Arista Networks, Inc. 2017 Annual Report

ARISTA

Dear Arista Networks Stockholders:

I am pleased to report that Arista Networks had a very strong 2017 fiscal year. In reflecting on 2017, we are extremely proud of the company's commitment to innovation and partnering with customers to meet their needs. We now serve over 4,900 customers and continue to add new customers and expand our market presence and geographic footprint. Arista Networks has shipped more than fifteen million cloud networking ports worldwide with CloudVision and EOS, an advanced network operating system.

2017 Highlights:

- Revenue for our fiscal year 2017 was $1.6 billion, representing an increase of 45.8% compared to fiscal year 2016.
- For the third consecutive year Arista has been recognized as a leader and positioned the furthest for Completeness of Vision in the Leaders Quadrant of the July 2017 Gartner Magic Quadrant for Data Center Networking.
- Introduced the next generation of our routing platforms (R2 Series) that is twice the density and half the power of legacy custom router products, delivering more than 150 Tbps of capacity.
- Launched Containerized EOS (cEOS) which supports alternate models of procuring, packaging and deploying Arista's EOS®.
- Introduced Arista Any Cloud software platform, reducing operational costs and complexity for enterprises by simplifying integration and management of hybrid clouds.

Looking ahead, we see opportunities in building new, transformative technologies in our Arista products for artificial intelligence, machine learning and cognitive cloud networking.

I would like to thank our stockholders, customers, partners and our employees for their continued support.

Jayshree Ullal
Chief Executive Officer, President and Director
Arista Networks, Inc.
April 18, 2018

5453 GREAT AMERICA PARKWAY
SANTA CLARA, CALIFORNIA 95054

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held at 11:00 a.m. Pacific Time on Tuesday, May 29, 2018

Dear Stockholders of Arista Networks, Inc.:

The 2018 annual meeting of stockholders (the "Annual Meeting") of Arista Networks, Inc. (the "Company"), a Delaware corporation, will be held on Tuesday, May 29, 2018 at 11:00 a.m. Pacific Time, at the Company's headquarters located at 5453 Great America Parkway, Santa Clara, California 95054, for the following purposes, as more fully described in the accompanying proxy statement:

1. To elect two Class I directors to serve until the 2021 annual meeting of stockholders and until their successors are duly elected and qualified;

2. To approve, on an advisory basis, the compensation of our named executive officers;

3. To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2018; and

4. To transact such other business as may properly come before the Annual Meeting or any adjournments or postponements thereof.

Our board of directors has fixed the close of business on April 4, 2018 as the record date for the Annual Meeting. Only stockholders of record on April 4, 2018 are entitled to notice of and to vote at the Annual Meeting. Further information regarding voting rights and the matters to be voted upon is presented in the accompanying proxy statement. If you plan on attending this year's annual meeting as a stockholder, you must follow the instructions, as explained on page 3 of the proxy statement.

On or about April 18, 2018, we expect to mail to our stockholders a Notice of Internet Availability of Proxy Materials (the "Notice") containing instructions on how to access our proxy statement for our Annual Meeting and our annual report to stockholders. This Notice provides instructions on how to vote online or by telephone and includes instructions on how to receive a paper copy of proxy materials by mail. This proxy statement and our annual report can be accessed directly at the following Internet address: www.proxyvote.com. All you have to do is enter the control number located on your proxy card.

YOUR VOTE IS IMPORTANT. Whether or not you plan to attend the Annual Meeting, we urge you to submit your vote via the Internet, telephone or mail.

We appreciate your continued support of Arista Networks, Inc. and look forward to either greeting you personally at the Annual Meeting or receiving your proxy.

By order of the Board of Directors,

Jayshree Ullal
Chief Executive Officer, President and Director
Santa Clara, California
April 18, 2018

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ARISTA NETWORKS, INC.
PROXY STATEMENT
FOR THE 2018 ANNUAL MEETING OF STOCKHOLDERS
To Be Held at 11:00 a.m. Pacific Time on Tuesday, May 29, 2018

This proxy statement and the enclosed form of proxy are furnished in connection with the solicitation of proxies by our board of directors for use at the 2018 annual meeting of stockholders of Arista Networks, Inc. (the "Company"), a Delaware corporation, and any postponements, adjournments or continuations thereof (the "Annual Meeting"). The Annual Meeting will be held on Tuesday, May 29, 2018 at 11:00 a.m. Pacific Time, at the Company's headquarters located at 5453 Great America Parkway, Santa Clara, California 95054. The Notice of Internet Availability of Proxy Materials (the "Notice") containing instructions on how to access this proxy statement and our annual report is first being mailed on or about April 18, 2018 to all stockholders entitled to vote at the Annual Meeting.

Questions and Answers

The information provided in the "question and answer" format below is for your convenience only and is merely a summary of the information contained in this proxy statement. You should read this entire proxy statement carefully. Information contained on, or that can be accessed through, our website is not intended to be incorporated by reference into this proxy statement and references to our website address in this proxy statement are inactive textual references only.

Proxy Statement

What matters am I voting on?

You will be voting on:

- a proposal to approve the election of two Class I directors to serve until the 2021 annual meeting of stockholders and until their successors are duly elected and qualified;
- a proposal to approve, on an advisory basis, the compensation of our named executive officers;
- a proposal to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2018; and
- any other business as may properly come before the Annual Meeting.

What if another matter is properly brought before the meeting?

The board of directors does not know of any other matters to be presented at the Annual Meeting. If any additional matters are properly presented at the Annual Meeting, the persons named in the enclosed proxy card will have discretion to vote the shares of our common stock they represent in accordance with their own judgment on such matters.

How does the board of directors recommend I vote on these proposals?

Our board of directors recommends a vote:

- "FOR" the election of Andreas Bechtolsheim and Jayshree Ullal as Class I directors;
- "FOR" the approval, on an advisory basis, of executive compensation of our named executive officers; and
- "FOR" the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2018.

Who is entitled to vote?

Holders of our common stock as of the close of business on April 4, 2018, the record date, may vote at the Annual Meeting. As of the record date, there were 74,362,128 shares of our common stock outstanding. In deciding all matters at the Annual Meeting, each stockholder will be entitled to one vote for each share of our common stock held by them on the record date. We do not have cumulative voting rights for the election of directors.

Registered Stockholders. If shares of our common stock are registered directly in your name with our transfer agent, you are considered the stockholder of record with respect to those shares, and the Notice was provided to you directly by us. As the stockholder of record, you have the right to grant your voting proxy directly to the individuals listed on the proxy card or to vote in person at the Annual Meeting.

Street Name Stockholders. If shares of our common stock are held on your behalf in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of those shares held in "street name," and the Notice was forwarded to you by your broker or nominee, who is considered the stockholder of record with respect to those shares. As the beneficial owner, you have the right to direct your broker or nominee how to vote your shares. Beneficial owners are also invited to attend the Annual Meeting. However, since a beneficial owner is not the stockholder of record, you may not vote your shares of our common stock in person at the Annual Meeting unless you follow your broker's procedures for obtaining a legal proxy. If you request a printed copy of our proxy materials by mail, your broker or nominee will provide a voting instruction card for you to use. Throughout this proxy, we refer to stockholders who hold their shares through a broker, bank or other nominee as "street name stockholders."

How many votes are needed for approval of each proposal?

- *Proposal No. 1*: The election of directors requires a plurality vote of the shares of our common stock present in person or by proxy at the Annual Meeting and entitled to vote thereon to be approved. "Plurality" means that the nominees who receive the largest number of votes cast "for" are elected as directors. As a result, any shares not voted "for" a particular nominee (whether as a result of stockholder abstention or a broker non-vote) will not be counted in such nominee's favor and will have no effect on the outcome of the election. You may vote "for" or "withhold" on each of the nominees for election as a director.

- *Proposal No. 2*: The approval, on an advisory basis, of our executive compensation must receive the affirmative vote of at least a majority of the shares of our common stock present in person or by proxy at the Annual Meeting and entitled to vote thereon to be approved. Abstentions are considered votes cast and thus, will have the same effect as votes "against" the proposal. Broker non-votes will have no effect on the outcome of the vote. However, because this proposal is an advisory vote, the result will not be binding on our board of directors or our Company.

- *Proposal No. 3*: The ratification of the appointment of Ernst & Young LLP requires the affirmative vote of a majority of the shares of our common stock present in person or by proxy at the Annual Meeting and entitled to vote thereon to be approved. Abstentions are considered votes cast and thus, will have the same effect as votes "against" the proposal. Broker non-votes will have no effect on the outcome of the vote.

What is a quorum?

A quorum is the minimum number of shares required to be present at the Annual Meeting for the Annual Meeting to be properly held under our amended and restated bylaws and Delaware law. The presence, in person or by proxy, of a majority of all issued and outstanding shares of our common stock entitled to vote at the Annual Meeting will constitute a quorum at the Annual Meeting. Abstentions, withhold votes and broker non-votes are counted as shares present and entitled to vote for purposes of determining a quorum.

How do I vote?

If you are a stockholder of record, there are four ways to vote:

- by Internet at http://www.proxyvote.com, 24 hours a day, seven days a week, until 11:59 p.m. EST on May 27, 2018 (have your proxy card in hand when you visit the website);
- by toll-free telephone at 1-800-690-6903 until 11:59 p.m. EST on May 27, 2018 (have your proxy card in hand when you call);
- by completing and mailing your proxy card (if you received printed proxy materials); or
- by written ballot at the Annual Meeting.

If you are a street name stockholder, you will receive voting instructions from your broker, bank or other nominee. You must follow the voting instructions provided by your broker, bank or other nominee in order to instruct your broker, bank or other nominee on how to vote your shares. Street name stockholders should generally be able to vote by returning an instruction card, or by telephone or on the Internet. However, the availability of telephone and Internet voting will depend on the voting process of your broker, bank or other nominee. As discussed above, if you are a street name stockholder, you may not vote your shares in person at the Annual Meeting unless you obtain a legal proxy from your broker, bank or other nominee.

Whether or not you plan to attend the Annual Meeting, we urge you to vote by proxy to ensure your vote is counted. To vote, you will need the control number. The control number will be included in the Notice or on your proxy card if you are a stockholder of record, or included with your voting instructions received from your broker, bank or other nominee if you hold your shares of common stock in a "street name".

Internet proxy voting is provided to allow you to vote your shares online, with procedures designed to ensure the authenticity and correctness of your proxy vote instructions. Please be aware that you must bear any costs associated with your Internet access.

Can I change my vote?

Yes. Subject to the voting deadlines noted above, if you are a stockholder of record, you can change your vote or revoke your proxy any time before the Annual Meeting by:

- entering a new vote by Internet or by telephone;
- returning a later-dated proxy card;
- notifying the Secretary of Arista Networks, Inc., in writing, at Arista Networks, Inc., 5453 Great America Parkway, Santa Clara, California 95054; or
- completing a written ballot at the Annual Meeting.

If you are a street name stockholder, your broker, bank or other nominee can provide you with instructions on how to change your vote.

What do I need to do to attend the Annual Meeting in person?

If you plan to attend the meeting, you must be a holder of Company shares as of the record date of April 4, 2018.

On the day of the meeting, each shareholder who seeks to attend the meeting will be required to present a valid picture identification such as a driver's license or passport or you may be denied admission. Seating will begin at 10:30 a.m., and the meeting will begin at 11:00 a.m. Use of cameras, recording devices, computers and

other personal electronic devices will not be permitted at the Annual Meeting. Photography and video are prohibited at the Annual Meeting.

Please allow ample time for check-in. Please note that large bags and packages will not be allowed at the Annual Meeting. Persons will be subject to search.

What is the effect of giving a proxy?

Proxies are solicited by and on behalf of our board of directors. Jayshree Ullal, Ita Brennan and Marc Taxay have been designated as proxies by our board of directors. When proxies are properly dated, executed and returned, the shares represented by such proxies will be voted at the Annual Meeting in accordance with the instructions of the stockholder. If no specific instructions are given, however, the shares will be voted in accordance with the recommendations of our board of directors as described above. If any matters not described in this proxy statement are properly presented at the Annual Meeting, the proxy holders will use their own judgment to determine how to vote the shares. If the Annual Meeting is adjourned, the proxy holders can vote the shares on the new Annual Meeting date as well, unless you have properly revoked your proxy instructions, as described above.

Why did I receive a Notice of Internet Availability of Proxy Materials instead of a full set of proxy materials?

In accordance with the rules of the Securities and Exchange Commission ("SEC"), we have elected to furnish our proxy materials, including this proxy statement and our annual report, primarily via the Internet. The Notice containing instructions on how to access our proxy materials is first being mailed on or about April 18, 2018 to all stockholders entitled to vote at the Annual Meeting. Stockholders may request to receive all future proxy materials in printed form by mail or electronically by e-mail by following the instructions contained in the Notice. We encourage stockholders to take advantage of the availability of our proxy materials on the Internet to help reduce the environmental impact of our annual meetings of stockholders.

How are proxies solicited for the Annual Meeting?

Our board of directors is soliciting proxies for use at the Annual Meeting. All expenses associated with this solicitation will be borne by us. We will reimburse brokers or other nominees for reasonable expenses that they incur in sending our proxy materials to you if a broker or other nominee holds shares of our common stock on your behalf.

How may my brokerage firm or other intermediary vote my shares if I fail to provide timely directions?

Brokerage firms and other intermediaries holding shares of our common stock in street name for customers are generally required to vote such shares in the manner directed by their customers. In the absence of timely directions, your broker will have discretion to vote your shares on our sole "routine" matter: the proposal to ratify the appointment of Ernst & Young LLP. Your broker will not have discretion to vote on the election of directors, or on the approval, on an advisory basis, of executive compensation of our named executive officers, which are "non-routine" matters, absent direction from you.

Where can I find the voting results of the Annual Meeting?

We will announce preliminary voting results at the Annual Meeting. We will also disclose voting results on a Current Report on Form 8-K that we will file with the SEC within four business days after the Annual Meeting. If final voting results are not available to us in time to file a Current Report on Form 8-K within four business days after the Annual Meeting, we will file a Current Report on Form 8-K to publish preliminary results and will provide the final results in an amendment to this Current Report on Form 8-K as soon as they become available.

I share an address with another stockholder and we received only one paper copy of the proxy materials. How may I obtain an additional copy of the proxy materials?

We have adopted a procedure called "householding," which the SEC has approved. Under this procedure, we deliver a single copy of the Notice and, if applicable, our proxy materials to multiple stockholders who share the same address unless we have received contrary instructions from one or more of the stockholders. This procedure reduces our printing costs, mailing costs, and fees. Stockholders who participate in householding will continue to be able to access and receive separate proxy cards. Upon written or oral request, we will deliver promptly a separate copy of the Notice and, if applicable, our proxy materials to any stockholder at a shared address to which we delivered a single copy of any of these materials. To receive a separate copy, or, if a stockholder is receiving multiple copies, to request that we only send a single copy of the Notice and, if applicable, our proxy materials, such stockholder may contact us at the following address:

Arista Networks, Inc.
Attention: Investor Relations
5453 Great America Parkway
Santa Clara, California 95054

Stockholders who beneficially own shares of our common stock held in street name may contact their brokerage firm, bank, broker-dealer or other similar organization to request information about householding.

What is the deadline to propose actions for consideration at next year's annual meeting of stockholders or to nominate individuals to serve as directors?

Stockholder Proposals

Stockholders may present proper proposals for inclusion in our proxy statement and for consideration at the next annual meeting of stockholders by submitting their proposals in writing to our Secretary in a timely manner. For a stockholder proposal to be considered for inclusion in our proxy statement for our 2019 annual meeting of stockholders, our Secretary must receive the written proposal at our principal executive offices not later than December 19, 2018. In addition, stockholder proposals must comply with the requirements of Rule 14a-8 regarding the inclusion of stockholder proposals in Company-sponsored proxy materials. Stockholder proposals should be addressed to:

Arista Networks, Inc.
Attention: Secretary
5453 Great America Parkway
Santa Clara, California 95054

Our amended and restated bylaws also establish an advance notice procedure for stockholders who wish to present a proposal before an annual meeting of stockholders but do not intend for the proposal to be included in our proxy statement. Our amended and restated bylaws provide that the only business that may be conducted at an annual meeting is business that is (i) specified in our proxy materials with respect to such meeting, (ii) otherwise properly brought before the annual meeting by or at the direction of our board of directors, or (iii) properly brought before the annual meeting by a stockholder of record entitled to vote at the annual meeting who has delivered timely written notice to our Secretary, which notice must contain the information specified in our amended and restated bylaws. To be timely for our 2019 annual meeting of stockholders, our Secretary must receive the written notice at our principal executive offices:

- not earlier than February 2, 2019; and
- not later than the close of business on March 4, 2019.

In the event that we hold our 2019 annual meeting of stockholders more than 30 days before or more than 30 days after the one-year anniversary of the Annual Meeting, then notice of a stockholder proposal that is not intended to be included in our proxy statement must be received no earlier than the close of business on the 120th day before such annual meeting and no later than the close of business on the later of the following two dates:

- the 90th day prior to such annual meeting; or
- the 10th day following the day on which public announcement of the date of such annual meeting is first made.

If a stockholder who has notified us of his, her or its intention to present a proposal at an annual meeting does not appear to present his, her or its proposal at such annual meeting, we are not required to present the proposal for a vote at such annual meeting.

Nomination of Director Candidates

You may propose director candidates for consideration by our nominating and corporate governance committee. Any such recommendations should include the nominee's name and qualifications for membership on our board of directors and should be directed to our Secretary at the address set forth above. For additional information regarding stockholder recommendations for director candidates, see "Board of Directors and Corporate Governance—Stockholder Recommendations for Nominations to the Board of Directors."

In addition, our amended and restated bylaws permit stockholders to nominate directors for election at an annual meeting of stockholders. To nominate a director, the stockholder must provide the information required by our amended and restated bylaws. In addition, the stockholder must give timely notice to our Secretary in accordance with our amended and restated bylaws, which, in general, require that the notice be received by our Secretary within the time period described above under "Stockholder Proposals" for stockholder proposals that are not intended to be included in a proxy statement.

Availability of Bylaws

You may contact our Secretary at our principal executive offices for a copy of the relevant bylaw provisions regarding the requirements for making stockholder proposals and nominating director candidates.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

Our business affairs are managed under the direction of our board of directors, which is currently composed of seven members. Five of our directors are independent within the meaning of the listing standards of the New York Stock Exchange. Our board of directors is divided into three staggered classes of directors. At each annual meeting of stockholders, a class of directors will be elected for a three-year term to succeed the same class whose term is then expiring.

The following table sets forth the names, ages as of April 4, 2018, and certain other information for each of the directors with terms expiring at the Annual Meeting/nominees, and for each of the continuing members of our board of directors:

	Class	Age	Position	Director Since	Current Term Expires	Expiration of Term For Which Nominated
Directors with Terms expiring at the Annual Meeting/Nominees						
Andreas Bechtolsheim	I	62	Founder, Chief Development Officer, Director and Chairman of the Board of Directors	2004	2018	2021
Jayshree Ullal	I	57	Chief Executive Officer, President and Director	2008	2018	2021
Continuing Directors						
Charles Giancarlo [(2)(3)]	II	60	Director	2013	2019	
Ann Mather [(1)]	II	57	Director	2013	2019	
Daniel Scheinman [(2)(3)]	II	55	Director	2011	2019	
Mark Templeton [(1)(3)]	III	65	Director	2017	2020	
Nikos Theodosopoulos [(1)(3)]	III	55	Director	2014	2020	

(1) Member of our audit committee
(2) Member of our compensation committee
(3) Member of our nominating and corporate governance committee

Set forth below is biographical information for the nominees and for each of the continuing members of our board of directors. This includes information regarding each director's experience, qualifications, attributes or skills that led our board of directors to recommend them for board service.

Nominees for Director

Andreas Bechtolsheim is one of our founders and has served as our Chairman since 2004 and as our Chief Development Officer since 2008. In 1982, Mr. Bechtolsheim co-founded Sun Microsystems, Inc., a manufacturer and seller of computers and computer software, which was acquired by Oracle Corporation in January 2010. In 1995, Mr. Bechtolsheim co-founded and was president and chief executive officer of Granite Systems, Inc., a manufacturer of Gigabit Ethernet switches, which was acquired by Cisco Systems, Inc. in 1996, and then at Cisco, Mr. Bechtolsheim served in various positions including vice president and general manager of the Gigabit Systems Business Unit. In 2003, Mr. Bechtolsheim became the president of Kealia, Inc., a developer of servers, which was acquired by Sun Microsystems, Inc. in April 2004. From April 2004 to October 2008, Mr. Bechtolsheim served as

senior vice president and chief systems architect at Sun Microsystems, Inc. Mr. Bechtolsheim received an M.S. degree in Computer Engineering from Carnegie Mellon University and was a Ph.D. Student in Electrical Engineering and Computer Science at Stanford University from 1977 to 1982.

We believe Mr. Bechtolsheim possesses specific attributes that qualify him to serve as a member of our board of directors, including his extensive experience in the networking industry and the operational insight and expertise he has accumulated as one of our founders and as our Chief Development Officer.

Jayshree Ullal has served as our President, Chief Executive Officer and a member of our board of directors since October 2008. From September 1993 to May 2008, Ms. Ullal served in various positions at Cisco Systems, Inc., a multinational corporation that designs, manufactures, and sells networking equipment, with her last position as senior vice president of data center, switching and services group. Prior to that, Ms. Ullal was a vice president of marketing at Crescendo Communications, Inc., Cisco's first acquisition in 1993. She has also held various product and engineering positions at Ungermann-Bass, Advanced Micro Devices, Inc. and Fairchild Semiconductor. Ms. Ullal holds a B.S. degree in Engineering (Electrical) from San Francisco State University and an M.S. degree in Engineering Management from Santa Clara University. She is a 2013 recipient of the Santa Clara University School of Engineering Distinguished Engineering Alumni Award.

We believe that Ms. Ullal possesses specific attributes that qualify her to serve as a member of our board of directors, including her extensive experience in the networking industry and the operational insight and expertise she has accumulated as our President and Chief Executive Officer.

Continuing Directors

Charles Giancarlo has served as a member of our board of directors since April 2013. Mr. Giancarlo has been chief executive officer and a member of the board of directors of Pure Storage, Inc., a data storage solutions company, since August 2017. From 2008 through 2013, Mr. Giancarlo served as a managing director of Silver Lake Partners, a private investment firm and served as a senior advisor to the firm until 2015. From 1993 to 2004, Mr. Giancarlo served in various positions with Cisco Systems, Inc., most recently as executive vice president and chief development officer. Mr. Giancarlo also serves on the board of directors of Accenture plc, a management consulting business, since 2008. Mr. Giancarlo holds a B.S. degree in Electrical Engineering from Brown University, an M.S. degree in Electrical Engineering from the University of California at Berkeley and an M.B.A. from Harvard University.

We believe Mr. Giancarlo possesses specific attributes that qualify him to serve as a member of our board of directors, including his extensive experience as a venture capital investor and as an executive and board member of companies in the technology industry.

Ann Mather has served as a member of our board of directors since June 2013. From September 1999 to April 2004, Ms. Mather served as executive vice president and chief financial officer of Pixar, Inc., a computer animation studio, which was acquired by the Disney Corporation in May 2006. Prior to her service at Pixar, Ms. Mather served as executive vice president and chief financial officer of Village Roadshow Pictures, the film production division of Village Roadshow Limited. Ms. Mather also serves on the board of directors of Alphabet Inc. (the successor issuer to, and parent holding company of, Google, Inc.), a global technology company, where she is chair of their audit committee; Glu Mobile Inc., a publisher of mobile games; Netflix, Inc., an internet subscription service for movies and television shows; and Shutterfly, an Internet-based image publishing service. Ms. Mather holds an M.A. degree from Cambridge University.

We believe Ms. Mather possesses specific attributes that qualify her to serve as a member of our board of directors, including her extensive experience as a chief financial officer and as a board member of companies in the technology industry.

Daniel Scheinman has served as a member of our board of directors since October 2011. From January 1997 to April 2011, Mr. Scheinman served in various capacities with Cisco Systems, Inc., most recently as senior vice president, Cisco Media Solutions Group. Mr. Scheinman is currently an angel investor and has served as a member of the board of directors of Zoom Video Communications, Inc. since October 2011, Greenwave Systems Inc. (formerly known as GreenWave Reality) since June 2011 and Kodiak Data since March 2017. Mr. Scheinman holds a B.A. degree in Politics from Brandeis University and a J.D. from the Duke University School of Law.

We believe Mr. Scheinman possesses specific attributes that qualify him to serve as a member of our board of directors, including his extensive experience in the legal industry and as an executive of companies in the technology industry.

Mark B. Templeton has served as a member of our board of directors since June 2017. Mr. Templeton served as the president and/or chief executive officer of Citrix Systems, Inc., a global provider of virtualization, mobility management, networking and software as service solutions, from January 1998 until his retirement in October 2015. Mr. Templeton has served on the board of directors of Equifax, Inc., a global information solutions provider, since 2008 and Keysight Technologies, Inc., an electronic test and measurement company, since 2015. He served as a director of Citrix Systems, Inc. from January 1998 to October 2015. Mr. Templeton holds a B.A. degree in product design from North Carolina State University and an M.B.A. from the Darden School of Business at the University of Virginia.

We believe Mr. Templeton possesses specific attributes that qualify him to serve as a member of our board of directors, including his extensive experience in the networking industry and as chief executive officer and board member of companies in the technology industry.

Nikos Theodosopoulos has served as a member of our board of directors since March 2014. Since August 2012, Mr. Theodosopoulos has served as founder of NT Advisors LLC, a consulting company. From August 1995 through July 2012, Mr. Theodosopoulos served in various capacities with UBS, a provider of financial services, most recently as managing director of technology equity research. From April 1994 to August 1995, he served as senior equity research analyst for Bear, Stearns & Co. Inc., an investment banking firm that was acquired in 2008 by JPMorgan Chase. From January 1990 to April 1994, Mr. Theodosopoulos served as an account executive for AT&T Network Systems, a provider of business and corporate communications equipment. Mr. Theodosopoulos also serves on the supervisory board of ADVA Optical Networking SE, a provider of optical transport and Ethernet access solutions, since 2014, where he currently serves as chairman. Mr. Theodosopoulos joined the board of directors of Harmonic, Inc., a provider of video delivery infrastructure for emerging television and video services, in March 2015. Mr. Theodosopoulos holds a B.S. degree in Electrical Engineering from Columbia University, an M.S. degree in Electrical Engineering from Stanford University and an M.B.A. from NYU Stern School of Business.

We believe Mr. Theodosopoulos possesses specific attributes that qualify him to serve as a member of our board of directors, including his extensive experience as a consultant and advisor in the technology industry.

Director Independence

Our common stock is listed on the New York Stock Exchange. Under the listing standards of the New York Stock Exchange, independent directors must comprise a majority of a listed company's board of directors. In addition, the listing standards of the New York Stock Exchange require that, subject to specified exceptions, each member of a listed company's audit, compensation, and nominating and corporate governance committees be independent. Under the listing standards of the New York Stock Exchange, a director will only qualify as an "independent director" if, in the opinion of that listed company's board of directors, that director does not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

Audit committee members must also satisfy the independence criteria set forth in Rule 10A-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the listing standards of the New York Stock Exchange. In addition, compensation committee members must also satisfy the independence criteria set forth under the listing standards of the New York Stock Exchange.

Our board of directors has undertaken a review of the independence of each director. Based on information provided by each director concerning his background, employment and affiliations, our board of directors has determined that Messrs. Giancarlo, Scheinman, Theodosopoulos and Templeton and Ms. Mather do not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each of these directors is "independent" as that term is defined under the listing standards of the New York Stock Exchange. In making these determinations, our board of directors considered the current and prior relationships that each non-employee director has with our Company and all other facts and circumstances our board of directors deemed relevant in determining their independence, including the beneficial ownership of our capital stock by each non-employee director, and the transactions involving them described in the section titled "Related Person Transactions," and other transactions that were deemed immaterial to a director's independence involving the sale of products and services in the ordinary course of business between the Company and other organizations where our non-employee directors also serve as members of the board of directors. In making the determination that Mr. Giancarlo is independent, the board of directors considered the fact that Mr. Giancarlo is chief executive officer and a member of the board of directors of Pure Storage, Inc., and we sell products to Pure Storage, Inc. in the ordinary course of business. The board of directors determined that Mr. Giancarlo did not have a direct or indirect material interest in these transactions. Furthermore, payments made to us by Pure Storage, Inc. pursuant to such transactions did not exceed the greater of $1 million or 2% of Pure Storage, Inc.'s consolidated gross revenues in any of the last three fiscal years. As a result, the board of directors concluded that these transactions would not affect Mr. Giancarlo's independence.

In addition, our board of directors discussed with Ms. Mather whether her service on the audit committees of more than three public companies would impair her ability to serve on our audit committee. The board of directors noted that Ms. Mather's service on other audit committees enables her to bring additional experience to her service on our audit committee. Based on their review, our board of directors determined that Ms. Mather's service on more than three public company audit committees will not impair her ability to effectively serve on our audit committee.

Board Leadership Structure

We believe that the structure of our board of directors and its committees provides strong overall management of our Company. While the Chairman of our board of directors and our Chief Executive Officer roles are separate, our current Chairman, Andreas Bechtolsheim, is not independent under the listing standards of the New York Stock Exchange as a result of his employment with us. Our board of directors believes that, given the perspective and experience Mr. Bechtolsheim brings as one of our founders, Mr. Bechtolsheim's service as our Chairman is appropriate and is in the best interests of our board of directors, our Company and our stockholders.

Our Chief Executive Officer is responsible for setting the strategic direction of our Company, the general management and operation of the business and the guidance and oversight of senior management. The Chairman of our board of directors monitors the content, quality and timeliness of information sent to our board of directors and is available for consultation with our board of directors regarding the oversight of our business affairs.

Lead Independent Director

The independent directors of the Company meet in executive session without management on a regularly scheduled basis. Our board of directors has not formally designated a Lead Independent Director. The independent directors rotate chairing executive sessions as Lead Independent Director based upon their seniority on the board. The Lead Independent Director for each session serves as a liaison between our Chairman and our independent directors and performs such additional duties as our board of directors may otherwise determine and delegate.

Board Meetings and Committees

During our fiscal year ended December 31, 2017, the board of directors held five meetings (including regularly scheduled and special meetings), and each director attended at least 75% of the aggregate of (i) the total number of meetings of our board of directors held during the period for which he or she has been a director and (ii) the total number of meetings held by all committees of our board of directors on which he or she served during the periods that he or she served. During our fiscal year ended December 31, 2017, the board of directors also acted by written consent.

Although we do not have a formal policy regarding attendance by members of our board of directors at annual meetings of stockholders, we encourage, but do not require, our directors to attend. Six of our seven then board members attended our 2017 annual meeting.

Our board of directors has established an audit committee, a compensation committee and a nominating and corporate governance committee. The composition and responsibilities of each of the committees of our board of directors is described below. Members will serve on these committees until their resignation or until as otherwise determined by our board of directors.

Audit Committee

Our audit committee consists of Messrs. Templeton (beginning in June 2017 upon his election as a member of our board of directors) and Theodosopoulos and Ms. Mather, with Ms. Mather serving as Chair, each of whom meets the requirements for independence for audit committee members under the listing standards of the New York Stock Exchange and SEC rules and regulations. Each member of our audit committee also meets the financial literacy and sophistication requirements of the listing standards of the New York Stock Exchange. Marc Stoll also served as a member of our audit committee until June 2017 (the expiration of his term as a member of our board of directors). In addition, our board of directors has determined that Ms. Mather is an audit committee financial expert within the meaning of Item 407(d) of Regulation S-K under the Securities Act of 1933, as amended. Our audit committee is responsible for, among other things:

- selecting and hiring our independent registered public accounting firm;
- evaluating the performance and independence of our independent registered public accounting firm;
- approving the audit and pre-approving any non-audit services to be performed by our independent registered public accounting firm;
- reviewing our financial statements and restated disclosures and reviewing our critical accounting policies and practices;
- reviewing the adequacy and effectiveness of our internal control policies and procedures and our disclosure controls and procedures;
- overseeing procedures for the treatment of complaints on accounting, internal accounting controls or audit matters;
- reviewing and discussing with management and the independent registered public accounting firm the results of our annual audit, our quarterly financial statements and our publicly filed reports;

- reviewing and approving in advance any proposed related person transactions; and
- preparing the audit committee report that the SEC requires in our annual proxy statement.

Our audit committee operates under a written charter that satisfies the applicable rules and regulations of the SEC and the listing standards of the New York Stock Exchange. A copy of the charter of our audit committee is available on the Corporate Governance section of our website at http://investors.arista.com. During our fiscal year ended December 31, 2017, our audit committee held six meetings and acted by written consent.

Compensation Committee

Our compensation committee consists of Messrs. Giancarlo and Scheinman, with Mr. Giancarlo serving as Chair, each of whom meets the requirements for independence for compensation committee members under the listing standards of the New York Stock Exchange and SEC rules and regulations. Each member of our compensation committee is also a non-employee director, as defined pursuant to Rule 16b- 3 promulgated under the Exchange Act, and an outside director, as defined pursuant to Section 162(m) of the Internal Revenue Code of 1986, as amended. Our compensation committee is responsible for, among other things:

- reviewing and approving our Chief Executive Officer's and other executive officers' annual base salaries, incentive compensation plans, including the specific goals and amounts, equity compensation, employment agreements, severance arrangements and change in control agreements and any other benefits, compensation or arrangements;
- administering our equity compensation plans;
- overseeing our overall compensation philosophy, compensation plans and benefits programs; and
- preparing the compensation committee report that the SEC will require in our annual proxy statement.

Our compensation committee operates under a written charter that satisfies the applicable rules and regulations of the SEC and the listing standards of the New York Stock Exchange. A copy of the charter of our compensation committee is available on the Corporate Governance section of our website at http://investors.arista.com. During our fiscal year ended December 31, 2017, our compensation committee held sixteen meetings and acted by written consent.

Nominating and Corporate Governance Committee

Our nominating and corporate governance committee consists of Messrs. Giancarlo, Scheinman, Templeton (beginning in June 2017 upon his election as a member of our board of directors) and Theodosopoulos, with Mr. Scheinman serving as Chair, each of whom meets the requirements for independence under the listing standards of the New York Stock Exchange and SEC rules and regulations. Mr. Stoll also served as a member of our nominating and governance committee until June 2017 (the expiration of his term as a member of our board of directors). Our nominating and corporate governance committee is responsible for, among other things:

- evaluating and making recommendations regarding the compensation, organization and governance of our board of directors and its committees;
- evaluating and making recommendations regarding the creation of additional committees or the change in mandate or dissolution of committees;
- reviewing and making recommendations with regard to our Corporate Governance Guidelines and compliance with laws and regulations; and
- reviewing and approving conflicts of interest of our directors and corporate officers, other than related person transactions reviewed by the audit committee.

Our nominating and corporate governance committee operates under a written charter that satisfies the applicable listing standards of the New York Stock Exchange. A copy of the charter of our nominating and corporate governance committee is available on the Corporate Governance section of our website at http://investors.arista.com. During our fiscal year ended December 31, 2017, our nominating and corporate governance committee held six meetings.

Compensation Committee Interlocks and Insider Participation

None of the members of our compensation committee is or has been an officer or employee of our Company. None of our executive officers currently serves, or in the past year has served, as a member of the board of directors or compensation committee (or other board committee performing equivalent functions or, in the absence of any such committee, the entire board) of any entity that has one or more of its executive officers serving on our board of directors or compensation committee.

