Jose, California and have wholly-owned subsidiaries throughout the world including Asia and Europe. Our solutions enable enterprises, service providers, Web giants and government organizations to accelerate, secure and optimize the performance of their data center applications and secure their users, applications and infrastructure from internet, web and network threats at scale. During 2015, we offered three software based advanced application networking and network security solutions to address end-customer needs, including Application Delivery Controllers ("ADC") to optimize web and back-office application performance, Carrier Grade Network Address Translation ("CGN") to provide network address and protocol translation services for service provider networks and Threat Protection System ("TPS") for network-wide multi-vector DDoS security protection. Our solutions are cloud-ready and available, in variety of form factors such as optimized hardware appliances, in the cloud as software, and as virtual appliances.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”). The accompanying consolidated financial statements include the accounts of A10 Networks, Inc., and our wholly owned subsidiaries. All inter-company balances and transactions have been eliminated in consolidation.

We had no comprehensive income (loss) other than our net income (loss), hence our comprehensive income (loss) is the same as the net income (loss) for all periods presented. Pursuant to the accounting guidance provided by Accounting Standard Codification ("ASC") 220 Comprehensive Income, we did not present statements of comprehensive income (loss) for the periods presented.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Those estimates and assumptions affect including revenue recognition and deferred revenue, allowance for doubtful accounts, sales return reserve, valuation of inventory, contingencies and litigation, income taxes and determination of fair value of stock-based compensation. These estimates are based available as of the date of the consolidated financial statements; therefore, actual results could differ from management’s estimates.

Foreign Currency

The functional currency of our foreign subsidiaries is the U.S. dollar. Transactions denominated in currencies other than the functional currency are remeasured to the functional currency at the average exchange rate in effect during the period. At the end of each reporting period, monetary assets and liabilities are remeasured to the functional currency using exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are remeasured at historical exchange rates. Gains and losses related to remeasurement are recorded in interest income and other income (expense), net in the Consolidated Statements of Operations. We recorded \$0.5 million, \$2.0 million and \$2.1 million foreign exchange loss as part of interest income and other income (expense), net in the Consolidated Statements of Operations during the years ended December 31, 2015, 2014 and 2013.

### Vendor Business Concentration

We rely on third parties to manufacture our hardware appliances and we purchase raw materials from third-party vendors. We outsourced substantially all of our manufacturing services to two independent manufacturers. In addition, we purchase certain strategic component inventory which is consigned to our third-party manufacturers. Other hardware components included in our products are sourced from various suppliers by our manufacturers and are principally industry standard parts and components that are available from multiple vendors.

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## Concentration of Credit Risk and Significant Customers

Financial instruments that potentially subject us to concentrations of credit risk consist of cash, cash equivalents and accounts receivable. Our cash and cash equivalents are invested in high-credit quality financial instruments with banks and financial institutions. We believe that the financial institutions that hold our cash and cash equivalents are financially sound and, accordingly, are subject to minimal credit risk. Our bank deposits may be in excess of insured limits provided on such deposits.

Our accounts receivable are unsecured and represent amounts due to us based on contractual obligations of our customers. We mitigate credit risk in respect to accounts receivable by performing periodic credit evaluations of our customers to assess the probability of accounts receivable collection based on a number of factors, including past transaction experience with the customer, evaluation of their credit history, limiting the credit extended and review of the invoicing terms of the contract. 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. Revenue from our significant customers as a percentage of our total revenue for the years ended December 31, 2015, 2014 and 2013 are as follows:

	Years Ended December 31,		
	2015	2014	2013
Customers			
Customer A	*	13%	*
Customer B	*	*	15%
Customer C	*	*	10%

\* represents less than 10% of total revenue

Two of our customers account for 27% (Customer D) and 11% (Customer A) of our gross accounts receivable as of December 31, 2015. No customer accounted for 10% or more of our total gross accounts receivable as of December 31, 2014.

## Cash and Cash Equivalents

We consider all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Cash and cash equivalents consist of cash on hand and highly liquid investments in money market funds. As of December 31, 2015 and 2014, our total cash and cash equivalents was \$98.1 million and \$91.9 million, respectively.

## Fair Value Measurement

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

Level I—Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date;

Level II—Inputs are observable, unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities; and

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



As of December 31, 2015 and 2014, our financial instruments entirely consist of Level I assets. Level I assets include highly liquid money market funds that are included in cash and cash equivalents.

#### Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at invoiced amounts, net of allowances for doubtful accounts if applicable, and do not bear interest. We evaluate the collectability of our accounts receivable based on known collection risks and historical experience. In circumstances where we are aware of a specific customer's inability to meet its financial obligations to us (e.g., bankruptcy filings or substantial downgrading of credit ratings), we record a specific reserve for bad debts against amounts due to reduce the net recognized receivable to the amount we reasonably believe will be collected. For all other customers, we record reserves for bad debts based on the length of time the receivables are past due and our historical experience of collections and write-offs. If circumstances change, such as higher-than-expected defaults or an unexpected material adverse change in a major customer's ability to meet its financial obligations, our estimate of the recoverability of the amounts due could be reduced by a material amount.

#### Inventory

Inventory consists primarily of finished goods and related component parts and is stated at the lower of standard cost, (which approximates actual cost on a first-in, first-out basis), or market value (estimated net realizable value). We evaluate inventory for excess and obsolete products, based on management's assessment of future demand and market conditions. Inventory write-downs, once established, are not reversed as they establish a new cost basis for the inventory. Inventory write downs are included as a component of cost of products revenue in the accompanying Consolidated Statements of Operations.

#### Property and Equipment, Net

Property and equipment, including leasehold improvements, are stated at cost, less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Depreciation on property and equipment, excluding leasehold improvements, ranges from one to three years.

Leasehold improvements are amortized on a straight-line basis over the shorter of the estimated useful lives of the assets or the remaining lease term. Amortization on leasehold improvements ranges from two to eight years.

#### Revenue Recognition

We derive revenue from two sources: (i) products revenue, which includes hardware and perpetual software license revenue; and (ii) services revenue, which include post contract support ("PCS"), professional services, and training. A substantial portion of our revenue is from sales of our products and services through distribution channel partners, such as resellers and distributors. Revenue is recognized, net of applicable taxes, when all of the following criteria are met: persuasive evidence of an arrangement exists, delivery or performance has occurred, the sales price is fixed or determinable, and collection is reasonably assured.

We define each of the four criteria above as follows:

• **Persuasive evidence of an arrangement exists.** Evidence of an arrangement consists of a purchase order issued pursuant to the terms and conditions of a master sales agreement.

• **Delivery or performance has occurred.** We use shipping documents or written evidence of customer acceptance, when applicable, to verify delivery or performance. We recognize product revenue upon transfer of title and risk of loss,

which primarily is upon shipment to customers. We do not have significant obligations for future performance, such as customer acceptance provisions, rights of return, or pricing credits, associated with our sales.

The sales price is fixed or determinable. We assess whether the sales price is fixed or determinable based on payment terms and whether the sales price is subject to refund or adjustment. Standard payment terms to customers range from 30 to 90 days.

Collection is reasonably assured. We assess probability of collection on a customer-by-customer basis. Our customers are subjected to a credit review process that evaluates their financial condition and ability to pay for products and services.

PCS revenue includes arrangements for software support and technical support for our products. PCS is offered under renewable, fee-based contracts, which include technical support, hardware repair and replacement parts, bug fixes, patches, and unspecified upgrades on a when-and-if available basis. Revenue for PCS services is recognized on a straight-line basis over the service contract term, which is typically one year, but can be up to five years. Unearned PCS revenue is included in deferred revenue.

