

Edgar Filing: FireEye, Inc. - Form 10-Q

FireEye, Inc.
Form 10-Q
May 03, 2019

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2019

or

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

For the transition period from to

Commission File Number 001-36067

FireEye, Inc.

(Exact name of registrant as specified in its charter)

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

601 McCarthy Blvd.
Milpitas, CA 95035
(408) 321-6300

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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

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Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☐

Emerging growth company ☐

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

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

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

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
----------------------------	-----------------------	--------------------------------------------------

Common Stock, \$0.0001 par value per share	FEYE	The NASDAQ Global Select Market
--------------------------------------------	------	---------------------------------

The number of shares of the registrant's common stock outstanding as of April 30, 2019 was 203,204,338.

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PART I — FINANCIAL INFORMATION**Item 1. Financial Statements****FIREEYE, INC.****Condensed Consolidated Balance Sheets****(In thousands, except per share data)****(Unaudited)**

	March 31, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$406,057	\$409,829
Short-term investments	723,972	706,691
Accounts receivable, net of allowance for doubtful accounts of \$2,333 and \$2,525 at March 31, 2019 and December 31, 2018, respectively	111,071	157,817
Inventories	6,635	6,548
Prepaid expenses and other current assets	96,977	100,295
Total current assets	1,344,712	1,381,180
Property and equipment, net	91,898	89,163
Operating lease right-of-use assets, net	59,108	—
Goodwill	999,804	999,804
Intangible assets, net	131,036	143,162
Deposits and other long-term assets	80,984	82,769
TOTAL ASSETS	\$2,707,542	\$2,696,078
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$31,113	\$26,944
Operating lease liabilities, current	15,387	—
Accrued and other current liabilities	26,497	29,797
Accrued compensation	56,196	63,808
Deferred revenue, current	541,563	556,815
Total current liabilities	670,756	677,364
Convertible senior notes, net	974,355	962,577
Deferred revenue, non-current	364,627	378,013
Operating lease liabilities, non-current	74,370	—
Other long-term liabilities	3,993	27,730
Total liabilities	2,088,101	2,045,684
Commitments and contingencies (NOTE 10)		
Stockholders' equity:		
Common stock, par value of \$0.0001 per share; 1,000,000 shares authorized, 203,167 shares and 199,612 shares issued and outstanding as of March 31, 2019 and December 31, 2018, respectively	20	20
Additional paid-in capital	3,194,484	3,152,159
Treasury stock, at cost; 3,333 shares as of March 31, 2019 and December 31, 2018	(150,000)	(150,000)
Accumulated other comprehensive loss	(202)	(2,299)
Accumulated deficit	(2,424,861)	(2,349,486)
Total stockholders' equity	619,441	650,394
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$2,707,542	\$2,696,078

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2019	2018
Revenue:		
Product, subscription and support	\$ 169,903	\$ 165,473
Professional services	40,641	33,597
Total revenue	210,544	199,070
Cost of revenue:		
Product, subscription and support	48,468	47,429
Professional services	23,100	20,500
Total cost of revenue	71,568	67,929
Total gross profit	138,976	131,141
Operating expenses:		
Research and development	67,395	66,196
Sales and marketing	103,896	97,251
General and administrative	27,376	28,418
Restructuring charges	3,799	—
Total operating expenses	202,466	191,865
Operating loss	(63,490)	(60,724)
Interest income	5,848	2,940
Interest expense	(15,263)	(12,717)
Other expense, net	(288)	(276)
Loss before income taxes	(73,193)	(70,777)
Provision for income taxes	2,182	1,053
Net loss attributable to common stockholders	\$(75,375)	\$(71,830)
Net loss per share attributable to common stockholders, basic and diluted	\$(0.38)	\$(0.39)
Weighted average shares used in computing net loss per share attributable to common stockholders, basic and diluted	197,819	186,456

See accompanying notes to condensed consolidated financial statements.