Considerations in Evaluating Director Nominees

Our nominating and corporate governance committee uses a variety of methods for identifying and evaluating director nominees. In its evaluation of director candidates, our nominating and corporate governance committee will consider the current size and composition of our board of directors and the needs of our board of directors and the respective committees of our board of directors. Some of the qualifications that our nominating and corporate governance committee considers include, without limitation, issues of character, integrity, judgment, diversity of experience, independence, area of expertise, corporate experience, length of service, potential conflicts of interest and other commitments. Nominees must also have the ability to offer advice and guidance to our Chief Executive Officer based on past experience in positions with a high degree of responsibility and be leaders in the companies or institutions with which they are affiliated. Director candidates must have sufficient time available in the judgment of our nominating and corporate governance committee to perform all board of director and committee responsibilities. Members of our board of directors are expected to prepare for, attend, and participate in all board of director and applicable committee meetings. Other than the foregoing, there are no stated minimum criteria for director nominees, although our nominating and corporate governance committee may also consider such other factors as it may deem, from time to time, are in our and our stockholders' best interests.

Although our board of directors does not maintain a specific policy with respect to board diversity, our board of directors believes that our board of directors should be a diverse body, and our nominating and corporate governance committee considers a broad range of backgrounds and experiences. In making determinations regarding nominations of directors, our nominating and corporate governance committee may take into account the benefits of diverse viewpoints. Our nominating and corporate governance committee also considers these and other factors as it oversees the annual board of director and committee evaluations. After completing its review and evaluation of director candidates, our nominating and corporate governance committee recommends to our full board of directors the director nominees for selection.

Stockholder Recommendations for Nominations to the Board of Directors

Our nominating and corporate governance committee will consider candidates for director recommended by stockholders holding at least one percent (1%) of the fully diluted capitalization of the Company continuously for at least twelve (12) months prior to the date of the submission of the recommendation, so long as such recommendations comply with our amended and restated certificate of incorporation and amended and restated bylaws and applicable laws, rules and regulations, including those promulgated by the SEC. The nominating and corporate governance committee will evaluate such recommendations in accordance with its charter, our amended and restated bylaws, our policies and procedures for director candidates, as well as the regular director nominee criteria described above. This process is designed to ensure that our board of directors includes members with diverse backgrounds, skills and experience, including appropriate financial and other expertise relevant to our business. Eligible stockholders wishing to recommend a candidate for nomination should contact our General

Counsel or our Legal Department in writing. Such recommendations must include information about the candidate, a statement of support by the recommending stockholder, evidence of the recommending stockholder's ownership of our common stock and a signed letter from the candidate confirming willingness to serve on our board of directors. Our nominating and corporate governance committee has discretion to decide which individuals to recommend for nomination as directors.

Any nomination should be sent in writing to our General Counsel or our Legal Department at Arista Networks, Inc., 5453 Great America Parkway, Santa Clara, California 95054. To be timely for our 2019 annual meeting of stockholders, our General Counsel or Legal Department must receive the nomination no earlier than February 2, 2019 and no later than March 4, 2019.

Communications with the Board of Directors

Interested parties wishing to communicate with our board of directors or with an individual member or members of our board of directors may do so by writing to our board of directors or to the particular member or members of our board of directors, and mailing the correspondence to our General Counsel and Corporate Secretary at Arista Networks, Inc., 5453 Great America Parkway, Santa Clara, California 95054. Each communication should set forth (i) the name and address of the stockholder, as it appears on our books, and if the shares of our common stock are held by a nominee, the name and address of the beneficial owner of such shares, and (ii) the number of shares of our common stock that are owned of record by the record holder and beneficially by the beneficial owner.

Our General Counsel, in consultation with appropriate members of our board of directors as necessary, will review all incoming communications and, if appropriate, all such communications will be forwarded to the appropriate member or members of our board of directors, or if none is specified, to the Chairman of our board of directors.

Corporate Governance Guidelines and Code of Business Conduct and Ethics

We are strongly committed to good corporate governance practices. These practices provide an important framework within which our board of directors and management can pursue our strategic objectives for the benefit of our stockholders. Our board of directors has adopted Corporate Governance Guidelines that address items such as the qualifications and responsibilities of our directors and director candidates and corporate governance policies and standards applicable to us in general. In addition, our board of directors has adopted a Code of Business Conduct and Ethics that applies to all of our employees, officers and directors, including our Chief Executive Officer, Chief Financial Officer, and other executive and senior financial officers. The full text of our Corporate Governance Guidelines and our Code of Business Conduct and Ethics are posted on the Corporate Governance section of our website at http://investors.arista.com. We will post amendments to our Code of Business Conduct and Ethics or waivers of our Code of Business Conduct and Ethics for directors and executive officers on the same website.

Risk Management

Risk is inherent with every business, and we face a number of risks, including strategic, financial, business and operational, legal and compliance, and reputational. We have designed and implemented processes to manage risk in our operations. Management is responsible for the day-to-day management of risks the Company faces, while our board of directors, as a whole and assisted by its committees, has responsibility for the oversight of risk management. In its risk oversight role, our board of directors has the responsibility to satisfy itself that the risk management processes designed and implemented by management are appropriate and functioning as designed.

Our board of directors believes that open communication between management and our board of directors is essential for effective risk management and oversight. Our board of directors meets with our Chief Executive Officer and other members of the senior management team at quarterly meetings of our board of directors, where,

among other topics, they discuss strategy and risks facing the company, as well as such other times as they deemed appropriate.

While our board of directors is ultimately responsible for risk oversight, our board committees assist our board of directors in fulfilling its oversight responsibilities in certain areas of risk. Our audit committee assists our board of directors in fulfilling its oversight responsibilities with respect to risk management in the areas of internal control over financial reporting and disclosure controls and procedures, legal and regulatory compliance, and discusses with management and the independent auditor guidelines and policies with respect to risk assessment and risk management. Our audit committee also reviews our major financial risk exposures and the steps management has taken to monitor and control these exposures. Our audit committee also monitors certain key risks on a regular basis throughout the fiscal year, such as risk associated with internal control over financial reporting and liquidity risk. Our nominating and corporate governance committee assists our board of directors in fulfilling its oversight responsibilities with respect to the management of risk associated with board organization, membership and structure, and corporate governance. Our compensation committee assesses risks created by the incentives inherent in our compensation policies. Finally, our full board of directors reviews strategic and operational risk in the context of reports from the management team, receives reports on all significant committee activities at each regular meeting, evaluates the risks inherent in significant transactions, and provides guidance to management.

Director Compensation

Director Compensation Table

The following table provides information regarding the total compensation that was granted to each of our directors who was not serving as an executive officer in 2017.

Director	Fees Earned or Paid in Cash ($)[1]	Stock Awards ($)[2]	Option Awards ($)	Total ($)
Charles Giancarlo	97,000	—	—	97,000
Ann Mather	100,000	—	—	100,000
Daniel Scheinman	97,000	—	—	97,000
Marc Stoll[3]	39,583	—	—	39,583
Mark Templeton	55,417	778,245	—	833,662
Nikos Theodosopoulos	95,000	778,245	—	873,245

(1) The amount reported represents the fees earned for service on our board of directors and committees of our board of directors for 2017.

(2) The amounts reported represent the aggregate grant-date fair value of the restricted stock units awarded to the non-employee directors in 2017, calculated in accordance with FASB ASC Topic 718.

(3) Board retainer and committee fees for Mr. Stoll are prorated as he ceased to be a director effective June 1, 2017.

The following table lists all outstanding equity awards held by our non-employee directors as of December 31, 2017:

Director	Stock Awards (#)[1]	Option Awards (#)
Charles Giancarlo	22,000	—
Ann Mather	5,000	50,000
Daniel Scheinman	5,000	28,000
Mark Templeton	4,367	—
Nikos Theodosopoulos	4,367	25,000

(1) Represents the number of restricted stock units unvested as of December 31, 2017. For Mr. Giancarlo, the number also includes 17,000 shares of restricted stock issued upon the early exercise of stock options that remained unvested as of December 31, 2017, which are subject to a repurchase right held by us at their original exercise prices in the event of the termination of Mr. Giancarlo's service on our board.

With respect to 2017 board service, our board of directors approved compensation to each of our non-employee directors as follows:

- a $75,000 cash retainer for general board service;
- a cash retainer for chairing a committee ranging from $12,000 to $25,000; and
- a $10,000 cash retainer for committee service.

Under our outside director compensation policy, each director elected at an annual meeting is granted restricted stock units on the date of the annual meeting with a total value of $750,000 (based on the average closing stock price for the 30 trading day period ending on the applicable annual meeting) that vest quarterly over three years. For 2017, the total grant date fair value of the restricted stock units granted to each of the two elected non-employee directors was $778,245.

Directors who are also our employees receive no additional compensation for their service as directors.

Our 2014 Equity Incentive Plan contains maximum limits on the size of the equity awards that can be granted to each of our non-employee directors in any fiscal year, but those maximum limits do not reflect the intended size of any potential grants or a commitment to make any equity award grants to our non-employee directors in the future.

PROPOSAL NO. 1
ELECTION OF DIRECTORS

Our board of directors is currently composed of seven members. In accordance with our amended and restated certificate of incorporation, our board of directors is divided into three staggered classes of directors. At the Annual Meeting, two Class I directors will be elected for a three-year term to succeed the same class whose term is then expiring.

Each director's term continues until the election and qualification of his or her successor, or such director's earlier death, resignation, or removal. Any increase or decrease in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of our directors. This classification of our board of directors may have the effect of delaying or preventing changes in control of our Company.

Nominees

Our nominating and corporate governance committee has recommended, and our board of directors has approved, Andreas Bechtolsheim and Jayshree Ullal, as nominees for election as Class I directors at the Annual Meeting. If elected, each of Andreas Bechtolsheim and Jayshree Ullal will serve as Class I directors until the 2021 annual meeting of stockholders and until their successors are duly elected and qualified. Each of the nominees is currently a director of our Company. For information concerning the nominees, please see the section titled "Board of Directors and Corporate Governance."

If you are a stockholder of record and you sign your proxy card or vote by telephone or over the Internet but do not give instructions with respect to the voting of directors, your shares will be voted "FOR" the re-election of Andreas Bechtolsheim and Jayshree Ullal. We expect that Andreas Bechtolsheim and Jayshree Ullal will accept such nomination; however, in the event that a director nominee is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for any nominee who shall be designated by our board of directors to fill such vacancy. If you are a street name stockholder and you do not give voting instructions to your broker or nominee, your broker will leave your shares unvoted on this matter.

Vote Required

The election of directors requires a plurality vote of the shares of our common stock present in person or by proxy at the Annual Meeting and entitled to vote thereon to be approved. Broker non-votes will have no effect on this proposal.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR"
EACH OF THE NOMINEES NAMED ABOVE.**

PROPOSAL NO. 2
ADVISORY VOTE ON EXECUTIVE COMPENSATION

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, enables stockholders to approve, on an advisory or non-binding basis, the compensation of our named executive officers as disclosed pursuant to Section 14A of the Securities Exchange Act of 1934. This proposal, commonly known as a "say-on-pay" proposal, gives our stockholders the opportunity to express their views on our named executive officers' compensation as a whole. This vote is not intended to address any specific item of compensation or any specific named executive officer, but rather the overall compensation of all of our named executive officers and the philosophy, policies and practices described in this proxy statement.

The say-on-pay vote is advisory, and therefore not binding on us, the compensation committee or our board of directors. The say-on-pay vote will, however, provide information to us regarding investor sentiment about our executive compensation philosophy, policies and practices, which the compensation committee will be able to consider when determining executive compensation for the remainder of the current fiscal year and beyond. Our board of directors and our compensation committee value the opinions of our stockholders and to the extent there is any significant vote against the named executive officer compensation as disclosed in this proxy statement, we will communicate directly with stockholders to better understand the concerns that influenced the vote, consider our stockholders' concerns and the compensation committee will evaluate whether any actions are necessary to address those concerns.

We believe that the information provided in the "Executive Compensation" section of this proxy statement, and in particular the information discussed in "Executive Compensation—Compensation Discussion and Analysis—Executive Compensation Philosophy and Objectives" beginning on page 26 below, demonstrates that our executive compensation program was designed appropriately and is working to ensure management's interests are aligned with our stockholders' interests to support long-term value creation. Accordingly, we ask our stockholders to vote "FOR" the following resolution at the Annual Meeting:

"RESOLVED, that the stockholders approve, on an advisory basis, the compensation paid to the named executive officers, as disclosed in the proxy statement for the Annual Meeting pursuant to the compensation disclosure rules of the SEC, including the compensation tables and narrative discussion, and other related disclosure."

Vote Required

The advisory vote on executive compensation requires the affirmative vote of a majority of the shares of our common stock present in person or by proxy at the Annual Meeting and entitled to vote thereon. Abstentions will have the effect of a vote AGAINST the proposal and broker non-votes will have no effect.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE APPROVAL OF THE ADVISORY RESOLUTION ON EXECUTIVE COMPENSATION.

PROPOSAL NO. 3
RATIFICATION OF APPOINTMENT OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Our audit committee has appointed Ernst & Young LLP ("EY"), an independent registered public accounting firm, to audit our consolidated financial statements for our fiscal year ending December 31, 2018. During our fiscal year ended December 31, 2017, EY served as our independent registered public accounting firm.

Notwithstanding the appointment of EY and even if our stockholders ratify the appointment, our audit committee, in its discretion, may appoint another independent registered public accounting firm at any time during our fiscal year if our audit committee believes that such a change would be in the best interests of our Company and stockholders. At the Annual Meeting, our stockholders are being asked to ratify the appointment of EY as our independent registered public accounting firm for our fiscal year ending December 31, 2018. Our audit committee is submitting the appointment of EY to our stockholders because we value our stockholders' views on our independent registered public accounting firm and as a matter of good corporate governance. Representatives of EY will be present at the Annual Meeting, and they will have an opportunity to make a statement and will be available to respond to appropriate questions from our stockholders.

If our stockholders do not ratify the appointment of EY, our board of directors may reconsider the appointment.

Fees Paid to the Independent Registered Public Accounting Firm

The following table presents fees for professional audit services and other services rendered to our Company by EY for our fiscal years ended December 31, 2016 and 2017.

	2016	2017
	(In Thousands)	
Audit Fees [1]	$ 2,450	$ 2,414
Audit-Related Fees [2]	12	140
Tax Fees [3]	1,773	1,759
All Other Fees [4]	—	—
Total Fees	$ 4,235	$ 4,313

[1] Audit Fees consist of professional services rendered in connection with the audit of our annual consolidated financial statements, including audited financial statements presented in our Annual Report on Form 10-K and services that are normally provided by the independent registered public accountants in connection with statutory and regulatory filings or engagements for those fiscal years.

[2] Audit-Related Fees consist of fees for professional services for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under "Audit Fees." These services include accounting consultations concerning financial accounting and reporting standards.

[3] Tax Fees consist of fees for professional services for tax compliance, tax advice and tax planning. These services include assistance regarding federal, state and international tax compliance.

[4] All Other Fees consist of permitted services other than those that meet the criteria above.

Auditor Independence

In our fiscal year ended December 31, 2017, there were no other professional services provided by EY, other than those listed above, that would have required our audit committee to consider their compatibility with maintaining the independence of EY.

Audit Committee Policy on Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm

Our audit committee has established a policy governing our use of the services of our independent registered public accounting firm. Under the policy, our audit committee is required to pre-approve all audit and non-audit services performed by our independent registered public accounting firm in order to ensure that the provision of such services does not impair the public accountants' independence. All fees paid to EY for our fiscal years ended December 31, 2016 and 2017 were pre-approved by our audit committee.

Vote Required

The ratification of the appointment of EY requires the affirmative vote of a majority of the shares of our common stock present in person or by proxy at the Annual Meeting and entitled to vote thereon. Abstentions will have the effect of a vote AGAINST the proposal and broker non-votes will have no effect.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP.

REPORT OF THE AUDIT COMMITTEE

The audit committee is a committee of the board of directors comprised solely of independent directors as required by the listing standards of the New York Stock Exchange and rules and regulations of the SEC. The audit committee operates under a written charter approved by the board of directors, which is available on the Corporate Governance section of our website at http://investors.arista.com. The composition of the audit committee, the attributes of its members and the responsibilities of the audit committee, as reflected in its charter, are intended to be in accordance with applicable requirements for corporate audit committees. The audit committee reviews and assesses the adequacy of its charter and the audit committee's performance on an annual basis.

With respect to the Company's financial reporting process, the management of the Company is responsible for (1) establishing and maintaining internal controls and (2) preparing the Company's consolidated financial statements. Our independent registered public accounting firm, Ernst & Young LLP ("EY"), is responsible for auditing these financial statements. It is the responsibility of the audit committee to oversee these activities. It is not the responsibility of the audit committee to prepare our financial statements. These are the fundamental responsibilities of management. In the performance of its oversight function, the audit committee has:

- reviewed and discussed the audited financial statements with management and EY;
- discussed with EY the matters required to be discussed by the statement on Auditing Standards No. 1301, Communications with Audit Committees, as adopted by the Public Company Accounting Oversight Board; and
- received the written disclosures and the letter from EY required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the audit committee concerning independence, and has discussed with EY its independence.

Based on the audit committee's review and discussions with management and EY, the audit committee recommended to the board of directors that the audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2017 for filing with the SEC.

Respectfully submitted by the members of the audit committee of the board of directors:

Ann Mather (Chair)
Mark Templeton
Nikos Theodosopoulos

This report of the audit committee is required by the SEC and, in accordance with the SEC's rules, will not be deemed to be part of or incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933, as amended ("Securities Act"), or under the Exchange Act, except to the extent that we specifically incorporate this information by reference, and will not otherwise be deemed "soliciting material" or "filed" under either the Securities Act or the Exchange Act.

EXECUTIVE OFFICERS

The following table identifies certain information about our executive officers as of April 4, 2018. Officers are elected by our board of directors to hold office until their successors are elected and qualified. There are no family relationships among any of our directors or executive officers.

Name	Age	Position
Jayshree Ullal	57	Chief Executive Officer, President and Director
Andreas Bechtolsheim	62	Founder, Chief Development Officer, Director and Chairman of the Board of Directors
Ita Brennan	51	Senior Vice President, Chief Financial Officer
Kenneth Duda	46	Founder, Chief Technology Officer and Senior Vice President, Software Engineering
John McCool	58	Chief Platform Officer, Senior Vice President of Engineering Operations
Anshul Sadana	41	Chief Customer Officer
Marc Taxay	49	Senior Vice President, General Counsel

For a brief biography of Ms. Ullal and Mr. Bechtolsheim, please see "Board of Directors and Corporate Governance – Nominees for Directors."

Ita Brennan joined Arista Networks, Inc. in May 2015 as Senior Vice President and Chief Financial Officer. From February 2014 to May 2015, Ms. Brennan served as chief financial officer of a stealth start up firm in the energy sector. Prior to that, Ms. Brennan held various roles at Infinera Corporation, an intelligent transport networking company, most recently as chief financial officer from July 2010 to February 2014 and vice president of finance and corporate controller from July 2006 to July 2010. From 1997 to 2006, Ms. Brennan held various roles at Maxtor Corporation, a multi-billion dollar information storage solutions company, including vice president of finance for the company's worldwide operations. Ms. Brennan is a fellow of the Institute of Chartered Accountants and a public accounting alumna of Deloitte and Touche, having worked at the firm in both Ireland and the U.S.

Kenneth Duda is one of our founders and has served in various roles with us from 2004 to present. Since September 2011, Mr. Duda has served as our Chief Technology Officer and Senior Vice President of Software Engineering. From April 1999 to October 2004, Mr. Duda served as chief technology officer of There, Inc., a virtual worlds company. From September 1996 to April 1999, Mr. Duda was leading the software development of the switch kernel for the Gigabit System Business Unit with Cisco Systems, Inc. Mr. Duda holds B.S. and M.S. degrees in Computer Science and Electrical Engineering from the Massachusetts Institute of Technology and a Ph.D. degree in Computer Science from Stanford University.

John McCool joined Arista Networks, Inc. in March 2017 as Chief Platform Officer and Senior Vice President of Engineering and Operations. From 2014 to 2017, Mr. McCool served as senior vice president and general manager of DSDD, a DellEMC business, a products, services and solutions provider for information management and storage. From 2013 to 2014, Mr. McCool served as president and chief executive officer of Firetide, Inc., a provider of wireless mesh networks. From 1996 to 2013, Mr. McCool served in various positions at Cisco Systems, Inc., including senior vice president and general manager for the data center switching and services group with his last position as senior vice president – global sales, enterprise segment. Mr. McCool holds a B.S. degree in Electrical Engineering from Drexel University and an M.S. degree in Computer Engineering from Santa Clara University.

Anshul Sadana has served as our Chief Customer Officer since October 2016. From January 2012 through September 2016, Mr. Sadana served as our Senior Vice President of Customer Engineering. From July 2007 to December 2011, Mr. Sadana has served in various other positions with us including Vice President of Customer Engineering. From November 1999 to July 2007, Mr. Sadana was the senior engineering manager of Gigabit Switching Business Unit at Cisco Systems, Inc. Mr. Sadana holds a B.E. degree in Electronics from the University of Mumbai, an M.S. degree in Computer Science from the University of Illinois at Chicago and an executive M.B.A. degree from the Wharton School of Business.

Marc Taxay has served as our Senior Vice President, General Counsel since March 2016 and as our General Counsel since February 2013. From 2007 to 2013, Mr. Taxay served as the senior vice president and general counsel of MedeAnalytics, Inc., a healthcare analytics company. From 2006 to 2007, Mr. Taxay served as the assistant general counsel of Coremetrics, Inc. a digital marketing company. From 2002 to 2006, Mr. Taxay worked as a partner at Cohen & Grigsby. Mr. Taxay holds a B.A. degree in Political Science and a J.D. from The University of Michigan.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The compensation provided to those individuals who are our named executive officers for our fiscal year ended December 31, 2017 (our "Named Executive Officers") is set forth in detail in the Fiscal 2017 Summary Compensation Table and the other tables that follow this Compensation Discussion and Analysis. The following discussion provides an overview of our executive compensation philosophy, the overall objectives of our executive compensation program, and each component of compensation that we provide to our Named Executive Officers. In addition, we explain how and why the compensation committee of our board of directors arrived at the specific compensation policies and decisions for our Named Executive Officers. The following are the individuals who served as our Named Executive Officers for our fiscal year ended December 31, 2017:

- Jayshree Ullal, our President and Chief Executive Officer;
- Ita Brennan, our Chief Financial Officer;
- Andreas Bechtolsheim, our Founder and Chief Development Officer;
- Anshul Sadana, our Chief Customer Officer; and
- John McCool, our Chief Platform Officer and Senior Vice President of Engineering and Operations.

Our Board has delegated to the compensation committee authority and responsibility for establishing and overseeing salaries, administering the incentive compensation programs, and establishing and overseeing other forms of compensation for our executive officers, general remuneration policies for the balance of our employee population and for overseeing and administering our equity incentive and benefits plans.

Management Changes During Fiscal 2017

In March 2017, John McCool joined us as our Chief Platform Officer and Senior Vice President of Engineering and Operations.

Overview

Fiscal 2017 Business and Innovation Highlights

Our executive compensation program is designed to align the compensation of our executives with our operating and financial performance and create value for our stockholders. Accordingly, you should consider our executive compensation decisions in the context of our financial and operational performance during fiscal 2017, including:

- Revenue for our fiscal year 2017 was $1.6 billion, representing an increase of 45.8% compared to fiscal year 2016. We have over 4,900 customers and continue to add new customers and expand our market presence and geographic footprint.
- Our non-GAAP operating income for fiscal year 2017 was $586.1 million or 35.6% of revenue. The ratio of non-GAAP operating income to revenue is a key metric for our stockholders as it provides a consistent measure of the profitability of our business and we use non-GAAP operating income in our 2017 Bonus Plan (as defined below).
- Our GAAP net income for fiscal year 2017 was $423.2 million, or $5.35 per diluted share, compared to GAAP net income of $184.2 million, or $2.50 per diluted share, in fiscal year 2016.
- For the third consecutive year Arista has been recognized as a leader and positioned the furthest for Completeness of Vision in the Leaders Quadrant of the July 2017 Gartner Magic Quadrant for Data Center Networking.

- Introduced the next generation of our routing platforms (R2 Series) that is twice the density and half the power of legacy custom router products, delivering more than 150 Tbps of capacity.
- Launched Containerized EOS (cEOS) which supports alternate models of procuring, packaging and deploying Arista's EOS®.
- Introduced Arista Any Cloud software platform, reducing operational costs and complexity for enterprises by simplifying integration and management of hybrid clouds.

Fiscal 2017 Executive Compensation Highlights

As reflected in our general compensation philosophy and objectives, our executive compensation program is intended to reward performance, attract and retain key personnel and increase stockholder value. In light of our strong performance as described in the "Fiscal 2017 Business and Innovation Highlights" section above, our fiscal 2017 executive compensation program was intended to reward exceptional performance and incentivize continued successful performance. Accordingly, our key executive compensation actions in our fiscal year ended December 31, 2017, advanced these objectives:

- ***Annual Bonuses Reflect Pay for Performance*** - As noted above, we demonstrated strong financial performance in fiscal 2017, achieving revenue of approximately $1.6 billion an increase of 45.8% over 2016 levels, with non-GAAP gross margin of 64.5%, and a non-GAAP operating income to revenue ratio of 35.6%. Based on these results, we rewarded our Named Executive Officers with payments under our 2017 Bonus Plan in excess of the base level of achievement.
- ***No Cash Compensation Increases and Modest Equity Grants*** - We did not increase annual cash compensation, and we provided modest but competitive long-term equity awards in fiscal 2017.

Good Compensation Governance Practices

In addition, we maintain good compensation corporate governance standards in our executive compensation policies and practices. The following policies and practices were in effect during our fiscal year ended December 31, 2017:

- Our compensation committee is made up solely of independent directors and makes all executive compensation decisions.
- Our compensation committee engages its own independent compensation consultant to assist with its compensation reviews.
- Our compensation committee reviews our executive compensation program annually.
- Our potential change in control payments and benefits are limited in nature and are received only in connection with the termination of employment without cause or for good reason in connection with or following a change in control (thus, there are no "single-trigger" benefits).
- We do not offer pension arrangements, retirement plans, or nonqualified deferred compensation plans or arrangements to our executive officers, other than the plans generally available to all employees.
- We do not offer golden parachute tax gross-ups to any of our Named Executive Officers or other executive officers.

Effect of Most Recent Stockholder Advisory Vote on Executive Compensation

Our compensation committee considers the results of the annual stockholder advisory vote on the compensation of our Named Executive Officers and stockholder feedback on our executive compensation program as part of its annual executive compensation review. At our 2017 annual meeting of stockholders, over 98% of the votes cast approved the compensation program for our Named Executive Officers as described in our 2017 proxy

statement. Based on this strong stockholder support, our compensation committee determined not to make any significant changes to our existing executive compensation program and policies. Our compensation committee currently intends to continue to consider the results of the annual advisory vote on executive compensation and stockholder feedback as data points in making executive compensation decisions.

Executive Compensation Philosophy and Objectives

We operate in a highly competitive business environment, which is characterized by frequent technological advances. To successfully grow our business in this dynamic environment, we must continually develop and refine our products and services to stay ahead of our competitors. To achieve these objectives, we need a highly talented and seasoned team of technical, sales, marketing, operations, and other business professionals.

We compete with other companies in our industry and other technology companies in the Silicon Valley to attract and retain a skilled management team. To attract and retain qualified executive candidates, our compensation committee recognizes that it needs to develop competitive compensation packages. At the same time, our compensation committee is sensitive to the need to integrate new Named Executive Officers into our executive compensation structure that we were seeking to develop, balancing both competitive and internal equity considerations. To meet this challenge, we have embraced a compensation philosophy of offering our Named Executive Officers a competitive total compensation program, which we view as the sum of base salary, cash performance-based incentives, equity compensation and employee benefits, each of which recognizes and rewards individual performance and contributions to our success, allowing us to attract, retain, and motivate talented executives with the skills and abilities needed to drive our desired business results.

The specific objectives of our executive compensation program are to:

- reward the successful achievement of our financial growth objectives;
- drive the development of a successful and profitable business;
- attract, motivate, reward, and retain highly qualified executives who are important to our success;
- recognize strong performers by offering cash performance-based incentive compensation and equity awards that have the potential to reward individual achievement as well as contributions to our overall success; and
- create value for our stockholders.

Compensation Program Design

Our executive compensation program for the fiscal year ended December 31, 2017, reflected our stage of development as a growing publicly-traded company. Accordingly, the compensation of our Named Executive Officers consisted of base salary, a short-term cash incentive compensation opportunity, long-term equity compensation in the form of stock options and restricted stock units, and certain employee health and welfare benefits.

We offer cash compensation in the form of base salaries and cash incentive compensation opportunities with an annual payment component. Typically, we have structured our annual cash incentive compensation opportunities to focus on the achievement of specific short-term financial and operational objectives that will further our longer-term growth objectives.

Additionally, equity awards for shares of our common stock serve as a key component of our executive compensation program. Currently, we grant stock options covering shares of our common stock, which provide value only if our stock price increases, thereby aligning the recipient's interests with those of our stockholders and restricted stock units which provide certain value to recipients and limit dilution to our stockholders. In the future, we may introduce other forms of equity awards, as we deem appropriate, into our executive compensation program

to offer our Named Executive Officers additional types of long-term incentive compensation that further the objective of aligning the recipient's interests with those of our stockholders.

Finally, we offer executives with standard health and welfare benefits that are generally available to our other employees, including medical, dental, vision, flexible spending accounts, life insurance and 401(k) plans.

We have not adopted any formal policies or guidelines for allocating compensation between current and long-term compensation or between cash and non-cash compensation, although we use competitive market data to understand the competitive market framework for pay mix. Within this overall framework, our compensation committee reviews each component of executive compensation separately and also takes into consideration the value of each Named Executive Officer's compensation package as a whole and its relative value in comparison to our other Named Executive Officers.

Our compensation committee evaluates our compensation philosophy and executive compensation program as circumstances require, and reviews executive compensation annually. As part of this review, we expect that our compensation committee will apply our philosophy and the objectives outlined above, together with consideration for the levels of compensation that we would be willing to pay to ensure that our executive compensation remains competitive and that we meet our retention objectives, as well as the cost to us if we were required to find a replacement for a key executive officer.

Compensation-Setting Process

Role of our Compensation Committee

Compensation decisions for our executives are made by our compensation committee. Currently, our compensation committee is responsible for reviewing, evaluating and approving the compensation arrangements, plans, policies, and practices for our Named Executive Officers and overseeing and administering our cash-based and equity-based compensation plans.

Each fiscal year, our compensation committee, after consulting with our management team and its compensation consultant, establishes our corporate performance objectives and makes decisions with respect to any base salary adjustment, and approves the corporate performance objectives and target annual cash incentive compensation opportunities and equity awards for our executive officers, including our Named Executive Officers for the upcoming fiscal year. With respect to our cash incentive compensation plan, our compensation committee determines the applicable goals for each corporate performance objective used for the applicable year.

Our compensation committee reviews our executive compensation program from time to time, including any incentive compensation plans, to determine whether they are appropriate, properly coordinated, and achieve their intended purposes, and to make any modifications to existing plans and arrangements or to adopt new plans or arrangements.

Role of Management

In carrying out its responsibilities, our compensation committee works with members of our management team, including our Chief Executive Officer and our Vice President, Global Human Resources. Typically, our management team (together with our compensation consultant) assists our compensation committee in the execution of its responsibilities by providing information on corporate and individual performance, market data, and management's perspective and recommendations on compensation matters.

Typically, except with respect to her own compensation, our Chief Executive Officer will make recommendations to our compensation committee regarding compensation matters, including the compensation of our executive officers. Our Chief Executive Officer also participates in meetings of our compensation committee, except with respect to discussions involving her own compensation in which case she leaves the meeting.

While our compensation committee solicits the recommendations and proposals of our Chief Executive Officer with respect to compensation-related matters, these recommendations and proposals are only one factor in our compensation committee's decision-making process.

Role of Compensation Consultant

Our compensation committee is authorized to retain the services of one or more executive compensation advisors from time to time, as it sees fit, in connection with carrying out its duties.

In our fiscal year ended December 31, 2017, our compensation committee continued to engage Radford, a national compensation consulting firm, to assist us in executing our executive compensation strategy and guiding principles, assessing current executive total compensation levels against competitive market practices, developing a compensation peer group and advising on potential executive compensation decisions for our fiscal year ended December 31, 2017. Our compensation committee provided Radford with instructions regarding the goals of our executive compensation program and the parameters of the competitive review of executive officer compensation packages that it was to conduct. In particular, the compensation committee instructed Radford to analyze whether the compensation packages of our executive officers were consistent with our compensation philosophy and competitive relative to market comparables. The compensation committee further instructed Radford to evaluate the following components to assist the compensation committee in establishing fiscal 2017 compensation: base salary; target and actual annual incentive compensation; target and actual total cash compensation (base salary and annual incentive compensation); long-term incentive compensation (equity awards); target and actual total direct compensation (base salary, annual incentive compensation and long-term incentive compensation); and beneficial ownership of our common stock.

Radford does not provide any services to us other than the services provided to our compensation committee. Our compensation committee has assessed the independence of Radford taking into account, among other things, the factors set forth in Exchange Act Rule 10C-1 and the listing standards of the New York Stock Exchange, and has concluded that no conflict of interest exists with respect to the work that Radford performs for our compensation committee.

Use of Competitive Data

To assess the competitiveness of our executive compensation program and to assist in setting compensation levels, Radford provided market data for the compensation peer group approved by our compensation committee.

Competitive Positioning

In our fiscal 2017, our compensation committee continued to compare and analyze our executive compensation program with that of a formal compensation peer group of companies.

With respect to fiscal 2017 executive compensation decisions, our compensation committee initially considered a group of peer publicly-traded companies that met some or all of the following criteria: (i) companies in the computer networking, communication products/services and other high technology companies, with an emphasis on growing technology companies that have recently gone public; (ii) companies with revenues between $500 million to $2.5 billion; and (iii) companies with market capitalization generally between $1.5 and $15 billion. The following group was our executive compensation peer group for fiscal 2017 compensatory decisions made prior to July 24, 2017:

Barracuda Networks	F5 Networks	Infinera	NetScout Systems	Splunk
Brocade	FireEye	Juniper Networks	Palo Alto Networks	Tableau Software
Citrix Systems	Fortinet	Mellanox Technologies	Plantronics	Ubiquiti Networks
DigitalGlobe	Gigamon	NETGEAR	ServiceNow	VMware

In July 2017, since our revenues and market capitalization had increased significantly since our executive compensation peer group was selected, our compensation committee decided that it was appropriate to update our executive compensation peer group. Based on the recommendations from Radford, the updated group of peer publicly-traded companies met some or all of the following criteria: (i) companies in the computer networking, communication products/services and other high technology companies, with an emphasis on growing technology companies that have recently gone public; (ii) companies with revenues between $600 million to $3 billion (approximately .5x to 2.5x of our then-current trailing 12-month revenue); and (iii) companies with market capitalization generally between $3 and $30 billion (approximately .3x to 3x of our then-current market capitalization). The following group was our executive compensation peer group for fiscal 2017 compensatory decisions made on or after July 24, 2017:

Brocade	Fortinet	NetScout Systems	ServiceNow	Ubiquiti Networks
Citrix Systems	Juniper Networks	Nutanix	Splunk	Workday
F5 Networks	Mellanox Technologies	Palo Alto Networks	Tableau Software	
FireEye	NetApp	Red Hat	The Ultimate Software Group	

Radford provides our compensation committee with market data from our compensation peer group regarding each element of our executive compensation program. However, our compensation committee does not benchmark in our compensation peer group with respect to any particular element of compensation.