Professional service revenue primarily consists of the fees we earn related to installation and consulting services. We recognize revenue from professional services upon delivery or completion of performance. Professional service arrangements are typically short term in nature and are largely completed within 30 to 90 days from the start of service.

#### Multiple-Element Arrangements

Our hardware with the embedded software solutions (which is a proprietary operating system that together with the hardware delivers the functionality desired by our customers), is considered a separate unit of accounting from PCS because it has value to the customer on a standalone basis and our sales arrangements do not include a right of return for delivered products. For multiple-element arrangements, we allocate revenue to each unit of accounting based on an estimated selling price at the inception of the arrangement. The total arrangement consideration is allocated to each separate unit of accounting using the relative selling price method. We limit the amount of revenue recognized for delivered elements to an amount that is not contingent upon future delivery of additional products or service.

When applying the relative selling price method, we determine the selling price for each element using (i) vendor-specific objective evidence, or VSOE, of selling price, if available; (ii) third-party evidence, or TPE, of selling price, if VSOE is not available; and (iii) best estimate of selling price, or BESP, if neither VSOE nor TPE is available.

- VSOE. We determine VSOE based on our historical pricing and discounting practices for the specific products and services when sold separately. In determining VSOE, we require that a substantial majority of the stand-alone selling prices fall within a reasonably narrow pricing range.
- TPE. When VSOE cannot be established for deliverables in multiple-element arrangements, we apply judgment with respect to whether we can establish a selling price based on TPE. TPE is determined based on competitor prices for interchangeable products or services when sold separately to similarly situated customers. However, as our products contain a significant element of proprietary technology and our solutions offer substantially different features and functionality, the comparable pricing of products with similar functionality typically cannot be obtained. Additionally, as we are unable to reliably determine what competitors products' selling prices are on a stand-alone basis, we are not typically able to determine TPE.
- BESP. When we are unable to establish selling price using VSOE or TPE, we use BESP in our allocation of arrangement consideration.

The objective of BESP is to determine the price at which we would transact a sale if the product or service was sold regularly on a standalone basis. As we have not been able to establish VSOE or TPE for our products and some of our services, we determine BESP for the purposes of allocating the arrangement, primarily based on historical transaction pricing. Historical transactions are segregated based on our pricing model and go-to-market strategy, which include factors such as the geographies in which our products and services were sold (domestic or international), offering type (product series, and level of support for PCS) and type of sales channel. The determination of BESP is made through

consultation with and approval by management.

We may occasionally accept returns to address customer satisfaction issues or solution-fit issues even though there is no contractual provision for such returns. We estimate returns for sales to customers based on historical returns rates applied against current-period gross revenues. Specific customer returns and allowances are considered within this estimate. Management also analyzes changes in customer demand and acceptance of products when evaluating the adequacy of returns and sales allowances.

### Deferred Revenue

Deferred product revenue relates to arrangements where not all revenue recognition criteria have been met. Deferred services revenue primarily represents PCS contracts billed in advance and revenue is recognized ratably over the service contract term, typically one to five years. The current portion of deferred revenue represents the amounts that are expected to be recognized as revenue within one year of the Consolidated Balance Sheets date.

### Shipping and Handling

Shipping charges billed to customers are included in revenue and the related shipping costs are included in cost of revenue in the accompanying consolidated statements of operations.

### Research and Development Costs

Research and development efforts are focused on new product development and on developing additional functionality for our existing products. These expenses 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.

### Segment Information

Operating segments are components of an enterprise for which separate financial information is available and is evaluated regularly by our chief operating decision maker in deciding how to allocate resources and assessing performance. Our chief operating decision maker is our Chief Executive Officer.

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

### Stock-Based Compensation

We recognize stock-based compensation cost for only those shares ultimately expected to vest on a straight-line basis over the requisite service period of the award.

We recognize compensation expense for all stock-based payment awards granted to employees, including stock options, restricted stock units ("RSUs") and purchases under our 2014 Employee Stock Purchase Plan ("2014 Purchase Plan"), based on the estimated fair value on the date of the grant. The fair value of each stock option granted is estimated using the Black-Scholes option pricing model. The fair value of each RSU granted represents the closing price of our common stock on the date of grant. The fair value of purchases under our 2014 Purchase Plan is calculated based on the closing price of our common stock on the date of grant and the value of put and call options estimated using the Black-Scholes option pricing model. Stock-based compensation is recognized on a straight-line basis over the requisite service period, net of estimated forfeitures.

We estimate the fair value of market-performance based restricted stock units ("MSUs") using a Monte Carlo simulation model which requires the input of assumptions, including expected term, stock price volatility and the risk-free rate of return.

In addition, judgment is also required in estimating the number of stock-based awards that are expected to be forfeited. Forfeitures are estimated based on historical experience at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The assumptions used in calculating the fair value

of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management's judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future.

#### Warranty Costs

Our appliance hardware and software generally carry a warranty period of 90 days. Estimates of future warranty costs are based on actual historical returns experience and the application of those historical return rates to our in-warranty installed

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base. Warranty costs to repair or replace items sold to customers have been insignificant for the years ended December 31, 2015, 2014 and 2013.

#### Litigation and Contingencies

Litigation is comprised of legal expenses incurred in defending ourselves against litigation matters and our change in litigation reserve. Legal expenses are recorded in our Consolidated Statements of Operations as incurred when the legal services are provided. Some of these proceedings involve claims that are subject to substantial uncertainties and unascertainable damages.

#### 401(k) Profit Sharing Plan

We have a qualified contributory savings plan under Section 401(k) of the Internal Revenue Code that is offered to all of our United States employees. Participants in the plan may elect to contribute up to \$18,000 of their annual compensation to the plan for the 2015 calendar year. Individuals who were 50 or older may contribute an additional \$6,000 of their annual income. We recorded \$0.8 million employer matching contribution during 2015. We did not make matching or discretionary contributions to this plan during 2014 and 2013.

#### Income Taxes

We account for income taxes using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in our consolidated financial statements or in our tax returns. Estimates and judgments occur in the calculation of certain tax liabilities and in the determination of the recoverability of certain deferred income tax assets, which arise from temporary differences and carryforwards. Deferred income tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. We regularly assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe, based upon the weight of available evidence, that it is more likely than not that all or a portion of deferred tax assets will not be realized, a valuation allowance is established through an adjustment to income tax expense.

The factors used to assess the likelihood of realization of our deferred tax assets include our forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. Assumptions represent management's best estimates and involve inherent uncertainties and the application of management's judgment.

We account for uncertainty in income taxes recognized in our consolidated financial statements by regularly reviewing our tax positions and benefits to be realized. We recognize tax liabilities based upon our estimate of whether, and the extent to which, additional taxes will be due when such estimates are more-likely-than-not to be sustained. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained upon examination by taxing authorities. The provision for income taxes includes the effects of any resulting tax reserves, or unrecognized tax benefits, that are considered appropriate as well as the related net interest and penalties.

#### Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, which provides new guidance on the recognition of revenue and states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or

services. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. The original effective date of this accounting standard was annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, which deferred the effective date of the new accounting standard. This updated standard is effective for us on January 1, 2018. We are currently evaluating the impact of the adoption of this accounting standard update on our consolidated financial position or results of operations and method of adoption.