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FIREEYE, INC.

Condensed Consolidated Statements of Comprehensive Loss

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2019	2018
Net loss	\$(75,375)	\$(71,830)
Change in net unrealized gain (loss) on available-for-sale investments, net of tax	2,097	(1,595)
Comprehensive loss	\$(73,278)	\$(73,425)

See accompanying notes to condensed consolidated financial statements.

Table of Contents**FIREEYE, INC.****Condensed Consolidated Statements of Stockholders' Equity****(Unaudited, in thousands)**

	Three Months Ended March 31,	
	2019	2018
Total stockholders' equity, beginning balances	\$650,394	\$632,216
Common stock and additional paid-in-capital:		
Balance, beginning of period	3,152,179	2,891,460
Issuance of common stock for equity awards, net of tax withholdings	843	3,110
Issuance of common stock related to X15 Software, Inc. acquisition	—	15,386
Stock-based compensation	41,482	42,148
Balance, end of period	3,194,504	2,952,104
Treasury Stock:		
Balance, beginning of period	(150,000)	(150,000)
Balance, end of period	(150,000)	(150,000)
Accumulated Other Comprehensive Loss:		
Balance, beginning of period	(2,299)	(2,881)
Unrealized gain (loss) on investments, net of tax	2,097	(1,595)
Balance, end of period	(202)	(4,476)
Accumulated Deficit:		
Balance, beginning of period	(2,349,486)	(2,106,363)
Net loss	(75,375)	(71,830)
Balance, end of period	(2,424,861)	(2,178,193)
Total stockholders' equity, ending balances	\$619,441	\$619,435

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended March 31,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(75,375)	\$(71,830)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	23,833	22,389
Stock-based compensation	40,323	42,148
Non-cash interest expense related to convertible senior notes	11,778	9,694
Deferred income taxes	475	(60)
Other	1,101	1,342
Changes in operating assets and liabilities, net of business acquisitions:		
Accounts receivable	46,479	42,986
Inventories	(395)	(1,373)
Prepaid expenses and other assets	6,975	(6,330)
Accounts payable	6,802	(5,354)
Accrued liabilities	758	4,254
Accrued compensation	(7,611)	(5,568)
Deferred revenue	(28,639)	(23,965)
Other long-term liabilities	(2,051)	854
Net cash provided by operating activities	24,453	9,187
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment and demonstration units	(13,503)	(14,487)
Purchases of short-term investments	(156,533)	(109,469)
Proceeds from maturities of short-term investments	141,004	104,711
Business acquisitions, net of cash acquired	—	(5,977)
Lease deposits	(36)	(116)
Net cash used in investing activities	(29,068)	(25,338)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of equity awards	843	3,110
Net cash provided by financing activities	843	3,110
Net change in cash and cash equivalents	(3,772)	(13,041)
Cash and cash equivalents, beginning of period	409,829	180,891
Cash and cash equivalents, end of period	\$406,057	\$167,850
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for income taxes	\$1,399	\$646
Cash paid for interest	\$—	\$—
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Common stock issued in connection with acquisitions	\$—	\$15,386
Purchases of property and equipment and demonstration units in accounts payable and accrued liabilities	\$9,161	\$13,773

See accompanying notes to condensed consolidated financial statements.

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FIREEYE, INC.

Notes to Condensed Consolidated Financial Statements

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

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

FireEye, Inc. and its wholly owned subsidiaries (collectively, the “Company”, “we”, “us” or “our”) provide comprehensive intelligence-based cybersecurity solutions that allow organizations to prepare for, prevent, investigate, respond to and remediate cyber attacks. Our portfolio of cyber security solutions and services is designed to minimize the risk of costly cyber security breaches by detecting and preventing advanced, targeted and other evasive attacks, as well as enabling more efficient management of security operations, including alert management, investigation and response when a breach occurs. We accomplish this through the integration of our core competitive advantages in solutions and services that adapt to changes in the threat environment through a cycle of intelligence-driven innovation. Our core competitive advantages include:

• Our technologies, including our machine-learning, behavioral-based, and rules-based threat detection, analysis and correlation technologies, combined with our proprietary Multi-vector Virtual Execution ("MVX") engine;

• Our intelligence on threats and threat actors, based on the continuous flow of machine-, attacker- and victim-based attack data from our global network of threat sensors and virtual machines, as well as intelligence gathered by our security analysts, consultants and incident responders; and

• Our accumulated security expertise derived from responding to thousands of significant breaches over the past decade.

Our threat detection and prevention solutions encompass appliance-based, virtual and cloud solutions for web security, email security and endpoint security. These solutions are complemented by our cloud-based threat intelligence, security analytics and security automation and orchestration technologies, as well as our managed security services, cybersecurity consulting and incident response offerings including our recently launched Expertise-on-Demand offering. In combination, our solutions and services enable a proactive approach to cybersecurity that extends across the threat management lifecycle to minimize the risk of costly cybersecurity breaches.

We have organized our cybersecurity solutions in a hub and spokes model designed to integrate machine-generated threat data from our detection and prevention solutions with our analytics, response and orchestration technologies delivered through our Helix cybersecurity operations platform. Helix is designed to enable more efficient security operations by correlating security and event data across an organization’s environment to determine which threats present the greatest risk, automating repetitive security processes, and providing tools and workflows to investigate and respond to attacks. The Helix cloud-based interface presents a unified view of an organization’s attack surface, including on-premise and cloud environments, and provides the contextual threat intelligence and threat management tools to enable a rapid response.

In the three months ended June 30, 2018, we issued \$600 million aggregate principal amount of 0.875% Convertible Senior Notes due 2024 (the "2024 Notes"), in a private placement to qualified institutional purchasers pursuant to an exemption from registration provided by Section 4(a)(2) and Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"). We recognized total net proceeds after the initial purchasers' discount and issuance costs of \$584.4 million. In connection with the issuance of the 2024 Notes, we also entered into capped call transactions (the "Capped Calls") with certain parties affiliated with the initial purchasers of the 2024 Notes. We paid approximately \$65.2 million for the Capped Calls, which have an initial strike price of \$23.17 per share, which corresponds to the initial conversion price of the 2024 Notes. The Capped Calls have an initial cap price of \$34.32 per share subject to certain adjustments as set forth in the confirmations for the Capped Calls.

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

Notes offering to repurchase such portion of the Series A Notes.

In January 2018, we completed the acquisition of privately-held X15 Software, Inc. ("X15"), a data management company. As consideration for the acquisition, we paid cash consideration of \$5.3 million and issued 1,016,334 shares of our common stock with an estimated fair value of \$15.4 million.

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

Basis of Presentation and Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of FireEye, Inc. and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), and following the requirements of the Securities and Exchange Commission ("SEC"), for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. GAAP can be condensed or omitted. These unaudited condensed consolidated financial statements have been prepared on the same basis as our annual consolidated financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, that are necessary for a fair statement of our financial information. The results of operations for the three months ended March 31, 2019 are not necessarily indicative of the results to be expected for the year ending December 31, 2019 or for any other interim period or for any other future year. The balance sheet as of December 31, 2018 has been derived from audited consolidated financial statements at that date but does not include all information required by U.S. GAAP for annual consolidated financial statements.