Executive Compensation Program Components

The following describes each component of our executive compensation program, the rationale for each, and how the compensation amounts and awards were determined for our fiscal year ended December 31, 2017.

Base Salary. Base salary is the primary fixed component of our executive compensation program. We use base salary to compensate our Named Executive Officers for services rendered during the fiscal year and to ensure that we remain competitive in attracting and retaining executive talent.

Our compensation committee reviews the base salaries of each Named Executive Officer annually and makes adjustments as it determines to be reasonable and necessary to reflect the scope of a Named Executive Officer's performance, contributions, responsibilities, experience, prior salary level, position (in the case of a promotion), and market conditions. We typically establish the initial base salary of a Named Executive Officer through arm's-length negotiation at the time, after taking into consideration his or her position, qualifications, experience, salary expectations, and the base salaries of our other executives.

During fiscal 2017, we hired Mr. McCool as a new executive officer. His base salary was determined through arm's-length negotiation. For our fiscal year ended December 31, 2017, our compensation committee determined not to make any changes to the base salaries of our other Named Executive Officers as it thought the base salary levels continued to be appropriate.

Our Named Executive Officers' base salaries for fiscal 2017 were as follows:

Named Executive Officer	Fiscal 2017 Base Salary
Jayshree Ullal	$300,000
Ita Brennan	$300,000
Andreas Bechtolsheim	$300,000
Anshul Sadana	$275,000
John McCool	$300,000

Annual Cash Incentive Compensation; 2017 Bonus Plan. We use cash incentive compensation under our omnibus Employee Incentive Plan to motivate our executive officers, including our Named Executive Officers, to achieve our annual financial and operational objectives, while making progress towards our longer-term strategic and growth goals. Each fiscal year, our compensation committee sets the terms and conditions of the Employee Incentive Plan for that fiscal year, which identifies the plan participants and establishes the target cash incentive opportunity for each participant, the performance measures to be used to determine whether to make payouts related to the fiscal year and the associated target levels for each measure, and the potential payouts based on actual performance for the fiscal year. Typically, cash incentive payouts have been determined after the end of the applicable performance period based on our performance against one or more financial and operational performance objectives for the performance period as set forth in our annual operating plan.

In February 2017, our compensation committee set the terms and conditions of the Employee Incentive Plan for fiscal 2017 (the "2017 Bonus Plan"). The 2017 Bonus Plan included the following corporate performance metrics for the plan: revenue, non-GAAP gross margin, operating margin, customer quality and support and product innovation. In addition to corporate performance measures, our compensation committee would consider individual performance.

The 2017 Bonus Plan included a base component that was accrued on a quarterly basis based on revenue performance, taking into consideration non-GAAP gross margin, non-GAAP operating margin, and customer quality and support. If non-GAAP gross margin was not in the target range or customer quality and support were not acceptable, then management would have had the discretion to reduce funding. The 2017 Bonus Plan provided for a single annual payout to each participant following the end of fiscal 2017 after our compensation committee evaluated corporate and individual performance on a holistic basis. There was no formal weighting of the performance criteria. No payout would be made if achievement of the revenue metric was below 85% of target.

In addition, the 2017 Bonus Plan provided for an additional over-performance component based on out-performance of the revenue and/or non-GAAP operating income targets, assuming non-GAAP gross margin was in the range of 60% to 65% and customer quality and support were acceptable.

For purposes of our 2017 Bonus Plan, we define revenue in accordance with GAAP, and non-GAAP gross margin as GAAP gross profit, less stock-based compensation expense divided by revenue, in each case as set forth in our quarterly and annual financial statements and reports. A reconciliation between GAAP gross margin and non-GAAP gross margin is set forth in our press release announcing our financial results for the fourth quarter and the fiscal year ended December 31, 2017.

For purposes of our 2017 Bonus Plan, we define non-GAAP operating income as GAAP operating income, less stock-based compensation expense and litigation expense. A reconciliation between operating income and non-GAAP operating income is set forth in our press release announcing our financial results for the fourth quarter and the fiscal year ended December 31, 2017.

Each of the Named Executive Officers was provided an opportunity to earn $150,000 under the base component of the 2017 Bonus Plan (which, in Mr. McCool's case, was pro-rated based on the number of days he was employed by us in 2017) and was eligible to participate in the over-performance component for exceptional performance.

For our fiscal year ended December 31, 2017, we achieved revenue of approximately $1.6 billion (an increase of 45.8% from 2016 levels and exceeding our target by approximately 9.6%), and we achieved non-GAAP operating income of approximately $586.1 million (an increase of 73.2% from 2016 levels and exceeding our target by approximately 27.7%). Our non-GAAP gross margin and customer quality were determined to have met our targeted standards set forth in the 2017 Bonus Plan. This resulted in funding of the base component of the 2017 Bonus Plan and the over-performance component of the 2017 Bonus Plan.

In determining the amounts payable to our Named Executive Officers, our compensation committee considered market compensation data from our peer group that indicated that at the proposed payout levels, total cash compensation for our Named Executive Officers on an aggregate basis would generally be aligned at or around the market 75th percentile. Given our overall performance for the year on a holistic basis, the exceptional customer performance and our compensation committee's determination of individual performance for each of our Named Executive Officers, the total payouts to our Named Executive Officers under the 2017 Bonus Plan were:

Named Executive Officer	Actual Incentive Compensation
Jayshree Ullal	$400,000
Ita Brennan	$250,000
Andreas Bechtolsheim	$400,000
Anshul Sadana	$350,000
John McCool	$188,712

Equity Compensation. We use equity awards to incent and reward our executives (including our Named Executive Officers) for long-term corporate performance based on the value of our common stock and, thereby, to align the interests of our executives with those of our stockholders. We grant stock options covering shares of our common stock and full value awards for shares of our common stock, or awards without a purchase price, such as restricted stock unit awards.

New hire, or initial, equity awards for our executives (including the new hire equity awards granted to Mr. McCool in fiscal 2017, which are discussed below) are established through arm's-length negotiations at the time the individual executive is hired. In making these awards, we consider, among other things, the prospective role and responsibility of the individual executive, competitive factors, the expectations concerning the size of the equity award, the cash compensation to be received by the executive, and the need to create a meaningful opportunity for reward predicated on the creation of long-term stockholder value.

In addition, we grant equity awards to our executives when our compensation committee determines that such awards are necessary or appropriate to recognize corporate and individual performance, in recognition of a promotion, or to achieve our retention objectives. To date, we have not applied a rigid formula in determining the size of these equity awards. Instead, our compensation committee has determined the size of such equity awards for an individual executive after taking into consideration market data compiled from our compensation peer group, a compensation analysis performed by Radford, the equity award recommendations of our Chief Executive Officer, the scope of an executive's performance, contributions, responsibilities, and experience, and the amount of equity compensation held by the executive, including the current economic value of his outstanding unvested equity awards and the ability of this equity to satisfy our retention objectives, market conditions, and internal equity considerations. In making its award decisions, our compensation committee has exercised its judgment and

discretion to set the size of each award at a level it considered appropriate to create a meaningful opportunity for reward predicated on the creation of long-term stockholder value. Equity awards to our named executive officers typically have multi-year vesting periods of either four or five years.

For fiscal 2017, we granted new hire equity awards to Mr. McCool and refresh awards of restricted stock units to our other Named Executive Officers. We granted refresh awards of restricted stock units to these other Named Executive Officers to ensure that they receive value for the shares regardless of fluctuations in our stock price in order to align their interests with those of our stockholders. In addition, we also granted refresh options to Ms. Ullal and Mr. Bechtolsheim to provide them with additional incentive to grow our business, since each option only provides value if our stock price increases during the term of the option. The size of Mr. McCool's new hire equity awards was determined through arm's-length negotiation. In determining the size of the refresh awards to the other Named Executive Officers, our compensation committee considered market compensation data from our peer group that indicated that the proposed awards would bring the Named Executive Officers' equity compensation at or around the market 75th percentile. The new hire awards to Mr. McCool and the refresh awards for fiscal 2017 to our other Named Executive Officers vest over a 5-year period to promote retention.

Based on the above considerations, we granted our Named Executive Officers the following awards in 2017:

Named Executive Officer	RSUs	Options
Jayshree Ullal	41,250	82,500
Ita Brennan	12,000	—
Andreas Bechtolsheim	41,250	82,500
Anshul Sadana	20,000	—
John McCool	45,000	5,000

Extraordinary Bonuses

Our compensation committee approved the payment of customer impact cash bonuses of $120,000 to Ms. Brennan, $150,000 to Mr. Sadana and $20,000 to Mr. McCool in June 2017. These bonuses were intended to reward these Named Executive Officers for their exceptional customer relations performance and their role in our successes in patent litigation.

Welfare and Other Employee Benefits.

We have established a tax-qualified Section 401(k) retirement plan for all employees who satisfy certain eligibility requirements, including requirements relating to age and length of service. In 2017, we made matching contributions for the contributions made to the 401(k) plan by our employees, including our Named Executive Officers. We intend for the plan to qualify under Section 401(a) of the Internal Revenue Code (the "Code"), so that contributions by employees to the plan, and income earned on plan contributions, are not taxable to employees until withdrawn from the plan.

In addition, we provide other benefits to our Named Executive Officers on the same basis as all of our full-time employees. These benefits include standard health, vacation and other benefits offered to our employees.

Perquisites and Other Personal Benefits.

We generally do not provide perquisites to our Named Executive Officers or other personal benefits beyond what is provided to employees on a broad basis.

Executive Officer Employment Arrangements

Jayshree Ullal Offer Letter

We have entered into an offer letter with Jayshree Ullal, our President and Chief Executive Officer, pursuant to which Ms. Ullal is an at-will employee. Ms. Ullal's current annual base salary is $300,000 per year and she is eligible for an annual bonus of $150,000 at a high level of achievement, which does not consider the over-performance pool. Ms. Ullal is also eligible to participate in all of our standard health, vacation and other benefits offered to our employees.

Ita Brennan Offer Letter & Severance Agreement

Ms. Brennan joined us as our new Chief Financial Officer in May 2015. We have entered into an offer letter with Ms. Brennan that provides that she is an at-will employee. Ms. Brennan currently receives a base salary of $300,000 per year and is eligible for an annual bonus of $150,000 at a high level of achievement, which does not consider the over-performance pool. Ms. Brennan is also eligible to participate in all of our standard health, vacation and other benefits offered to our employees.

In addition, we entered into a severance agreement with Ms. Brennan, effective May 2015. The severance agreement provides that if Ms. Brennan's employment is involuntarily terminated other than "cause" (as generally defined below) or if Ms. Brennan resigns for "good reason" (as generally defined below) then, subject to her execution of a release of claims, Ms. Brennan will receive continuing payments of her base salary for 12 months and accelerated vesting of time-based equity awards that would have vested had Ms. Brennan remained employed with us for 12 months following her termination of employment date. If the qualified termination of employment occurred during the period beginning on, and for 12 months following a change in control, then the equity acceleration benefit would be 50% of the then-unvested equity awards (and for any equity awards that vest based on the achievement of performance criteria, assuming the performance criteria had been achieved at target levels for the relevant performance periods), if greater than the acceleration benefit described in the previous sentence.

For purposes of the severance agreement with Ms. Brennan, "cause" means generally:

- an act of dishonesty made by her in connection with her responsibilities as an employee;
- her conviction of, or plea of nolo contendere to, a felony or any crime involving fraud, embezzlement or any other act of moral turpitude;
- her gross misconduct;
- her unauthorized use of disclosure of any proprietary information or trade secrets of ours or any other party to whom she owes a duty of non-disclosure as a result of her relationship with us;
- her willful breach of any obligations under any written agreement or covenant with us; or
- her continued failure to perform his or her duties after a demand from us setting the basis of our belief and failure to cure within 10 business days after receiving such notice.

For purposes of the severance agreement with Ms. Brennan, "good reason" means generally a resignation within 30 days following the expiration of any cure period following the occurrence of one or more of the following, without her consent:

- a material diminution of her authority, duties or responsibilities (which includes a reduction in authority, duties or responsibilities in connection with our being acquired and made part of a larger entity);
- a material reduction of her base salary (which excludes a reduction in her base salary of 15% or less in any one year) other than a reduction applied to management generally; or
- a material change in the geographic location of her primary work facility or location (which excludes a relocation of less than 50 miles from her then-present location).

Ms. Brennan must provide written notice within 90 days of the initial existence of good reason and provide a cure period of 30 days following the date of such notice.

Andreas Bechtolsheim

Mr. Bechtolsheim is a founder and our Chief Development Officer. We have not entered into any formal employment letter with Mr. Bechtolsheim. Mr. Bechtolsheim is an at-will employee. Mr. Bechtolsheim's current annual base salary is $300,000 per year and he is eligible for an annual bonus of $150,000 at a high level of achievement, which does not consider the over-performance pool. Mr. Bechtolsheim is also eligible to participate in all of our standard health, vacation and other benefits offered to our employees.

Anshul Sadana Offer Letter

We have entered into an offer letter with Anshul Sadana, our Chief Customer Officer, pursuant to which Mr. Sadana is an at-will employee. Mr. Sadana's current annual base salary is $275,000 per year and he is eligible for an annual bonus of $150,000 at a high level of achievement, which does not consider the over-performance pool. Mr. Sadana is also eligible to participate in all of our standard health, vacation and other benefits offered to our employees.

John McCool Offer Letter & Severance Agreement

In connection with his hire in March 2017, we entered into an offer letter with John McCool, our Chief Platform Officer and Senior Vice President of Engineering and Operations, pursuant to which Mr. McCool is an at-will employee. Pursuant to the offer letter, Mr. McCool's annual base salary is $300,000 per year and he is eligible for an annual bonus of $150,000 at a high level of achievement, which does not consider the over-performance pool. Mr. McCool is also eligible to participate in all of our standard health, vacation and other benefits offered to our employees.

In addition, we entered into a severance agreement with Mr. McCool, effective March 2017. The severance agreement provides that if Mr. McCool's employment is involuntarily terminated other than "cause" (as generally defined below) or if Mr. McCool resigns for "good reason" (as generally defined below) then, subject to his execution of a release of claims, Mr. McCool will receive continuing payments of his base salary for 12 months and accelerated vesting of time-based equity awards that would have vested had Mr. McCool remained employed with us for 12 months following his termination of employment date. If the qualified termination of employment occurred during the period beginning on, and for 12 months following a change in control, then the equity acceleration benefit would be 50% of the then-unvested equity awards (and for any equity awards that vest based on the achievement of performance criteria, assuming the performance criteria had been achieved at target levels for the relevant performance periods), if greater than the acceleration benefit described in the previous sentence.

For purposes of the severance agreement with Mr. McCool, "cause" and "good reason" have the same general meanings as set forth in Ms. Brennan's severance agreement.

Fiscal 2017 Summary Compensation Table

The following table provides information regarding the total compensation for services rendered in all capacities that was earned by our Named Executive Officers.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($) (2)	Option Awards ($) (2)	Non-Equity Incentive Plan Compensation ($)	All Other Compensation ($)	Total ($)
Jayshree Ullal	2017	300,000	—	3,939,788	3,278,228	400,000	5,763 (3)	7,923,779
Chief Executive Officer	2016	300,000	—	—	2,327,870	450,000	432	3,078,302
	2015	301,154	—	—	—	400,000	33,374	734,528
Ita Brennan	2017	300,000	120,000	1,490,040	—	250,000	2,163 (3)	2,162,203
Chief Financial Officer	2016	300,000	—	337,440	473,412	250,000	432	1,361,284
	2015	189,231	—	6,372,750	1,220,602	150,000	252	7,932,835
Andreas Bechtolsheim	2017	300,000	—	3,939,788	3,278,228	400,000	432 (4)	7,918,448
Chief Development Officer	2016	300,000	—	—	2,327,870	450,000	432	3,078,302
	2015	301,154	—	—	—	400,000	21,567	722,721
Anshul Sadana	2017	275,000	150,000	2,483,400	—	350,000	5,323 (3)	3,263,723
Chief Customer Officer	2016	248,077	—	1,769,150	591,765	400,000	354	3,009,346
	2015	240,923	—	—	611,288	350,000	28,049	1,230,260
John McCool (1)	2017	236,538	20,000	5,973,750	271,900	188,712	6,519 (3)	6,697,419
Chief Platform Officer, Senior Vice President of Engineering and Operations								

(1) John McCool joined us on March 20, 2017. Mr. McCool's 2017 compensation reflects the actual payment for his service as an employee for less than the full fiscal year.

(2) The amounts reported represent the aggregate grant-date fair value of the restricted stock units or stock options awarded to the Named Executive Officer, calculated in accordance with FASB ASC Topic 718. The assumptions used in calculating the grant-date fair value of the stock options reported in this column are set forth in our audited consolidated financial statements included in our Annual Report on Form 10-K, as filed with the SEC on February 20, 2018.

(3) The amounts reported for fiscal 2017 include Company matching contributions for the contributions made to the 401(k) plan by the Named Executive Officer and a life insurance premium paid on the Named Executive Officer's behalf.

(4) The amount reported for fiscal 2017 represents a life insurance premium paid on the Named Executive Officer's behalf.

Outstanding Equity Awards at 2017 Year-End

The following table sets forth information regarding outstanding stock options and stock awards held by our Named Executive Officers as of December 31, 2017.

			Option Awards				Stock Awards	
Name	**Grant Date**		**Number of Securities Underlying Unexercised Options (#) Exercisable**	**Number of Securities Underlying Unexercised Options (#) Unexercisable**	**Option Exercise Price ($)**	**Option Expiration Date**	**Number of Shares or Units of Stock That Have Not Vested (#)** [(1)]	**Market Value of Shares or Units of Stock That Have Not Vested ($)** [(2)]
Jayshree Ullal	1/13/2014	(3)	20,000	—	22.49	1/12/2024	—	—
	2/12/2016	(4)	20,000	80,000	56.24	2/11/2026	—	—
	2/6/2017	(5)	—	82,500	95.51	2/5/2027	—	—
	2/6/2017	(6)	—	—	—	—	33,000	7,774,140
Ita Brennan	6/16/2015	(7)	7,917	12,083	84.97	6/15/2025	—	—
	6/16/2015	(8)	—	—	—	—	37,500	8,834,250
	9/11/2015	(9)	2,000	8,000	64.46	9/10/2025	—	—
	2/12/2016	(10)	3,000	17,000	56.24	2/11/2026	—	—
	2/12/2016	(11)	—	—	—	—	4,500	1,060,110
	3/10/2017	(12)	—	—	—	—	12,000	2,826,960
Andreas Bechtolsheim	1/13/2014	(13)	20,000	—	22.49	1/12/2024	—	—
	5/20/2014	(14)	391,667	—	38.00	5/19/2024	—	—
	12/16/2014	(15)	1,167	28,000	68.34	12/15/2024	—	—
	2/12/2016	(16)	1,667	80,000	56.24	2/11/2026	—	—
	2/6/2017	(17)	—	82,500	95.51	2/5/2027	—	—
	2/6/2017	(18)	—	—	—	—	33,000	7,774,140
Anshul Sadana	3/11/2013	(19)	—	—	—	—	21,000	4,947,180
	4/19/2013	(20)	23,000	—	7.76	4/18/2023	—	—
	1/13/2014	(21)	24,000	—	22.49	1/12/2024	—	—
	2/11/2014	(22)	100,000	—	30.67	2/10/2024	—	—
	12/16/2014	(23)	10,000	40,000	68.34	12/15/2024	—	—
	9/11/2015	(24)	4,000	16,000	64.46	9/10/2025	—	—
	2/12/2016	(25)	3,750	21,250	56.24	2/11/2026	—	—
	2/12/2016	(26)	—	—	—	—	7,500	1,766,850
	10/14/2016	(27)	—	—	—	—	12,000	2,826,960
	3/10/2017	(28)	—	—	—	—	20,000	4,711,600
John McCool	4/17/2017	(29)	—	5,000	132.75	4/16/2027	—	—
	4/17/2017	(30)	—	—	—	—	45,000	10,601,100

(1) Represents (i) restricted stock awards and (ii) shares of restricted stock issued upon the early exercise of stock options, in each case that remained unvested as of December 31, 2017.

(2) This column represents the market value of the shares of our common stock underlying the restricted stock awards or restricted stock as of December 31, 2017, based on the closing price of our common stock, as reported on the New York Stock Exchange, of $235.58 per share on December 29, 2017, the last trading day of our fiscal 2017.

[3] The option is subject to an early exercise provision and is immediately exercisable. This option vests, subject to Ms. Ullal's continued role as a service provider to us, with respect to 1/5th of the shares granted one year from December 1, 2016 with the remaining shares vesting in equal amounts over the next 48 months.

[4] This option vests, subject to Ms. Ullal's continued role as a service provider to us, with respect to 1/60th of the shares each month from January 1, 2017.

[5] This option vests, subject to Ms. Ullal's continued role as a service provider to us, with respect to 1/5th of the shares granted one year from February 6, 2017 with the remaining shares vesting in equal amounts over the next 48 months.

[6] This award of restricted stock units vests, subject to Ms. Ullal's continued role as a service provider to us, with respect to 1/20th of the shares each quarter from February 20, 2017.

[7] This option vests, subject to Ms. Brennan's continued role as a service provider to us, with respect to 1/5th of the shares one year from May 18, 2015 with the remaining shares vesting in equal amounts over the next 48 months.

[8] This award of restricted stock units vests, subject to Ms. Brennan's continued role as a service provider to us, with respect to 1/5th of the shares one year from May 18, 2015 with the remaining shares vesting in equal amounts over the next 16 quarters.

[9] This option vests, subject to Ms. Brennan's continued role as a service provider to us, with respect to 1/5th of the shares one year from December 1, 2016 with the remaining shares vesting in equal amounts over the next 48 months.

[10] This option vests, subject to Ms. Brennan's continued role as a service provider to us, with respect to 1/60th of the shares each month from April 1, 2017.

[11] This award of restricted stock units vests, subject to Ms. Brennan's continued role as a service provider to us, with respect to 1/16th of the shares each quarter from February 20, 2017.

[12] This award of restricted stock units vests, subject to Ms. Brennan's continued role as a service provider to us, with respect to 1/20th of the shares each quarter from February 20, 2018.

[13] The option is subject to an early exercise provision and is immediately exercisable. This option vests, subject to Mr. Bechtolsheim's continued role as a service provider to us, with respect to 1/5th of the shares granted one year from December 1, 2016 with the remaining shares vesting in equal amounts over the next 48 months. At the end of 2017, 16,000 shares of the exercisable shares were unvested.

[14] The option is subject to an early exercise provision and is immediately exercisable. This option vests, subject to Mr. Bechtolsheim's continued role as a service provider to us, with respect to 1/5th of the shares one year from September 30, 2016 with the remaining shares vesting in equal amounts over the next 48 months. At the end of 2017, 375,000 shares of the exercisable shares were unvested.

[15] This option vests, subject to Mr. Bechtolsheim's continued role as a service provider to us, with respect to 1/5th of the shares one year from December 1, 2014 with the remaining shares vesting in equal amounts over the next 48 months.

[16] This option vests, subject to Mr. Bechtolsheim's continued role as a service provider to us, with respect to 1/60th of the shares each month from January 1, 2017.

[17] This option vests, subject to Mr. Bechtolsheim's continued role as a service provider to us, with respect to 1/5th of the shares granted one year from February 6, 2017 with the remaining shares vesting in equal amounts over the next 48 months.

[18] This award of restricted stock units vests, subject to Mr. Bechtolsheim's continued role as a service provider to us, with respect to 1/20th of the shares each quarter from February 20, 2017.

[19] These shares remain subject to a repurchase right held by us at the original exercise price, in the event of the termination of Mr. Sadana's employment with us. These shares vest with respect to 1/4th of the shares granted one year from December 1, 2015 with the remaining shares vesting in equal amounts over the next 36 months.

[20] The option is subject to an early exercise provision and is immediately exercisable. This option vests, subject to Mr. Sadana's continued role as a service provider to us, with respect to 1/4th of the shares granted one year from December 1, 2015 with the remaining shares vesting in equal amounts over the next 36 months. At the end of 2017, 11,500 shares of the exercisable shares were unvested.

[21] The option is subject to an early exercise provision and is immediately exercisable. This option vests, subject to Mr. Sadana's continued role as a service provider to us, with respect to 1/5th of the shares granted one

year from December 1, 2016 with the remaining shares vesting in equal amounts over the next 48 months. At the end of 2017, 19,200 shares of the exercisable shares were unvested.

(22) The option is subject to an early exercise provision and is immediately exercisable. This option vests, subject to Mr. Sadana's continued role as a service provider to us, with respect to 1/5th of the shares granted one year from December 1, 2017 with the remaining shares vesting in equal amounts over the next 48 months.

(23) This option vests, subject to Mr. Sadana's continued role as a service provider to us, with respect to 1/5th of the shares granted one year from December 1, 2016 with the remaining shares vesting in equal amounts over the next 48 months.

(24) This option vests, subject to Mr. Sadana's continued role as a service provider to us, with respect to 1/5th of the shares granted one year from December 1, 2016 with the remaining shares vesting in equal amounts over the next 48 months.

(25) This option vests, subject to Mr. Sadana's continued role as a service provider to us, with respect to 1/60th of the shares each month from April 1, 2017.

(26) This award of restricted stock units vests, subject to Mr. Sadana's continued role as a service provider to us, with respect to 1/16th of the shares on February 20, 2017 with the remaining shares vesting quarterly in equal amounts over the next 15 quarters.

(27) This award of restricted stock units vests, subject to Mr. Sadana's continued role as a service provider to us, with respect to 1/20th of the shares each quarter from February 20, 2017.

(28) This award of restricted stock units vests, subject to Mr. Sadana's continued role as a service provider to us, with respect to 1/20th of the shares each quarter from February 20, 2018.

(29) This option vests, subject to Mr. McCool's continued role as a service provider to us, with respect to 1/5th of the shares granted one year from March 20, 2017 with the remaining shares vesting in equal amounts over the next 48 months.

(30) This award of restricted stock units vests, subject to Mr. McCool's continued role as a service provider to us, with respect to 1/5th of the shares one year from May 20, 2017 with the remaining shares vesting in equal amounts over the next 16 quarters.

Fiscal 2017 Grants of Plan-Based Awards

The following table presents information regarding the amount of plan-based awards granted to our Named Executive Officers during our fiscal year ended December 31, 2017.

Named Executive Officer	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (Threshold) ($) [1]	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (Target) ($) [1]	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (Maximum) ($) [1]	All Other Stock Awards: Number of Shares of Stock or Units (#) [2]	All Other Option Awards: Number of Shares Underlying Options (#) [2]	Exercise Price of Option Awards ($)	Grant Date Fair Value of Stock and Option Awards ($) [3]
Jayshree Ullal	—	50,000	100,000	400,000	—	—	—	—
	2/6/2017	—	—	—	—	82,500	95.51	3,278,228
	2/6/2017	—	—	—	41,250	—	—	3,939,788
Ita Brennan	—	50,000	100,000	250,000	—	—	—	—
	3/10/2017	—	—	—	12,000	—	—	1,490,040
Andreas Bechtolsheim	—	50,000	100,000	400,000	—	—	—	—
	2/6/2017	—	—	—	—	82,500	95.51	3,278,228
	2/6/2017	—	—	—	41,250	—	—	3,939,788
Anshul Sadana	—	50,000	100,000	350,000	—	—	—	—
	3/10/2017	—	—	—	20,000	—	—	2,483,400
John McCool	—	50,000	100,000	188,712	—	—	—	—
	4/17/2017	—	—	—		5,000	132.75	271,900
	4/17/2017	—	—	—	45,000			5,973,750

(1) Amounts in the Estimated Future Payouts Under Non-Equity Incentive Plan Awards columns relate to threshold, target and maximum incentive compensation opportunities under the 2017 Bonus Plan. The 2017 Bonus Plan included an over-performance component if we achieved in excess of plan performance. The amounts reported in the maximum column reflect the amounts paid by our compensation committee for fiscal 2017.

(2) The restricted stock unit and stock option awards were made under the 2014 Equity Incentive Plan.

(3) The amounts reported in the Grant Date Fair Value of Stock and Option Awards column represent the grant date fair value of stock options and/or restricted stock awards granted in fiscal 2017, calculated in accordance with ASC Topic 718.

Fiscal 2017 Option Exercises and Stock Vested

The following table presents information regarding the exercise of stock options and the vesting of stock awards by our Named Executive Officers during our fiscal year ended December 31, 2017.

	Option Awards		Stock Awards	
Named Executive Officer	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($) [1]	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($) [2]
Jayshree Ullal	—	—	8,250	1,401,741
Ita Brennan	5,000	451,400	16,500	2,803,391
Andreas Bechtolsheim	167,499	32,361,486	8,250	1,401,741
Anshul Sadana	—	—	5,500	934,464
John McCool	—	—	—	—

(1) Based on the market price of our common stock on the date of exercise less the option exercise price paid for those shares, multiplied by the number of shares for which the option was exercised.

(2) Based on the market price of our common stock on the vesting date or last trading date, multiplied by the number of shares vested.

Pension Benefits

We did not sponsor any defined benefit pension or other actuarial plan for our Named Executive Officers during our fiscal year ended December 31, 2017.

Nonqualified Deferred Compensation

We did not maintain any nonqualified defined contribution or other deferred compensation plans or arrangements for our Named Executive Officers during our fiscal year ended December 31, 2017.

Potential Payments Upon Termination or Change in Control

The tables below provide an estimate of the value of the compensation and benefits due to each of our Named Executive Officers for our fiscal year ended December 31, 2017, in the events described below, assuming that the termination of employment and change in control was effective on December 31, 2017, under the applicable employment agreements described above. The actual amounts to be paid can only be determined at the time of the termination of employment.

Termination of Employment Unrelated to a Change in Control

		Value of Accelerated Equity Awards ($) [1]		
Named Executive Officer	Salary Continuation ($)	Restricted Stock Units	Options	Total ($)
Ita Brennan	300,000	4,452,462	1,812,650	6,565,112
John McCool	300,000	3,180,330	179,953	3,660,283

(1) The amounts reported in the table reflect the aggregate market value of the unvested shares of our common stock underlying outstanding restricted stock unit awards and stock options that would become vested on a qualifying termination. For the unvested stock options, the aggregate market value is computed by multiplying (i) the number of shares of our common stock underlying unvested and outstanding stock options at December 31, 2017, that would become vested by (ii) the difference between $235.58 (the closing market price of our common stock on the New York Stock Exchange on December 29, 2017) and the exercise price of such option. For the restricted stock unit awards, the aggregate market value is computed by multiplying (i) the number of unvested shares of our common stock subject to outstanding restricted stock awards or outstanding restricted stock unit awards at December 31, 2017, that would become vested by (ii) $235.58 (the closing market price of our common stock on the New York Stock Exchange on December 29, 2017).

Termination of Employment in Connection with a Change in Control

Named Executive Officer	Salary Continuation ($)	Value of Accelerated Equity Awards ($)[1] Restricted Stock Units	Value of Accelerated Equity Awards ($)[1] Options	Total ($)
Ita Brennan	300,000	6,360,660	3,118,780	9,779,440
John McCool	300,000	5,300,550	257,075	5,857,625

(1) The amounts reported in the table reflect the aggregate market value of the unvested shares of our common stock underlying outstanding restricted stock unit awards and stock options that would become vested on a qualifying termination. For the unvested stock options, the aggregate market value is computed by multiplying (i) the number of shares of our common stock underlying unvested and outstanding stock options at December 31, 2017, that would become vested by (ii) the difference between $235.58 (the closing market price of our common stock on the New York Stock Exchange on December 29, 2017) and the exercise price of such option. For the restricted stock unit awards, the aggregate market value is computed by multiplying (i) the number of unvested shares of our common stock subject to outstanding restricted stock unit awards at December 31, 2017, that would become vested by (ii) $235.58 (the closing market price of our common stock on the New York Stock Exchange on December 29, 2017).

Risk Assessment and Compensation Practices

Our management assesses and discusses with our compensation committee our compensation policies and practices for our employees as they relate to our risk management, and based upon this assessment, we believe that, for the following reasons, any risks arising from such policies and practices are not reasonably likely to have a material adverse effect on us in the future:

- Our annual bonus plan considers a multiple of performance factors and allows our compensation committee to review performance on a holistic basis minimizing risk related to our short-term variable compensation; and
- Our equity awards include multi-year vesting schedules requiring a long-term employee commitment.

Other Compensation Policies

Stock Ownership and Compensation Recovery Policies. Currently, we have not implemented policies regarding minimum stock ownership requirements or compensation recovery for our Named Executive Officers.

Hedging and Pledging Policies. Our insider trading policy prohibits our executive officers from engaging in derivative securities transactions, including hedging, with respect to our common stock and from pledging Company securities as collateral or holding Company securities in a margin account.

Tax and Accounting Considerations

Deductibility of Executive Compensation. Prior to 2018, Section 162(m) of the Code generally disallowed public companies a tax deduction for federal income tax purposes of remuneration in excess of $1 million paid to the Chief Executive Officer and each of the three other most highly compensated executive officers (other than the Chief Financial Officer) in any taxable year. Generally, remuneration in excess of $1 million could only be deducted if it was “performance-based compensation” within the meaning of the Code.

Recent tax reform legislation expanded the number of individuals covered by Section 162(m) of the Code and eliminated the exception for “performance-based” compensation beginning in 2018, subject to a transition rule providing an exception to the $1 million deduction limit for compensation payable pursuant to a “written binding contract” in effect on November 2, 2017 that has not been subsequently materially modified.

Our compensation committee may consider the deductibility of compensation when making decisions, but may authorize the payment of compensation that is not deductible when it believes it appropriate.

Taxation of “Parachute” Payments. Sections 280G and 4999 of the Code provide that executive officers and directors who hold significant equity interests and certain other service providers may be subject to significant additional taxes if they receive payments or benefits in connection with a change in control that exceeds certain prescribed limits and that we (or a successor) may forfeit a deduction on the amounts subject to this additional tax. We did not provide any of our Named Executive Officers with a “gross-up” or other reimbursement payment for any tax liability that the Named Executive Officer might owe as a result of the application of Sections 280G or 4999, and we have not agreed and are not otherwise obligated to provide any Named Executive Officer with such a “gross-up” or other reimbursement.

Accounting for Share-Based Compensation. We follow ASC Topic 718 for our share-based compensation awards. ASC Topic 718 requires companies to measure the compensation expense for all share-based compensation awards made to employees and directors, including stock options, based on the grant date “fair value” of these awards. This calculation is performed for accounting purposes and reported in the compensation tables below, even though our Named Executive Officers may never realize any value from their awards. ASC Topic 718 also requires companies to recognize the compensation cost of their share-based compensation awards in their income statements over the period that an executive officer is required to render service in exchange for the option or other award.