In April 2015, the FASB issued 2015-03 Interest—Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs and during August 2015, the FASB issued ASU No. 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, which clarifies the treatment of debt issuance costs from line-of-credit arrangements after adoption of ASU No. 2015-03. This accounting guidance requires debt



issuance costs be presented on the balance sheet as a direct reduction from the carrying amount of the related debt liability. ASU No. 2015-15 clarifies that the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. We adopted ASU No. 2015-15 at the beginning of 2016 and this adoption did not have a material effect on our consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. Under this accounting guidance, inventory will be measured at the lower of cost and net realizable value and other options that currently exist for market value will be eliminated. ASU No. 2015-11 defines net realizable value as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. No other changes were made to the current guidance on inventory measurement. This accounting guidance is effective for us in the first quarter of 2017. Early adoption is permitted. We are currently evaluating the impact of the adoption of this accounting standard update on our consolidated financial statements.

In November 2015, the FASB issued an update to ASU No. 2015-17 Income Taxes: Balance Sheet Classification of Deferred Taxes, requiring all deferred tax assets and liabilities, and any related valuation allowance, to be classified as noncurrent on the balance sheet. The classification change for all deferred taxes as noncurrent simplifies entities' processes as it eliminates the need to separately identify the net current and net noncurrent deferred tax asset or liability in each jurisdiction and allocate valuation allowances. The new accounting guidance is effective for annual reporting periods beginning after December 15, 2016 and interim periods therein. Early adoption is permitted. Additionally, this guidance may be applied either prospectively or retrospectively to all periods presented. We elected to prospectively adopt the accounting standard in the fourth quarter of 2015. Prior periods in our consolidated financial statements were not retrospectively adjusted.

## 2. Fair Value Measurements

Our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. Cash equivalents, which include money market funds, are stated at amortized cost, which approximates fair value as of the balance sheet dates, due to the short period of time to maturity. Accounts receivable, accounts payable and accrued expenses are stated at their carrying value, which approximates fair value due to the short time to the expected receipt or payment.

Cash and cash equivalents are carried at fair value. Our money market funds are classified within Level 1 of the fair value hierarchy, as these instruments are valued using quoted market prices. Specifically, we value our investments in money market securities based on quoted market prices in active markets. As of December 31, 2015 and 2014, we had no assets or liabilities classified within Level II or Level III and there were no transfers of instruments between Level I, Level II and Level III regarding fair value measurement.

The following table sets forth the fair value of our financial assets measured on a recurring basis by level within the fair value hierarchy (in thousands):

	December 31, 2015		December 31, 2014	
	Level 1	Total	Level 1	Total
Financial Assets				
Money market funds	\$71,081	\$71,081	\$51,047	\$51,047

We did not have realized gains or losses for the years ended December 31, 2015 and 2014 related to our financial assets.



## 3. Balance Sheets and Statement of Operations Components

## Allowance for Doubtful Accounts and Sales Return Reserve

For the years ended December 31, 2015, 2014 and 2013, allowance for doubtful accounts and sales return reserve consisted of the following activity (in thousands):

	December 31, 2015	December 31, 2014	December 31, 2013
Allowance for doubtful accounts, beginning balance	\$1,904	\$1,836	\$1,494
Charged to expenses	1,590	76	1,068
Write-offs	(607)	(8)	(726)
Allowance for doubtful accounts, ending balance	\$2,887	\$1,904	\$1,836
	December 31, 2015	December 31, 2014	December 31, 2013
Sales return reserve, beginning balance	\$1,342	\$902	\$500
Charged to revenue	940	858	720
Utilization	(1,102)	(418)	(318)
Sales return reserve, ending balance	\$1,180	\$1,342	\$902

## Inventory

Components of inventory as of December 31, 2015 and 2014 are shown below (in thousands):

	December 31, 2015	December 31, 2014
Raw materials	\$9,418	\$9,922
Finished goods	8,873	10,779
Total inventory	\$18,291	\$20,701

## Property and Equipment, Net

Components of property and equipment, net as of December 31, 2015 and 2014 are shown below (in thousands):

	Estimated Useful Life (in Years)	December 31, 2015	December 31, 2014
Equipment	1-3	\$35,836	\$30,486
Software	1-3	3,548	3,197
Leasehold improvements	Lesser of the term of the lease or the estimated useful life	2,492	1,780
Furniture and fixtures	3	864	860
Construction in progress	—	83	201
Property and equipment, gross		42,823	36,524
Less: accumulated depreciation and amortization		(33,920)	(25,744)
Total property and equipment, net		\$8,903	\$10,780

Depreciation and amortization on our property and equipment for the years ended December 31, 2015, 2014 and 2013 was \$8.6 million, \$10.0 million and \$6.9 million.



## Deferred Revenue

Deferred revenue as of December 31, 2015 and December 31, 2014 consists of the following (in thousands):

	December 31, 2015	December 31, 2014
Deferred revenue:		
Products	\$3,233	\$2,379
Services	69,571	54,841
Total deferred revenue	72,804	57,220
Less: current portion	(49,572)	(39,256)
Non-current portion	\$23,232	\$17,964

## Accrued Liabilities

Accrued liabilities as of December 31, 2015 and December 31, 2014 consists of the following (in thousands):

	December 31, 2015	December 31, 2014
Accrued compensation and benefits	\$18,134	\$14,447
Accrued tax liabilities	4,520	2,554
Other	5,103	5,434
Total accrued liabilities	\$27,757	\$22,435

## Settlement of Contractual Liability

In May 2014, we reached a settlement agreement with one of our legal service providers which resulted in the reduction of a previously accrued contractual liability that totaled \$12.0 million. We made a payment of \$5.0 million in accordance with the terms of the settlement agreement in June 2014 and recorded a \$7.0 million benefit to litigation expense (benefit) at that time.

## 4. Credit Facility

In September 2013, we entered into a credit agreement with Royal Bank of Canada, JPMorgan Chase Bank, N.A. and Bank of America, N.A. as lenders. The credit agreement provides a three-year \$35.0 million revolving credit facility, which includes a maximum \$10.0 million letter of credit facility. We had no outstanding borrowings under this credit facility as of December 31, 2015 and 2014. The revolving credit facility expires on September 30, 2016.

At our option, the revolving credit facility bears interest at a rate per annum based on either (i) an alternate base rate plus a margin ranging from 1.75% to 2.50% depending on our total leverage ratio, or (ii) the London interbank offered rate, or LIBOR, based on one, two, three or six month interest periods plus a margin ranging from 2.75% to 3.50% depending on our total leverage ratio. The alternate base rate is equal to the greatest of (i) the Royal Bank of Canada's prime rate, (ii) the federal funds rate plus a margin equal to 0.50% and (iii) the Eurodollar rate for a one month interest period plus a margin equal to 1.00%.

Our obligations under the credit agreement are secured by a security interest on substantially all of our assets, including our intellectual property. The credit agreement contains customary non-financial covenants, and also requires us to comply with financial covenants. One financial covenant requires us to maintain a total leverage ratio, which is defined as total consolidated debt to trailing adjusted EBITDA as defined by the credit agreement. In addition, we must maintain a minimum amount of liquidity based on our unrestricted cash and availability under the

revolving credit facility. We were in compliance with all financial and nonfinancial covenants under the revolving credit facility as of December 31, 2015.

In addition, we incurred \$1.0 million of debt issuance costs that were directly attributable to the issuance of this revolving credit facility which are amortized to interest expense over the three-year term of this credit facility. The unamortized debt issuance costs was \$0.3 million and \$0.5 million as December 31, 2015 and 2014, and were included within other non

current assets in our Consolidated Balance Sheets. We are also required to pay quarterly facility fees of 0.45% per annum on the average daily unused portion of the revolving credit facility.