The accompanying unaudited condensed consolidated financial statements and related financial information should be read in conjunction with the audited consolidated financial statements and the related notes thereto for the year ended December 31, 2018 included in our Annual Report on Form 10-K for the year ended December 31, 2018.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Such management estimates include, but are not limited to, determining the nature and timing of satisfaction of performance obligations, useful life of our security appliances that are dependent on intelligence and assessing the material rights associated with it, determining the standalone selling price ("SSP") of performance obligations and professional services, determining incremental borrowing rate, commissions expense including the period of benefit of customer acquisition cost, bonus expense, future taxable income, contract manufacturer liabilities, litigation and settlement costs and other loss contingencies, fair value of our equity awards, achievement of targets for performance stock units, fair value of the liability and equity components of the Convertible Senior Notes (as defined in Note 9) and the purchase price allocation of acquired businesses. We base our estimates on historical experience and on assumptions that we believe are reasonable. Changes in facts or circumstances may cause us to change our assumptions and estimates in future periods, and it is possible that actual results could differ from current or revised future estimates.

Summary of Significant Accounting Policies

Except for the accounting policies for leases, updated as a result of adopting Accounting Standard Update ("ASU") No. 2016-02, Leases or Accounting Standard Codification ("ASC") 842, there have been no significant changes to our significant accounting policies as of and for the three months ended March 31, 2019, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2018.

Leases

We determine if an arrangement is a lease and classification of that lease, if applicable, at inception based on: (1) whether the contract involves the use of a distinct identified asset, (2) whether we obtain the right to substantially all the economic benefits from the use of the asset throughout the period, and (3) whether we have a right to direct the use of the asset. We currently do not have any finance leases. We have elected to not recognize a lease liability or right-of-use ("ROU") asset for short-term leases (leases with a term of twelve months or less and does not include an option to purchase the underlying asset).

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make minimum lease payments arising from the lease. ROU assets are initially measured at amounts, which represents the present value of the lease payments over the lease, plus any initial direct costs incurred and less any lease incentives received. Annually, all ROU assets are reviewed for impairment. The lease liability is initially measured at lease commencement date based on the present value of minimum lease payments over the lease term. As the rates implicit in the leases are not readily available, we use our Incremental Borrowing Rate ("IBR") based on the

information available at commencement date in determining the present value of lease payments. The determination of our IBR requires judgment. We took into consideration our recent debt offerings as well as external credit rating factors when determining our current IBR. Our lease terms may include options to extend or terminate the lease. We do not include these options in our minimum lease terms unless we believe they are reasonably certain to be exercised. We have lease agreements with lease and non-lease components, which are generally accounted for separately. Non-lease components (i.e. common area maintenance) are separate from the lease components and are paid on actual usage. Therefore, the non-lease components are not included in the determination of the ROU asset or lease liability and are reflected as an expense in the period incurred. Our operating lease costs for operating lease payments are recognized on a straight-line basis over the lease term.

We also sublease certain office space to third-parties. Our subleases consist of office space which was vacated as part of restructuring activities in 2016. We do not recognize ROU assets or lease liabilities associated with subleased office spaces in which we are the sublessor. Sublease income is recognized ratably over the term of the agreement.

Recently Adopted Accounting Pronouncements

Leases

In February 2016, the FASB issued ASU No. 2016-02, *Leases (ASC 842)*. This standard is intended to increase transparency and comparability among organizations by recognizing right-of-use assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This standard provides for a modified retrospective transition approach to recognize and measure leases at the beginning of the earliest period presented. In July 2018, the FASB issued ASU 2018-11, *Leases (ASC 842): Targeted Improvements*. The update provides an optional transition method that allows entities to apply the standard prospectively, versus recasting the prior periods presented. We adopted the standard effective January 1, 2019, using a modified retrospective transition method. As a result, the consolidated balance sheet as of December 31, 2018 was not restated, continues to be reported under ASC 840, which did not require recognition of operating lease assets and liabilities on the balance sheet, and is not comparative. We have also elected the practical expedients to not reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs which existed and expired prior to January 1, 2019. The standard had a material impact on our consolidated balance sheets, but did not have an impact on our consolidated income statements. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases. We recognized ROU assets and lease liabilities of \$60.7 million and \$88.4 million, respectively, on our consolidated balance sheets on January 1, 2019, which included reclassifying lease incentives and deferred rent as a component of the ROU assets. See Summary of Significant Accounting Policies - Leases and Note 7 Leases for further details.