CEO Pay Ratio

As required by Item 402(u) of Regulation S-K, we are providing the following information about the relationship of the annual total compensation of our employees and the annual total compensation of our Chief Executive Officer:

For 2017, our last completed fiscal year:

- the median of the annual total compensation of all employees of our Company (other than our Chief Executive Officer), was $160,048; and

- the annual total compensation of our Chief Executive Officer, as reported in the Summary Compensation Table presented elsewhere in this proxy statement, was $7,923,779.

Based on this information, for 2017, the ratio of the annual total compensation of our Chief Executive Officer to the median of the annual total compensation of all employees was approximately 50 to 1. This pay ratio is a reasonable estimate based on our reasonable judgement and assumptions and calculated in a manner consistent with Item 402(u) of Regulation S-K. SEC rules do not specify a single methodology for identification of the median employee or calculation of the pay ratio, and other companies may use assumptions and methodologies that are different from those used by us in calculating their pay ratio. Accordingly, the pay ratio disclosed by other companies may not be comparable to the Company's pay ratio as disclosed above.

To identify the median of the annual total compensation of all our employees, as well as to determine the annual total compensation of the "median employee," the methodology and the material assumptions, adjustments, and estimates that we used were as follows:

- We selected October 31, 2017 as the date upon which we would identify the median employee.
- To identify the "median employee" from our employee population we used payroll and equity plan records.
    - The compensation measure included the following: annual base salary for salaried employees (or hourly rate multiplied by estimated work schedule for hourly employees), actual incentive compensation paid in 2017 as of the determination date, and grant date fair value of equity awards granted in 2017.
    - We did not apply any de minimis exclusions to remove certain employees in non-U.S. jurisdictions allowed by Item 402(u).
    - Amounts paid in foreign currency were converted into United States dollars using 2017 average exchange rates.
    - The calculation was performed for all employees, excluding Ms. Ullal, whether employed on a full-time, part-time, or seasonal basis. As a result of this process, we identified an employee whose compensation was determined to be anomalous. Therefore, we exercised discretion permitted by SEC rules to select an alternative median employee, whose compensation was viewed to be more representative of employees at or near the median. The selected employee was within two individuals, below the median.
- With respect to the annual total compensation of the "median employee," we identified and calculated the elements of such employee's compensation for 2017 in accordance with the requirements of Item 402(c)(2)(x) of Regulation S-K, resulting in annual total compensation of $160,048.
- With respect to the annual total compensation for our Chief Executive Officer, we used the amount reported in the "Total" column of our Summary Compensation Table for Fiscal Year 2017.

Compensation Committee Report

The compensation committee has reviewed and discussed the section titled "Executive Compensation" with management. Based on such review and discussion, the compensation committee has recommended to the board of directors that the section titled "Executive Compensation" be included in this proxy statement.

Respectfully submitted by the members of the compensation committee of the board of directors:

Charles Giancarlo (Chair)
Daniel Scheinman

Equity Compensation Plan Information

The following table summarizes our equity compensation plan information as of December 31, 2017. Information is included for equity compensation plans approved by our stockholders and equity compensation plans not approved by our stockholders. We will not grant equity awards in the future under any of the equity compensation plans not approved by our stockholders included in the table below.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflecting in Column (a))
Equity compensation plans approved by stockholders	8,561,517[1]	33.05 [2]	15,499,375[3]
Equity compensation plans not approved by stockholders	—	—	—
Total	8,561,517	33.05	15,499,375

(1) Includes 7,024,382 shares underlying stock options and 1,537,135 shares of restricted stock units.

(2) The weighted average exercise price is calculated based solely on outstanding stock options.

(3) Includes the following plans: Arista Networks, Inc. 2014 Equity Incentive Plan ("2014 Plan") and Arista Networks, Inc. 2014 Employee Stock Purchase Plan ("ESPP"). Our 2014 Plan provides that on the first day of each fiscal year beginning in 2016 and ending in (and including) 2024, the number of shares available for issuance thereunder is automatically increased by a number equal to the least of (i) 12,500,000 shares, (ii) 3% of the outstanding shares of our common stock as of the last day of our immediately preceding year, or (iii) such other amount as our board of directors may determine. On January 1, 2018, the number of shares available for issuance under our 2014 Plan increased by 2,211,176 shares pursuant to these provisions. Our ESPP provides that on the first day of each fiscal year beginning in 2015 and ending in (and including) 2034, the number of shares available for issuance thereunder is automatically increased by a number equal to the least of (i) 2,500,000 shares, (ii) 1% of the outstanding shares of our common stock on the first day of such year, or (iii) such other amount as our board of directors may determine. On January 1, 2018, the number of shares available for issuance under our ESPP increased by 737,058 shares pursuant to these provisions. These increases are not reflected in the table above.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information with respect to the beneficial ownership of our common stock as of April 4, 2018 for:

- each of our directors and nominees for director;
- each of our Named Executive Officers;
- all of our current directors and executive officers as a group; and
- each person or group, who beneficially owned more than 5% of our common stock.

We have determined beneficial ownership in accordance with the rules of the SEC, and thus it represents sole or shared voting or investment power with respect to our securities. Unless otherwise indicated below, to our knowledge, the persons and entities named in the table have sole voting and sole investment power with respect to all shares that they beneficially owned, subject to community property laws where applicable.

We have based our calculation of the percentage of beneficial ownership on 74,362,128 shares of our common stock outstanding as of April 4, 2018. We have deemed shares of our common stock subject to stock options that are currently exercisable or exercisable within 60 days of April 4, 2018 and RSUs that vest within 60 days of April 4, 2018, which are subject to vesting conditions expected to occur to be outstanding and to be beneficially owned by the person holding the stock option for the purpose of computing the percentage ownership of that person. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person.

Unless otherwise indicated, the address of each beneficial owner listed in the table below is c/o Arista Networks, Inc., 5453 Great America Parkway, Santa Clara, California 95054. The information provided in the table is based on our records, information filed with the SEC and information provided to us, except where otherwise noted.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Shares Beneficially Owned
5% Stockholders:		
The Bechtolsheim Family Trust [(1)]	12,663,121	17.03%
Capital Research Global Investors [(2)]	6,609,097	8.89%
The 2010 David R. Cheriton Irrevocable Trust dtd July 28, 2010 [(3)]	5,533,218	7.44%
The Vanguard Group [(4)]	4,462,986	6.00%
Named Executive Officers and Directors:		
Jayshree Ullal [(5)]	3,820,152	5.13%
Ita Brennan [(6)]	36,349	*
Andreas Bechtolsheim [(1)(7)]	13,118,659	17.53%
John McCool [(8)]	10,218	*
Anshul Sadana [(9)]	154,101	*
Charles Giancarlo [(10)]	80,001	*
Ann Mather [(11)]	56,234	*
Daniel Scheinman [(12)]	33,834	*
Mark Templeton [(13)]	1,746	*
Nikos Theodosopoulos [(14)]	26,746	*
All executive officers and directors as a group (12 persons) [(15)]	18,852,455	24.95%

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* Represents beneficial ownership of less than one percent (1%) of the outstanding shares of our common stock.

(1) Includes 12,663,121 shares held by the Bechtolsheim Family Trust for which trust Mr. Bechtolsheim serves as trustee. Mr. Bechtolsheim may be deemed to exercise sole voting and investment power over such shares held by the trust.

(2) Based solely upon a Schedule 13G/A filed with the SEC on February 14, 2018 by Capital Research Global Investors ("Capital") reporting beneficial ownership as of December 29, 2017. Capital reported sole voting and dispositive power with respect to all of such shares. The address for Capital is 333 South Hope Street, Los Angeles, California 90071.

(3) Based upon a Schedule 13G/A filed with the SEC on February 9, 2018. Includes 5,533,218 shares held in an irrevocable, directed trust for the benefit of the minor children of Mr. Cheriton. The trustee of the trust is the South Dakota Trust Company, LLC and Mr. Cheriton ultimately has the ability to replace the trustee. The investment management functions of the trust are handled by the investment committee of the trust. The address for the trustee of the trust is c/o South Dakota Trust Company LLC, 201 South Phillips Ave., Suite 200, Sioux Falls, South Dakota 57104.

(4) Based solely upon a Schedule 13G filed with the SEC on February 8, 2018 by The Vanguard Group ("Vanguard") reporting beneficial ownership as of December 31, 2017. Vanguard reported shared voting power with respect to 10,038 shares and shared dispositive power with respect to 46,056 shares. The address for Vanguard is 100 Vanguard Boulevard, Malvern, Pennsylvania 19355.

(5) Includes 2,312,564 shares held by Jayshree Ullal and Vijay Ullal as Trustees of the 2000 Ullal Trust dated February 15, 2000. Mr. and Ms. Ullal may be deemed to be the beneficial owner of the shares and to have shared voting and investment control over such shares. Includes 1,429,000 shares held in trusts for Ms. Ullal's family members for which trusts Ms. Ullal serves as trustee. Ms. Ullal may be deemed to exercise sole voting and investment control over shares held in each of the trusts. Includes 5,900 shares held directly by Ms. Ullal. Includes 20,000 shares subject to outstanding options which may be exercised prior to vesting, as of a date within 60 days of April 4, 2018, 14,000 of which shares may be repurchased by us, if exercised, at the original exercise price in the event of the termination of Ms. Ullal's services to us. Also includes 52,688 shares issuable within 60 days of April 4, 2018 upon vesting of restricted stock units or the exercise of outstanding exercisable options held by Ms. Ullal.

(6) Includes 22,725 shares issuable within 60 days of April 4, 2018 upon vesting of restricted stock units or the exercise of outstanding exercisable options held by Ms. Brennan.

(7) Includes 1,349 shares held directly by Mr. Bechtolsheim. Includes 411,667 shares subject to outstanding options which may be exercised prior to vesting as of a date within 60 days of April 4, 2018, 347,333 of which shares may be repurchased by us, if exercised, at the original exercise price in the event of the termination of Mr. Bechtolsheim's services to us. Also, includes 42,522 shares issuable within 60 days of April 4, 2018 upon vesting of restricted stock units or the exercise of outstanding exercisable options held by Mr. Bechtolsheim.

(8) Includes 10,167 shares issuable within 60 days of April 4, 2018 upon vesting of restricted stock units or the exercise of outstanding exercisable options held by Mr. McCool.

(9) Includes 18,914 shares held by Mr. Sadana, of which 15,750 shares remain subject to a repurchase right held by us at the original exercise price, as of a date within 60 days of April 4, 2018, in the event of the termination of Mr. Sadana's employment with us. The repurchase right lapses as to approximately 875 shares per month. Also includes 128,062 shares subject to outstanding options which may be exercised prior to vesting, as of a date within 60 days of April 4, 2018, 125,425 shares of which may be repurchased by us, if exercised, at the original exercise price. Also includes 7,125 shares issuable within 60 days of April 4, 2018 upon vesting of restricted stock units or the exercise of outstanding exercisable options held by Mr. Sadana.

(10) Includes 73,334 shares held of record by Mr. Giancarlo as trustee of the Giancarlo Family Trust UAD 11/02/98. Mr. Giancarlo may be deemed to be the beneficial owner of the shares and to have voting and investment power over such shares. The 73,334 shares includes 12,500 shares which may be repurchased by us at the

original exercise price, as of a date within 60 days of April 4, 2018, in the event of the termination of Mr. Giancarlo's services to us. The repurchase right lapses as to approximately 417 shares per month. Includes 5,833 shares held directly by Mr. Giancarlo. Also includes 834 shares issuable within 60 days of April 4, 2018 upon vesting of restricted stock units held by Mr. Giancarlo.

(11) Includes 50,000 shares subject to outstanding options which may be exercised prior to vesting, as of a date within 60 days of April 4, 2018, 20,000 of which shares may be repurchased by us, if exercised, at the original exercise price in the event of the termination of Ms. Mather's services to us. Also includes 834 shares issuable within 60 days of April 4, 2018 upon vesting of restricted stock units held by Ms. Mather.

(12) Includes 28,000 shares subject to outstanding options which may be exercised prior to vesting, as of a date within 60 days of April 4, 2018, 10,333 of which shares may be repurchased by us, if exercised, at the original exercise price in the event of the termination of Mr. Scheinman's services to us. Also includes 834 shares issuable within 60 days of April 4, 2018 upon vesting of restricted stock units held by Mr. Scheinman.

(13) Includes 437 shares issuable within 60 days of April 4, 2018 upon vesting of restricted stock units held by Mr. Templeton.

(14) Includes 25,000 shares subject to outstanding options which may be exercised prior to vesting, as of a date within 60 days of April 4, 2018, 4,167 of which shares may be repurchased by us, if exercised, at the original exercise price in the event of the termination of Mr. Theodosopoulos' services to us. Also includes 437 shares issuable within 60 days of April 4, 2018 upon vesting of restricted stock units held by Mr. Theodosopoulos

(15) Includes 1,191,157 shares issuable within 60 days of April 4, 2018 upon vesting of options and restricted stock units or the early exercise of outstanding options, 680,424 of which shares are unvested and may be repurchased by us, if exercised, at the original exercise price in the event of the termination of employment or other services to us.

RELATED PERSON TRANSACTIONS

In addition to the compensation arrangements, including employment, termination of employment and change in control arrangements discussed above in the sections titled "Board of Directors and Corporate Governance – Director Compensation" and "Executive Compensation," we describe below transactions and series of similar transactions, since the beginning of our last fiscal year, to which we were a party or will be a party, in which:

- the amounts involved exceeded or will exceed $120,000; and
- any of our directors, nominees for director, executive officers or holders of more than 5% of our outstanding capital stock, or any immediate family member of, or person sharing the household with, any of these individuals or entities, had or will have a direct or indirect material interest.

Other than as described below, there has not been, nor is there any currently proposed, transactions or series of similar transactions to which we have been or will be a party.

Investors' Rights Agreement

We are party to an investors' rights agreement which provides, among other things, that certain holders of our common stock have the right to demand that we file a registration statement or request that their shares of our common stock be covered by a registration statement that we are otherwise filing.

Other Transactions

Charles Giancarlo, a member of our board of directors, also serves as chief executive officer and a member of the board of directors of Pure Storage, Inc., a data storage solutions company, since August 2017. Pure Storage, Inc. has purchased, and may purchase from time to time, our products in the ordinary course of business. Mr. Giancarlo did not participate in negotiations involving, and does not have a direct or indirect material interest in, this transaction.

We have granted stock options and restricted stock units to our Named Executive Officers and certain of our directors. See the section titled "Executive Compensation – Outstanding Equity Awards at 2017 Year-End" for a description of these stock options and restricted stock units.

Other than as described above under this section titled "Related Person Transactions," since January 1, 2017, we have not entered into any transactions, nor are there any currently proposed transactions, between us and a related party where the amount involved exceeds, or would exceed, $120,000, and in which any related person had or will have a direct or indirect material interest. We believe the terms of the transactions described above were comparable to terms we could have obtained in arm's-length dealings with unrelated third parties.

Policies and Procedures for Related Party Transactions

Our audit committee has the primary responsibility for reviewing and approving or ratifying related party transactions. We have a formal written policy providing that a related party transaction is any transaction between us and an executive officer, director, nominee for director, beneficial owner of more than 5% of any class of our capital stock, or any member of the immediate family of any of the foregoing persons, in which such party has a direct or indirect material interest and the aggregate amount involved exceeds $120,000. In reviewing any related party transaction, our audit committee is to consider the relevant facts and circumstances available to our audit committee, including, whether the transaction is on terms no less favorable than terms generally available to an unaffiliated third party under the same or similar circumstances, and the extent of the related party's interest in the transaction. Our audit committee has determined that certain transactions will be deemed to be pre-approved by our audit committee, including certain executive officer and director compensation, transactions with another company at which a related party's only relationship is as a non-executive employee, director or beneficial owner

of less than 10% of that company's shares, transactions where a related party's interest arises solely from the ownership of our common stock and all holders of our common stock received the same benefit on a pro rata basis, and transactions available to all employees generally. If advance approval of a transaction is not feasible, the Chair of our audit committee may approve the transaction and the transaction may be ratified by our audit committee in accordance with our formal written policy.

OTHER MATTERS

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires that our executive officers and directors, and persons who own more than 10% of our common stock, file reports of ownership and changes of ownership with the SEC. Such directors, executive officers and 10% stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file.

SEC regulations require us to identify in this proxy statement anyone who filed a required report late during the most recent fiscal year. Based on our review of forms we received, or written representations from reporting persons stating that they were not required to file these forms, we believe that during our fiscal year ended December 31, 2017, all Section 16(a) filing requirements were satisfied on a timely basis, except that, due to an administrative error, a Form 4 for Nikos Theodosopoulos reporting a release of restricted stock units on November 20, 2017 was not reported until November 30, 2017.

Fiscal Year 2017 Annual Report and SEC Filings

Our financial statements for our fiscal year ended December 31, 2017 are included in our Annual Report on Form 10-K, which we will make available to stockholders at the same time as this proxy statement. This proxy statement and our annual report are posted on the Financial Information section of our website at http://investors.arista.com and are available from the SEC at its website at www.sec.gov. You may also obtain a copy of our annual report without charge by sending a written request to Arista Networks, Inc., Attention: Investor Relations, 5453 Great America Parkway, Santa Clara, California 95054.

* * *

The board of directors does not know of any other matters to be presented at the Annual Meeting. If any additional matters are properly presented at the Annual Meeting, the persons named in the enclosed proxy card will have discretion to vote the shares of our common stock they represent in accordance with their own judgment on such matters.

It is important that your shares of our common stock be represented at the Annual Meeting, regardless of the number of shares that you hold. You are, therefore, urged to vote by telephone or by using the Internet as instructed on the enclosed proxy card or execute and return, at your earliest convenience, the enclosed proxy card in the envelope that has also been provided.

THE BOARD OF DIRECTORS

Santa Clara, California
April 18, 2018

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, 2017

Or

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

For the transition period from to

Commission file number: 001-36468

ARISTA NETWORKS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-1751121**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

5453 Great America Parkway
Santa Clara, California 95054
(Address of principal executive offices)
(408) 547-5500
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.0001 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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 Exchange 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 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth 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 ☐
		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 ☒

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $8,052,073,793 as of June 30, 2017 based on the closing sale price of the registrant's common stock on the New York Stock Exchange on such date. Shares held by persons who may be deemed affiliates have been excluded. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

On February 9, 2018, 73,875,377 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement relating to its 2018 Annual Stockholders' Meeting to be filed pursuant to Regulation 14A within 120 days after the registrant's fiscal year end of December 31, 2017 are incorporated by reference into Part III of this Annual Report on Form 10-K.

ARISTA NETWORKS, INC.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, including the sections entitled "Business," "Risk Factors," "Use of Proceeds," and "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, as Section 21E of the Securities Exchange Act of 1934, as amended, which statements involve substantial risks and uncertainties. The words "believe," "may," "will," "potentially," "estimate," "continue," "anticipate," "intend," "could," "would," "project," "plan," "predict," "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 and our future financial performance, including our expectations regarding our revenue, cost of revenue, gross profit or gross margin and operating expenses;
- our belief that the cloud networking market is rapidly evolving and has a significant potential opportunity for growth;
- our business plan and our ability to effectively manage our growth, including the reporting requirements and compliance obligations of a public company;
- costs associated with defending intellectual property infringement and other claims and the potential outcomes of such disputes, such as those claims discussed in "Legal Proceedings," including the Cisco and Optumsoft litigation matters;
- our ability to comply with any remedial orders issued in connection with the Cisco litigation;
- our ability to satisfy the requirements for cloud networking solutions and to successfully anticipate technological shifts and market needs, innovate new products and bring them to market in a timely manner;
- our ability to retain and increase sales to existing customs and attract new end customers, including large end customers;
- the budgeting cycles and purchasing practices of end customers, including large end customers who may receive lower pricing terms due to volume discounts;
- the buying patterns of our large end customers in which large bulk purchases may or may not occur in certain quarters;
- our inability to fulfill our end customers' orders due to supply chain delays, access to key commodities or technologies or events that impact our manufacturers or their suppliers;
- the deferral or cancellation of orders by end customers, warranty returns or delays in acceptance of our products;
- our ability to further penetrate our existing customer base and sell more complex and higher-performance configurations of our products;
- our ability to displace existing products in established markets;
- our belief that increasing channel leverage will extend and improve our engagement with a broad set of customers;
- our ability to expand our leadership position in the network switch industry, including the areas of mobility, virtualization, cloud computing and cloud networks;
- our ability to timely and effectively scale and adapt our existing technology;
- the benefits realized by our customers in their use of our products and services including lower total cost of ownership;
- our ability to expand our business domestically and internationally;
- the effects of increased competition in our market and our ability to compete effectively;
- the effects of seasonal and cyclical 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 maintain, protect and enhance our brand and intellectual property;
- economic and industry trends;
- estimates and estimate methodologies used in preparing our financial statements;
- future trading prices of our common stock;
- our belief that we have adequately reserved for uncertain tax positions;
- the impact of global and domestic tax reform, including the Tax Cuts and Jobs Act of 2017;
- our belief that our existing cash and cash equivalents together with cash flow from operations will be sufficient to meet our working capital requirements and our growth strategies for the foreseeable future; 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 the section titled "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. You should not rely upon forward-looking statements as predictions of future events.

The forward-looking statements made in this Annual Report on Form 10-K relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Annual Report on Form 10-K to reflect events or circumstances after the date of this Annual Report on Form 10-K or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.

PART I

Item 1. Business

We are a leading supplier of cloud networking solutions that use software innovations to address the needs of large-scale Internet companies, cloud service providers and next-generation data centers for enterprise support. Our cloud networking solutions consist of our Extensible Operating System, or EOS, a set of network applications and our Ethernet switching and routing platforms. Our cloud networking solutions deliver industry-leading performance, scalability, availability, programmability, automation and visibility. At the core of our cloud networking platform is EOS, which was purpose-built to be fully programmable and highly modular. The programmability of EOS has allowed us to create a set of software applications that address the requirements of cloud networking, including workflow automation, network visibility and analytics, and has also allowed us to rapidly integrate with a wide range of third-party applications for virtualization, management, automation, orchestration and network services. Since we began shipping our products, we have grown rapidly, and, according to Crehan Research, we have achieved the second largest market share in data center 10/25/40/50/100 Gigabit Ethernet switch ports, excluding blade switching, sold in 2017. We have been profitable and cash flow positive for each year since 2010.

EOS supports leading cloud and virtualization solutions, including VMware NSX, Microsoft System Center, OpenStack and other cloud management frameworks. We have worked with industry leaders to define new open protocols for the virtualized data center. We co-authored the VXLAN protocol specification with VMware and were the first to demonstrate VXLAN integration and have now expanded VXLAN routing and integration.

We use standard Linux as our underlying operating system, providing customers with access to all Linux operating system facilities. This allows customers to extend our EOS software with off-the-shelf Linux applications and a growing number of open source management tools.

EOS has a highly modular architecture, which allows us to prevent network outages in deployments of our cloud networking solutions. This architecture also allows us to rapidly develop new features and protocols without compromising the quality of the existing code base. Because all of our platform products are powered by the same binary image of EOS, we are able to deliver these new innovations to our entire installed base with minimal disruption.

EOS+, a software platform for network programmability and automation, provides an advanced level of programmability, allowing customers to take advantage of pre-built and custom EOS applications as well as integration with a wide range of technology partner solutions.

In 2015, we introduced CloudVision, a network-wide approach for workload orchestration and workflow automation delivering a turnkey solution for cloud networking. We believe CloudVision's abstraction of the physical network to this broader, network-wide perspective allows for a more efficient approach for several operational use-cases related to automation, visibility, management, security and 3rd party controller integration.

We sell our products through both our direct sales force and our channel partners. Since shipping our first products in 2008, our cumulative end-customer base has grown rapidly. Between December 31, 2011 and December 31, 2017, our cumulative end-customer base grew from approximately 1,100 to over 4,900. Our end customers span a range of industries and include large Internet companies, service providers, financial services organizations, government agencies, media and entertainment companies and others. Our customers include six of the largest cloud services providers based on annual revenue.

Industry Background

Cloud computing is fundamentally changing the way IT infrastructure is built and how applications are delivered. In cloud computing, applications are distributed across thousands of servers. These servers are connected with high-speed network switches that, together, form a pool of resources that allows applications to be rapidly deployed and cost-effectively updated. Cloud computing enables ubiquitous and on-demand network access to these applications from Internet-connected devices including personal computers, tablets and smartphones.

Nearly all consumer applications today are delivered as cloud services. Enterprise applications are rapidly moving to the cloud as well, since cloud services are easier and more cost effective to deploy, scale and operate than traditional applications. Internet leaders like Amazon, eBay, Facebook, Google, Microsoft and Yahoo! pioneered the development of large-scale cloud data centers in order to meet the growing demands of their users, including business customers. Enterprises and service providers around the world are adopting cloud computing technologies in order to achieve similar performance improvements and cost reductions.

The aggregate network bandwidth in the cloud can be orders of magnitude higher than typical legacy data center networks. Therefore, the networks in such cloud environments must be architected and built in a new way. We refer to these next-generation data center networks as cloud networks. Cloud networks must deliver high capacity, high availability and predictable performance and must be programmable to allow integration with third-party applications for network, management, automation, orchestration and network services.

Limitations of Traditional Data Center Networks

In our view, cloud networks and legacy networks are fundamentally different. In a traditional data center, specific applications are installed on a small number of servers, and most network traffic is server-to-client, or "north-south" traffic, which results in perhaps a few terabits/second of aggregate network bandwidth. In the cloud, most network traffic is server-to-server, or "east-west" traffic. The aggregate network bandwidth in the cloud can exceed 1 petabit/second, orders of magnitude higher than that of typical legacy data center networks.

The much larger scale of cloud networks requires much higher network availability since network outages in the cloud are very expensive in terms of customer impact. Traditional network switches have evolved, and the features and capabilities of their operating system have expanded over many years without addressing the structural deficiencies of their underlying software architectures, making it difficult to achieve high network switch reliability.

Some networking vendors have built products that use proprietary protocols to address the scaling needs of next-generation data centers. However, proprietary protocols are generally not acceptable to Internet companies or cloud service providers because they create vendor lock-in.

Legacy networks are not programmable and, as a result, are extremely difficult to integrate with third-party applications for network management, automation, orchestration and network services. This lack of integration forces customers to continue to rely on time consuming, error-prone manual processes that may be cost-prohibitive.

Requirements for Cloud Networking

Cloud networks differ in many aspects from legacy networks, including capacity, performance, scale, availability, programmability, automation, visibility, security and cost performance. The requirements for cloud networking include the following:

- ***Capacity, Performance and Scalability.*** Cloud networks must have sufficient capacity to interconnect large numbers of servers, up to hundreds of thousands, with predictable network bandwidth.
- ***High Availability.*** Cloud networks must overcome hardware and software failures for customers in order to avoid network outages that can result in lost revenue, dissatisfied customers and increased operational cost.
- ***Open and Programmable.*** Cloud networks must be based on open protocols and be programmable to enable integration with leading network applications and management and data analysis tools.
- ***Workflow Automation.*** Cloud networks must offer automated provisioning and configuration to enable fast service delivery and to minimize operational costs, avoiding time-consuming and error-prone manual processes for configuring, provisioning, monitoring and managing the network.
- ***Network Visibility.*** Cloud networks must provide IT administrators with real-time in-depth visibility of network status to proactively monitor, detect and notify when issues arise.
- ***Security.*** Cloud networks require dynamic security and services from physical-to-physical and physical-to-virtual workloads.
- ***Cost Performance.*** Cloud networks must deliver high performance while lowering overall cost of ownership, including capital and operational costs.

Our Cloud Networking Solutions

We are a leading supplier of cloud networking solutions that use software innovations to address the needs of large-scale Internet companies, cloud service providers and next-generation enterprise data centers. Our cloud networking platform was purpose-built to address the functional and performance requirements for cloud networks. We deliver our solutions via our industry-leading 10/25/40/50/100 Gigabit Ethernet switches and routers optimized for next-generation data center networks.

Our cloud networking solutions consist of EOS, our Extensible Operating System, a set of networking applications and our Gigabit Ethernet platforms. At the core of our cloud networking platform is EOS, which was architected to be fully programmable and highly modular.

The programmability of EOS has allowed us to create a set of software applications and application programming interfaces, or APIs, that address the requirements of cloud networking, including workflow automation, network visibility and analytics, and has further allowed us to integrate rapidly with a wide range of third-party applications for virtualization, management, automation, orchestration and network services.

The key benefits of our cloud networking solutions are as follows:

Capacity, Performance and Scalability

Our cloud networking platform enables data center networks to scale to hundreds of thousands of physical servers and millions of virtual machines with the least number of switching tiers. We achieve this by leveraging

standard protocols to meet the scale requirements of cloud computing. We have used active-active Layer 2 and Layer 3 network topologies to enable customers to build extremely large and resilient networks.

High Availability

Our highly modular EOS software architecture was designed to be fault-isolating and self-healing in order to deliver higher stability compared to legacy network operating systems. In addition, our customers can non-disruptively upgrade our switches running in the network using our Smart System Upgrade, or SSU, application.

Open and Programmable

Our EOS software was purpose-built to offer programmable interfaces throughout all levels of our software. This has allowed us to integrate our cloud networking platform with a wide range of leading third-party applications. For example, we support VMware NSX, OpenStack and Microsoft System Center for orchestration and fast provisioning, enabling true workload mobility and automatic provisioning of physical switches. We enable customers, through application programming interfaces, to write their own scripts to customize and optimize their networks. In addition, we support a wide range of software-defined network controllers via our OpenFlow and DirectFlow interfaces.

Workflow Automation

Our EOS software enables enterprises to provision networking resources in minutes with no manual intervention through our Zero Touch Provisioning. We also natively support Ansible, CFEngine, Chef, Puppet, virtual network orchestration applications and third-party management tools. CloudVision, a network-wide approach for workload orchestration and workflow automation delivers a turnkey solution for cloud networking. CloudVision extends the same EOS architectural approach across the network for state, topology, monitoring and visibility. This enables enterprises to move to cloud-class automation without needing significant internal development. Finally, EOS embraces the DevOps model, which is a software development method that combines development and operations, to provision and monitor servers, storage and network resources in a unified fashion.

Network Visibility

Our EOS software provides a set of tools and applications that proactively monitor, detect and notify network managers when network issues arise, delivering real-time data to third-party management applications including Corvil, ExtraHop, Riverbed and Splunk to provide detailed application visibility. Our telemetry applications include VM Tracer, which provides visibility down to the virtual machine level, Path Tracer, which detects errors in provisioned network paths, MapReduce Tracer, which monitors and optimizes the performance of Hadoop workloads, and Health Tracer, which monitors infrastructure resiliency. Our network visibility applications provide real-time insight into the status of the network. They include LANZ, which monitors latency, and DANZ 2017, a set of features previously only available in add-on network visibility devices, which provides advanced traffic monitoring with flow analysis and timestamps, plus the ability to perform tap aggregation for reporting and analysis.

Security

Macro-Segmentation Services (MSS™) is one of the services enabled via CloudVision. Since CloudVision maintains a network-wide database of all state within the network, as well as direct integration with hypervisor resources like VMware vSphere and NSX. It is aware of every workload that is within the network and it learns in real time about new devices or workloads that are added or removed from the network, or moved across ports or servers. Macro-segmentation extends the concept of fine-grained inter-hypervisor security to cloud networks by enabling dynamic security and services for physical to virtual workloads. Macro-segmentation security is a complement to fine-grained security delivered via micro-segmentation that is already implemented in the virtual switch of the physical host on which a VM is running.

Lower Total Cost of Ownership

Our cloud networking platform offers architectural and system advantages that provide our customers with cost-effective and highly available cloud networking solutions. Our programmable, scalable leaf-spine architectures, combined with industry-leading applications, significantly reduce networking costs when compared

to legacy network designs, enabling faster time to service and improved availability. Our automation tools reduce the operational costs of provisioning, managing and monitoring a data center network and speed up service delivery. Our visibility tools provide high levels of visibility into complex network environments without the need for additional data collection equipment. As a result, fewer network engineers are needed to operate large networks.

Our Market Opportunity

We compete primarily in the data center switching market for 10 Gigabit Ethernet and above, excluding blade switches.

We believe that cloud computing represents a fundamental shift from traditional legacy data centers and that cloud networking is the fastest growing segment within the data center switching market. As organizations of all sizes are adopting cloud architectures, spending on cloud and next-generation data centers has increased rapidly over the last several years, while traditional legacy IT spending has been growing more slowly. In 2017, our 7150, 7050, 7250, 7300 and 7500 Series platforms are now listed on the U. S. Department of Defense Approved Products Lists Integrated Tracking System by the Defense Information Systems Agency.

Our Customers

As of December 31, 2017, we had delivered our cloud networking solutions to over 4,900 end customers worldwide in approximately 80 countries. Our end customers span a range of industries and include large Internet companies, service providers, financial services organizations, government agencies, media and entertainment companies and others. For each of the years ended December 31, 2017, 2016, and 2015, Microsoft purchases, through our channel partner World Wide Technology, Inc., accounted for more than 10% of our total revenue.

Our Competitive Strengths

We believe the following strengths will allow us to maintain and extend our technology leadership position in cloud networking and next-generation data center Ethernet products:

- ***Purpose-Built Cloud Networking Platform.*** We have developed a highly scalable cloud networking platform that uses software to address the needs of large-scale Internet companies, cloud service providers, financial services organizations, government agencies and media and entertainment companies, including virtualization, big data and low-latency applications. As a result, our cloud networking platform does not have the inherent limitations of legacy network architectures.
- ***Broad and Differentiated Portfolio.*** Using multiple silicon architectures, we deliver switches and routers with industry-leading capacity, low latency, port density and power efficiency and have innovated in areas such as deep packet buffers, embedded optics and reversible cooling. Our broad portfolio has allowed us to offer customers products that best match their specific requirements.
- ***Single Binary Image Software.*** The single binary image of EOS software allows us to maintain feature consistency across our entire product portfolio and enables us to introduce new software innovations into the market that become available to our entire installed base without a "forklift upgrade" (i.e., a broad upgrade of the data center infrastructure).
- ***Rapid Development of New Features and Applications.*** Our highly modular EOS software has allowed us to rapidly deliver new features and applications while preserving the structural integrity and quality of our network operating system. We believe our ability to deliver new features and capabilities more quickly than legacy switch/router operators, provides us with a strategic advantage given that the requirements in cloud and next-generation data center networking continue to evolve rapidly.
- ***Deep Understanding of Customer Requirements.*** We have developed close working relationships with many of our largest customers that provide us with insights about their needs and future requirements. This has allowed us to develop and deliver products to market that meet customer demands and expectations as well as to rapidly grow sales to existing customers.
- ***Strong Management and Engineering Team with Significant Data Center Networking Expertise.*** Our management and engineering team consists of networking veterans with extensive data center networking expertise. Our President and Chief Executive Officer, Jayshree Ullal, with 30+ years of networking expertise

from silicon to systems companies. Andy Bechtolsheim, our Founder and Chief Development Officer, was previously a Founder and chief system architect at Sun Microsystems. Kenneth Duda, our Founder and Chief Technology Officer, led the software development effort of EOS.

- ***Significant Technology Lead.*** We believe that our networking technology represents a fundamental advance in networking software. Our EOS software is state-driven and the result of more than 1,000 man-years of research and development investment over a ten-year period with 10+ million lines of code as a key cloud networking software stack.