## 5. Commitments and Contingencies

### Legal Proceedings

From time to time, we may be party or subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business, including proceedings and claims that relate to intellectual property matters. Some of these proceedings involve claims that are subject to substantial uncertainties and unascertainable damages. We account for and disclose possible loss related to these proceedings in accordance with our accounting policy as stated in Note 1. Description of Business and Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K

In November 2013, Parallel Networks, LLC (“Parallel Networks”), which we believe is a non-practicing patent holding company, filed a lawsuit against us in the United States District Court for the District of Delaware, alleging that our AX and Thunder series products infringe two of their U.S. patents. In June 2015, we entered into a settlement agreement whereby we obtained a fully-paid up license and the case was dismissed.

On January 29, 2015, A10, the members of our Board of Directors, our Chief Financial Officer, and the underwriters of our March 21, 2014, initial public offering (“IPO”) were named as defendants in a putative class action lawsuit filed in the Superior Court of the State of California, County of Santa Clara, captioned City of Warren Police and Fire Retirement System v. A10 Networks, Inc., et al., 1-15-CV-276207. Several substantially identical lawsuits were subsequently filed in the same court, bringing the same claims against the same defendants, captioned Arkansas Teacher Retirement System v. A10 Networks, Inc., et al., 1-15-CV-278575 (filed March 25, 2015) and Kaveny v. A10 Networks, Inc., et al., 1-15-CV-279006 (filed April 6, 2015). On May 29, 2015, the aforementioned putative class actions were consolidated under the caption In re A10 Networks, Inc. Shareholder Litigation, 1-15-CV-276207 (the “Securities Class Action”). On June 30, 2015, plaintiffs filed a Consolidated Class Action Complaint. The Consolidated Complaint seeks unspecified compensatory damages and other relief. On July 31, 2015, the defendants filed demurrers, which the plaintiffs opposed. On November 12, 2015, the Superior Court issued an order overruling the joint demurrer in part. The Superior Court sustained the demurrer, with leave to amend within ten days, with respect to claims against A10 and one of our directors under Section 12 of the Securities Act of 1933. On November 23, 2015, plaintiffs filed their First Amended Consolidated Class Action Complaint, which defendants answered on January 8, 2016. A case management conference is scheduled for May 20, 2016, to address the schedule of upcoming discovery. We intend to vigorously defend this lawsuit.

On June 24, 2015, our directors and certain of our officers were named as defendants in a putative derivative lawsuit filed in the Superior Court of the State of California, County of Santa Clara, captioned Hornung v. Chen, et al., 1-15-CV-282286 (the “Derivative Action”). We were also named as a nominal defendant. The complaint seeks to allege breaches of fiduciary duties and other related claims, arising out of allegations that our officers and directors caused us to infringe patents and intellectual property, improperly approved the settlement of prior litigation, failed to adopt and implement effective internal controls, and caused us to issue false and misleading statements in connection with our IPO. Plaintiff seeks unspecified compensatory damages and other equitable relief. On January 29, 2016, defendants filed a joint demurrer to all claims, together with a motion to strike certain allegations. In addition, also on January 29, 2016, we filed a motion to stay the Derivative Action pending the resolution of the related Securities Class Action. We intend to vigorously defend this lawsuit.

### Lease Obligations and Other Commitments

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

We have open purchase commitments with third-party contract manufacturers with facilities in Taiwan to supply nearly all of our finished goods inventories, spare parts, and accessories. These purchase orders are expected to be paid within one year of the issuance date.

In 2008, we entered into a technology licensing arrangement that requires us to make payments over the life of the associated patents which are expected to expire in 2020.



In March 2015, we financed \$0.3 million of computer and network related equipment under a capital lease arrangement. As of December 31, 2015, we had \$0.3 million outstanding borrowing under this financing agreement.

As of December 31, 2015, the aggregate future noncancelable minimum lease and purchase commitments from our contract manufacturing agreements consist of the following (in thousands):

Year Ending December 31,	Minimum Future Lease Payments For Operating Lease	Capital Lease Obligations	Purchase Commitments	Technology Licensing Agreements	Total
2016	\$2,525	\$105	\$ 6,113	\$140	\$8,883
2017	2,033	105	—	140	2,278
2018	1,841	77	—	140	2,058
2019	1,684	—	—	140	1,824
2020	288	—	—	—	288
	\$8,371	\$287	\$ 6,113	\$560	\$15,331

Rent expense was \$3.5 million, \$3.4 million and \$2.9 million in 2015, 2014 and 2013, respectively.

#### Guarantees

We have entered into agreements with some of our customers that contain indemnification provisions in the event of claims alleging that our products infringe the intellectual property rights of a third party. Other guarantees or indemnification arrangements include guarantees of product and service performance and standby letters of credit for lease facilities and corporate credit cards. We have not recorded a liability related to 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 Award Plans

### Equity Incentive Plans

#### 2008 Plan

We adopted the 2008 Stock Plan (the "2008 Plan") for the purpose of granting stock-based awards to eligible service providers, which included our employees, directors, and consultants as well as employees and consultants of our subsidiaries. With the establishment of the 2014 Equity Incentive Plan (the "2014 Plan") in March 2014, we terminated the 2008 Plan. Upon such termination, we ceased granting any awards under the 2008 Plan and only options to purchase shares of our Common Stock outstanding as of such date remain under this plan. The remaining shares available for future grant pursuant to options or other stock-based awards under the 2008 Plan were canceled.

#### 2014 Equity Incentive Plan

Our 2014 Equity Incentive Plan (the "2014 Plan") was adopted by our board of directors and approved by our stockholders in March 2014. The 2014 Plan provides for the granting of stock options, restricted stock awards ("RSAs"), restricted stock units ("RSUs"), stock appreciation rights, performance units and performance shares to our employees, directors and consultants, and our subsidiary corporations' employees and consultants.

As of December 31, 2014, we had 1,343,743 shares available for future grant. Annually, the shares authorized for the Plan will increase by the lesser 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, 2015, the number of shares in the 2014 Plan was increased by 3,078,645 shares, which represents 5% of the prior year end's common stock outstanding.

In addition, effective as of June 10, 2015, our Board of Directors adopted, and our stockholders approved, an amendment and restatement of our 2014 Plan, which increased the number of shares available for issuance under the 2014 Plan by the number of shares subject to awards granted under the 2008 Plan that were canceled or otherwise forfeited or repurchased

by us after March 20, 2014. A maximum of additional 8,310,566 shares may become available for issuance under the 2014 Plan as a result of awards granted under the 2008 Plan that are canceled or otherwise forfeited or repurchased. As of December 31, 2015, 1,640,324 shares of our common stock were eligible to be added to the 2014 Plan share reserve in accordance with the amendment and restatement of the 2014 Plan. During the year ended December 31, 2015, we granted 408,500 stock options and 1,798,247 restricted stock units ("RSUs") under the 2014 Plan to our employees, directors and consultants. As of December 31, 2015, we have 3,364,304 shares available for future grant, excluding shares eligible to be added from the 2008 Plan.

Vesting periods of awards granted under the 2014 Plan are determined by the board of directors or other committees responsible for administering the 2014 Plan (the "Plan Administrators"). The Plan Administrators determine the contractual terms of awards granted under the 2014 Plan, provided that incentive stock options and stock appreciation rights granted expire no more than ten years from the grant date. In the case of an incentive stock option granted to an employee, who at the time of grant, owns stock representing more than 10% of the total combined voting power of all classes of stock, the exercise price shall be no less than 110% of the fair value per share on the date of grant, and expire five years from the date of grant. For incentive stock options granted to any other employee, and nonstatutory stock options and stock appreciation rights granted to employees, directors or consultants, the per share exercise price shall be no less than 100% of the fair value per share on the date of grant.