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued ASU 2018-02: *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("AOCI")*. This standard provides companies with an option to reclassify stranded tax effects resulting from the enactment of the Tax Cuts and Jobs Act ("TCJA") from accumulated other comprehensive income to retained earnings. We adopted the standard effective January 1, 2019. The Company has no net stranded tax effect recorded in AOCI due to its full U.S. valuation allowance therefore, the adoption of ASU 2018-02 resulted in no amount reclassified from AOCI to retained earnings on our condensed consolidated statement of stockholders' equity.

Improvements to Non-employee Share-Based Payment Accounting

In June 2018, the FASB issued ASU 2018-07 (Topic 718): *Improvements to Non-employee Share-Based Payment Accounting ("Topic 718")*. This standard expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from non-employees. FASB clarified that Topic 718 does not apply to share-based payments used to effectively provide financing to the issuer or awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under ASC 606. We adopted the standard effective January 1, 2019. The standard did not have a significant impact on our condensed consolidated financial statements.

Recent Accounting Pronouncements Not Yet Adopted

Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract

In August 2018, the FASB issued ASU 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This standard requires capitalization of the implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. Further, the standard also requires the Company to expense the capitalized implementation costs of a hosting arrangement over the term of the hosting arrangement. This standard is effective for the Company beginning in the first quarter of 2020. Early adoption is permitted. The adoption of this standard is not expected to have a significant impact on our consolidated financial statements.

Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. This standard eliminates the requirement to calculate the implied fair value of goodwill to

measure a goodwill impairment charge (i.e. Step 2 of the current guidance), instead measuring the impairment charge as the excess of the reporting unit's carrying amount over its fair value (i.e. Step 1 of the current guidance). The guidance is effective for the Company beginning in the first quarter of 2020, and should be applied prospectively. Early adoption is permitted for impairment testing dates after January 1, 2017. The adoption of this standard is not expected to have a significant impact on our consolidated financial statements.

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This standard changes the impairment model for most financial assets and certain other instruments by introducing

a current expected credit loss ("CECL") model. The CECL model is a more forward-looking approach based on expected losses rather than incurred losses, requiring entities to estimate and record losses expected over the remaining contractual life of an asset. The guidance is effective for the Company beginning in the first quarter of 2020. Early adoption beginning January 1, 2019 is permitted. We are currently evaluating the impact the adoption of this guidance will have on our consolidated financial statements and related disclosures.

2. Fair Value Measurements

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

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

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

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

<u>Description</u>	As of March 31, 2019				As of December 31, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<u>Assets</u>								
Cash equivalents:								
Money market funds	\$35,997	\$—	\$—	\$35,997	\$25,748	\$—	\$—	\$25,748
Total cash equivalents	35,997	—	—	35,997	25,748	—	—	25,748
Short-term investments:								
Corporate notes and bonds	—	450,070	—	450,070	—	448,323	—	448,323
U.S. Treasuries	—	98,437	—	98,437	—	112,700	—	112,700
U.S. Government agencies	—	175,465	—	175,465	—	145,668	—	145,668
Total short-term investments	—	723,972	—	723,972	—	706,691	—	706,691
Total assets measured at fair value	\$35,997	\$723,972	\$—	\$759,969	\$25,748	\$706,691	\$—	\$732,439

Additionally, we have a restructuring liability related to certain real estate facilities that was calculated based on the present value of future non-lease payments, discounted at a rate commensurate with our current cost of financing as well as external ratings. This non-recurring fair value measurement is considered to be a Level 3 measurement due to the use of significant unobservable inputs. See Note 6 Restructuring Charges for a reconciliation of this liability. We measure certain assets, including goodwill, intangible assets and our equity-method investment in a private company at fair value on a nonrecurring basis when there are identifiable events or changes in circumstances that may have a significant adverse impact on the fair value of these assets. No such events or changes occurred during the three months ended March 31, 2019.