Our Products and Technology

We offer one of the broadest product lines of data center 10/25/40/50/100 Gigabit Ethernet switches and routers in the industry, comprising our 7010/7020 Series, 7050X Series, 7060X Series, 7160 Series, 7150 Series, 7250X Series, 7260 Series, 7280R Series Universal Leaf products, 7300X Series Spline products, and our 7500R Series Universal Spine products.

We deliver routing and switching platforms with industry-leading capacity, low latency, port density and power efficiency. We have also innovated in areas such as deep packet buffers, embedded optics and reversible cooling. Our products have been recognized with a number of awards, including the Best of Interop Grand Prize that was given to our industry-leading spine switch, the Arista 7500 Series, in 2010 and again, to the Arista 7500E Series, in 2013. An overview of our switching/routing portfolio is shown in the figure below.

We use multiple silicon architectures across our products, which allows us to build a broader range of products optimized for different functions in the network than competitors that utilize fewer silicon architectures. While we use multiple silicon architectures, all of our platforms are powered with the same binary EOS image, which significantly simplifies deployment and ensures the same rich feature set and consistent operation across all our products.

Our Extensible Operating System

The core of our cloud networking platform is our Extensible Operating System, or EOS, which runs on top of standard Linux and offers programmability at all layers of the stack. All of our 10/25/40/50/100 Gigabit Ethernet platforms run our EOS software.

EOS is based on a new and innovative architecture that is highly modular and consists of more than 100 separate processes that we call agents, each one handling specific protocol processing, device driver or system management functions. Each agent runs in user space as a separate Linux process and is completely protected and isolated from all other agents.

We are constantly investing in our core infrastructure to provide the capabilities required for building modern cloud networks and enhancing scalability. New requirements for use in cloud and service provider networks and hybrid cloud deployments in enterprises require on-going upgrades and extensions to our state oriented architecture.

EOS Attributes

The modular and programmable architecture of EOS enables us to offer a set of attributes, capabilities and features that are essential for cloud networking and next-generation data centers.

High Availability

EOS is self-healing in the sense that individual processes can be restarted without impacting application traffic. This architectural design principle supports self-healing resiliency in our software, easier software maintenance and module independence, higher software quality overall, and faster time-to-market for new features that customers require.

Programmable at All Layers

EOS is programmable at all layers from the Linux kernel to switch configuration, provisioning, automation and detailed monitoring of the network. Public cloud providers have leveraged tools such as the EOS Software Development Kit ("SDK") and eAPI to implement fully customized infrastructure automation solutions.

Workflow Visibility

Through EOS, we have developed a wide range of applications available to our customers for purchase as additional licenses that enable enhanced network monitoring and visibility without requiring additional external monitoring devices. This includes (i) DataANalyZer (DANZ), which provides access to raw network data for analysis by security, troubleshooting and performance management tools, (ii) Latency/loss ANalyZer (LANZ), which provides access to internal network performance loads and packet loss and latency occurring at the microsecond level, (iii) Network Telemetry, which provides network state information including correlations with dynamic state of the systems operating on the network such as Hypervisors, distributed job controls and (iv) Network Tracers, which provide active integration and diagnostics for various workload conditions dependent upon network performance.

Network Automation

EOS supports Puppet, Chef and Ansible, which enables automatic network configuration in the same manner as servers and storage. In addition, EOS provides tools that greatly reduce network operational costs. Another major component of network automation is Cloud Vision.

CloudVision

CloudVision's abstraction of the physical network to a broader, network-wide perspective allows for a more efficient approach for several operational use-cases, including the following highlights:

- Centralized representation of distributed network state, allowing for a single point of integration and network-wide visibility and analytics;
- Controller agnostic support for physical and virtual workload orchestration through open APIs such as OVSDB, JSON and Openstack plugins;
- Turn-key automation for zero touch provisioning, configuration management and network-wide upgrades and rollback;
- Compliance Dashboard for Security, Audit and patch management;
- Real-time Streaming for Telemetry and Network Analytics, a modern approach to replace legacy polling per device;
- Provides visibility and troubleshooting for underlay and overlay networks; and
- Enables Macro-Segmentation Services which provides a dynamic and scalable network service to logically insert security devices into the path of traffic, regardless of whether the security device or workload is physical or virtual and with complete flexibility on placement of security devices and workloads.

Containerized EOS

Arista cEOS™ is a containerized packaging of EOS software and its agents for deployment in cloud infrastructure with the same proven EOS software image that runs on all of our products. These flexible deployment

options empower cloud network operators that are customizing their operating environments to provide a uniform workflow for development, testing and deployment of differentiated services. It enables the provisioning of a robust and proven network operating system across production and development platforms with a uniform EOS distribution and single-image consistency. Our customers can also utilize cEOS in tandem with industry standard white box hardware and enable a wide array of tools and applications from the container ecosystem.

Arista vEOS Router

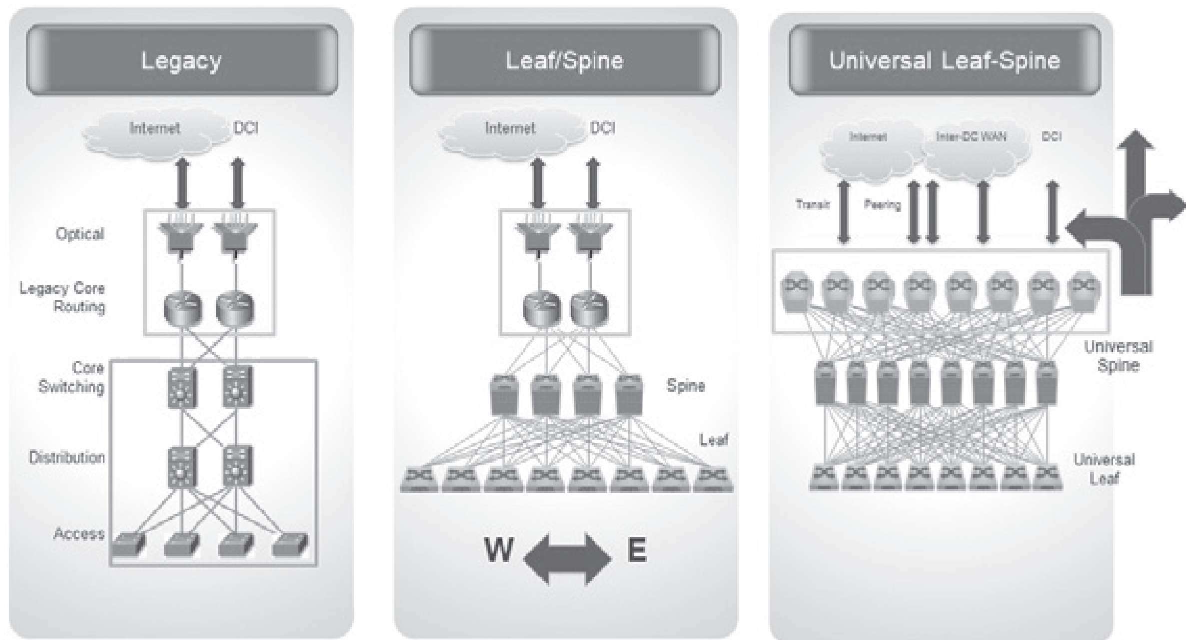
The Arista vEOS Router is a core component of Arista Any Cloud Platform. The vEOS Router is our same, proven single EOS software image, offered as a multi-cloud and multi-hypervisor virtual router. This cloud-grade and feature-rich software platform empowers enterprises and service providers to build consistent, highly secure and scalable cloud networks. The Arista vEOS router is designed to support any public or hybrid cloud environment, including Amazon Web Services (AWS), Microsoft Azure Cloud, Microsoft Azure Stack, Google Cloud Platform, and Oracle Cloud Infrastructure.

Leaf-Spine Network Designs

Our customers typically deploy leaf-spine network topologies consisting of leaf switches or top-of-rack switches, located in the server rack connected with uplinks to multiple load-sharing spine switches and routers that provide the backbone. Our leaf-spine network designs scale up to more than 300,000 physical servers and millions of virtual machines using Equal Cost Multiple Path, or ECMP, to load balance Layer 3 network traffic across multiple spine switches and routers. With Multi-Chassis Link Aggregation, or MLAG, we can build an active-active Layer 2 network that can connect more than 25,000 physical servers. Our leaf-spine network designs have been widely deployed and provide predictable network bandwidth and latency. A key advantage of predictable network performance is that it eliminates the need to optimize the network for specific applications, which means a single network design works equally well for all applications.

Enterprise resources commonly span multiple datacenters or Performance Optimized Datacenters or PODs within a data center, including the public cloud. The drive to deliver resources quickly, affordably, and reliably also drives the need for a flexible, cost-effective, scale-out design at the datacenter core, which we refer to as the “spine of spines” or Universal Spine. The Universal Spine is non-blocking, supports large scale ECMP, IP routing and routing convergence. The Universal Spine enables architects to build the network around the spine and collapse legacy networking layers into the Universal Spine.

Examples of our leaf-spine and universal leaf-spine architectures are illustrated below.



Any Cloud Platform for Hybrid Cloud Networking

The Arista Any Cloud software platform is intended to reduce operational costs and complexity for enterprises by simplifying integration and management of hybrid clouds across private cloud datacenters and public cloud providers. The new virtualized offering and Arista vEOS™ Router, combined with CloudVision® and Cloud Tracer™ functionality, provides consistent operations, orchestration, security and telemetry across multi-cloud environments.

The Arista Any Cloud platform is designed to support any public or hybrid cloud environment, including Amazon Web Services (AWS), the Microsoft Azure cloud platform, Microsoft Azure Stack, an extension of Azure, Google Cloud Platform and Oracle Cloud Infrastructure. Support in each environment is coupled with validation and registration of these solutions in the cloud marketplace infrastructure provided by each cloud provider, thus making deployment simple for the enterprise customer.

This platform will be further enhanced by integration with the Equinix Cloud Exchange™, which provides direct high-performance connections to 70+ cloud providers.

Cloud Principles Migrate Enterprise from PINs to PICs

With the Arista Any Cloud solution, enterprise customers can now deploy a reliable and secure multi-cloud experience with a common Universal Cloud Network approach across all of the places-in-the-cloud (PICs) as opposed to siloed Places-In-the-Network (PINs) of the legacy enterprise. This enables IT organizations to harness dispersed cloud resources anywhere for better availability of services and applications across any cloud, any workload and any location.

Customer Support and Services

We have designed our customer support offerings to provide our customers with high levels of support. Our global team of support engineers engages directly with client IT teams and is available at all times over e-mail, by phone or through our website.

We offer multiple service options that allow our customers to select the product replacement service level that best meets their needs. We stock spare parts in over 125 locations around the world through our third-party

logistics suppliers. All of our service options include unlimited access to bug-fixes, new feature-releases, online case management and our community forums.

Sales and Marketing

We market and sell our products through our direct sales force and in partnership with our channel partners, including distributors, value-added resellers, systems integrators and OEM partners. We also sell in conjunction with various technology partners. To facilitate channel coordination and increase productivity, we have created a partner program, the Arista Partner Program, to engage partners who provide value-added services and extend our reach into the marketplace. Authorized training partners perform technical training of our channel partners and end customers. Our partners commonly receive an order from an end customer prior to placing an order with us, and we confirm the identification of the end customer prior to accepting such orders. Our partners generally do not stock inventory received from us.

Our sales organization is supported by systems engineers with deep technical expertise and responsibility for pre-sales technical support and solutions engineering for our end customers, systems integrators, original equipment manufacturers, or OEMs, and channel partners. A pool of shared channel sales and marketing representatives also supports these teams. Each sales team is responsible for a geographical territory, has responsibility for a number of major direct end-customer accounts or has assigned accounts in a specific vertical market. We have field sales teams operating in approximately 80 countries.

Our marketing activities consist primarily of technology conferences, web marketing, trade shows, product demonstrations, seminars and events, public relations, analyst relations, demand generation and direct marketing to build our brand, increase end-customer awareness, communicate our product advantages and generate qualified leads for our field sales force and channel partners.

Research and Development

We believe our future success depends on our ability to develop new products and features that address the needs of our end customers. Our in-house engineering personnel are responsible for the development, quality, documentation, support and release of our products. We plan to continue to invest significantly in resources to conduct our research and development efforts. Our research and development expense was $349.6 million, $273.6 million and $209.4 million in 2017, 2016, and 2015, respectively.

Manufacturing

We subcontract the manufacturing of all of our products to various contract manufacturers. Our primary manufacturing partners are Jabil Circuit, Sanmina Corporation and Foxconn. This approach allows us to reduce our costs, manufacturing overhead and inventory position and allows us to adjust more quickly to changing end-customer demand. We require all of our manufacturing locations to be ISO-9001 certified. Our EOS software is installed on our products at one of three direct fulfillment facilities.

Our contract manufacturing partners procure the majority of the components needed to build our products and assemble our products according to our design specifications. This allows us to leverage the purchasing power of our contract manufacturing partners. We retain complete control over the bill of material, test procedures and quality assurance programs. Our on-site personnel work closely with our partners and review on an ongoing basis forecasts, inventory levels, processes, capacity, yields and overall quality. Our contract manufacturing partners procure components and assemble our products based on our demand forecasts. These forecasts represent our estimates of future demand for our products based upon historical trends and analyses from our sales and product management functions as adjusted for overall market conditions. We update these forecasts monthly.

Our products rely on key components, including merchant silicon, integrated circuit components and power supplies purchased from a limited number of suppliers, including certain sole source providers. Generally, neither our contract manufacturers nor we have a written agreement with these component providers to guarantee the supply of the key components used in our products nor do we have exclusive rights to such key components. Our product development efforts also depend upon continued collaboration with our key suppliers, including our merchant silicon vendors such as Broadcom and Intel. As we develop our product roadmap and continue to expand our relationships with these and other merchant silicon vendors, it is critical that we work in tandem with our key

merchant silicon vendors to ensure that their silicon includes improved features and that our products take advantage of such improved features. This enables us to focus our research and development resources on software core competencies and to leverage the investments made by merchant silicon vendors to achieve cost-effective solutions.

Once the completed products are manufactured and tested, our contract manufacturing partners ship them to various theatre direct fulfillment facilities in the United States, the Netherlands and Singapore for final configuration, quality control inspection and shipment to our distribution partners and end customers. After the products are shipped to our end customers, our products are installed by the end customers or by third-party service providers such as system integrators or value added resellers on their behalf.

Backlog

We do not have any long-term purchase commitments from customers. Customers generally order products on an as-needed basis with short lead and delivery times on a per-purchase-order basis. We maintain substantial finished goods inventory to ensure that products can generally be shipped shortly after receipt of an order. A significant portion of our customer shipments in any fiscal year relate to orders received and shipped in that fiscal year. Our customers utilize purchase orders containing non-binding purchase commitments and we allow customers to cancel, change or reschedule orders without penalty at any time prior to shipment, and as a result we do not believe backlog is firm. Due to the foregoing factors, backlog is not a meaningful indicator in any given period of our ability to achieve any particular level of overall revenue or financial performance.

Competition

The markets in which we compete are highly competitive and characterized by rapidly changing technology, changing end-customer needs, evolving industry standards and frequent introductions of new products and services. We expect competition to intensify in the future as the market for cloud networking expands and existing competitors and new market entrants introduce new products or enhance existing products.

The data center networking market has been historically dominated by Cisco Systems, with competition also coming from other large network equipment and system vendors, including Broadcom/Brocade, Dell/EMC, Hewlett Packard Enterprise and Juniper Networks. Most of our competitors have made acquisitions and/or have entered into or extended partnerships or other strategic relationships to offer more comprehensive product lines, including cloud networking solutions. For example, in the last few years alone, Broadcom acquired Brocade, Extreme Networks purchased certain data center networking assets from Broadcom/Brocade and Avaya, Dell acquired Force10 and EMC, IBM acquired Blade Network Technology, Hewlett Packard Enterprise acquired Aruba Networks, Juniper acquired Contrail, and Cisco acquired Insieme. We also face competition from other companies and new market entrants, including “whitebox” switch vendors as well as current technology partners and end customers who may develop network switches and cloud service solutions for internal use and/or to broaden their portfolio of products.

The principal competitive factors applicable to our products include:

- breadth of product offerings and features;
- reliability and product quality;
- ease of use;
- pricing;
- total cost of ownership, including automation, monitoring and integration costs;
- performance and scale;
- programmability and extensibility;
- interoperability with other products;
- ability to be bundled with other vendor offerings; and
- quality of service, support and fulfillment.

We believe our products compete favorably with respect to these factors. Our EOS software offers high reliability, integrates with existing network protocols and is open and programmable. We believe the combination of EOS, a set of network applications and our 10/25/40/50/100 Gigabit Ethernet platforms make our offering highly

competitive for both cloud and enterprise data centers. However, many of our competitors have greater name recognition, longer operating histories, larger sales and marketing budgets and resources, broader distribution and established relationships with channel partners and end customers, greater access to larger end-customer bases, greater end-customer support resources, greater manufacturing resources, the ability to leverage their sales efforts across a broader portfolio of products, the ability to leverage purchasing power when purchasing subcomponents, the ability to bundle competitive offerings with other products and services, the ability to develop their own silicon chips, the ability to set more aggressive pricing policies, lower labor and development costs, greater resources to make acquisitions, larger intellectual property portfolios and substantially greater financial, technical, research and development or other resources.

Intellectual Property

Our success and ability to compete depend substantially upon our core technology and intellectual property. We rely on patent, trademark and copyright laws, trade secret protection and confidentiality agreements with our employees, end customers, resellers, systems integrators and others to protect our intellectual property rights. We file U.S and foreign patent applications to protect our intellectual property and believe that the duration of our issued patents is adequate relative to the expected lives of our products.

We cannot assure you that any of our patent applications will result in the issuance of a patent or whether the examination process will result in patents of valuable breadth or applicability. In addition, any patents that may be issued may be contested, circumvented, found unenforceable or invalidated, and we may not be able to prevent third parties from infringing them. We also license software from third parties for integration into our products, including open source software and other software available on commercially reasonable terms. We also own a number of trademarks in the U.S. and other jurisdictions, including Arista, EOS, CloudVision, CloudStream, CVP, CVX, Health Tracer, MapReduce Tracer, Path Tracer, MXP, MSS, RAIL, Score, SPLINE, SuperSpine, SSU, FlexRoute, NetRollBack, NetDB, OSFP, AlgoMatch, Macro-Segmentation, Macro-Segmentation Service.

We control access to and use of our software, technology and other proprietary information through internal and external controls, including contractual protections with employees, contractors, end customers and partners. Our software is protected by U.S. and international copyright, patent and trade secret laws. Despite our efforts to protect our software, technology and other proprietary information, unauthorized parties may still copy or otherwise obtain and use our software, technology and other proprietary information. In addition, we intend to expand our international operations, and effective patent, copyright, trademark and trade secret protection may not be available or may be limited in foreign countries.

Our industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patent and other intellectual property rights. If we become more successful, we believe that competitors will be more likely to try to develop products that are similar to ours and that may infringe our proprietary rights. It may also be more likely that competitors or other third parties will claim that our products infringe their proprietary rights. In particular, large and established companies in our industry have extensive patent portfolios and are regularly involved in both offensive and defensive litigation. From time to time, third parties, including certain of these large companies and non-practicing entities, may assert patent, copyright, trademark and other intellectual property rights against us, our channel partners or our end customers, whom our standard license and other agreements obligate us to indemnify against such claims. For example, in December 2014, Cisco Systems filed two lawsuits against us in the Northern District of California for alleged patent and copyright infringement. Additionally, Cisco Systems filed two complaints against us in the United States International Trade Commission ("USITC") for patent infringement, and the USITC has initiated an investigation. Please see "Legal Proceedings" included in Part I, Item 3 of this Annual Report on Form 10-K, for a description of this litigation.

Furthermore, to comply with the limited exclusion order and cease and desist order in the 945 Investigation as described in Note 5. Commitments and Contingencies of the Notes to Consolidated Financial Statements included in Part II, Item 8, of this Annual Report on Form 10-K, we have made design changes to our products for sale in the United States to address the features that were found to infringe the patent claims underlying the remedial orders in the 945 Investigation. We have also worked closely with our customers on the qualification and testing of our redesigned products. The timing of completion of these qualification activities, some of which have extended beyond the current quarter, has impacted our business with these customers in these quarters. We will continue to

work with these customers to complete these procedures and improve these design changes with further product modifications in order to meet customer requirements.

We also filed a motion with the U.S. Court of Appeals for the Federal Circuit (the "CAFC") requesting that it stay the orders issued by the United States International Trade Commission ("USITC") in the 945 Investigation pending completion of the appeals of the decisions of the United States Patent Trial and Appeal Board ("PTAB") finding invalid the claims of the patents the USITC found us to infringe in the 945 Investigation. On September 22, 2017, the CAFC denied the motion to stay, but has allowed us to import our redesigned products into the United States without being blocked by the USITC's orders, subject to any determinations by the USITC in subsequent proceedings regarding the redesigned products. The CAFC has also granted our requests to expedite various phases of the appeals of the PTAB's decisions. On October 27, 2017, the USITC instituted a modification proceeding to determine whether our redesigned products infringe the patent claims underlying the remedial orders in the 945 Investigation. The USITC has set a deadline of five months for the Administrative Law Judge ("ALJ") to issue a recommended determination, which may be extended by one month upon a showing of good cause. The recommended determination will be subject to review by the Commission after which the Commission will issue a final determination. The Commission has not set a target date for the final determination.

Successful claims of infringement by a third party, if any, could prevent us from distributing certain products or performing certain services, require us to expend time and money to develop non-infringing solutions or force us to pay substantial damages, royalties or other fees. We cannot assure you that we do not currently infringe, or that we will not in the future infringe, upon any third-party patents or other proprietary rights.

Employees

As of December 31, 2017, we employed approximately 1,800 full-time employees. None of our employees are represented by unions. We consider our relationship with our employees to be good and have not experienced significant interruptions of operations due to labor disagreements.

Segment and Geographic Information

We are organized and operate as one reportable segment, with 72.4% of our total revenue from the Americas, 18.2% from Europe, the Middle East, and Africa ("EMEA"), and 9.4% from the Asia Pacific region in 2017. Refer to Note 9. Segment Information of the Notes to Consolidated Financial Statements included in Part II, Item 8, of this Annual Report on Form 10-K for more information about segments and revenue and assets by geographic region.

Corporate Information

We were incorporated in the State of California as Arastra, Inc. in October 2004. We reincorporated in the State of Nevada in March 2008, and we changed our name to Arista Networks, Inc. in October 2008. We reincorporated in the State of Delaware in March 2014.

Available Information

Our website is located at www.arista.com and our investor relations website is located at investors.arista.com. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are available free of charge on the Investors portion of our web site as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC). Further, a copy of this Annual Report on Form 10-K is located at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

Webcasts of our earnings calls and certain events we participate in or host with members of the investment community are on our investor relations website. Additionally, we announce investor information, including news and commentary about our business and financial performance, SEC filings, notices of investor events, and our press and earnings releases, on our investor relations website. Investors and others can receive notifications of new information posted on our investor relations website in real time by signing up for email alerts and RSS feeds. Further corporate governance information, including our corporate governance guidelines, board committee

charters, and code of conduct, is also available on our investor relations website under the heading "Governance." The contents of our websites, or information that can be accessed through our websites, are not incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

Item 1A. Risk Factors

You should consider carefully the risks and uncertainties described below, together with all of the other information in this Annual Report on Form 10-K, which could materially affect our business, financial condition, results of operations and prospects. The risks described below are not the only risks facing us. Risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially affect our business, financial condition, results of operations and prospects.

Risks Related to Our Business and Our Industry

Our business and operations have experienced rapid growth, and if we do not appropriately manage any future growth or are unable to improve our systems and processes, our business, financial condition, results of operations and prospects will be adversely affected.

We have experienced rapid growth and increased demand for our products over the last several years, which has placed a strain on our management, administrative, operational and financial infrastructure. Our employee headcount and number of end customers have increased, and we expect both to continue to grow over the next year. For example, between December 31, 2011 and December 31, 2017, our headcount grew from approximately 250 employees to approximately 1,800 employees, and our cumulative number of end customers grew from approximately 1,100 to over 4,900. As we have grown, we have had to manage an increasingly large and more complex array of internal systems and processes to scale with all aspects of our business, including our hardware and software development, contract manufacturing, purchasing, logistics, fulfillment and maintenance and support. Our success will depend in part upon our ability to manage our growth effectively. To do so, we must continue to increase the productivity of our existing employees and continue to hire, train and manage new employees as needed. To manage domestic and international growth of our operations and personnel, we will need to continue to improve our operational, financial and management controls and our reporting processes and procedures and implement more extensive and integrated financial and business information systems. We may not be able to successfully implement these or other improvements to our systems and processes in an efficient or timely manner, and we may discover deficiencies in their capabilities or effectiveness. We may experience difficulties in managing improvements to our systems and processes or in connection with third-party technology. In addition, our systems and processes may not prevent or detect all errors, omissions or fraud. Our failure to improve our systems and processes, or their failure to operate effectively and in the intended manner, may result in disruption of our current operations and end-customer relationships, our inability to manage the growth of our business and our inability to accurately forecast our revenue, expenses and earnings and prevent certain losses.

Our limited operating history makes it difficult to evaluate our current business and future prospects and may increase the risk associated with your investment.

We shipped our first products in 2008 and the majority of our revenue growth has occurred since the beginning of 2010. Our limited operating history makes it difficult to evaluate our current business and our future prospects, including our ability to plan for and model future growth. We have encountered and will continue to encounter risks and difficulties frequently experienced by rapidly growing companies in constantly evolving industries, including the risks described elsewhere in this Annual Report on Form 10-K. If we do not address these risks successfully, our business, financial condition, results of operations and prospects will be adversely affected, and the market price of our common stock could decline. Further, we have limited historical financial data, and we operate in a rapidly evolving market. As such, any predictions about our future revenue and expenses may not be as accurate as they would be if we had a longer operating history or operated in a more predictable market.

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

Our revenue growth rate in recent periods may not be indicative of our future performance. We experienced annual revenue growth rates of 45.8%, 34.8%, and 43.4% in 2017, 2016, and 2015, respectively. We may not

achieve similar revenue growth rates in future periods as the size of our customer base increases, we achieve higher market penetration in our current target market and we continue to enter and expand into new target markets. Other factors may also contribute to declines in our growth rates, including changes in demand for our products and services, increased competition, our ability to successfully manage our expansion or continue to capitalize on growth opportunities, the maturation of our business and general economic conditions. You should not rely on our revenue for any prior quarterly or annual period as an indication of our future revenue or revenue growth. If we are unable to maintain consistent revenue or revenue growth, our business, financial condition, results of operations and prospects could be materially adversely affected.

Our results of operations are likely to vary significantly from period to period and be unpredictable and if we fail to meet the expectations of analysts or investors or our previously issued financial guidance, or if any forward-looking financial guidance does not meet the expectation of analysts or investors, the market price of our common stock could decline substantially

Our results of operations have historically varied from period to period, and we expect that this trend will continue. As a result, you should not rely upon our past financial results for any period as indicators of future performance. Our results of operations in any given period can be influenced by a number of factors, many of which are outside of our control and may be difficult to predict, including:

- our ability to increase sales to existing customers and attract new end customers, including large end customers;
- the budgeting cycles, purchasing practices and buying patterns of end customers, including large end customers who may receive lower pricing terms due to volume discounts and who may or may not make large bulk purchases in certain quarters;
- changes in end-customer, geographic or product mix;
- the cost and potential outcomes of existing and future litigation, including Cisco and Optumsoft litigation matters including our ability to comply with any USITC remedial orders issued in connection with the Cisco litigation;
- our ability to develop, market and sell new products and services that are acceptable to our customers including redesigned products that comply with any USITC remedial orders issued in connection with the Cisco litigation;
- changes in the sales and implementation cycles for our products including the qualification and testing of our redesigned products by our customers and any delays or cancellations of purchases caused by such activities;
- the rate of expansion and productivity of our sales force;
- changes in our pricing policies, whether initiated by us or as a result of competition;
- our inability to fulfill our end customers' orders due to the availability of inventory, supply chain delays, access to key commodities or technologies or events that impact our manufacturers or their suppliers;
- the amount and timing of operating costs and capital expenditures related to the operation and expansion of our business;
- changes in end-customer, distributor or reseller requirements or market needs;
- deferral or cancellation of orders from end customers, including in anticipation of new products or product enhancements announced by us or our competitors, or warranty returns;
- the inclusion of any acceptance provisions in our customer contracts or any delays in acceptance of those products;
- changes in the growth rate of the networking market;
- the actual or rumored timing and success of new product and service introductions by us or our competitors or any other change in the competitive landscape of our industry, including consolidation among our competitors or end customers;
- our ability to successfully expand our business domestically and internationally;

- our ability to increase the size of our sales or distribution channel, any disruption in our sales or distribution channels, and/or termination of our relationship with important channel partners;
- decisions by potential end customers to purchase cloud networking solutions from larger, more established vendors, white box vendors or their primary network equipment vendors;
- price competition;
- insolvency or credit difficulties confronting our end customers, which could adversely affect their ability to purchase or pay for our products and services, or confronting our key suppliers, including our sole source suppliers, which could disrupt our supply chain;
- seasonality or cyclical fluctuations in our markets;
- future accounting pronouncements or changes in our accounting policies;
- stock-based compensation expense;
- our overall effective tax rate, including impacts caused by any reorganization in our corporate structure, any changes in our valuation allowance for domestic deferred tax assets and any new legislation or regulatory developments, including the Tax Cuts and Jobs Act of 2017 (the "Tax Act");
- increases or decreases in our expenses caused by fluctuations in foreign currency exchange rates, as an increasing portion of our expenses are incurred and paid in currencies other than the U.S. dollar;
- general economic conditions, both domestically and in foreign markets; and
- other risk factors described in this Annual Report on Form 10-K.

Any one of the factors above or the cumulative effect of several of the factors described above may result in significant fluctuations in our financial and other results of operations. This variability and unpredictability could result in our failure to meet our revenue, gross margins, results of operations or other expectations contained in any forward looking financial guidance we have issued or the expectations of securities analysts or investors for a particular period. If we fail to meet or exceed such guidance or expectations for these or any other reasons, the market price of our common stock could decline substantially, and we could face costly lawsuits, including securities class action suits.

The cloud networking market is rapidly evolving. If this market does not evolve as we anticipate or our target end customers do not adopt our cloud networking solutions, we may not be able to compete effectively, and our ability to generate revenue will suffer.

A substantial portion of our business and revenue depends on the growth and evolution of the cloud networking market. The market demand for cloud networking solutions has increased in recent years as end customers have deployed larger, more sophisticated networks and have increased the use of virtualization and cloud computing. The continued growth of this market will be dependent upon many factors including but not limited to the adoption of our end customers' products and services, the expansion, evolution and build out of our end customers' networks, the overcapacity of existing network infrastructures, changes in the technological requirements for the products and services to be deployed in these networks, the amount and mix of capital spending by our end customers, the financial performance and prospects of our end customers, the availability of capital resources to our end customers, changes in government regulation that could impact cloud networking business models including those regulations related to cyber security, privacy, data protection and net neutrality, our ability to provide cloud networking solutions that address the needs of end customers more effectively and economically than those of other competitors or existing technologies and general economic conditions.

If the cloud networking solutions market does not develop in the way we anticipate, if our solutions do not offer benefits compared to competing networking products or if end customers do not recognize the benefits that our solutions provide, then our business, financial condition, results of operations and prospects could be materially adversely affected.

If we are unable to attract new large end customers or to sell additional products to our existing end customers, our revenue growth will be adversely affected and our revenue could decrease.

To increase our revenue, we must add new end customers and large end customers and sell additional products to existing end customers. For example, one of our sales strategies is to target specific projects at our

current end customers because they are familiar with the operational and economic benefits of our solutions, thereby reducing the sales cycle into these customers. We believe this opportunity with current end customers to be significant given their existing infrastructure and expected future spend. If we fail to attract new large end customers or fail to reduce the sales cycle and sell additional products to our existing end customers, our business, financial condition, results of operations and prospects will be harmed.

We expect large purchases by a limited number of end customers to continue to represent a substantial portion of our revenue, and any loss or delay of expected purchases could result in material quarter-to-quarter fluctuations of our revenue or otherwise adversely affect our results of operations.

Historically, large purchases by a relatively limited number of end customers have accounted for a significant portion of our revenue, particularly in the cloud networking market. Many of these end customers make large purchases to complete or upgrade specific data center installations and are typically made on a purchase-order basis rather than pursuant to long-term contracts. Revenue from sales to Microsoft, through our channel partner, World Wide Technology, Inc., accounted for 16%, 16% and 12% of our revenue for the years ended December 31, 2017, 2016 and 2015, respectively.

As a consequence of the concentrated nature of our customer base and their purchasing behavior, our quarterly revenue and results of operations may fluctuate from quarter to quarter and are difficult to estimate. Changes in the business requirements or focus, vendor selection, project prioritization, financial prospects, capital resources and expenditures or purchasing behavior of our key end customers could significantly decrease our sales to such end customers or could lead to delays or cancellations of planned purchases of our products or services. For example, some of our end customers continue to qualify and test our redesigned products to ensure that they meet network requirements, and failure to obtain such qualification or customer acceptance, any cancellation of orders or any acceleration or delay in anticipated product purchases or the acceptance of shipped products by these customers could materially affect our revenue and results of operations in any quarterly period. We may be unable to sustain or increase our revenue from our large end customers or offset the discontinuation of concentrated purchases by our larger end customers with purchases by new or existing end customers. We expect that such concentrated purchases will continue to contribute materially to our revenue for the foreseeable future and that our results of operations may fluctuate materially as a result of such larger end customers' buying patterns. In addition, we may see consolidation of our customer base, such as among Internet companies and cloud service providers, which could result in loss of end customers. The loss of such end customers, or a significant delay or reduction in their purchases, could materially harm our business, financial condition, results of operations and prospects.

Some of our large end customers require more 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 be required to agree to terms and conditions that may have an adverse effect on our business or ability to recognize revenue.

Our large end customers have significant purchasing power and, as a result, may receive more favorable terms and conditions than we typically provide to other end customers, including lower prices, bundled upgrades, extended warranties, acceptance terms, indemnification terms and extended return policies and other contractual rights. As we seek to sell more products to these large end customers, an increased mix of our shipments may be subject to such terms and conditions, which may reduce our margins or affect the timing of our revenue recognition and thus may have an adverse effect on our business, financial condition, results of operations and prospects.

If we do not successfully anticipate technological shifts, market needs and opportunities, and develop products and product enhancements that meet those technological shifts, needs and opportunities, or if those products are not made available in a timely manner or do not gain market acceptance, we may not be able to compete effectively, and our ability to generate revenue will suffer.

We must continue to enhance our existing products and develop new technologies and products that address emerging technological trends, evolving industry standards and changing end-customer needs. The process of enhancing our existing products and developing new technology is complex and uncertain, and new offerings requires significant upfront investment that may not result in material design improvements to existing products or result in marketable new products or costs savings or revenue for an extended period of time, if at all. The success of new products depends on several factors, including appropriate new product definition, component

costs, timely completion and introduction of these products, differentiation of new products from those of our competitors and market acceptance of these products.

In addition, new technologies could render our existing products obsolete or less attractive to end customers, and our business, financial condition, results of operations and prospects could be materially adversely affected if such technologies are widely adopted. For example, end customers may prefer to address their network switch requirements by licensing software operating systems separately and placing them on industry-standard servers or develop their own networking products rather than purchasing integrated hardware products as has occurred in the server industry.