#### 2014 Employee Stock Purchase Plan

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

The 2014 Purchase Plan permits eligible employees to acquire shares of our common stock at 85% of the lower of the fair market value of our common stock on the first trading day of each offering period or on the exercise date that occurs at the end of a purchase period. Each offering period is approximately twenty-four months in duration, starting on the first trading day on or after May 21 and November 21 of each year, except for the first offering period, which commenced on March 21, 2014. Each offering period generally consists of four purchase periods and each purchase period will begin after one exercise date and end with the next exercise date approximately six months later, except that the first purchase period of an offering period will begin on the enrollment date of each offering period and end on the next exercise date. If the fair market value of our common stock on the exercise date is less than the fair market value on the first trading day of the offering period, participants will be withdrawn from the then current offering period following their purchase of shares on the purchase date and automatically will be enrolled in the immediately following offering period. Participants may purchase shares of common stock through payroll deductions of up to 15% of their eligible compensation, subject to purchase limits of the lesser of 1,500 shares during each six month purchase period or \$25,000 worth of stock for each calendar year in which an option is outstanding.

As of December 31, 2014, we had 1,031,316 shares available for future purchase. Under the provisions of the 2014 Purchase Plan, on the first day of each fiscal year, starting with January 1, 2015, the number of shares in the reserve will increase by the lesser of (i) 3,500,000, (ii) 1% of the outstanding shares of our common stock on the last day of the immediately preceding fiscal year, or (iii) such other amount as determined by our Board of Directors or other committee administering the 2014 Purchase Plan. In January 2015, we increased common shares reserved for future purchase by 615,729 shares in accordance with the provisions of the 2014 Purchase Plan. The participants of the plan purchased 1,105,015 shares during 2015 and as of December 31, 2015, we have 542,030 shares available for future purchase.

#### Early Exercise of Stock Options

We have allowed certain of our employees and directors to exercise options granted under the stock option plans prior to vesting. The unvested shares are subject to our repurchase right at the original purchase price. The proceeds from

the early exercise of stock options initially are recorded in other non-current liabilities and reclassified to common stock as our repurchase right lapses. As of December 31, 2015 and 2014, 51,884 and 196,217 shares held by employees and directors were subject to repurchase at an aggregate price of \$0.3 million and \$1.0 million.

#### Option Exchange Program

On November 19, 2015, we commenced an option exchange which permitted employees and service providers to surrender certain outstanding stock options for cancellation in exchange for the grant of replacement RSUs covering a lesser number of shares, subject to a different vesting schedule. This option exchange was completed on December 17, 2015. A total of 344,248 options to purchase shares of common stock with a weighted-average exercise price of \$13.58 per share were cancelled and replaced with 109,743 RSUs, with per share fair value of \$6.76, on December 17, 2015. The replacement RSUs will start to vest on the one-year anniversary of the RSU grant date. We accounted for this option exchange as a stock option

modification in accordance with the provisions of ASC 718 Shared-Based Compensation. We will record incremental expense of \$56,000 in addition to the remaining expense attributable to the exchanged stock options to be amortized over the vesting period of the new awards.

### Stock-based Compensation

Stock-based compensation is based on the estimated fair value of awards, net of estimated forfeitures, and recognized over the requisite service period. Total stock-based compensation recognized for stock-based awards granted under the 2014 Plan, the 2008 Plan, and employee stock purchases under the 2014 Purchase Plan for the years ended December 31, 2015, 2014 and 2013 are as follows (in thousands):

	Years Ended December 31,		
	2015	2014	2013
Stock-based compensation by type of award:			
Stock options	\$5,565	\$5,852	\$4,282
Restricted stock units	8,871	3,217	—
Employee stock purchase plan	2,425	3,290	—
	\$16,861	\$12,359	\$4,282
Stock-based compensation by category of expense:			
Cost of revenue	\$1,533	\$1,063	\$162
Sales and marketing	7,735	5,829	2,228
Research and development	5,437	3,932	1,356
General and administrative	2,156	1,535	536
Total stock-based compensation	\$16,861	\$12,359	\$4,282

As of December 31, 2015, we had \$23.9 million in unrecognized stock-based compensation expense, net of estimated forfeitures, related to stock options, unvested RSUs and MSUs and 2014 Purchase Plan awards which will be recognized over a weighted-average period of 2.5 years.

### Determination of Fair Value

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

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

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

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

- **Risk-Free Interest Rate.** The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for zero coupon U.S. Treasury notes with maturities approximately equal to the expected terms

of stock options and shares to be issued under the 2014 Purchase Plan.

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

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

We estimate the fair value of RSUs using the closing market price of our common stock on the grant date.

### Stock Options

The following table summarizes our stock option activity and related information as of and for the year ended December 31, 2015 (in thousands, except for years and per share amounts):

	Number of Shares Underlying Outstanding Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2014	11,084	5.18	7.9	
Granted	409	\$ 4.84		
Exercised	(752)	) \$ 3.07		
Canceled (1)	(1,450)	) \$ 8.76		
Outstanding as of December 31, 2015	9,291	\$ 4.78	7.0	\$20,975
Vested and expected to vest as of December 31, 2015	8,989	\$ 4.76	6.9	\$20,464
Vested and exercisable as of December 31, 2015	5,676	\$ 4.19	6.1	\$15,727

(1) Common shares granted under the 2008 Plan and canceled after March 21, 2014 are reallocated to the 2014 Plan's share reserve as they become available for issuance under the 2014 Plan. During 2015, 732,377 shares of the canceled stock options were eligible to be reallocated to the 2014 Plan share reserve.

As of December 31, 2015, the aggregate intrinsic value represents the excess of the closing price of our common stock of \$6.56 over the exercise price of the outstanding in-the-money options.

The following table provides information pertaining to our stock options for the year ended December 31, 2015, 2014 and 2013 (in thousands, except weighted-average fair values):

	Years Ended December 31,		
	2015	2014	2013
Total fair value of options granted	\$869	\$11,683	\$13,866
Weighted average fair value of options granted	\$2.13	\$2.79	\$3.28
Intrinsic value of options exercised	\$2,299	\$14,863	\$3,390

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

	Years Ended December 31,		
	2015	2014	2013
Expected term (in years)	4.80	4.82	6.02-6.08
Risk-free interest rate	1.60%	1.80%	1.12%-1.76%
Expected volatility	50%	41%	46%
Dividend rate	—%	—%	—%

### Restricted Stock Units

We have granted time-based RSUs to our employees, directors and consultants and MSUs to certain executive officers.

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## Time-based Restricted Stock Units

A summary of RSU activities for the year ended December 31, 2015, is as follows (in thousands, except years and per share amounts):

	Number of Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Remaining Service Period (Years)	Aggregated Intrinsic Value
Outstanding as of December 31, 2014	2,388	\$8.97		
Granted	1,758	\$5.95		
Released	(845 )	\$9.78		
Canceled	(429 )	\$8.98		
Outstanding as of December 31, 2015	2,872	\$6.88	1.6	\$18,840

The aggregate intrinsic value is the amount that would have been received by the unit holders had all RSUs been vested and released on December 31, 2015. This amount will fluctuate based on the market value of our stock

The aggregate fair value of RSUs released as of the respective vesting dates was approximately \$5.6 million for the year ended December 31, 2015.