The estimated fair value of the Convertible Senior Notes as of March 31, 2019 and December 31, 2018 was determined to be \$1.2 billion and \$1.1 billion, respectively. The fair value was determined based on the closing trading prices per \$100 principal amount of the respective Convertible Senior Notes as of the last day of trading for the period. We consider the fair value of the Convertible Senior Notes to be a Level 2 measurement as they are not

actively traded.

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3. Investments

Our investments consisted of the following (in thousands):

As of March 31, 2019				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate notes and bonds	\$ 449,764	\$ 801	\$ (495)	\$ 450,070
U.S. Treasuries	98,478	24	(65)	98,437
U.S. Government agencies	175,709	8	(252)	175,465
Total	\$ 723,951	\$ 833	\$ (812)	\$ 723,972

As of December 31, 2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate notes and bonds	\$ 450,097	\$ 44	\$ (1,818)	\$ 448,323
U.S. Treasuries	112,783	2	(85)	112,700
U.S. Government agencies	146,110	—	(442)	145,668
Total	\$ 708,990	\$ 46	\$ (2,345)	\$ 706,691

The following tables present the gross unrealized losses and related fair values of our investments that have been in a continuous unrealized loss position (in thousands):

As of March 31, 2019					
	Less Than 12 Months		Greater Than 12 Months		Total
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value Unrealized Loss
Corporate notes and bonds	\$ 34,326	\$ (35)	\$ 229,997	\$ (460)	\$ 264,323 \$ (495)
U.S. Treasuries	52,433	(65)	—	—	52,433 (65)
U.S. Government agencies	75,920	(74)	85,513	(178)	161,433 (252)
Total	\$ 162,679	\$ (174)	\$ 315,510	\$ (638)	\$ 478,189 \$ (812)

As of December 31, 2018					
	Less Than 12 Months		Greater Than 12 Months		Total
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value Unrealized Loss
Corporate notes and bonds	\$ 420,548	\$ (1,817)	\$ 1,526	\$ (2)	\$ 422,074 \$ (1,819)
U.S. Treasuries	105,525	(85)	—	—	105,525 (85)
U.S. Government agencies	137,416	(441)	—	—	137,416 (441)
Total	\$ 663,489	\$ (2,343)	\$ 1,526	\$ (2)	\$ 665,015 \$ (2,345)

Unrealized losses related to these investments are due to interest rate fluctuations as opposed to credit quality. In addition, we do not intend to sell, and it is not more likely than not that we would be required to sell, these investments before recovery of their cost basis. As a result, there is no other-than-temporary impairment for these investments as of March 31, 2019 and December 31, 2018.

The following table summarizes the contractual maturities of our investments at March 31, 2019 (in thousands):

	Amortized Cost	Fair Value
Due within one year	\$ 423,642	\$ 423,064
Due within one to three years	300,309	300,908
Total	\$ 723,951	\$ 723,972

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

As of March 31, 2019, we held an 11.1% ownership interest in a private company, which is accounted for under the equity method based on our ability to exercise significant influence over operating and financial policies of the private company. This investment is classified within deposits and other long-term assets on our condensed consolidated balance sheets. The carrying value of this investment was \$0.1 million as of March 31, 2019 and \$0.5 million as of December 31, 2018.

4. Property and Equipment

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

	As of March 31, 2019	As of December 31, 2018
Computer equipment and software	\$ 180,205	\$ 171,078
Leasehold improvements	64,078	62,832
Furniture and fixtures	14,305	13,835
Machinery and equipment	447	447
Total property and equipment	259,035	248,192
Less: accumulated depreciation	(167,137)	(159,029)
Total property and equipment, net	\$ 91,898	\$ 89,163

Depreciation and amortization expense related to property, equipment and demonstration units during the three months ended March 31, 2019 and 2018 was \$9.2 million and \$9.4 million, respectively.