In the past several years, we have announced a number of new products and enhancements to our products and services. The success of our new products depends on several factors including, but not limited to, component costs, timely completion and introduction of these products, prompt solution of any defects or bugs in these products, our ability to support these products, differentiation of new products from those of our competitors and market acceptance of these products.

Our product releases introduced new software products that include the capability for disaggregation of our software operating systems from our hardware. The success of our strategy to expand our software business is subject to a number of risks and uncertainties including the additional development efforts and costs to create these new products or make them compatible with other technologies, the potential for our strategy to negatively impact revenues and gross margins and additional costs associated with regulatory compliance.

We may not be able to successfully anticipate or adapt to changing technology or end-customer requirements on a timely basis, or at all. If we fail to keep up with technology changes or to convince our end customers and potential end customers of the value of our solutions even in light of new technologies, our business, financial condition, results of operations and prospects could be materially adversely affected.

To remain competitive, we must successfully manage product introductions and transitions.

Our ability to continue to compete effectively in a rapidly evolving market requires that we successfully release new products that meet the increasingly sophisticated networking requirements of our end customers. The success of new product introductions will depend on a number of factors including, but not limited to, timely and successful product development, market acceptance of our new products, our ability to manage the risks associated with new product production ramp-up issues, the timely development and availability of new merchant silicon chips from our suppliers, the effective management of purchase commitments and inventory in line with anticipated product demand, the availability of products in appropriate quantities and costs to meet anticipated demand, and the risk that new products may have quality or other defects or deficiencies in the early stages of introduction. For example, our new product releases will require strong execution from our third party merchant silicon chip suppliers to develop and release new merchant silicon chips that satisfy end-customer requirements, to meet expected release schedules and to provide sufficient quantities of these components. If we are unable to successfully manage our product introductions or transitions as a result of any of these or other factors, our business, financial condition, results of operations and prospects could be adversely affected.

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

The market for data center networking, including the market for cloud networking, is intensely competitive, and we expect competition to increase in the future from established competitors and new market entrants. This competition could result in increased pricing pressure, reduced profit margins, increased sales and marketing expenses and our failure to increase, or the loss of, market share, any of which would likely seriously harm our business, financial condition, results of operations and prospects.

The data center networking market has been historically dominated by Cisco Systems, with competition also coming from other large network equipment and system vendors, including Broadcom/Brocade, Dell/EMC, Hewlett Packard Enterprise and Juniper Networks. Most of our competitors have made acquisitions and/or have entered into or extended partnerships or other strategic relationships to offer more comprehensive product lines, including cloud networking solutions. For example, in the last few years alone, Broadcom acquired Brocade, Extreme Networks purchased certain data center networking assets from Broadcom/Brocade and Avaya, Dell

acquired Force10 and EMC, IBM acquired Blade Network Technology, Hewlett Packard Enterprise acquired Aruba Networks, Juniper acquired Contrail, and Cisco acquired Insieme. We also face competition from other companies and new market entrants, including "white box" switch vendors as well as current technology partners and end customers who may develop network switches and cloud service solutions for internal use and/or to broaden their portfolio of products. Many of our existing and potential competitors enjoy substantial competitive advantages, such as:

- greater name recognition and longer operating histories;
- larger sales and marketing budgets and resources;
- broader distribution and established relationships with channel partners and end customers;
- greater access to larger end-customer bases;
- greater end-customer support resources;
- greater manufacturing resources;
- the ability to leverage their sales efforts across a broader portfolio of products;
- the ability to leverage purchasing power with vendor subcomponents;
- the ability to bundle competitive offerings with other products and services;
- the ability to develop their own silicon chips;
- the ability to set more aggressive pricing policies including bundling of products that are competitive with ours with other products that we do not sell or with support service contracts;
- lower labor and development costs;
- greater resources to make acquisitions;
- larger intellectual property portfolios; and
- substantially greater financial, technical, research and development or other resources.

Our competitors also may be able to provide end customers with capabilities or benefits different from or greater than those we can provide in areas such as technical qualifications or geographic presence or may be able to provide end customers a broader range of products, services and prices. In addition, large competitors may have more extensive relationships with and within existing and potential end customers that provide them with an advantage in competing for business with those end customers. For example, certain large competitors encourage end customers of their other products and services to adopt their data networking solutions through discounted bundled product packages. Our ability to compete will depend upon our ability to provide a better solution than our competitors at a more competitive price. We may be required to make substantial additional investments in research, development, marketing and sales in order to respond to competition, and we cannot assure you 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. Conditions in our market could change rapidly and significantly as a result of technological advancements or other factors. Current or potential competitors may be acquired by third parties that have greater resources available than we do. Our current or potential competitors might take advantage of the greater resources of the larger organization resulting from these acquisitions to compete more vigorously or broadly with us. In addition, continued industry consolidation might adversely affect end customers' perceptions of the viability of smaller and even medium-sized networking companies and, consequently, end customers' willingness to purchase from those companies. Further, certain large end customers may develop network switches and cloud service solutions for internal use and/or to broaden their portfolio of products, which could allow these end customers to become new competitors in the market.

Industry consolidation may lead to increased competition and may harm our business, financial condition, results of operations and prospects.

Most of our competitors have made acquisitions and/or have entered into or extended partnerships or other strategic relationships to offer more comprehensive product lines, including cloud networking solutions. For example, in the last few years alone, Broadcom acquired Brocade, Extreme Networks purchased certain data center networking assets from Broadcom/Brocade and Avaya, Dell acquired Force10 and EMC, IBM acquired Blade

Network Technology, Hewlett Packard Enterprise acquired Aruba Networks, Juniper acquired Contrail, and Cisco acquired Insieme.

Moreover, large system vendors are increasingly seeking to deliver top-to-bottom cloud networking solutions to end customers that combine cloud-focused hardware and software solutions to provide an alternative to our products.

We expect this trend to continue as companies attempt to strengthen their market positions in an evolving industry and as companies are acquired or are unable to continue operations. Companies that are strategic alliance partners in some areas of our business may acquire or form alliances with our competitors, thereby reducing their business with us. Industry consolidation may result in stronger competitors that are better able to compete with us, including any competitors that seek to become sole source vendors for end customers. This could lead to more variability in our results of operations and could have a material adverse effect on our business, financial condition, results of operations and prospects.

We are currently involved in litigation with Cisco Systems, Inc.

We are currently involved in several litigation matters with Cisco Systems, Inc. These matters are summarized below.

Cisco Systems, Inc. v. Arista Networks, Inc. (Case No. 4:14-cv-05343) ("'43 Case")

On December 5, 2014, Cisco filed a complaint against us in the District Court for the Northern District of California alleging that we infringe U.S. Patent Nos. 6,377,577; 6,741,592; 7,023,853; 7,061,875; 7,162,537; 7,200,145; 7,224,668; 7,290,164; 7,340,597; 7,460,492; 8,051,211; and 8,356,296 (respectively, "the '577 patent," "the '592 patent," "the '853 patent," "the 875 patent," "the '537 patent," "the '145 patent," "the '668 patent," "the '164 patent," "the '597 patent," "the '492 patent," "the '211 patent," and "the '296 patent"). Cisco seeks, as relief for our alleged infringement in the '43 Case, lost profits and/or reasonable royalty damages in an unspecified amount, including treble damages, attorney's fees, and associated costs. Cisco also seeks injunctive relief in the '43 Case. On February 10, 2015, the Court granted our unopposed motion to stay the '43 Case until the proceedings before the USITC pertaining to the same patents (as discussed below) became final. Trial has not been scheduled in the '43 Case.

Cisco Systems, Inc. v. Arista Networks, Inc. (Case No. 5:14-cv-05344) ("'44 Case")

On December 5, 2014, Cisco filed a complaint against us in the District Court for the Northern District of California alleging that we infringe numerous copyrights pertaining to Cisco's "Command Line Interface" or "CLI" and U.S. Patent Nos. 7,047,526 and 7,953,886 (respectively, "the '526 patent" and "the '886 patent"). As relief for our alleged patent infringement in the '44 Case, Cisco seeks lost profits and/or reasonable royalty damages in an unspecified amount including treble damages, attorney's fees, and associated costs as well as injunctive relief. As relief for our alleged copyright infringement, Cisco seeks monetary damages for alleged lost profits, profits from our alleged infringement, statutory damages, attorney's fees, and associated costs.

As described below, on May 25, 2016, our petition for Inter Partes Review ("IPR") of the '886 patent was instituted by the United States Patent Trial and Appeal Board ("PTAB"). Cisco subsequently agreed to dismiss its claims as to the '886 patent with prejudice.

On December 14, 2016, following a two-week trial, the jury found that we had proven our copyright defense of scenes a faire and that Cisco had failed to prove infringement of the '526 patent, and on that basis, judgment was entered in our favor on all claims on December 19, 2016.

On January 17, 2017, Cisco filed a motion for judgment as a matter of law, challenging the sufficiency of the evidence in support of our scenes a faire defense. Cisco did not file any post-trial motion regarding the '526 patent, nor did it file a motion for a new trial. We also filed a conditional motion for judgment as a matter of law and/or for a new trial on several grounds, which would be at issue only if the court granted Cisco's motion. The hearing on both parties' motions was held on April 27, 2017. On May 10, 2017, the court denied Cisco's motion and denied our motions as moot.

Cisco filed a notice of appeal on June 6, 2017, and the parties have submitted their appeal briefs to the U.S. Court of Appeals of the Federal Circuit. A hearing date has not yet been set.

Arista Networks, Inc. v. Cisco Systems, Inc. (Case No. 5:16-cv-00923) ("'23 Case")

On February 24, 2016, we filed a complaint against Cisco in the District Court for the Northern District of California alleging antitrust violations and unfair competition. On August 23, 2016, the Court granted Cisco's motion to stay the '23 Case until judgment was entered on Cisco's copyright claims in the '44 Case. On March 2, 2017, the Court lifted the stay and trial is set for August 3, 2018.

On March 23, 2017, Cisco filed a motion to dismiss our complaint in the '23 Case. On October 10, 2017, the Court issued an order granting in part and denying in part Cisco's motion to dismiss, with leave for us to amend to cure any deficiencies as to the claims that were dismissed.

Certain Network Devices, Related Software, and Components Thereof (Inv. No. 337-TA-944) ("944 Investigation")

On December 19, 2014, Cisco filed a complaint against us in the USITC alleging that we violated 19 U.S.C. § 1337 ("Section 337"). The USITC instituted Cisco's complaint as Investigation No. 337-TA-944. Cisco initially alleged that certain of our switching products infringe the '592, '537, '145, '164, '597, and '296 patents. Cisco subsequently dropped the '296 patent from the 944 Investigation. Cisco sought, among other things, a limited exclusion order barring entry into the United States of accused switch products (including our 7000 Series of switches) and components and software therein and a cease and desist order against us restricting our activities with respect to our imported accused switch products and components and software therein.

On February 2, 2016, the ALJ issued his initial determination finding a violation of Section 337. More specifically, the ALJ found that a violation has occurred in the importation into the United States, the sale for importation, or the sale within the United States after importation, of certain network devices, related software, and components thereof that the ALJ found infringed asserted claims 1, 2, 8-11, and 17-19 of the '537 patent; asserted claims 6, 7, 20, and 21 of the '592 patent; and asserted claims 5, 7, 45, and 46 of the '145 patent. The ALJ did not find a violation of Section 337 with respect to any asserted claims of the '597 and '164 patents. On June 23, 2016, the Commission issued its Final Determination, which found a violation with respect to the '537, '592, and '145 patents, and found no violation with respect to the '597 and '164 patents. The Commission also issued a limited exclusion order and a cease and desist order pertaining to network devices, related software and components thereof that infringe one or more of claims 1, 2, 8-11, and 17-19 of the '537 patent; claims 6, 7, 20, and 21 of the '592 patent; and claims 5, 7, 45, and 46 of the '145 patent. On August 22, 2016, the Presidential review period for the 944 Investigation expired. The USITC orders will be in effect until the expiration of the '537, '592, and '145 patents.

Both we and Cisco filed petitions for review of the USITC's Final Determination to the U.S. Court of Appeals for the Federal Circuit ("Federal Circuit"). The appeal was fully briefed and oral argument was held on June 6, 2017. On September 27, 2017, the Federal Circuit affirmed the USITC's Final Determination.

On August 26, 2016, Cisco filed an enforcement complaint under Section 337 with the USITC. Cisco alleges that we are violating the cease and desist and limited exclusion orders issued in the 944 Investigation by engaging in the "marketing, distribution, offering for sale, selling, advertising, and/or aiding or abetting other entities in the sale and/or distribution of products that Cisco alleges continue to infringe claims 1-2, 8-11, and 17-19 of the '537 patent," despite the design changes we have made to those products. Cisco asks the USITC to (1) enforce the cease and desist order; (2) modify the Commission's limited exclusion order and/or cease and desist order "in any manner that would assist in the prevention of the unfair practices that were originally the basis for issuing such Order or assist in the detection of violations of such Order"; (3) impose the maximum statutory civil penalties for violation of the cease and desist order "including monetary sanctions for each day's violation of the cease and desist order of the greater of $100,000 or twice the domestic value of the articles entered or sold, whichever is higher"; (4) bring a civil action in U.S. district court "requesting collection of such civil penalties and the issuance of a mandatory injunction preventing further violation of Cease and Desist Order"; and (5) impose "such other remedies and sanctions as are appropriate and within the Commission's authority." On September 28, 2016, the Commission instituted the enforcement proceeding. The proceeding has been assigned to ALJ Shaw, who presided

over the underlying investigation. The target date for the investigation was initially set for September 20, 2017. On June 20, 2017, the ALJ issued his initial determination finding that we did not violate the June 23, 2016 cease and desist order. The initial determination also recommended a civil penalty of $307 million if the Commission decided to overturn the finding of no violation. On July 3, 2017, the parties filed petitions for review of certain findings in the initial determination.

On August 4, 2017, the Commission issued an order remanding the investigation to the ALJ to make additional findings on certain issues and issue a remand initial determination. The Commission ordered the ALJ to set a schedule for completion of any necessary remand proceedings and a new target date for the enforcement action. On August 25, 2017 the ALJ issued an Initial Determination setting a June 4, 2018 deadline for the remand initial determination and September 4, 2018 as the new target date for the enforcement action. On September 18, 2017, the Commission determined not to review the Initial Determination setting the target date. The ALJ held a hearing on February 1, 2018.

Certain Network Devices, Related Software, and Components Thereof (Inv. No. 337-TA-945) ("945 Investigation")

On December 19, 2014, Cisco filed a complaint against us in the USITC alleging that we violated Section 337. The USITC instituted Cisco's complaint as Investigation No. 337-TA-945. Cisco alleged that certain of our switching products infringe the '577, '853, '875, '668, '492, and '211 patents. Cisco sought, among other things, a limited exclusion order barring entry into the United States of accused switch products (including our 7000 Series of switches) related software, and components therein and a cease and desist order against us restricting our activities with respect to our imported accused switch products and components and software therein.

On December 9, 2016, the ALJ issued her initial determination finding a violation of Section 337. More specifically, the ALJ found that a violation has occurred in the importation into the United States, the sale for importation, or the sale within the United States after importation, of certain network devices, related software, and components thereof that the ALJ found infringe asserted claims 1, 7, 9, 10, and 15 of the '577 patent and asserted claims 1, 2, 4, 5, 7, 8, 10, 13, 19, 56, and 64 of the '668 patent. The ALJ did not find a violation of Section 337 with respect to asserted claim 2 of the '577 patent or any asserted claims of the '853, '492, '875, and '211 patents.

On May 4, 2017, the Commission issued its Final Determination, which found a violation with respect to the '577 and '668 patents, and found no violation with respect to the '211, '853, '875 and '492 patents. The Commission also issued a limited exclusion order and a cease and desist order pertaining to network devices, related software and components thereof that infringe one or more of claims 1, 7, 9, 10, and 15 of the '577 patent and 1, 2, 4, 5, 7, 8, 10, 13, 18, 56, and 64 of the '668 patent. On July 4, 2017, the 60-day Presidential review period for the 945 Investigation expired. During the 60-day Presidential review period, the USITC Orders permitted Arista to continue importing and selling products covered by the orders so long as we paid a 5% bond. Because the United States Trade Representative did not disapprove the USITC's final determination, the limited exclusion order and cease and desist order are now in full effect.

On May 25, 2017 and June 1, 2017, the PTAB issued final written decisions finding all claims of the '577 and '668 patents that we were found to have infringed in the 945 Investigation unpatentable. On June 1, 2017 and June 2, 2017, we filed emergency petitions to suspend the remedial orders in the 945 Investigation. On July 20, 2017, the Commission issued a notice denying our petition to suspend the remedial orders. On July 21, 2017, we filed a motion to stay the remedial orders in the 945 Investigation pending disposition of the relevant appeals and sought expedited consideration of our motion. On September 11, 2017, the Commission denied our motion to stay.

On June 30, 2017, Cisco filed a petition for review of the USITC's Final Determination to the Federal Circuit regarding the '853, '492, '875 and '211 patents. On July 21, 2017, we filed a petition for review of the Final Determination to the Federal Circuit.

On August 25, 2017 we filed a motion with the Federal Circuit requesting that the Federal Circuit stay the remedial orders pending the completion of the appeal of the 945 Investigation. On September 22, 2017, the Federal Circuit issued an order denying our motion to stay, but ordered that our redesigned products be allowed

to enter the country "unless and until Commission proceedings are initiated and completed to produce an enforceable determination that such a redesign is barred" by a Commission remedial order.

On September 27, 2017, Cisco filed a petition with the USITC requesting that the Commission institute a modification proceeding to determine whether our redesigned products infringe the patent claims underlying the remedial orders in the 945 Investigation. On October 27, 2017, the Commission instituted the modification proceeding. The proceeding has been assigned to ALJ McNamara, who presided over the underlying investigation. The Commission has set a deadline of five months for the ALJ to issue a recommended determination on what, if any, modifications to the remedial orders issued in the 945 Investigation are appropriate. This deadline may be extended by one month upon a showing of good cause. The recommended determination will be subject to review by the Commission after which the Commission will issue a final determination. The Commission has not set a target date for the final determination. The hearing was held on January 26, 2018.

Inter Partes Reviews

We have filed petitions for Inter Partes Review of the '597, '211, '668, '853, '537, '577, '886, and '526 patents. IPRs relating to the '597 (IPR No. 2015-00978) and '211 (IPR No. 2015-00975) patents were instituted in October 2015 and hearings on these IPRs were completed in July 2016. On September 28, 2016, the PTAB issued a final written decision finding claims 1, 14, 39-42, 71, 72, 84, and 85 of the '597 patent unpatentable. The PTAB also found that claims 29, 63, 64, 73, and 86 of the '597 patent had not been shown to be unpatentable. On October 5, 2016, the PTAB issued a final written decision finding claims 1 and 12 of the '211 patent unpatentable. The PTAB also found that claims 2, 6-9, 13, 17-20 of the '211 patent had not been shown to be unpatentable. Both parties have appealed the final written decisions on the '211 and '537 patent IPRs. The hearing for the '211 IPR appeal is set for March 2018.

The IPR relating to the '886 patent was instituted on May 25, 2016. Following that decision, Cisco agreed to dismiss its claims as to the ?886patent with prejudice, and we dismissed our counterclaims as to the ?886patent without prejudice.

IPRs relating to the '668 (IPR No. 2016-00309), '577 (IPR No. 2016-00303), '853 (IPR No. 2016-0306), and '537 (IPR No. 2016-0308) patents were instituted in June 2016 and hearings were held on March 7, 2017. On May 25, 2017, the PTAB issued final written decisions finding claims 1, 7-10, 12-16, 18-22, 25, and 28-31 of '577 patent unpatentable, and that claim 2 of the '577 patent, claim 63 of the '853 patent, and claims 1, 10, 19, and 21 of the '537 patent had not been shown to be unpatentable. On June 1, 2017, the PTAB issued a final written decision finding claims 1-10, 12-13, 15-28, 30-31, 33-36, 55-64, 66-67, and 69-72 of the '668 patent unpatentable. We filed a Notice of Appeal concerning the '577 patent on July 21, 2017, and Notices of Appeal concerning the '853 and '537 patents on July 26, 2017. Cisco cross-appealed concerning the '577 patent on July 26, 2017 and filed a Notice of Appeal concerning the '668 patent on August 1, 2017. For the appeals of the IPRs on the '668 and '577 patents, the Federal Circuit granted our motion for an expedited briefing schedule, and the hearings were held on February 9, 2018. On February 14, 2018, the Federal Circuit affirmed the PTAB's final written decision on the '668 patent.

* * * * *

We intend to vigorously defend against each of the Cisco lawsuits, as summarized in the preceding paragraphs. However, we cannot be certain that any claims by Cisco will be resolved in our favor regardless of the merit of the claims. Any adverse litigation ruling could result in injunctive relief and USITC remedial orders, including the above described injunctive relief, could lead to significant penalties assessed or damages awarded against us or a requirement that we make substantial royalty payments to Cisco, and/or could require that we modify our products.

For example, in the 944 Investigation, the USITC issued a limited exclusion order barring entry into the United States of our network devices (including our 7000 Series of switches), related software, and components thereof that infringe one or more of the claims of the '537, ?592,and ?145patents specified above and a cease and desist order restricting our activities with respect to such imported products. In the 945 Investigation, the USITC issued a limited exclusion order barring entry into the United States of our network devices, related software, and components thereof that infringe one or more of the claims of the '577 and '668 patents specified above and a cease and desist order restricting our activities with respect to such imported products.

To comply with these orders, we have sought to develop technical redesigns that no longer infringe the patents that are the subject of the orders. In any efforts to develop these technical redesigns for our products, we may be unable to do so in a manner that does not continue to infringe the patents or that is acceptable to our customers. Our redesign efforts could be extremely costly and time consuming as well as disruptive to our other development activities and distracting to management. Moreover, our ability to import redesigned products into the United States is based on rulings from U.S. Customs and Border Protection ("CBP") and the Federal Circuit. While these favorable rulings currently allow us to import our redesigned products into the United States, the USITC could determine in an enforcement action or modification proceeding that our redesigned products continue to infringe the patents that are the subject of any USITC orders. In addition, the Federal Circuit or CBP could decide to withdraw or alter their rulings based on a change in circumstances. Any failure to effectively redesign our products, obtain customer acceptance of those redesigned products, retain authorization to import those redesigned products, or address the USITC findings in a manner that complies with the USITC orders, may cause a disruption to our product shipments, a rejection or return of our redesigned products by (or a delay or loss of sales to) customers, subject us to penalties or damage awards, and materially and adversely affect our business, revenues, prospects, reputation, results of operations, and financial condition.

Specifically, in response to the USITC's findings in the 944 Investigation, we have made design changes to our products for sale in the United States to address the features that were found to infringe the '537, '592, and '145 patents. Following the issuance of the final determination in the 944 Investigation, we submitted a Section 177 ruling request to CBP seeking approval to import these redesigned products into the United States. On November 18, 2016, we received a 177 ruling from CBP finding that our redesigned products did not infringe the relevant claims of the ?537, '592, and ?145 patents, and approving the importation of those redesigned products into the United States. On January 13, 2017, at the request of Cisco and without our input, CBP issued a letter to us revoking its prior November 18 ruling. CBP subsequently conducted an inter partes proceeding between Arista and Cisco to determine whether our redesigned products infringe and whether to approve them for importation into the United States. On April 7, 2017, following the inter partes proceeding, CBP again ruled that our redesigned products do not infringe the relevant claims of the '537, '592, and '145 patents and again approved those redesigns for importation into the United States. On September 12, 2017, Cisco filed a second request with CBP seeking to revoke our approval to import our redesigns relating to the 944 Investigation. We have opposed Cisco's request, and CBP has not yet ruled on Cisco's request.

Similarly, on May 4, 2017, the USITC issued a limited exclusion order and cease and desist order in the 945 Investigation with respect to the '668 and '577 patents. We have made design changes to our products for sale in the United States to address the features that were found to infringe the '577 and '668 patents. We are making ongoing modifications to our products to also ensure that they continue to meet customer requirements, and we are working with our customers to qualify those modified products for use in our customers' networks. In particular, the '577 patent was directed to a feature that is implemented in the merchant silicon chips that we purchase from third-party suppliers. Because we do not design, build or manufacture these merchant silicon chips, we are limited in further modifications that we can make to our products for this patent. Our redesign efforts therefore consisted of removing the feature found to infringe the '577 patent in all of our products until this patent expires on June 30, 2018, and providing an alternative feature to address the '577 patent for a subset of those products. The redesign and qualification efforts to address the 945 Investigation findings could be extremely costly and time consuming for us and our customers as well as disruptive to our other development activities and distracting to management. We may not be able to complete, and our customers may not be able to qualify these redesigned products in a timely fashion, if at all. For example, some of our customers continue to test and qualify our redesigned products which address the '577 and '668 patents to ensure that they meet their network requirements. This could result in a delay or cancellation of purchases by some customers until the redesigned products are qualified or accepted by such customers, a rejection or return of our redesigned products by some customers or a loss of sales to some customers who are unable to qualify or accept the redesigned products, any of which could materially and adversely affect our business, revenues, deferred revenue balances, prospects, reputation, results of operations or financial condition.

Because the USITC did not suspend its orders in the 945 Investigation, despite a PTAB finding that every relevant claim of the '668 and '577 patents is unpatentable, we were barred from importing our redesigned products into the United States until we received approval from CBP. On July 21, 2017, we submitted a Part 177 request to

CBP seeking approval to import our redesigned products into the United States. Following the Federal Circuit's order on September 22, 2017, allowing us to import our redesigned products, we withdrew our request. On October 12, 2017, CBP, over Cisco's objection, terminated the Part 177 proceedings, and confirmed that it will permit entry of our redesigns pursuant to the Federal Circuit's September 22, 2017 order.

In either the 944 enforcement action or the 945 modification proceeding, if the USITC determines that our redesigned products infringe any of the patents that are the subject of USITC remedial orders, those redesigned products will also be barred from import into the United States, or sale after importation. In addition, the USITC may impose the maximum statutory civil penalties for violation of the cease and desist order "including monetary sanctions for each day's violation of the cease and desist order of the greater of $100,000 or twice the domestic value of the articles entered or sold, whichever is higher," bring a civil action in U.S. district court "requesting collection of such civil penalties and the issuance of a mandatory injunction preventing further violation of Cease and Desist Order," or impose "such other remedies and sanctions as are appropriate and within the Commission's authority." In the 944 enforcement action, the ALJ recommended a civil penalty of $307 million if the Commission were to reverse the ALJ's finding of no violation. Any such finding by the USITC in either the 944 enforcement action or the 945 modification proceeding could materially and adversely affect our business, prospects, reputation, results of operations and financial condition.

An adverse finding in the 944 enforcement action or the 945 modification proceeding would take effect immediately upon USITC's issuance of the final determination, without any Presidential review period. To address such a finding, we would have to further redesign our products to make them non-infringing, and until we made such changes we would not be able to import or ship our products to customers. Our further redesign efforts could be extremely costly and time consuming as well as disruptive to our other development activities and distracting to management. We may not be able to further redesign the products in a manner that does not continue to infringe the patents or that is acceptable to customers. We may not be able to complete, and our customers may not be able to qualify, such further redesigned products in a timely fashion, if at all, following the issuance of an adverse final determination, leading to a delay or cancellation of purchases by some customers until those redesigned products are qualified or accepted by such customers, a rejection or return of our redesigned products by some customers or a loss of sales to some customers who are unable to qualify or accept the redesigned products. Our redesign efforts could be extremely costly and time consuming as well as disruptive to our other development activities and distracting to management.

For example, in the 944 enforcement action, although the ALJ issued an initial determination finding that our redesigned products did not violate the June 23, 2016 cease and desist order, if the ALJ modifies the initial determination during the remand proceeding, or if the Commission finds a violation in its final determination on September 4, 2018, we will no longer be able to import or ship our products in the U.S. until we make further changes to address those findings, which could materially and adversely affect our business, revenues, prospects, reputation, results of operations or financial condition. We would also need to obtain USITC or CBP approval to resume importation of such redesigned products into the United States. In addition, the USITC would not provide a service and support exception for our previously redesigned products, and customers may be required to upgrade to new products to obtain service and support. If we are unable to obtain such approvals or provide such service and support exception, our business, prospects, reputation, results of operations or financial condition could be materially and adversely affected. In addition, if we are found to have violated the USITC's orders while those orders remain in effect, we may be subject to the penalties described above.

In the 945 modification proceeding, while the USITC orders are based upon patent claims that the PTAB has found to be invalid, these orders will remain in effect unless and until the PTAB decisions are affirmed on appeal and the United States Patent and Trademark Office ("PTO") cancels the patents or the patents expire. If the Commission finds a violation in its final determination for the 945 modification proceeding, we will no longer be able to import or ship our products in the U.S. until we make further changes to address those findings and/or until the PTAB decisions are so affirmed and the PTO cancels the patents or the patents expire, which could materially and adversely affect our business, revenues, prospects, reputation, results of operations or financial condition. We would also need to obtain USITC or CBP approval to resume importation of any such redesigned products into the United States. In addition, the USITC would not provide a service and support exception for our previously redesigned products, and customers may be required to upgrade to new products to obtain service and support. If

we are unable to obtain such approvals or provide such service and support exception, our business, revenues, prospects, reputation, results of operations or financial condition could be materially and adversely affected. In light of the Federal Circuit's February 14, 2018 ruling affirming the PTAB's invalidity findings on the '668 patent, we plan to seek a stay of the ITC's remedial orders as they relate to the '668 patent. If our motion is denied, we would continue to be subject to the ITC's remedial orders on the '668 patent until all appeals have been fully resolved in our favor and the claims cancelled by the PTO. We may not prevail on this appeal in a timely manner, if at all. In addition, even if the PTAB decisions are ultimately affirmed on appeal, and the patent claims are canceled, if we are found to have violated the USITC's orders while those orders remain in effect, we may be subject to the penalties described above.

To comply with the USITC's remedial orders, we have also made certain changes to our manufacturing, importation and shipping workflows. These changes have included shifting manufacturing and integration of our products to be sold in the United States to U.S. facilities. Such changes may be extremely costly, time consuming, and we may not be able to implement such changes successfully. Any failure to successfully change our manufacturing and importation processes or shipping workflows in a manner that is compliant with the USITC's limited exclusion orders and cease and desist orders may cause a disruption in our product shipments and materially and adversely affect our business, prospects, reputation, results of operations, and financial condition.

In connection with these changes, to the extent that we are required to make further modifications to our supply chain to obtain alternative U.S. sources for subcomponents, we may be unable to obtain a sufficient quantity of these components on commercially reasonable terms or in a timely manner, if at all, which could delay or halt entirely production of our products or require us to make further modifications to our products to incorporate new components that are available in the United States. Any of these events could result in lost sales, reduced gross margins or damage to our end-customer relationships, which would materially and adversely impact our business, financial condition, results of operations and prospects.

Additionally, the existence of Cisco?slawsuits against us could cause concern among our customers and partners and could adversely affect our business and results of operations. Many of our customers and partners require us to indemnify and defend them against third party infringement claims and pay damages in the case of adverse rulings. These claims could harm our relationships with our customers or channel partners, cause them to delay or defer purchasing decisions or deter them from doing business with us. From time to time, we may also be required to provide additional assurances beyond our standard terms. Whether or not we prevail in the lawsuit, we expect that the litigation will be expensive, time-consuming and a distraction to management in operating our business.

We are currently involved in a license dispute with OptumSoft, Inc.

On April 4, 2014, OptumSoft filed a lawsuit against us in the Superior Court of California, Santa Clara County titled *OptumSoft, Inc. v. Arista Networks, Inc.*, in which it asserts (i) ownership of certain components of our EOS network operating system pursuant to the terms of a 2004 agreement between the companies; and (ii) breaches of certain confidentiality and use restrictions in that agreement. Under the terms of the 2004 agreement, OptumSoft provided us with a non-exclusive, irrevocable, royalty-free license to software delivered by OptumSoft comprising a software tool used to develop certain components of EOS and a runtime library that is incorporated into EOS. The 2004 agreement places certain restrictions on our use and disclosure of the OptumSoft software and gives OptumSoft ownership of improvements, modifications and corrections to, and derivative works of, the OptumSoft software that we develop.

In its lawsuit, OptumSoft has asked the Court to order us to (i) give OptumSoft access to our software for evaluation by OptumSoft; (ii) cease all conduct constituting the alleged confidentiality and use restriction breaches; (iii) secure the return or deletion of OptumSoft's alleged intellectual property provided to third parties, including our customers; (iv) assign ownership to OptumSoft of OptumSoft's alleged intellectual property currently owned by us; and (v) pay OptumSoft's alleged damages, attorney's fees, and costs of the lawsuit. David Cheriton, one of our founders and a former member of our board of directors, who resigned from our board of directors on March 1, 2014 and has no continuing role with us, is a founder and, we believe, the largest stockholder and director of OptumSoft. The 2010 David R. Cheriton Irrevocable Trust dated July 28, 2010, a trust for the benefit of the minor children of Mr. Cheriton, is one of our largest stockholders.

On April 14, 2014, we filed a cross-complaint against OptumSoft, in which we assert our ownership of the software components at issue and our interpretation of the 2004 agreement. Among other things, we assert that the language of the 2004 agreement and the parties' long course of conduct support our ownership of the disputed software components. We ask the Court to declare our ownership of those software components, all similarly-situated software components developed in the future and all related intellectual property. We also assert that, even if we are found not to own certain components, such components are licensed to us under the terms of the 2004 agreement. However, there can be no assurance that our assertions will ultimately prevail in litigation. On the same day, we also filed an answer to OptumSoft's claims, as well as affirmative defenses based in part on OptumSoft's failure to maintain the confidentiality of its claimed trade secrets, its authorization of the disclosures it asserts and its delay in claiming ownership of the software components at issue. We have also taken additional steps to respond to OptumSoft's allegations that we improperly used and/or disclosed OptumSoft confidential information. While we believe we have meritorious defenses to these allegations, we believe we have (i) revised our software to remove the elements we understand to be the subject of the claims relating to improper use and disclosure of OptumSoft confidential information and made the revised software available to our customers and (ii) removed information from our website that OptumSoft asserted disclosed OptumSoft confidential information.

The parties tried Phase I of the case, relating to contract interpretation and application of the contract to certain claimed source code, in September 2015. On December 16, 2015, the Court issued a Proposed Statement of Decision Following Phase 1 Trial, and on January 8, 2016, OptumSoft filed objections to that Proposed Statement of Decision. On March 23, 2016, the Court issued a Final Statement of Decision Following Phase I Trial, in which it agreed with and adopted our interpretation of the 2004 agreement and held that we, and not OptumSoft, own all the software at issue in Phase I. The remaining issues that were not addressed in the Phase I trial are set to be tried in Phase II including the application of the Court's interpretation of the 2004 agreement as set forth in the Final Statement of Decision Following Phase I Trial to any other source code that OptumSoft claims to own following a review. Phase II was previously scheduled to be tried in April 2016; however, that trial date has been vacated and a new trial date has not yet been set.

We intend to vigorously defend against any claims brought against us by OptumSoft. However, we cannot be certain that, if litigated, any claims by OptumSoft would be resolved in our favor. For example, if it were determined that OptumSoft owned components of our EOS network operating system, we would be required to transfer ownership of those components and any related intellectual property to OptumSoft. If OptumSoft were the owner of those components, it could make them available to our competitors, such as through a sale or license. An adverse litigation ruling could result in a significant damages award against us and injunctive relief. In addition, OptumSoft could assert additional or different claims against us, including claims that our license from OptumSoft is invalid.