## Market Performance-based Restricted Stock Units

We granted MSUs covering 40,000 shares and 540,000 shares of our common stock to certain company executives during the years ended December 31, 2015 and 2014. These MSUs will vest if the closing price of our common stock remains above certain predetermined target prices for 20 consecutive trading days within a 4-year period following the award's grant date, subject to continued service by the award holder. No MSUs were vested or were released during the years ended December 31, 2015 and 2014.

The following weighted-average assumptions used in the Monte Carlo simulation were as follows:

	Years Ended December 31,	
	2015	2014
Expected term (in years)	2.72	2.82
Risk-free interest rate	1.17%	1.40%
Expected volatility	35.2%	36.2%
Dividend rate	—%	—%

For the year ended December 31, 2015, the estimated weighted average fair value of these market-based units was \$0.87 using a Monte Carlo simulation model with the assumptions discussed above. The total aggregated intrinsic value for the MSUs granted was \$3.8 million as of December 31, 2015, which represents the total pre-tax intrinsic value (calculated by multiplying our closing stock price on the last trading day of 2015 by the number of non-vested MSUs) that would have been received by the unit holders had all MSUs vested and been released on December 31, 2015. This amount will fluctuate based on the fair market value of our stock.

For the year ended December 31, 2014, the estimated weighted average fair value of these market-based units was \$0.86 using a Monte Carlo simulation model with the assumptions discussed above. The total aggregated intrinsic value for the MSUs granted was \$2.4 million as of December 31, 2014.



## Employee Stock Purchase Plan

The fair value of the option component of the 2014 Purchase Plan awards was estimated at the grant date using the Black-Scholes option pricing model with the following weighted average assumptions:

	Years Ended December 31,	
	2015	2014
Expected term (in years)	1.3	1.3
Risk-free interest rate	0.48%	0.26%
Expected volatility	40.7%	27.4%
Dividend rate	—%	—%

## 7. Net Loss Per Share Attributable To Common Stockholders

Basic net loss per share of common stock is computed by dividing net loss by the weighted average number of shares of common stock outstanding for the period. Diluted net loss per share of common stock is computed using the weighted average number of shares of common stock outstanding plus the effect of common stock equivalents, unless the common stock equivalents are anti-dilutive. Potential dilutive common stock includes stock options, restricted stock units and employee stock purchase plan awards. Since we had net losses attributable to common stockholders in the years ended December 31, 2015, 2014 and 2013, none of the stock options, restricted stock units and employee stock purchase plan awards were included in the computation of diluted shares for these periods, as inclusion of such shares would have been anti-dilutive.

The following table summarizes the incremental shares of common stock from potentially dilutive securities, calculated using the treasury stock method (in thousands, except for per share data):

	Years Ended December 31,		
	2015	2014	2013
Basic and diluted net loss per share attributable to common stockholders			
Numerator:			
Net loss attributable to common stockholders	\$(40,034 )	\$(35,870 )	\$(29,078 )
Denominator:			
Weighted-average shares outstanding - basic	62,428	48,682	9,262
Effect of dilutive potential common shares	—	—	—
Weighted-average shares outstanding - diluted	62,428	48,682	9,262
Net loss per share attributable to common stockholders:			
Basic and diluted	\$(0.64 )	\$(0.74 )	\$(3.14 )

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

	Years Ended December 31,		
	2015	2014	2013
Redeemable convertible preferred stock and convertible preferred stock (on an as if converted basis)	—	—	34,462
Stock options, restricted stock units and employee stock purchase plan awards	10,124	6,415	8,498
Common stock subject to repurchase	52	196	341
Convertible preferred stock warrants	—	—	44
	10,176	6,611	43,345



## 8. Income Taxes

The geographical breakdown of income (loss) before provision for income taxes is as follows (in thousands):

	Years Ended December 31,		
	2015	2014	2013
Domestic loss	\$(41,677 )	\$(35,593 )	\$(28,313 )
Foreign income	2,390	2,380	1,857
Loss before provisions for income taxes	\$(39,287 )	\$(33,213 )	\$(26,456 )

The provision for income taxes for the years ended December 31, 2015, 2014 and 2013 consists of the following (in thousands):

	Years Ended December 31,		
	2015	2014	2013
Current provision for income taxes:			
State	\$55	\$24	\$33
Foreign	675	1,054	599
Total current	730	1,078	632
Deferred tax benefits:			
Foreign	17	429	8
Total deferred	17	429	8
Provision for income taxes	\$747	\$1,507	\$640

The reconciliation of the statutory federal income tax and our effective income tax is as follows (in thousands):

	Years Ended December 31,					
	2015		2014		2013	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Tax at statutory rate	\$(13,358 )	34.0 %	\$(11,292 )	34.0 %	\$(8,995 )	34.0 %
State tax - net of federal benefits	36	(0.1 )%	16	(0.1 )%	22	(0.1 )%
Foreign rate differential	(422 )	1.1 %	231	(0.7 )%	(115 )	0.4 %
Changes in federal valuation allowance	11,926	(30.4 )%	10,547	(31.8 )%	8,051	(30.4 )%
Stock-based compensation	1,845	(4.7 )%	1,041	(3.1 )%	1,230	(4.7 )%
Other permanent items	415	(1.1 )%	513	(1.5 )%	346	(1.3 )%
Expenses for uncertain tax positions	227	(0.6 )%	330	(1.0 )%	90	(0.3 )%
Other	78	(0.1 )%	121	(0.4 )%	11	— %
Provision for income taxes	\$747	(1.9 )%	\$1,507	(4.6 )%	\$640	(2.4 )%

The tax effects of temporary differences that give rise to significant portions of deferred tax assets (liabilities) are as follows (in thousands):

	As of December 31,	
	2015	2014
Deferred tax assets:		
Net operating loss carryforwards	\$46,317	\$41,941
Research and development credits, net of uncertain tax positions	9,517	7,064
Accruals, reserves, and other	17,904	12,526
Stock-based compensation	2,700	1,585
Depreciation and amortization	2,735	2,379
Gross deferred tax assets	79,173	65,495
Valuation allowance	(77,643)	(63,620)
Total deferred tax assets	1,530	1,875
Deferred tax liabilities:		
Others	(805)	(1,167)
Total deferred tax liabilities	(805)	(1,167)
Net deferred tax assets	\$725	\$708

On November 20, 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes. The ASU is part of the Board's simplification initiative aimed at reducing complexity in accounting standards and requires companies to classify all deferred tax assets and liabilities, along with any related valuation allowance, as noncurrent on the balance sheet. Although ASU No. 2015-17 isn't required for public companies to implement until fiscal years beginning after December 15, 2016, early adoption is allowed. We early adopted ASU No. 2015-17 effective December 31, 2015 and have classified \$0.7 million of current deferred tax assets from Other current assets to Other assets on the Consolidated Balance Sheets. We consider this change an improvement in the usefulness of information provided to users of our financial statements. We applied this standard prospectively and did not retrospectively adjust any prior periods. The adoption had no impact on our results of operations.

Recognition of deferred tax assets is appropriate when realization of these assets is more likely than not. Based upon the weight of available evidence, which includes our historical operating performance and the recorded cumulative net losses in prior fiscal periods, we recorded a full valuation allowance of \$77.6 million and \$63.6 million against the net U.S. deferred tax assets as of December 31, 2015 and 2014. For the years ended December 31, 2015, 2014 and 2013, the valuation allowance increased by \$14.0 million, \$11.2 million and \$10.4 million, respectively.