During the three months ended March 31, 2019 and 2018, we capitalized \$5.5 million and \$4.9 million, respectively, of software development costs primarily related to our cloud subscription offerings. Amortization expense related to capitalized software development costs during the three months ended March 31, 2019 and 2018 were \$3.5 million and \$1.9 million, respectively.

5. Business Combinations

Acquisition of X15

On January 11, 2018, we acquired all outstanding shares of privately held X15, a data management company. We expect that the X15 technology will be incorporated into our platform and analytics capabilities going forward. In connection with this acquisition, we paid cash consideration of \$5.3 million and issued 1,016,334 shares of our common stock with an estimated fair value of \$15.4 million, resulting in total purchase consideration of \$20.7 million. The purchase price was allocated to intangible assets of \$6.1 million, goodwill of \$15.1 million and net tangible liabilities of \$0.5 million. The intangible asset relates to developed technology with an estimated weighted average useful life of 3 years. The goodwill is primarily attributable to the know-how of the workforce and is not expected to be deductible for U.S. federal income tax purposes. The results of operations of X15 have been included in our consolidated statements of operations from the acquisition date. Pro forma financial information has not been presented for this acquisition as the impact to our consolidated financial statements was not material.

Goodwill and Purchased Intangible Assets

There were no other changes in the carrying amount of goodwill for the three months ended March 31, 2019.

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

	As of March 31, 2019	As of December 31, 2018
Developed technology	\$ 110,003	\$ 110,003
Content	158,700	158,700
Customer relationships	111,090	111,090
Contract backlog	12,500	12,500
Trade names	15,560	15,560
Non-competition agreements	1,400	1,400
Total intangible assets	409,253	409,253
Less: accumulated amortization	(278,217)	(266,091)
Total net intangible assets	\$ 131,036	\$ 143,162

Amortization expense of intangible assets during the three months ended March 31, 2019 and 2018 was \$12.1 million and \$12.6 million, respectively.

The expected future annual amortization expense of intangible assets as of March 31, 2019 is presented below (in thousands):

Years Ending December 31, Amount

2019 (remaining nine months)	\$36,321
2020	33,897
2021	29,337
2022	18,209
2023	13,105
2024	80
and thereafter	87
Total	\$131,036

6. Restructuring Charges

In January 2019, we implemented a restructuring plan designed to align our resources with the strategic growth initiatives of the business. This restructuring plan resulted in a reduction of less than 2% of our total workforce as of March 31, 2019 as well as exiting and downsizing of certain real estate facilities.

The following table sets forth the restructuring balance as of December 31, 2018 related to previous restructuring activities and a summary of restructuring activities during the three months ended March 31, 2019 (in thousands):

	Severance and related costs	Facilities costs	Total costs
Balance, December 31, 2018	\$ —	\$ 1,150	\$ 1,150
Provision for restructuring charges	2,287	650	2,937
Cash payments	(2,073)	—	(2,073)
Other adjustments	—	(1,150)	(1,150)
Balance, March 31, 2019	\$ 214	\$ 650	\$ 864

The total provision for restructuring charges during the three months ended March 31, 2019 of \$3.8 million includes \$2.9 million of cash charges shown above, as well as non-cash charges of \$0.9 million related to right-of-use asset and fixed asset write-offs.

Other adjustments represent a reclassification of relief of unused benefits to reduce ROU assets as part of the transition to ASC 842.

The remainder of the restructuring balance of \$0.9 million at March 31, 2019 is composed of \$0.2 million of severance payments which we expect to pay during the second quarter of 2019, and \$0.7 million of non-cancelable non-lease costs which we expect to pay over the terms of the related obligations through the third quarter of 2021.

7. Leases

We have operating leases primarily for corporate offices. Our leases have remaining lease terms of one to eleven years, some of which include options to extend the leases for up to five years, and some of which include options to terminate the leases within one year.