Managing the supply of our products and product components is complex. Insufficient supply and inventory may result in lost sales opportunities or delayed revenue, while excess inventory may harm our gross margins.

Managing the supply of our products and product components is complex, and our inventory management systems and related supply-chain visibility tools may not enable us to forecast accurately and manage effectively the supply of our products and product components. Furthermore, ongoing Cisco litigation before the USITC and any adverse ruling that results from such litigation could cause disruption to our supply-chain or with our suppliers, which may impact our revenues, business and reputation. For example, in the 944 Investigation, the USITC has issued a limited exclusion order barring entry into the United States of our network devices (including our 7000 Series of switches), related software and components thereof that infringe one or more of the claims of the ?537, ?592, and ?145 patents specified above and a Cease and Desist Order restricting our activities with respect to such imported products. Similarly, in the 945 Investigation, the USITC has issued a limited exclusion order barring entry into the United States of our network devices (including our 7000 Series of switches), related software and components thereof that infringe one or more of the claims of the ?577 and '668 patents specified above and a Cease and Desist Order restricting our activities with respect to such imported products. Each of these remedial orders could prevent us from importing products or components into the U.S. or using inventory to satisfy U.S demand and/or may cause us to write-down such inventory, which could reduce our gross margins.

To the extent that we are required to obtain alternative U.S. sources for these components, we may be unable to obtain a sufficient quantity of these components on commercially reasonable terms or in a timely manner,

if at all, sales of our products could be delayed or halted entirely or we may be required to redesign our products. Any of these events could result in lost sales, reduced gross margins or damage to our end-customer relationships, which would materially and adversely impact our business, financial condition, results of operations and prospects.

Insufficient supply and inventory may result in increased lead times for our products, lost sales opportunities or delayed revenue, while excess inventory may harm our gross margins. In order to reduce manufacturing lead times and plan for adequate component supply, from time to time we may issue purchase orders for components and products that are non-cancelable and non-returnable. We establish a liability for non-cancelable, non-returnable purchase commitments with our component inventory suppliers for quantities in excess of our demand forecasts, or for products that are considered obsolete. In addition, we establish a liability and reimburse our contract manufacturer for component inventory purchased on our behalf that has been rendered excess or obsolete due to manufacturing and engineering change orders, or in cases where inventory levels greatly exceed our demand forecasts.

Supply management remains an increased area of focus as we balance the need to maintain sufficient supply levels to ensure competitive lead times against the risk of obsolescence or the end of life of certain products. If we ultimately determine that we have excess supply, we may have to reduce our prices and write down inventory, which in turn could result in lower gross margins. We record a provision when inventory is determined to be in excess of anticipated demand or obsolete to adjust inventory to its estimated realizable value.

Alternatively, insufficient supply levels may lead to shortages that result in delayed revenue or loss of sales opportunities altogether as potential end customers turn to competitors' products that are readily available. Additionally, any increases in the time required to manufacture our products or ship products could result in supply shortfalls. If we are unable to effectively manage our supply and inventory, our business, financial condition, results of operations and prospects could be adversely affected.

Because some of the key components in our products come from sole or 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 rely on key components, including integrated circuit components and power supplies that our contract manufacturers purchase on our behalf from a limited number of suppliers, including certain sole source providers. Generally, we do not have guaranteed supply contracts with our component suppliers, and our suppliers could delay shipments, prioritize shipments to other vendors or cease manufacturing such products or selling them to us at any time. For example, in the past we have experienced shortages in inventory for dynamic random access memory integrated circuits and delayed releases of the next generation of chipset, which delayed our production and/or the release of our new products. The development of alternate sources for those components is time-consuming, difficult and costly.

Additionally, litigation in the USITC could materially impact our supply of key components including, for example, merchant silicon chips that we purchase from our third-party suppliers. For example, in the 944 Investigation, the USITC has issued a limited exclusion order barring entry into the United States of our network devices (including our 7000 Series of switches), related software and components thereof that infringe one or more of the claims of the ?537, ?592, and ?145 patents specified above and a Cease and Desist Order restricting our activities with respect to such imported products. The USITC has also issued a limited exclusion order in the 945 Investigation barring entry into the United States of our network devices (including our 7000 Series of switches), related software and components thereof that infringe one or more of the claims of the ?577 and '668 patents specified above and a Cease and Desist Order restricting our activities with respect to such imported products. If we are unable to obtain a sufficient quantity of these components on commercially reasonable terms or in a timely manner, or if we are unable to obtain alternative sources for these components, sales of our products could be delayed or halted entirely or we may be required to redesign our products. Any of these events could result in lost sales, reduced gross margins or damage to our end-customer relationships, which would adversely impact our business, financial condition, results of operations and prospects.

Our reliance on component suppliers also yields the potential for their infringement or misappropriation of third party intellectual property rights with respect to components which may be incorporated into our products. We may not be indemnified by such component suppliers for such infringement or misappropriation claims. Any

litigation for which we do not receive indemnification could require us to incur significant legal expenses in defending against such claims or require us to pay substantial royalty payments or settlement amounts that would not be reimbursed by our component suppliers.

Our product development efforts are also dependent upon our continued collaboration with our key merchant silicon vendors such as Broadcom and Intel. As we develop our product roadmap and continue to expand our relationships with these and other merchant silicon vendors, it is critical that we work in tandem with our key merchant silicon vendors to ensure that their silicon includes improved features and that our products take advantage of such improved features. This enables us to focus our research and development resources on our software core competencies and to leverage the investments made by merchant silicon vendors to achieve cost-effective solutions.

If our key merchant silicon vendors do not continue to collaborate in such a fashion, if they do not continue to innovate or if there are delays in the release of their products, our own product launches could be delayed, which could have a material effect on revenue and business, financial condition, results of operations and prospects.

In the event of a shortage or supply interruption from our component suppliers, we may not be able to develop alternate or second sources in a timely manner. Further, long-term supply and maintenance obligations to end customers increase the duration for which specific components are required, which may increase the risk of component shortages or the cost of carrying inventory. 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 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 margins could be adversely affected and our business, financial condition, results of operations and prospects could suffer.

Because we depend on third-party manufacturers to build our products, we are susceptible to manufacturing delays and pricing fluctuations that could prevent us from shipping end-customer orders on time, if at all, or on a cost-effective basis, which may result in the loss of sales and end customers.

We depend on third-party contract manufacturers to manufacture our product lines. A significant portion of our cost of revenue consists of payments to these third-party contract manufacturers. Our reliance on these third-party contract manufacturers reduces our control over the manufacturing process, quality assurance, product costs and product supply and timing, which exposes us to risk. To the extent that our products are manufactured at facilities in foreign countries, we may be subject to additional risks associated with complying with local rules and regulations in those jurisdictions. Our reliance on contract manufacturers also yields the potential for their infringement of third party intellectual property rights in the manufacturing of our products or misappropriation of our intellectual property rights in the manufacturing of other customers' products. If we are unable to manage our relationships with our third-party contract manufacturers effectively, or if these third-party manufacturers suffer delays or disruptions or quality control problems in their operations, experience increased manufacturing lead times, 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, financial condition, results of operations and prospects would be seriously harmed.

Our contract manufacturers typically fulfill our supply requirements on the basis of individual orders. We do not have long-term contracts with our third-party 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. For example, a competitor could place large orders with the third-party manufacturer, thereby utilizing all or substantially all of such third-party manufacturer's capacity and leaving the manufacturer little or no capacity to fulfill our individual orders without price increases or delays, or at all. Our contract with one of our contract manufacturers permits it to terminate the agreement for convenience, subject to prior notice requirements. We may not be able to develop alternate or second contract manufacturers in a timely manner.

If we add or change contract manufacturers, or change any manufacturing plant locations within a contract manufacturer network, we would add additional complexity and risk to our supply chain management and may increase our working capital requirements. Ensuring a new contract manufacturer or new plant location is qualified

to manufacture our products to our standards and industry requirements could take significant effort and be time consuming and expensive. For example, we have added Sanmina as an additional contract manufacturer. Any such addition or change in manufacturers may be extremely costly, time consuming and we may not be able to do so successfully.

In addition, we may be subject to additional significant challenges in ensuring that quality, processes and costs, among other issues, are consistent with our expectations and those of our customers. A new contract manufacturer or manufacturing location may not be able to scale its production of our products at the volumes or quality we require. This could also adversely affect our ability to meet our scheduled product deliveries to our end customers, which could damage our customer relationships and cause the loss of sales to existing or potential end customers, late delivery penalties, delayed revenue or an increase in our costs which could adversely affect our gross margins. This could also result in increased levels of inventory subjecting us to increased excess and obsolete charges that could have a negative impact on our operating results.

We have expanded our contract manufacturing capabilities to include Sanmina as an additional contract manufacturer, which will increase our working capital requirements and the risks noted above apply to this new contract manufacturer. No assurance can be given that this contract manufacturer will continue to successfully qualify and scale production of our products in the volumes or quality that we require. If a USITC limited exclusion order issued in connection with the Cisco litigation bars entry of our products into the United States and we are unable to obtain the necessary approvals to resume the importation of our redesigned products, we would become reliant upon U.S. manufacturing to continue to supply our products to our U.S. customers. Any failure to meet our scheduled product deliveries to our end customers could damage our customer relationships and cause the loss of sales to existing or potential end customers, late delivery penalties, delayed revenue or an increase in our costs which could adversely affect our gross margins.

Any production interruptions or disruptions for any reason, including those noted above, as well as a natural disaster, epidemic, capacity shortages, adverse results from intellectual property litigation or quality problems, at one of our manufacturing partners would adversely affect sales of our product lines manufactured by that manufacturing partner and adversely affect our business, financial condition, results of operations and prospects.

Product quality problems, defects, errors or vulnerabilities in our products or services could harm our reputation and adversely affect our business, financial condition, results of operations and prospects.

We produce highly complex products that incorporate advanced technologies, including both hardware and software technologies. Despite testing prior to their release, our products may contain undetected defects or errors, especially when first introduced or when new versions are released. Product defects or errors could affect the performance of our products and could delay the development or release of new products or new versions of products. Allegations of unsatisfactory performance could cause us to lose revenue or market share, increase our service costs, cause us to incur substantial costs in analyzing, correcting or redesigning the products, cause us to lose significant end customers, subject us to liability for damages and divert our resources from other tasks, any one of which could materially adversely affect our business, financial condition, results of operations and prospects.

From time to time, we have had to replace certain components of products that we had shipped and provide remediation in response to the discovery of defects or bugs, including failures in software protocols or defective component batches resulting in reliability issues, in such products, and we may be required to do so in the future. We may also be required to provide full replacements or refunds for such defective products. We cannot assure you that such remediation would not have a material effect on our business, financial condition, results of operations and prospects. Please see "Our business is subject to the risks of warranty claims, product returns, product liability and product defects."

Reliance on or delays in shipments could cause our revenue for the applicable period to fall below expected levels.

We may be subject to supply chain delays, or end-customer buying patterns in which a substantial portion of sales orders and shipments may occur in the second half of each quarter. This places significant pressure on order review and processing, supply chain management, manufacturing, inventory and quality control management,

shipping and trade compliance to ensure that we have properly forecasted supply purchasing, manufacturing capacity, inventory and quality compliance and logistics. If there is any significant interruption in these critical functions, it could result in delayed order fulfillment, adversely affect our business, financial condition, results of operations and prospects and result in a decline in the market price of our common stock.

We base our inventory requirements on our forecasts of future sales. If these forecasts are materially inaccurate, we may procure inventory that we may be unable to use in a timely manner or at all.

We and our contract manufacturers procure components and build our products based on our forecasts. These forecasts are based on estimates of future demand for our products, which are in turn based on historical trends and analyses from our sales and marketing organizations, adjusted for overall market conditions and other factors. To the extent our forecasts are materially inaccurate or if we otherwise do not need such inventory, we may under- or over-procure inventory, and such inaccuracies in our forecasts could materially adversely affect our business, financial condition and results of operations.

The sales prices of our products and services may decrease, which may reduce our gross profits and adversely affect our results of operations.

The sales prices for our products and services may decline for a variety of reasons, including competitive pricing pressures, discounts, a change in our mix of products and services, the introduction of new products and services by us or by our competitors including the adoption of "white box" solutions, promotional programs, product and related warranty costs or broader macroeconomic factors. In addition, we have provided, and may in the future provide, pricing discounts to large end customers, which may result in lower margins for the period in which such sales occur. Our gross margins may also fluctuate as a result of the timing of such sales to large end customers.

We have experienced declines in sales prices for our products. Competition continues to increase in the market segments in which we participate, and we expect competition to further increase in the future, thereby leading to increased pricing pressures. Larger competitors with more diverse product and service offerings may reduce the price of products and services that compete with ours or may bundle them with other products and services. Additionally, although we generally price our products worldwide in U.S. dollars, currency fluctuations in certain countries and regions may adversely affect actual prices that partners and end customers are willing to pay in those countries and regions. Furthermore, we anticipate that the sales prices and gross profits for our products will decrease over product life cycles. Decreased sales prices for any reason may reduce our gross profits and adversely affect our result of operations.

Sales of our 7000 Series of switches generate most of our product revenue, and if we are unable to continue to grow sales of these products, our business, financial condition, results of operations and prospects will suffer.

Historically, we have derived substantially all of our product revenue from sales of our 7000 Series of switches, and we expect to continue to do so for the foreseeable future. We have experienced declines in sales prices for our products, including our 10 Gigabit Ethernet modular and fixed switches. A decline in the price of our 7000 Series of switches and related services, or our inability to increase sales of these products, would harm our business, financial condition, results of operations and prospects more seriously than if we derived significant revenue from a larger variety of product lines and services. Our future financial performance will also depend upon successfully developing and selling next-generation versions of our 7000 Series of switches. If we fail to deliver new products, new features, or new releases that end customers want and that allow us to maintain leadership in what will continue to be a competitive market environment, our business, financial condition, results of operations and prospects will be harmed.

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 and services could have a material adverse effect on our business, financial condition, results of operations and prospects.

Once our products are deployed within our end customers' networks, our end customers depend on our support organization and our channel partners to resolve any issues relating to our products. High-quality support is critical for the successful marketing and sale of our products. If we or our channel partners do not assist our end

customers in deploying our products effectively, do not succeed in helping our end customers resolve post-deployment issues quickly or do not provide adequate 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. In addition, as we 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. Our failure or the failure of our channel partners to maintain high-quality support and services could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our business depends on end customers renewing their maintenance and support contracts. Any decline in maintenance renewals could harm our future business, financial condition, results of operations and prospects.

We typically sell our products with maintenance and support as part of the initial purchase, and a portion of our annual 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, and they may elect not to renew their maintenance and support contracts, to renew their maintenance and support contracts at lower prices through alternative channel partners or to reduce the product quantity under their maintenance and support contracts, thereby reducing our future revenue from maintenance and support contracts. If our end customers, especially our large end customers, do not renew their maintenance and support contracts or if they renew them on terms that are less favorable to us, our revenue may decline and our business, financial condition, results of operations and prospects will suffer.

Seasonality may cause fluctuations in our revenue and results of operations.

We operate on a December 31st year end and believe that there are significant seasonal factors which may cause sequential product revenue growth to be greater for the second and fourth quarters of our year than our first and third quarters. We believe that this seasonality results from a number of factors, including the procurement, budgeting and deployment cycles of many of our end customers. Our rapid historical growth may have reduced the impact of seasonal or cyclical factors that might have influenced our business to date. As our increasing size causes our growth rate to slow, seasonal or cyclical variations in our operations may become more pronounced over time and may materially affect our business, financial condition, results of operations and prospects.

If we are unable to increase market awareness of our company and our products, our revenue may not continue to grow or may decline.

We have not yet established broad market awareness of our products and services. Market awareness of our value proposition and products and services will be essential to our continued growth and our success, particularly for the service provider and large enterprise markets. If our marketing efforts are unsuccessful in creating market awareness of our company and our products and services, then our business, financial condition, results of operations and prospects will be adversely affected, and we will not be able to achieve sustained growth.

If we are unable to hire, retain, train and motivate qualified personnel and senior management, our business, financial condition, results of operations and prospects could suffer.

Our future success depends, in part, on our ability to continue to attract and retain highly skilled personnel, particularly software engineering and sales personnel. Competition for highly skilled personnel is often intense, especially in the San Francisco Bay Area where we have a substantial presence and need for highly skilled personnel. Many of the companies with which we compete for experienced personnel have greater resources than we have to provide more attractive compensation packages and other amenities. Research and development personnel are aggressively recruited by startup and growth companies, which are especially active in many of the technical areas and geographic regions in which we conduct product development. In addition, in making employment decisions, particularly in the high-technology industry, job candidates often consider the value of the stock-based compensation they are to receive in connection with their employment. Declines in the market price of our stock could adversely affect our ability to attract, motivate or retain key employees. If we are unable to attract or retain qualified personnel, or if there are delays in hiring required personnel, our business, financial condition, results of operations and prospects may be seriously harmed.

Also, to the extent we hire personnel from competitors, we may be subject to allegations that such personnel has been improperly solicited, that such personnel has divulged proprietary or other confidential information or that former employers own certain inventions or other work product. Such claims could result in litigation. Please see "We may become involved in litigation that may materially adversely affect us."

We employ a number of foreign nationals who are required to obtain visas and entry permits in order to legally work in the United States and other countries. The United States has recently increased the level of scrutiny in granting H-1(B), L-1 and other business visas, and the current administration has indicated that immigration reform is a priority. Our compliance with United States immigration and labor laws could require us to incur additional unexpected labor costs and expenses or could restrain our ability to retain skilled professionals.

Our future performance also depends on the continued services and continuing contributions of our senior management to execute our business plan and to identify and pursue new opportunities and product innovations. Our employment arrangements with our employees do not require that they continue to work for us for any specified period, and therefore, they could terminate their employment with us at any time. The loss of our key personnel, including Jayshree Ullal, our Chief Executive Officer, Andy Bechtolsheim, our Founder and Chief Development Officer, Kenneth Duda, our Founder, Chief Technology Officer and SVP Software Engineering, Anshul Sadana, our Chief Customer Officer or other members of our senior management team, sales and marketing team or engineering team, or any difficulty attracting or retaining other highly qualified personnel in the future, could significantly delay or prevent the achievement of our development and strategic objectives, which could adversely affect our business, financial condition, results of operations and prospects.

If we do not effectively expand and train our direct sales force, we may be unable to add new end customers or increase sales to our existing end customers, and our business will be adversely affected.

We depend on our direct sales force to obtain new end customers and increase sales with existing end customers. As such, we have invested and will continue to invest in our sales organization. In recent periods, we have been adding personnel and other resources to our sales function as we focus on growing our business, entering new markets and increasing our market share, and we expect to incur additional expenses in expanding our sales personnel in order to achieve revenue growth. There is significant competition for sales personnel with the skills and technical knowledge that we require. Our ability to achieve significant revenue growth will depend, in large part, on our success in recruiting, training, retaining and integrating sufficient numbers of sales personnel to support our growth, particularly in international markets. New hires require significant training and may take significant time before they achieve full productivity. Our recent hires and planned hires may not become productive as quickly as we expect, and we may be unable to hire, retain or integrate into our corporate culture sufficient numbers of qualified individuals in the markets where we do business or plan to do business. In addition, because we continue to grow rapidly, a large percentage of our sales force is new to our company. If we are unable to hire, integrate and train a sufficient number of effective sales personnel, or the sales personnel we hire are not successful in obtaining new end customers or increasing sales to our existing end-customer base, our business, financial condition, results of operations and prospects will be adversely affected.

We are subject to a number of risks associated with the expansion of our international sales and operations.

Our ability to grow our business and our future success will depend to a significant extent on our ability to expand our operations and customer base worldwide. We have a limited history of marketing, selling and supporting our products and services internationally. Operating in a global marketplace, we are subject to risks associated with having an international reach and requirements such as compliance with applicable anti-corruption laws.

One such applicable anti-corruption law is the U.S. Foreign Corrupt Practices Act, or FCPA, which generally prohibits U.S. companies and its employees and intermediaries from making corrupt payments to foreign officials for the purpose of obtaining or keeping business, securing an advantage and directing business to another, and requires 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 the corrupt actions taken by directors, officers, employees, agents, or other strategic or local partners or representatives. As such, if we or our intermediaries fail to comply with the requirements of the FCPA or similar legislation, governmental authorities in the U.S. and elsewhere could seek to impose civil and/or criminal fines and penalties which could have a material adverse effect on our business, results

of operations and financial conditions. Failure to comply with anti-corruption and anti-bribery laws, such as the FCPA and the United Kingdom Bribery Act of 2010, or the U.K. Bribery Act, and similar laws associated with our activities outside the U.S., could subject us to penalties and other adverse consequences. We intend to increase our international sales and business and, as such, the risk of violating laws such as the FCPA and U.K. Bribery Act increases.

Additionally, the U.S. government has adopted broader sanctions and embargoes that generally forbid supplying many items to or involving certain countries, territories, governments, legal entities and individuals, including restrictions imposed by the U.S. and EU on exports to Russia and Ukraine. We have implemented systems to detect and prevent sales into these countries or to prohibit entities or individuals, but we are necessarily dependent in part on our third-party suppliers and distributors to implement these systems. We cannot assure you that these systems will always be effective, or that our suppliers and distributors effectively implement our systems to detect and prevent such sales without our prior knowledge, and we may incur additional unexpected costs or expenses to comply with applicable trade restrictions.

As a result of our international reach, 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 staff related to sales management and sales personnel, we may experience difficulties in sales productivity in foreign markets. We also enter into strategic 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 strategic distributor relationships internationally or to recruit additional companies to enter into strategic 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 U.S. and may require us in the future to include terms other than our standard terms in end-customer contracts, although to date we generally have not done so. To the extent that we may enter into end-customer contracts in the future that include non-standard terms related to payment, warranties or performance obligations, our results of operations may be adversely affected.

Additionally, our international sales and operations 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 our international operations;
- fluctuations in exchange rates between the U.S. dollar and foreign currencies where we do business;
- greater difficulty and costs in recruiting local experienced personnel;
- wage inflation in certain growing economies;
- general economic and political conditions in these foreign markets;
- economic uncertainty around the world as a result of sovereign debt issues;
- communication and integration problems resulting from cultural and geographic dispersion;
- limitations on our ability to access cash resources in our international operations;
- ability to establish necessary business relationships and to comply with local business requirements;
- 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, including the Tax Act;
- 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 FCPA and any trade regulations ensuring fair trade practices; and
- heightened risk of unfair or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements that may impact financial results and result in restatements of, or irregularities in, financial statements.

These and other factors could harm our ability to gain future international revenue and, consequently, materially affect our business, financial condition, results of operations and prospects. Expanding our existing international operations and entering into additional international markets will require significant management attention and financial commitments. Our failure to successfully manage our international operations and the associated risks effectively could limit our future growth or materially adversely affect our business, financial condition, results of operations and prospects.

In addition, the U.K.'s decision to initiate an exit process from the EU, known as Brexit, has caused uncertainty in the global markets. If implemented, Brexit will take some period of time to complete and could result in significant regulatory changes in both the U.K. and the EU that could impact our business. Because we conduct business in the EU, including the U.K., any of the effects of Brexit could have a material adverse effect on our business, operating results, financial condition and cash flows.

If we fail to maintain effective internal control over financial reporting in the future, the accuracy and timing of our financial reporting may be adversely affected.

Assessing our processes, procedures and staffing in order to improve our internal control over financial reporting is an ongoing process. Preparing our financial statements involves a number of complex processes, many of which are done manually and are dependent upon individual data input or review. These processes include, but are not limited to, calculating revenue, inventory costs and the preparation of our statement of cash flows. While we continue to automate our processes and enhance our review controls to reduce the likelihood for errors, we expect that for the foreseeable future many of our processes will remain manually intensive and thus subject to human error.

In the past, we have identified material weaknesses in our internal control over financial reporting and we cannot give assurance that additional material weaknesses will not be identified in the future. The existence of one or more material weaknesses could preclude a conclusion by management that we maintained effective internal control over financial reporting. The existence or disclosure of any such material weakness could adversely affect our stock price.

Adverse economic conditions or reduced information technology and network infrastructure spending may adversely affect our business, financial condition, results of operations and prospects.

Our business depends on the overall demand for information technology, network connectivity and access to data and applications. Weak domestic or global economic conditions, fear or anticipation of such conditions or a reduction in information technology and network infrastructure spending even if economic conditions improve, could adversely affect our business, financial condition, results of operations and prospects in a number of ways, including longer sales cycles, lower prices for our products and services, higher default rates among our distributors, reduced unit sales and lower or no growth. For example, the global macroeconomic environment could be negatively affected by, among other things, instability in the global credit markets, the impact and uncertainty regarding global central bank monetary policy, the instability in the geopolitical environment as a result of the United Kingdom "Brexit" decision to withdraw from the European Union, economic challenges in China and ongoing U.S. and foreign governmental debt concerns. Such challenges have caused, and are likely to continue to cause, uncertainty and instability in local economies and in global financial markets, particularly if any future sovereign debt defaults or significant bank failures or defaults occur. Market uncertainty and instability in Europe or Asia could intensify or spread further, particularly if ongoing stabilization efforts prove insufficient. Continuing or worsening economic instability could adversely affect spending for IT, network infrastructure, systems and tools. Continued turmoil in the geopolitical environment in many parts of the world may also affect the overall demand for our products. Although we do not believe that our business, financial condition, results of operations and prospects have been significantly adversely affected by economic and political uncertainty in Europe, Asia or other countries to date, deterioration of such conditions may harm our business, financial condition, results of operations and prospects in the future. A prolonged period of economic uncertainty or a downturn may also significantly affect financing markets, the availability of capital and the terms and conditions of financing arrangements, including the overall cost of financing as well as the financial health or creditworthiness of our end customers. Circumstances may arise in which we need, or desire, to raise additional capital, and such capital may not be available on commercially reasonable terms, or at all.

We may become involved in litigation that may materially adversely affect us.

From time to time, in addition to the litigation involving Cisco Systems, Inc. and Optumsoft, Inc. described elsewhere in these risk factors, we may become involved in various legal proceedings relating to matters incidental to the ordinary course of our business, including patent, copyright, commercial, product liability, employment, class action, whistleblower and other litigation and claims, in addition to governmental and other regulatory investigations and proceedings. Such matters can be time-consuming, divert management's attention and resources, cause us to incur significant expenses or liability and/or require us to change our business practices. Because of the potential risks, expenses and uncertainties of litigation, we may, from time to time, settle disputes, even where we have meritorious claims or defenses, by agreeing to settlement agreements. Because litigation is inherently unpredictable, we cannot assure you that the results of any of these actions will not have a material adverse effect on our business, financial condition, results of operations and prospects.

For more information regarding the litigation in which we are currently involved, see the "Legal Proceedings" subheading in in Note 5. Commitments and Contingencies of the Notes to Consolidated Financial Statements in Part II, Item 8, of this Annual Report on Form 10-K incorporated herein by reference.

Assertions by third parties of infringement or other violations by us of their intellectual property rights, or other lawsuits asserted against us, could result in significant costs and substantially harm our business, financial condition, results of operations and prospects.

Patent and other intellectual property disputes are common in the network infrastructure industry and have resulted in protracted and expensive litigation for many companies. Many companies in the network infrastructure industry, including our competitors and other third parties, as well as non-practicing entities, own large numbers of patents, copyrights, trademarks and trade secrets, which they may use to assert claims of patent infringement, misappropriation or other violations of intellectual property rights against us. From time to time, they have or may in the future also assert such claims against us, our end customers or channel partners whom we typically indemnify against claims that our products infringe, misappropriate or otherwise violate the intellectual property rights of third parties. For example, we are currently parties to certain litigation involving Cisco Systems, Inc. and OptumSoft, Inc. described elsewhere in these risk factors.

As the number of products and competitors in our market increases and overlaps occur, claims of infringement, misappropriation and other violations of intellectual property rights may increase. Any claim of infringement, misappropriation or other violations of intellectual property rights by a third party, even those without merit, could cause us to incur substantial costs defending against the claim, distract our management from our business and require us to cease use of such intellectual property. In addition, some claims for patent infringement may relate to subcomponents that we purchase from third parties. If these third parties are unable or unwilling to indemnify us for these claims, we could be substantially harmed.

The patent portfolios of most of our competitors are larger than ours. This disparity may increase the risk that our competitors may sue us for patent infringement and may limit our ability to counterclaim for patent infringement or settle through patent cross-licenses. In addition, future assertions of patent rights by third parties, and any resulting litigation, may involve patent holding companies or other adverse patent owners who have no relevant product revenue and against whom our own patents may therefore provide little or no deterrence or protection. We cannot assure you that we are not infringing or otherwise violating any third-party intellectual property rights.

The third-party asserters of intellectual property claims may be unreasonable in their demands, or may simply refuse to settle, which could lead to expensive settlement payments, prolonged periods of litigation and related expenses, additional burdens on employees or other resources, distraction from our business, supply stoppages and lost sales.

An adverse outcome of a dispute (including those lawsuits described under the "Legal Proceedings" subheading in Note 5. Commitments and Contingencies of Notes to Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K) may require us to pay substantial damages or penalties including treble damages if we are found to have willfully infringed a third party's patents; cease making, licensing, using or importing into the U.S. products or services that are alleged to infringe or misappropriate the intellectual property

of others; expend additional development resources to attempt to redesign our products or services or otherwise to develop non-infringing technology, which may not be successful; enter into potentially unfavorable royalty or license agreements in order to obtain the right to use necessary technologies or intellectual property rights; and indemnify our partners and other third parties. Any damages, penalties or royalty obligations we may become subject to as a result of an adverse outcome, and any third-party indemnity we may need to provide, could harm our business, financial condition, results of operations and prospects. Royalty or licensing agreements, if required or desirable, may be unavailable on terms acceptable to us, or at all, and may require significant royalty payments and other expenditures. Further, there is little or no information publicly available concerning market or fair values for license fees, which can lead to overpayment of license or settlement fees. In addition, some licenses may be non-exclusive, and therefore our competitors may have access to the same technology licensed to us. Suppliers subject to third-party intellectual property claims also may choose or be forced to discontinue or alter their arrangements with us, with little or no advance notice to us. Any of these events could seriously harm our business, financial condition, results of operations and prospects.

In the event that we are found to infringe any third party intellectual property, we could be enjoined, or subject to other remedial orders that would prohibit us, from making, licensing, using or importing into the U.S. such products or services. In order to resume such activities with respect to any affected products or services, we (or our component suppliers) would be required to develop technical redesigns to this third party intellectual property that no longer infringe the third party intellectual property. In any efforts to develop technical redesigns for these products or services, we (or our component suppliers) may be unable to do so in a manner that does not continue to infringe the third party intellectual property or that is acceptable to our customers. These redesign efforts could be extremely costly and time consuming as well as disruptive to our other development activities and distracting to management. Moreover, such redesigns could require us to obtain approvals from the court or administrative body to resume the activities with respect to these affected solutions. We may not be successful in our efforts to obtain such approvals in a timely manner, or at all. Any failure to effectively redesign our solutions or to obtain timely clearance from the court or administrative body may cause a disruption to our product shipments and materially and adversely affect our business, prospects, reputation, results of operations, and financial condition.

Our standard sales contracts contain indemnification provisions requiring us to defend our end customers against third-party claims, including against infringement of certain intellectual property rights that could expose us to losses which could seriously harm our business, financial conditions, results of operations and prospects.

Under the indemnification provisions of our standard sales contracts, we agree to defend our end customers and channel partners against third-party claims asserting infringement of certain intellectual property rights, which may include patents, copyrights, trademarks or trade secrets, and to pay judgments entered on such claims. For example, we are currently involved in ongoing Cisco litigation claims before the USITC. An adverse ruling in such litigation may potentially expose us to claims in the event that claims are brought against our customers based on the ruling and we are required to indemnify such customers.

Our exposure under these indemnification provisions is frequently limited to the total amount paid by our end customer under the agreement. However, certain agreements include indemnification provisions that could potentially expose us to losses in excess of the amount received under the agreement. Any of these events, including claims for indemnification, could seriously harm our business, financial condition, results of operations and prospects.

If we are unable to protect our intellectual property rights, our competitive position could be harmed or we could be required to incur significant expenses to enforce our rights.

We depend on our ability to protect our proprietary technology. We rely on trade secret, patent, copyright and trademark laws and confidentiality agreements with employees and third parties, all of which offer only limited protection.

The process of obtaining patent protection is expensive and time-consuming, and we may not be able to prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. We may choose not to seek patent protection for certain innovations and may choose not to pursue patent protection in certain jurisdictions. Further, we do not know whether any of our pending patent applications will result in the issuance

of patents or whether the examination process will require us to narrow our claims. To the extent that additional patents are issued from our patent applications, which is not certain, they may be contested, circumvented or invalidated in the future. Moreover, the rights granted under any issued patents may not provide us with proprietary protection or competitive advantages, and, as with any technology, competitors may be able to develop similar or superior technologies to our own now or in the future. In addition, we rely on confidentiality or license agreements with third parties in connection with their use of our products and technology. There is no guarantee that such parties will abide by the terms of such agreements or that we will be able to adequately enforce our rights, in part because we rely on "shrink-wrap" licenses in some instances.

We have not registered our trademarks in all geographic markets. Failure to secure those registrations could adversely affect our ability to enforce and defend our trademark rights and result in indemnification claims. Further, any claim of infringement by a third party, even those claims without merit, could cause us to incur substantial costs defending against such claim, could divert management attention from our business and could require us to cease use of such intellectual property in certain geographic markets.

Despite our efforts, the steps we have taken to protect our proprietary rights may not be adequate to preclude misappropriation of our proprietary information or infringement of our intellectual property rights, and our ability to police such misappropriation or infringement is uncertain, particularly in countries outside of the United States.

Detecting and protecting against the unauthorized use of our products, technology and proprietary rights is expensive, difficult and, in some cases, impossible. Litigation may be necessary in the future to enforce or defend our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Such litigation could result in substantial costs and diversion of management resources, either of which could harm our business, financial condition, results of operations and prospects, and there is no guarantee that we would be successful. Furthermore, many of our current and potential competitors have the ability to dedicate substantially greater resources to protecting their technology or intellectual property rights than we do. Accordingly, despite our efforts, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property, which could result in a substantial loss of our market share.

We rely on the availability of licenses to third-party software and other intellectual property.

Many of our products and services include software or other intellectual property licensed from third parties, and we otherwise use software and other intellectual property licensed from third parties in our business. This exposes us to risks over which we may have little or no control. For example, a licensor may have difficulties keeping up with technological changes or may stop supporting the software or other intellectual property that it licenses to us. Also, it will be necessary in the future to renew licenses, expand the scope of existing licenses or seek new licenses, relating to various aspects of these products and services or otherwise relating to our business, which may result in increased license fees. These licenses may not be available on acceptable terms, if at all. In addition, a third party may assert that we or our end customers are in breach of the terms of a license, which could, among other things, give such third party the right to terminate a license or seek damages from us, or both. The inability to obtain or maintain certain licenses or other rights or to obtain or maintain such licenses or rights on favorable terms, or the need to engage in litigation regarding these matters, could result in delays in releases of products and services and could otherwise disrupt our business, until equivalent technology can be identified, licensed or developed, if at all, and integrated into our products and services or otherwise in the conduct of our business. Moreover, the inclusion in our products and services of software or other intellectual property licensed from third parties on a nonexclusive basis may limit our ability to differentiate our products from those of our competitors. Any of these events could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our products contain third-party open source software components, and failure to comply with the terms of the underlying open source software licenses could restrict our ability to sell our products.