As of December 31, 2015 and 2014, we had U.S. federal net operating loss carryforwards of \$130.6 million and \$117.1 million and state net operating loss carryforwards of \$68.4 million and \$62.6 million. We track the portion of our net operating loss attributable to stock option benefits in accordance with ASC 718 Compensation-Share Compensation, therefore, these amounts are no longer included in our gross or net deferred tax assets. The gross tax benefit of stock options totals \$6.2 million at December 31, 2015, and will only be recorded to additional paid in capital when these benefits reduce cash taxes payable. The federal net operating loss carryforwards will expire at various dates beginning in the year ending December 31, 2026, if not utilized. The state net operating loss carryforwards will expire at various dates beginning in the year ending December 31, 2016, if not utilized.

Additionally, as of December 31, 2015 and 2014, we had U.S. federal research and development credit carryforwards of \$6.4 million and \$4.9 million and state research and development credit carryforwards of \$6.4 million and \$4.6 million. The federal credit carryforwards will begin to expire at various dates beginning in 2026 while the state credit carryforwards can be carried over indefinitely.

Utilization of the net operating losses and credit carryforwards may be subject to an annual limitation provided for in the Internal Revenue Code Section 382 and similar state codes. Any annual limitation could result in the expiration of

net operating loss and credit carryforwards before utilization.

With respect to our undistributed foreign subsidiaries' earnings we consider those earnings to be indefinitely reinvested and, accordingly, no related provision for U.S. federal and state income taxes has been provided. Upon distribution of those

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earnings' in the form of dividends or otherwise, we may be subject to both U.S. income taxes subject to an adjustment for foreign tax credits and withholding taxes in the various countries. As of December 31, 2015 and 2014, the undistributed earnings approximated \$3.9 million and \$1.8 million, respectively. The determination of the future tax consequence of the remittance of these earnings is not practicable.

#### Uncertain Tax Positions

As of December 31, 2015 and 2014, we had gross unrecognized tax benefits of \$2.6 million and \$2.2 million. We have accrued net interest expense of \$1,000 (i.e., there was \$14,000 of gross accrued interest expense offset by \$13,000 of interest released due to a lapse of statute of limitations) related to unrecognized tax benefits reflected in the consolidated financial statements for the year ended December 31, 2015. Our policy for classifying interest and penalties associated with unrecognized income tax benefits is to include such items in income tax expense.

The activity related to the unrecognized tax benefits is as follows (in thousands):

	Years Ended December 31,		
	2015	2014	2013
Gross unrecognized tax benefits—beginning balance	\$2,195	\$1,846	\$1,463
Increases (decrease) related to tax positions from prior years	(4	) 340	—
Increases related to tax positions taken during current year	361	278	383
Decreases related to tax positions taken during the current year	—	(269	) —
Gross unrecognized tax benefits—ending balance	\$2,552	\$2,195	\$1,846

These amounts are related to certain deferred tax assets with a corresponding valuation allowance. As of December 31, 2015, the total amount of unrecognized tax benefits, if recognized, that would affect the effective tax rate is \$0.8 million.

We believe that there will not be any significant changes in our unrecognized tax benefits in the next 12 months.

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 not currently under examination in any major jurisdiction.

#### 9. Segment Information

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision maker is our Chief Executive Officer who reviews financial information presented on a consolidated basis, accompanied by disaggregated information about revenue by geographic region for purposes of allocating resources and evaluating financial performance. Accordingly, we have a single reportable segment and operating segment structure.

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

	Years Ended December 31,		
	2015	2014	2013
United States	\$106,842	\$85,325	\$68,127
Japan	35,636	45,787	39,581
Asia Pacific, excluding Japan	23,847	20,434	15,052



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EMEA	27,193	19,254	12,087
Other	5,437	8,707	6,891
Total revenue	\$198,955	\$179,507	\$141,738

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Geographical information relating to our long-lived assets which include property and equipment, net and intangible assets, net as of December 31, 2015 and 2014 was as follows (in thousands):

	As of December 31,	
	2015	2014
United States	\$8,062	\$9,702
Other	1,708	2,075
Total property and equipment, net and intangible assets, net	\$9,770	\$11,777

#### 10. Related-Party Transactions

An affiliate of one of our significant stockholders is also acting as a reseller of our products. On May 27, 2015, the significant stockholder reduced its ownership of our common stock, and ceased to be a related party. During the years ended December 31, 2015, 2014 and 2013, we recognized \$2.2 million, \$2.8 million and \$4.4 million total revenue from this reseller.

We had gross accounts receivable of \$0.4 million from this reseller as of December 31, 2014.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. 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 of December 31, 2015. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, or 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 December 31, 2015, 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.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Our management conducted an assessment of the effectiveness of our internal control over financial reporting based on the criteria set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on the assessment, our management has concluded that its internal control over financial reporting was effective as of December 31, 2015 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. Our independent registered public accounting firm, Deloitte & Touche, LLP, is not required to and has not issued a formal attestation report as of December 31, 2015 and will not be required to do so until the year following the date that we are no longer an emerging growth company as defined in the JOBS Act.

Remediation of Prior Year Material Weakness

As disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014, we identified a material weakness in our internal control over financial reporting related to the incorrect methodology used to compute share-based compensation associated with our Employee Stock Purchase Plan for the fourth quarter of 2014, which resulted in a material adjustment to decrease share-based compensation in our fourth quarter ended December 31, 2014. The adjustment did not result in a restatement as the error was identified before financial information was published. Over the past year, with the oversight of our management and our audit committee, we have implemented the following steps:

We added a control activity where we will consult with technical accounting experts to review and analyze the impact of new or unusual accounting transactions and the adoption of new accounting standards that may have a material impact on our consolidated financial statements.

We strengthened our processes in the area of equity administration and equity accounting, which included the review, redesign and documentation of our policies and procedures; implementation of additional review and reconciliation controls, and expanded the use of software based solutions to handle certain aspects of accounting for stock-based compensation related to the 2014 Purchase Plan.

These controls have been operational for a sufficient period of time to allow our management to conclude that these controls are operating effectively and the material weakness is considered remediated.

#### Changes in Internal Control over Financial Reporting

Except as noted above, there were no changes in our internal control over financial reporting during the most recent fiscal year ended December 31, 2015 that have materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

#### ITEM 9B. OTHER INFORMATION

None.

#### PART III.

#### ITEM 10. Directors, Executive Officers And Corporate Governance

The information required by this item will be included under the captions ““Executive Officers,” Executive Compensation,” “Election of Directors,” “Report of the Audit Committee” and “Section 16(a) Beneficial Ownership Reporting Compliance” for the 2016 Annual Meeting in our Proxy Statement with the SEC within 120 days of the year-end December 31, 2015 (2016 Proxy Statement) and is incorporated herein by reference.

#### ITEM 11. Executive Compensation

The information required by this item will be set forth in our 2016 Proxy Statement under the captions “Executive Compensation” and “Report of the Compensation Committee on Executive Compensation” and is incorporated herein by reference.

#### ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information related to the security ownership of certain beneficial owners and management will be set forth in our 2016 Proxy Statement under the caption “Security Ownership of Management and Principal Stockholders,” and is incorporated herein by reference.

#### ITEM 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item will be set forth in our 2016 Proxy Statement under the caption “Certain Relationships and Related Transactions, and Director Independence” and is incorporated herein by reference.

#### ITEM 14. Principal Accountant Fees and Services

The information required by this item will be set forth in our 2016 Proxy Statement under the captions “Audit and Related Fees” and “Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of

Independent Auditors” and is incorporated herein by reference.

PART IV.

ITEM 15. Exhibits And Financial Statement Schedules

(a) Financial Statements

1. Consolidated Financial Statements:

Our Consolidated Financial Statements are listed in the Index to Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K.