The components of lease expenses were as follows (in thousands):

	Three Months Ended March 31, 2019
Operating lease costs	\$4,762
Short-term lease costs	937
Sublease income	(272)
Total net lease costs	\$5,427

Supplemental balance sheet information related to leases is as follows (in thousands, except lease term and discount rate):

	Three Months Ended March 31, 2019
Operating leases:	
Operating lease right-of-use assets, net	\$59,108
Operating lease liabilities, current	\$15,387
Operating lease liabilities, non-current	74,370
Total operating lease liabilities	\$89,757
Weighted average remaining lease term (in years):	7.8
Weighted average discount rate:	6.9 %

Supplemental cash flow and other information related to leases is as follows (in thousands):

	Three Months Ended March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from Operating leases	\$ 2,585
Lease liabilities arising from obtaining right-of-use assets:	
Operating leases	\$ 2,575

Undiscounted cash flows of operating lease liabilities are as follows (in thousands):

Years Ending December 31,	Amount
2019 (remaining nine months)	\$11,873
2020	16,489
2021	15,592
2022	13,324
2023	12,502
2024	11,220
2025 and thereafter	37,679
Total lease payments	118,679
Less: Imputed interest	(28,922)
Total lease obligation	89,757
Less: Current lease obligations	(15,387)
Long-term lease obligations	\$74,370

As of March 31, 2019, we have additional operating lease commitments of \$4.8 million for an office lease that has not yet commenced. The operating lease commitments will commence in the second quarter of 2019 with a lease term of one to five years.

As previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018 and under the previous lease accounting standard ASC 840, the aggregate future non-cancelable minimum rental payments on our operating leases, as of December 31, 2018, are as follows (in thousands):

Years Ending December 31,	Amount
2019	\$15,530

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2020	16,325
2021	14,976
2022	12,766
2023	11,926
2024 and thereafter	47,409
Total	\$ 118,932

8. Deferred Revenue

Deferred revenue consisted of the following (in thousands):

	As of March 31, 2019	As of December 31, 2018
Product, subscription and support, current	\$478,381	\$492,109
Professional services, current	63,182	64,706
Total deferred revenue, current	541,563	556,815
Product, subscription and support, non-current	363,449	375,915
Professional services, non-current	1,178	2,098
Total deferred revenue, non-current	364,627	378,013
Total deferred revenue	\$906,190	\$934,828

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

	Three Months Ended March 31,	
	2019	2018
Deferred revenue, beginning of period	\$934,828	\$910,100
Billings for the period	181,906	175,106
Revenue recognized	(210,544)	(199,070)
Deferred revenue, end of period	\$906,190	\$886,136

Remaining Performance Obligations

Transaction price allocated to remaining performance obligations represents contracted revenue that has not yet been recognized, which includes deferred revenue and non-cancelable contracts that will be invoiced and recognized as revenue in future periods ("backlog"). While deferred revenue is recorded on our balance sheet as a liability, backlog is not recorded in revenue, deferred revenue or elsewhere in our consolidated financial statements until we establish a contractual right to invoice, at which point it is recorded as revenue or deferred revenue as appropriate. As of March 31, 2019, the aggregate amount of the transaction price allocated to remaining performance obligations was \$906.2 million in deferred revenue and \$18.8 million in backlog.

We expect that the amount of backlog relative to the total value of our contracts will change from year to year due to several factors, including the amount invoiced early in the contract term, the timing and duration of customer agreements, varying invoicing cycles of agreements and changes in customer financial circumstances. Accordingly, we believe that fluctuations in backlog are not always a reliable indicator of future revenues and we do not utilize backlog internally as a key management metric.

We expect to recognize these remaining performance obligations as follows (in percentages):

	Total	Less than 1 year	1-2 years	2-3 years	More than 3 years
Deferred revenue	100%	60%	25%	12%	3%
Backlog	100%	49%			