All other schedules have been omitted as they are not required, not applicable, or the required information is otherwise included.

2. Exhibits:

The documents listed in the Exhibit Index of this Annual Report on Form 10-K are incorporated by reference or are filed with this report, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: February 29, 2016

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this annual report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ Lee Chen Lee Chen	Chief Executive Officer, President and Director (Principal Executive Officer)	February 29, 2016
/s/ Greg Straughn Greg Straughn	Chief Financial Officer (Principal Accounting and Financial Officer)	February 29, 2016
/s/ Robert Cochran Robert Cochran	Vice President, Legal and Corporate Collaboration and Secretary and Director	February 29, 2016
/s/ Peter Y. Chung Peter Y. Chung	Director	February 29, 2016
/s/ Alan S. Henricks Alan S. Henricks	Director	February 29, 2016
/s/ Phillip J. Salsbury Phillip J. Salsbury	Director	February 29, 2016



## EXHIBIT INDEX

Exhibit Number	Description	Incorporated By Reference			File Date
		Form	File No,	Exhibit	
3.1	Amended and Restated Certificate of Incorporation of the Registrant	S-1/A	333-194015	3.1	March 10, 2014
3.2	Amended and Restated Bylaws of the Registrant	S-1/A	333-194015	3.2	March 10, 2014
4.1	Form of common stock certificate of the Registrant.	S-1/A	333-194015	4.1	March 10, 2014
4.2	Amended and Restated Investors' Rights Agreement among the Registrant and certain holders of its capital stock, amended as of October 4, 2013.	S-1/A	333-194015	4.2	March 10, 2014
10.1*	Form of Indemnification Agreement between the Registrant and each of its directors and executive officers	S-1/A	333-194015	10.1	March 10, 2014
10.2*	2004 Stock Plan and forms of agreements thereunder	10-Q	001-36343	10.1	May 13, 2014
10.3*	2008 Stock Plan and forms of agreements thereunder	10-Q	001-36343	10.2	May 13, 2014
10.4*	<u>Amended and Restated 2014 Equity Incentive Plan</u>				
10.5*	2014 Employee Stock Purchase Plan and forms of agreements thereunder	S-1/A	333-194015	10.5	March 10, 2014
10.6*	Form of Stock Option Agreement pursuant to the 2008 Stock Plan	10-Q	001-36343	10.2	August 4, 2014
10.7*	Form of Stock Option Agreement- Early Exercise pursuant to the 2008 Stock Plan	10-Q	001-36343	10.3	August 4, 2014
10.8*	Form of Stock Option Agreement pursuant to the Amended and Restated 2014 Equity Incentive Plan	10-Q	001-36343	10.4	August 4, 2014
10.9*	Form of Restricted Stock Unit Agreement pursuant to the Amended and Restated 2014 Equity Incentive Plan	10-Q	001-36343	10.5	August 4, 2014
10.10*	Offer Letter, dated July 30, 2004, by and between the Registrant and Lee Chen.	S-1/A	333-194015	10.6	March 10, 2014
10.11*	Offer Letter, dated November 3, 2008, by and between the Registrant and Rajkumar Jalan.	S-1/A	333-194015	10.7	March 10, 2014
10.12*	Offer Letter, dated May 31, 2011, by and between the Registrant and Greg Straughn.	S-1/A	333-194015	10.8	March 10, 2014
10.13*	Offer Letter, dated January 4, 2012, by and between the Registrant and Robert Cochran.	S-1/A	333-194015	10.9	March 10, 2014
10.14*	Offer Letter, dated July 18, 2013, by and between the Registrant and Ray Smets.	S-1/A	333-194015	10.10	March 10, 2014
10.15*	<u>Offer Letter, dated March 15, 2015, by and between the Registrant and Sanjay Kapoor.</u>				
10.16	Reseller Agreement, dated April 2, 2009, by and between the Registrant and NEC Corporation.	S-1/A	333-194015	10.12	February 18, 2014
10.17	First Amendment to Reseller Agreement, dated May 19, 2011, by and between the Registrant and	S-1/A	333-194015	10.13	February 18, 2014

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10.18	NEC Corporation. Second Amendment to Reseller Agreement, dated April 1, 2011, by and between the Registrant and NEC Corporation.	S-1/A	333-194015	10.14	February 18, 2014
10.19	Third Amendment to Reseller Agreement, dated April 1, 2011, by and between the Registrant and NEC Corporation.	S-1/A	333-194015	10.15	February 18, 2014
10.20	Fourth Amendment to Reseller Agreement, dated October 3, 2011, by and between the Registrant and NEC Corporation.	S-1/A	333-194015	10.16	February 18, 2014
10.21	Fifth Amendment to Reseller Agreement, dated April 2, 2012, by and between the Registrant and NEC Corporation.	S-1/A	333-194015	10.17	February 18, 2014

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Exhibit Number	Description	Incorporated By Reference			File Date
		Form	File No,	Exhibit	
10.22	Sixth Amendment to Reseller Agreement, dated November 29, 2012, by and between the Registrant and NEC Corporation.	S-1/A	333-194015	10.18	February 18, 2014
10.23	Seventh Amendment to Reseller Agreement, dated April 9, 2013, by and between the Registrant and NEC Corporation.	S-1/A	333-194015	10.19	February 18, 2014
10.24	Eighth Amendment to Reseller Agreement, dated October 22, 2013, by and between the Registrant and NEC Corporation.	S-1/A	333-194015	10.20	February 18, 2014
10.25	Ninth Amendment to Reseller Agreement, executed on April 22, 2014, by and between the Registrant and NEC Corporation	10-Q	001-36343	10.1	August 4, 2014
10.26	Manufacturing Services Agreement, dated December 8, 2006, by and between the Registrant and Lanner Electronics (USA).	S-1/A	333-194015	10.21	February 18, 2014
10.27	Amendment No. 1 to Manufacturing Services Agreement, dated June 27, 2013, by and between the Registrant and Lanner Electronics (USA).	S-1/A	333-194015	10.22	February 18, 2014
10.28	Contract Manufacturer Agreement, dated July 1, 2008, by and between the Registrant and AEWIN Technologies, Inc.	S-1/A	333-194015	10.23	February 18, 2014
10.29	Amendment No. 1 to Contract Manufacturer Agreement, dated July 1, 2008, by and between the Registrant and AEWIN Technologies, Inc.	10-K	001-36343	10.31	March 11, 2015
10.30	Credit Agreement, dated as of September 30, 2013, among the Registrant, Royal Bank of Canada, as lender and administrative agent, and JPMorgan Chase Bank, N.A., and Bank of America, N.A., as lenders.	S-1/A	333-194015	10.24	March 10, 2014
10.31*	Form of Change in Control and Severance Agreement.	S-1/A	333-194015	10.25	March 10, 2014
10.32*	<u>Executive Incentive Compensation Plan</u>				
21.1	<u>List of subsidiaries of the Registrant.</u>				
23.1	<u>Consent of Deloitte &amp; Touche LLP, independent registered public accounting firm.</u>				
31.1	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act</u>				
31.2	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act</u>				
32.1 **	<u>Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act</u>				
32.2 **	<u>Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act</u>				
101.INS	XBRL Instance Document.				
101.SCH	XBRL Taxonomy Extension Schema Document.				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.				
101.DEF					

	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

\*Indicates a management contract or compensatory plan.

The certifications attached as Exhibit 32.1 and 32.2 that accompany this Annual Report on Form 10 K 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 Annual Report on Form 10-K, irrespective of any general incorporation language contained in such filing.

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