Our products contain software modules licensed to us by third-party authors under "open source" licenses. Use and distribution of open source software may entail greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or other contractual protections regarding infringement claims or the quality of the code. Some open source licenses contain requirements that we make available source

code for modifications or derivative works we create based upon the type of open source software that we use. If we combine our software with open source software in a certain manner, we could, under certain open source licenses, be required to release portions of the source code of our software to the public. This would allow our competitors to create similar products with lower development effort and time and ultimately could result in a loss of product sales for us.

Although we monitor our use of open source software to avoid subjecting our products to conditions we do not intend, the terms of many open source licenses have not been interpreted by U.S. courts, and these licenses could be construed in a way that could impose unanticipated conditions or restrictions on our ability to commercialize our products. Moreover, we cannot assure you that our processes for controlling our use of open source software in our products will be effective. If we are held to have breached the terms of an open source software license, we could be required to seek licenses from third parties to continue offering our products on terms that are not economically feasible, to re-engineer our products, to discontinue the sale of our products if re-engineering could not be accomplished on a timely basis or to make generally available, in source code form, our proprietary code, any of which could adversely affect our business, financial condition, results of operations and prospects.

Our products must interoperate with operating systems, software applications and hardware that is 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 lose or fail to increase market share and experience a weakening demand for our products.

Generally, our products comprise only a part of the data center and 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, or OEMs. Our products must comply with established industry standards in order to interoperate with the servers, storage, software and other networking equipment in the data center such that all systems function efficiently together. We depend on the vendors of servers and systems in a data center to support prevailing industry standards. Often, these vendors are significantly larger and more influential in driving industry standards than we are. Also, some industry standards may not be widely adopted or implemented uniformly, and competing standards may emerge that may be preferred by our end customers.

In addition, when new or updated versions of these 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 systems and applications, our end customers may not be able to adequately utilize our products, and we may lose or fail to increase market share and experience a weakening in demand for our products, among other consequences, which would adversely affect our business, financial condition, results of operations and prospects.

We provide access to our software and other selected source code to certain partners, which creates additional risk that our competitors could develop products that are similar to or better than ours.

Our success and ability to compete depend substantially upon our internally developed technology, which is incorporated in the source code for our products. We seek to protect the source code, design code, documentation and other information relating to our software, under trade secret, patent and copyright laws. However, we have chosen to provide access to selected source code of our software to several of our partners for co-development, as well as for open application programming interfaces, or APIs, formats and protocols. Though we generally control access to our source code and other intellectual property and enter into confidentiality or license agreements with such partners as well as with our employees and consultants, this combination of procedural and contractual safeguards may be insufficient to protect our trade secrets and other rights to our technology. Our protective measures may be inadequate, especially because we may not be able to prevent our partners, employees or consultants from violating any agreements or licenses we may have in place or abusing their access granted to our source code. Improper disclosure or use of our source code could help competitors develop products similar to or better than ours.

We expect our gross margins to vary over time and to be adversely affected by numerous factors.

We expect our gross margins to vary over time and the gross margins we have achieved in recent years may not be sustainable and may be adversely affected in the future by numerous factors, including:

- changes in end-customer, geographic or product mix, including mix of configurations within each product group;
- increased price competition and changes in the actions of our competitors or their pricing strategies;
- introduction of new products, including products with price-performance advantages and new business models including the sale and delivery of more software and subscription solutions;
- increases in material or component costs including such increases caused by any restriction from sourcing components and manufacturing products internationally;
- our ability to reduce production costs;
- entry into new markets or growth in lower margin markets;
- entry in markets with different pricing and cost structures;
- pricing discounts;
- increases in material costs in the event we are restricted from sourcing components and manufacturing products internationally.
- costs associated with defending intellectual property infringement and other claims and the potential outcomes of such disputes, such as those claims discussed in "Legal Proceedings," including the Cisco and Optumsoft litigation matters;
- excess inventory and inventory holding charges;
- obsolescence charges;
- changes in shipment volume;
- the timing of revenue recognition and revenue deferrals;
- increased cost, loss of cost savings or dilution of savings due to changes in component pricing or charges incurred due to inventory holding periods if parts ordering does not correctly anticipate product demand or if the financial health of either contract manufacturers or suppliers deteriorates;
- lower than expected benefits from value engineering;
- changes in distribution channels;
- increased warranty costs; and
- our ability to execute our strategy and operating plans.

We determine our operating expenses largely on the basis of anticipated revenues and a high percentage of our expenses are fixed in the short and medium term. As a result, a failure or delay in generating or recognizing revenue could cause significant variations in our operating results and operating margin from quarter to quarter. Failure to sustain or improve our gross margins reduces our profitability and may have a material adverse effect on our business and stock price.

Our sales cycles can be long and unpredictable, and our sales efforts require considerable time and expense. As a result, our sales and revenue are difficult to predict and may vary substantially from period to period, which may cause our results of operations to fluctuate significantly.

The timing of our sales and revenue recognition 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. End-customer orders often involve the purchase of multiple products. These orders are complex and difficult to complete because prospective end customers generally consider a number of factors over an extended period of time before committing to purchase the products and solutions we sell. End customers, especially in the case of our large end customers, often view the purchase of our products as a significant and strategic decision and require considerable time to evaluate, test and qualify our products prior to making a purchase decision and placing an order. The length of time that end customers devote to their evaluation, contract

negotiation and budgeting processes varies significantly. Our products' sales cycles can be lengthy in certain cases, especially with respect to our prospective large end customers. During the sales cycle, we expend significant time and money on sales and marketing activities and make investments in evaluation equipment, all of which lower our operating margins, particularly if no sale occurs. Even if an end customer decides to purchase our products, there are many factors affecting the timing of our recognition of revenue, which makes our revenue difficult to forecast. For example, there may be unexpected delays in an end customer's internal procurement processes, particularly for some of our larger end customers for which our products represent a very small percentage of their total procurement activity. There are many other factors specific to end customers that contribute to the timing of their purchases and the variability of our revenue recognition, including the strategic importance of a particular project to an end customer, budgetary constraints and changes in their personnel.

Even after an end customer makes a purchase, there may be circumstances or terms relating to the purchase that delay our ability to recognize revenue from that purchase. For example, the sale of our products may be subject to acceptance testing. In connection with our efforts to redesign our products to address the USITC's orders in the 945 investigation, some of our customers continue to qualify and test our redesigned products to ensure that they meet network requirements. In addition, the significance and timing of our product enhancements, and the introduction of new products by our competitors, may also affect end customers' purchases. For all of these reasons, it is difficult to predict whether a sale will be completed, the particular period in which a sale will be completed or the period in which revenue from a sale will be recognized. If our sales cycles lengthen, our revenue could be lower than expected, which would have an adverse effect on our business, financial condition, results of operations and prospects.

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

Our products are very complex and despite testing prior to their release, they have contained and may contain undetected defects or errors, especially when first introduced or when new versions are released. Product defects or errors could affect the performance of our products and could delay the development or release of new products or new versions of products, adversely affect our reputation and our end customers' willingness to buy products from us and adversely affect market acceptance or perception of our products. Real or perceived errors, failures or bugs in our products could cause us to lose revenue or market share, increase our service costs, cause us to incur substantial costs in redesigning the products, cause us to lose significant end-customers, subject us to liability for damages and divert our resources from other tasks, any one of which could materially and adversely affect our business, results of operations and financial condition.

Additionally, 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 end-customer relations or other reasons, to expend additional resources in order to address the problem. We may also be required to repair or replace such products or provide a refund for the purchase price for such products. 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 end-customer claims and related liabilities and costs, including indemnification obligations under our agreements with end customers, resellers and distributors. The sale and support of our products also entail the risk of product liability claims. Even claims that ultimately are unsuccessful could result in expenditures of funds in connection with litigation and divert management's time and other resources.

Levels or types of insurance coverage purchased may not adequately cover claims or liabilities.

We maintain insurance to protect against certain types of claims associated with the use of our products, operations, property damage, casualty and other risks, but our insurance coverage may not adequately cover all claims or penalties. Depending on our assumptions regarding level of risk, availability, cost and other considerations, we purchase differing amounts of insurance from time to time and in various locations. Our insurance coverage is subject to deductibles, exclusions and policy limits that may require us to self-insure certain types of claims or claims in certain countries. If our level of insurance is inadequate or a loss isn't covered by insurance, we could be required to pay unpredictable and substantial amounts that could have a substantial negative impact on our financial results or operations.

In addition to our own direct sales force, we rely on distributors, systems integrators and value-added resellers to sell our products, and our failure to effectively develop, manage or prevent disruptions to our distribution channels and the processes and procedures that support them could cause a reduction in the number of end customers of our products.

Our future success is highly dependent upon maintaining our relationships with distributors, systems integrators and value-added resellers and establishing additional sales channel relationships. We anticipate that sales of our products to a limited number of channel partners will continue to account for a material portion of our total product revenue for the foreseeable future. We provide our channel partners with specific training and programs to assist them in selling our products, but these steps may not be effective. In addition, our channel partners may be unsuccessful in marketing, selling and supporting our products and services. If we are unable to develop and maintain effective sales incentive programs for our channel partners, we may not be able to incentivize these partners to sell our products to end customers. These partners may have incentives to promote our competitors' products to the detriment of our own or may cease selling our products altogether. One of our channel partners could elect to consolidate or enter into a strategic partnership with one of our competitors, which could reduce or eliminate our future opportunities with that channel partner. Our agreements with our channel partners may generally be terminated for any reason by either party with advance notice. We may be unable to retain these channel partners or secure additional or replacement channel partners. The loss of one or more of our significant channel partners requires extensive training, and any new or expanded relationship with a channel partner may take several months or more to achieve productivity.

Where we rely on the channel partners for sales of our products, we may have little or no contact with the ultimate users of our products that purchase through such channel partners, thereby making it more difficult for us to establish brand awareness, ensure proper delivery and installation of our products, service ongoing end-customer requirements, estimate end-customer demand and respond to evolving end-customer needs. In addition, our channel partner sales structure could subject us to lawsuits, potential liability and reputational harm if, for example, any of our channel partners misrepresent the functionality of our products or services to end customers, fail to comply with their contractual obligations or violate laws or our corporate policies. If we fail to effectively manage our existing sales channels, or if our channel partners are unsuccessful in fulfilling the orders for our products, if we are unable to enter into arrangements with, and retain a sufficient number of, high-quality channel partners in each of the regions in which we sell products and keep them motivated to sell our products, our ability to sell our products and our business, financial condition, results of operations and prospects will be harmed.

A portion of our revenue is generated by sales to government entities, which are subject to a number of challenges and risks.

We anticipate increasing our sales efforts to U.S. and foreign, federal, state and local governmental end customers in the future. Sales to government entities are subject to a number of risks. Selling to government entities 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. The substantial majority of our sales to date to government entities have been made indirectly through our channel partners. Government certification requirements for products like ours may change and, in doing so, restrict our ability to sell into the government sector until we have attained revised certifications. Government demand and payment for our products and services may be affected by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our products and services. Government entities 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 business, financial condition, results of operations and prospects. Selling to government entities may also require us to comply with various regulations that are not applicable to sales to non-government entities, including regulations that may relate to pricing, classified material and other matters. Complying with such regulations may also require us to put in place controls and procedures to monitor compliance with the applicable regulations that may be costly or not possible. We are not currently certified to perform work under classified contracts with government entities. Failure to comply with any such regulations could adversely affect our business, prospects, results of operations and financial condition. Governments routinely investigate and audit government contractors' administrative processes, and any unfavorable audit could result in the government ceasing to buy our products and services, a reduction of revenue,

fines or civil or criminal liability if the audit uncovers improper or illegal activities, any of which could materially adversely affect our business, financial condition, results of operations and prospects. The U.S. government may require certain products that it purchases to be manufactured in the U.S. and other relatively high-cost manufacturing locations, and we may not manufacture all products in locations that meet these requirements. Any of these and other circumstances could have a material adverse effect on our business, financial condition, results of operations and prospects.

We may invest in or acquire other businesses which could require significant management attention, disrupt our business, dilute stockholder value and adversely affect our business, financial condition, results of operations and prospects.

As part of our business strategy, we may make investments in complementary companies, products or technologies which could involve licenses, additional channels of distribution, discount pricing or investments in or acquisitions of other companies. However, we do not have significant experience in making investments in other companies nor have we made any acquisitions to date, and as a result, our ability as an organization to evaluate and/or complete investments or acquire and integrate other companies, products or technologies in a successful manner is unproven. We may not be able to find suitable investment or acquisition candidates, and we may not be able to complete such investments or acquisitions on favorable terms, if at all. If we do complete investments or acquisitions, we may not ultimately strengthen our competitive position or achieve our goals, and any investments or acquisitions we complete could be viewed negatively by our end customers, investors and securities analysts.

In addition, investments and acquisitions may result in unforeseen operating difficulties and expenditures. For example, if we are unsuccessful at integrating any acquisitions or retaining key talent from those acquisitions, or the technologies associated with such acquisitions, into our company, the business, financial condition, results of operations and prospects of the combined company could be adversely affected. Any integration process may require significant time and resources, and we may not be able to manage the process successfully. We may not successfully evaluate or utilize the acquired technology or personnel or accurately forecast the financial effects of an acquisition transaction, including accounting charges. We may have to pay cash, incur debt or issue equity securities to pay for any such investment or acquisition, each of which could adversely affect our financial condition or the market price of our common stock. The sale of equity or issuance of debt to finance any such acquisitions could result in dilution to our stockholders. The incurrence of indebtedness would result in increased fixed obligations and could also include covenants or other restrictions that would impede our ability to manage our operations. Moreover, if the investment or acquisition becomes impaired, we may be required to take an impairment charge, which could adversely affect our financial condition or the market price of our common stock.

If we needed to raise additional capital to expand our operations, invest in new products or for other corporate purposes, our failure to do so on favorable terms could reduce our ability to compete and could harm our business, financial condition, results of operations and prospects.

We expect that our existing cash and cash equivalents, will be sufficient to meet our anticipated cash needs for the foreseeable future. If we did need to raise additional funds to expand our operations, invest in new products or for other corporate purposes, we may not be able to obtain additional debt or equity financing on favorable terms, if at all. If we raise additional equity financing, our stockholders may experience significant dilution of their ownership interests, and the market price of our common stock could decline. Furthermore, if we engage in debt financing, the holders of such debt would have priority over the holders of common stock, and we may be required to accept terms that restrict our ability to incur additional indebtedness or impose other restrictions on our business. We may also be required to take other actions that would otherwise be in the interests of the debt holders, including maintaining specified liquidity or other ratios, any of which could harm our business, financial condition, results of operations and prospects. If we need additional capital and cannot raise it on acceptable terms, if at all, we may not be able to, among other things:

- evolve or enhance our products and services;
- continue to expand our sales and marketing and research and development organizations;
- acquire complementary technologies, products or businesses;
- expand operations in the U.S. or internationally;

- hire, train and retain employees; or
- respond to competitive pressures or unanticipated working capital requirements.

Our failure to do any of these things could seriously harm our business, financial condition, results of operations and prospects.

If our estimates or judgments relating to our critical accounting policies are based on assumptions that change or prove to be incorrect, our results of operations could fall below expectations of securities analysts and investors, resulting in a decline in the market price of our common stock.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as described in Part II Item 7 of "Management's Discussion and Analysis of Financial Condition and Results of Operations," the results of which form the basis for making judgments about the carrying values of assets, liabilities, equity, revenue and expenses that are not readily apparent from other sources. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to revenue recognition, inventory valuation and contract manufacturer/supplier liabilities, income taxes and loss contingencies. If our assumptions change or if actual circumstances differ from those in our assumptions, our results of operations may be adversely affected and may fall below the expectations of securities analysts and investors, resulting in a decline in the market price of our common stock.

We are exposed to the credit risk of our channel partners and some of our end customers, which could result in material losses.

Most of our sales are on an open credit basis, with standard payment terms of 30 days in the United States and, because of local customs or conditions, longer in some markets outside the U.S. We monitor individual end-customer payment capability in granting such open credit arrangements, seek to limit such open credit to amounts we believe the end customers can pay and maintain reserves we believe are adequate to cover exposure for doubtful accounts. We are unable to recognize revenue from shipments until the collection of those amounts becomes reasonably assured. Any significant delay or default in the collection of significant accounts receivable could result in an increased need for us to obtain working capital from other sources, possibly on worse terms than we could have negotiated if we had established such working capital resources prior to such delays or defaults. Any significant default could adversely affect our results of operations and delay our ability to recognize revenue.

A material portion of our sales is derived through our distributors, systems integrators and value-added resellers. Some of our distributors, systems integrators and value-added resellers may experience financial difficulties, which could adversely affect our collection of accounts receivable. Distributors tend to have more limited financial resources than other systems integrators, value-added resellers and end customers. Distributors represent potential sources of increased credit risk because they may be less likely to have the reserve resources required to meet payment obligations. Our exposure to credit risks of our channel partners may increase if our channel partners and their end customers are adversely affected by global or regional economic conditions. One or more of these channel partners could delay payments or default on credit extended to them, either of which could materially adversely affect our business, financial condition, results of operations and prospects.

We are exposed to fluctuations in currency exchange rates, which could adversely affect our business, financial condition, results of operations and prospects.

Our sales contracts are primarily denominated in U.S. dollars, and therefore substantially all of our revenue is not subject to foreign currency risk. However, a strengthening U.S. dollar could increase the real cost of our products to our end customers outside of the U.S., which could adversely affect our business, financial condition, results of operations and prospects. In addition, a decrease in the value of the U.S. dollar relative to foreign currencies could increase our product and operating costs in foreign locations. Further, an increasing portion of our operating expenses is incurred outside the U.S., is denominated in foreign currencies and is subject to fluctuations due to changes in foreign currency exchange rates. If we are not able to successfully hedge against the risks associated

with the currency fluctuations, our business, financial condition, results of operations and prospects could be adversely affected.

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

Our corporate headquarters and the operations of our key manufacturing vendors, logistics providers and partners, as well as many of our customers, are located in areas exposed to risks of natural disasters such as earthquakes and tsunamis, including the San Francisco Bay area, Japan and Taiwan. A significant natural disaster, such as an earthquake, tsunami, fire or a flood, or other catastrophic event such as a disease outbreak, could have a material adverse effect on our or their business, which could in turn materially affect our financial condition, results of operations and prospects. For example, in the event our service providers' information technology systems or manufacturing or logistics abilities are hindered by any of the events discussed above, shipments could be delayed, which could result in missed financial targets, such as revenue and shipment targets, for a particular quarter. Further, if a natural disaster occurs in a region from which we derive a significant portion of our revenue, end customers in that region may delay or forego purchases of our products, which may materially and adversely affect our business, financial condition, results of operations and prospects. In addition, acts of terrorism could cause disruptions in our business or the business of our manufacturer, logistics providers, partners or end customers or the economy as a whole. Given our typical concentration of sales at each quarter end, any disruption in the business of our manufacturer, logistics providers, partners or end customers that affects sales at the end of our quarter could have a particularly significant adverse effect on our quarterly results. All of the aforementioned risks may be augmented if our disaster recovery plans and those of our manufacturers, logistics providers or partners prove to be inadequate. To the extent that any of the above results in delays or cancellations of end-customer orders, or delays in the manufacture, deployment or shipment of our products, our business, financial condition, results of operations and prospects would be adversely affected.

Breaches of our cybersecurity systems could degrade our ability to conduct our business operations and deliver products and services to our customers, delay our ability to recognize revenue, compromise the integrity of our software products, result in significant data losses and the theft of our intellectual property, damage our reputation, expose us to liability to third parties and require us to incur significant additional costs to maintain the security of our networks and data.

We increasingly depend upon our IT systems to conduct virtually all of our business operations, ranging from our internal operations and product development activities to our marketing and sales efforts and communications with our customers and business partners. Computer programmers may attempt to penetrate our network security, or that of our website, and misappropriate our proprietary information or cause interruptions of our service. Because the techniques used by such computer programmers to access or sabotage networks change frequently and may not be recognized until launched against a target, we may be unable to anticipate these techniques. In addition, sophisticated hardware and operating system software and applications that we produce or procure from third parties may contain defects in design or manufacture, including "bugs" and other problems that could unexpectedly interfere with the operation of the system. We have also outsourced a number of our business functions to third-parties, including our manufacturers, logistics providers, and cloud service providers, and our business operations also depend, in part, on the success of these third parties' own cybersecurity measures. Similarly, we rely upon distributors, resellers and system integrators to sell our products and our sales operations depend, in part, on the reliability of their cybersecurity measures. Additionally, we depend upon our employees to appropriately handle confidential data and deploy our IT resources in safe and secure fashion that does not expose our network systems to security breaches and the loss of data. Accordingly, if our cybersecurity systems and those of our contractors fail to protect against unauthorized access, sophisticated cyber attacks and the mishandling of data by our employees and contractors, our ability to conduct our business effectively could be damaged in a number of ways, including:

- sensitive data regarding our business, including intellectual property and other proprietary data, could be stolen;
- our electronic communications systems, including email and other methods, could be disrupted, and our ability to conduct our business operations could be seriously damaged until such systems can be restored;

- our ability to process customer orders and electronically deliver products and services could be degraded, and our distribution channels could be disrupted, resulting in delays in revenue recognition;
- defects and security vulnerabilities could be introduced into our software, thereby damaging the reputation and perceived reliability and security of our products and potentially making the data systems of our customers vulnerable to further data loss and cyber incidents; and
- personally identifiable data of our customers, employees and business partners could be compromised.

Should any of the above events occur, we could be subject to significant claims for liability from our customers and regulatory actions from governmental agencies. In addition, our ability to protect our intellectual property rights could be compromised and our reputation and competitive position could be significantly harmed. Also, the regulatory and contractual actions, litigations, investigations, fines, penalties and liabilities relating to data breaches that result in losses of personally identifiable or credit card information of users of our services can be significant in terms of fines and reputational impact and necessitate changes to our business operations that may be disruptive to us. Additionally, we could incur significant costs in order to upgrade our cybersecurity systems and remediate damages. Consequently, our financial performance and results of operations could be adversely affected.

We believe our long-term value as a company will be greater if we focus primarily on growth instead of profitability.

Our business strategy is to focus primarily on our long-term growth. As a result, our profitability in any given period may be lower than it would be if our strategy was to maximize short-term profitability. Expenditures on research and development, sales and marketing, infrastructure and other such investments may not ultimately grow our business, prospects or cause long term profitability. For example, in order to support our strong growth, we have accelerated our investment in infrastructure, such as enterprise resource planning software and other technologies to improve the efficiency of our operations. As a result, we expect our levels of operating profit could decline in the short to medium term. If we are ultimately unable to achieve or maintain profitability at the level anticipated by analysts and our stockholders, the market price of our common stock may decline.

We may not generate positive returns on our research and development investments.

Developing our products is expensive, and the investment in product development may involve a long payback cycle. For the years ended December 31, 2017, 2016 and 2015, our research and development expenses were $349.6 million, or approximately 21.2% of our revenue, $273.6 million, or approximately 24.2% of our revenue, and $209.4 million, or approximately 25.0% of our revenue, respectively. We expect to continue to invest heavily in software development in order to expand the capabilities of our cloud networking platform, introduce new products and features and build upon our technology leadership. We believe one of our greatest strengths lies in the speed of our product development efforts. By investing in research and development, we believe we will be well positioned to continue our rapid growth and take advantage of our large market opportunity. We expect that our results of operations will be impacted by the timing and size of these investments. These investments may take several years to generate positive returns, if ever.

Changes in our provision for income taxes or our effective tax rate, the enactment of new tax laws or changes in the application of existing tax laws of various jurisdictions or adverse outcomes resulting from examination of our income tax returns could adversely affect our results.

Our provision for income taxes is subject to volatility and could be adversely affected by several factors, many of which are outside of our control, including earnings that are lower than anticipated in countries that have lower tax rates and higher than anticipated in countries that have higher tax rates; our ability to generate and use tax attributes; changes in the valuation of our deferred tax assets and liabilities; expiration of or lapses in the federal research and development ("R&D”) tax credit laws; transfer pricing adjustments, including the effect of acquisitions on our inter-company R&D cost sharing arrangement and legal structure; tax effects of nondeductible compensation, including certain stock-based compensation; tax costs related to inter-company realignments; changes in accounting principles; adverse tax consequences, including imposition of withholding or other taxes on payments by subsidiaries or customers; a change in our decision to indefinitely reinvest foreign earnings or changes in tax laws

and regulations, including the Tax Cuts and Jobs Act (the "Tax Act") enacted on December 22, 2017 and the new U.S. changes to the taxation of earnings of our foreign subsidiaries.

Significant judgment is required to evaluate our tax positions and determine our provision for income taxes. The accounting guidance for uncertainty in income taxes applies to all income tax positions, including the potential recovery of previously paid taxes, which if settled unfavorably could adversely affect our provision for income taxes or additional paid-in capital. In addition, tax laws are dynamic and subject to change as evidenced by the Tax Act. As new laws are passed and new interpretations of the law are issued or applied, our provision for income taxes may be affected. Recent changes to U.S. tax laws, including taxation of earnings outside of the U.S., the introduction of a base erosion anti-abuse tax and the disallowance of tax deductions for certain book expense, as well as changes to U.S. tax laws that may be enacted in the future, could impact the tax treatment of our earnings, as well as cash and cash equivalent balances we currently maintain. Furthermore, due to shifting economic and political conditions, tax policies or rates in various jurisdictions may be subject to significant change.

Further, we are subject to the examination of our income tax returns by the Internal Revenue Service and other tax authorities. Audits by the Internal Revenue Service or other tax authorities are subject to inherent uncertainties and could result in unfavorable outcomes, including potential fines or penalties. As we operate in numerous taxing jurisdictions, the application of tax laws can be subject to diverging and sometimes conflicting interpretations by tax authorities of these jurisdictions. The expense of defending and resolving such an audit may be significant. The amount of time to resolve an audit is also unpredictable and may divert management's attention from our business operations. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. We cannot assure you that fluctuations in our provision for income taxes or our effective tax rate, the enactment of new tax laws or changes in the application or interpretation of existing tax laws or adverse outcomes resulting from examination of our tax returns by tax authorities will not have an adverse effect on our business, financial condition, results of operations and prospects.

The requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain qualified board members.

As a public company, we are subject to the reporting and corporate governance requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the listing requirements of the New York Stock Exchange and other applicable securities rules and regulations, including the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act. Compliance with these rules and regulations and the attendant responsibilities of management and the board, may make it more difficult to attract and retain executive officers and members of our board of directors, particularly to serve on our Audit Committee and Compensation Committee, has increased our legal and financial compliance costs, made some activities more difficult, time-consuming or costly and increased demand on our systems and resources. Among other things, the Exchange Act requires that we file annual, quarterly and current reports with respect to our business and results of operations and maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. In addition, if our internal control over financial reporting is not effective as defined under Section 404, we could be subject to one or more investigations or enforcement actions by state or federal regulatory agencies, stockholder lawsuits or other adverse actions requiring us to incur defense costs, pay fines, settlements or judgments. As a result, management's attention may be diverted from other business concerns, which could harm our business, financial condition, results of operations and prospects. Although we have already hired additional employees to help comply with these requirements, we may need to further expand our legal and finance departments in the future, which will increase our costs and expenses.

In addition, changing laws, regulations, and standards relating to corporate governance and public disclosure, such as continued rulemaking pursuant to the Dodd-Frank Act and related rules and regulations, are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. 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 and prospects may be harmed. As a result of disclosure of information in the filings required of a public company, our business and financial condition will become more visible, which may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business, financial condition, results of operations and prospects could be harmed, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and harm our business, financial condition, results of operations and prospects.

In addition, as a result of our disclosure obligations as a public company, we will have reduced strategic flexibility and will be under pressure to focus on short-term results, which may adversely affect our ability to achieve long-term profitability. We also believe that being a public company and these new rules and regulations makes it more expensive for us to obtain and maintain director and officer liability insurance, and in the future, we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our Audit Committee and Compensation Committee, and qualified executive officers.

Failure to comply with governmental laws and regulations could harm our business, financial condition, results of operations and prospects.

Our business is subject to regulation by various federal, state, local and foreign governmental agencies, 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. For example, the European Union enacted the General Data Protection Regulation ("GDPR"), which will be enforced starting in May 2018. The GDPR requires substantial changes to the handling and storage of data and administrative fines for violations, which can be up four percent of the previous year's annual revenue or €20 million, whichever is higher. From time to time, we may receive inquiries from such governmental agencies or we may make voluntary disclosures regarding our compliance with applicable governmental regulations or requirements relating to import/export controls, federal securities laws and tax laws and regulations which could lead to formal investigations. Noncompliance with applicable government regulations or requirements could subject us to 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, financial condition, results of operations and prospects 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, financial condition, results of operations and prospects.

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

Our products may be subject to various export controls and because we incorporate encryption technology into certain of our products, certain of our products may be exported from various countries only with the required export license or through an export license exception. If we were to fail to comply with the applicable export control laws, customs regulations, economic sanctions or other applicable laws, we could be subject to monetary damages or the imposition of restrictions which could be material to our business, operating results and prospects and could also harm our reputation. Further, there could be criminal penalties for knowing or willful violations, including incarceration for culpable employees and managers. Obtaining the necessary export license or other authorization for a particular sale may be time-consuming and may result in the delay or loss of sales opportunities. Furthermore, certain export control and economic sanctions laws prohibit the shipment of certain products, technology, software and services to embargoed countries and sanctioned governments, entities, and persons. Even though we take precautions to ensure that we and our channel partners comply with all relevant regulations, any

failure by us or our channel partners to comply with such regulations could have negative consequences, including reputational harm, government investigations and penalties.

As our company grows we also continue developing procedures and controls to comply with export control and other applicable laws. Historically, we have had some instances where we inadvertently have not fully complied with certain export control laws, but we have disclosed them to, and implemented corrective actions with, the appropriate government agencies.

In addition, various countries regulate the import of certain encryption technology, including through import permit and license requirements, and have enacted laws that could limit our ability to distribute our products or could limit our end customers' ability to implement our products in those countries. Any change in export or import regulations, economic sanctions or related legislation, shift in the enforcement or scope of existing regulations or change in the countries, governments, 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 or create delays in the introduction of our products into international markets. Any decreased use of our products or limitation on our ability to export or sell our products could adversely affect our business, financial condition, results of operations and prospects.

If we or our partners fail to comply with environmental requirements, our business, financial condition, results of operations, prospects and reputation could be adversely affected.

We and our partners, including our contract manufacturers, are subject to various local, state, federal and international environmental laws and regulations, including laws governing the hazardous material content of our products and laws relating to the collection, recycling and disposal of electrical and electronic equipment. Examples of these laws and regulations include the European Union, or EU, Restrictions on the use of Hazardous Substances Directive, or RoHS Directive, and the EU Waste Electrical and Electronic Equipment Directive, or WEEE Directive, as well as the implementing legislation of the EU member states. Similar laws and regulations have been passed or are pending in China, South Korea, Norway and Japan and may be enacted in other regions, including in the U.S., and we or our partners, including our contract manufacturers, are, or may in the future be, subject to these laws and regulations.

The EU RoHS Directive and the similar laws of other jurisdictions limit the content of certain hazardous materials such as lead, mercury and cadmium in the manufacture of electrical equipment, including our products. Our products currently comply with the RoHS Directive; however, if there are future changes to this directive, we may be required to re-engineer our products to use components compatible with these regulations. This re-engineering and component substitution could result in additional costs to us or disrupt our operations or logistics.

We are also subject to environmental laws and regulations governing the management and disposal of hazardous materials and wastes. Our failure, or the failure of our partners, including our contract manufacturers, to comply with past, present and future environmental laws could result in fines, penalties, third-party claims, reduced sales of our products, substantial product inventory write-offs and reputational damage, any of which could harm our business, financial condition, results of operations and prospects. We also expect that our business will be affected by new environmental laws and regulations on an ongoing basis applicable to us and our partners, including our contract manufacturers. To date, our expenditures for environmental compliance have not had a material effect on our results of operations or cash flows. Although we cannot predict the future effect of such laws or regulations, they will likely result in additional costs or require us to change the content or manufacturing of our products, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Regulations related to conflict minerals may cause us to incur additional expenses and could limit the supply and increase the costs of certain metals used in the manufacturing of our products.

As a public company, we are subject to requirements under the Dodd-Frank Act that require us to perform diligence, and disclose and report whether or not our products contain "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 the sourcing, availability and pricing of the materials used in the manufacture of components used in our products. In addition, we will incur additional costs to comply with these disclosure requirements, including costs related to conducting diligence procedures and, if applicable, potential changes to products, processes or sources of supply as a consequence of such verification activities. We may also face reputational harm if we determine that certain of our products contain minerals not determined to be conflict-free or if we are unable to alter our products, processes or sources of supply to avoid such materials.

Risks Related to the Securities Markets and Ownership of Our Common Stock

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

The trading price of our common stock has historically been and is likely to continue to be volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. These fluctuations could cause you to lose all or part of your investment in our common stock. Factors that could cause fluctuations in the market price of our common stock include the following:

- actual or anticipated announcements of new products, services or technologies, commercial relationships, acquisitions or other events by us or our competitors;
- forward-looking statements related to future revenue, gross margins and earnings per share;
- price and volume fluctuations in the overall stock market from time to time;
- litigation involving us, our industry, or both including events occurring in our litigation with Cisco Systems and Optumsoft;
- manufacturing, supply or distribution shortages or constraints, or challenges with adding or changing our manufacturing process or supply chain;
- significant volatility in the market price and trading volume of technology companies in general and of companies in the IT security industry in particular;
- fluctuations in the trading volume of our shares or the size of our public float;
- sales by our officers, directors or significant stockholders;
- actual or anticipated changes or fluctuations in our results of operations;
- adverse changes to our relationships with any of our channel partners;
- whether our results of operations or our financial outlook for future fiscal periods meet the expectations of securities analysts or investors;
- actual or anticipated changes in the expectations of investors or securities analysts;
- regulatory developments in the U.S., 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, technology stocks have historically experienced high levels of volatility and, if the market for technology stocks or the stock market in general experiences a loss of investor confidence, the market price of our common stock could decline for reasons unrelated to our business, financial condition, results of operations and prospects. The market 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. If the market price of our common stock is volatile, we may become the target of securities litigation. Securities litigation could result in substantial costs and divert our management's attention and resources from our business and prospects. This could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

Based on approximately 73.7 million shares outstanding as of December 31, 2017, holders of approximately 24.7% of our common stock have rights, subject to some conditions, to require us to file registration statements covering the sale of their shares or to include their shares in registration statements that we may file for ourselves or other stockholders. In addition, we have registered the offer and sale of all shares of common stock that we may issue under our equity compensation plans. If holders, by exercising their registration rights, sell large numbers of shares, it could adversely affect the market price of our common stock.

We may also issue shares of common stock or securities convertible into our common stock in connection with a financing, acquisition, our equity incentive plans, or otherwise. Any such issuances would result in dilution to our existing stockholders and could adversely affect the market price of our common stock.

Insiders have substantial control over us, which could limit your ability to influence the outcome of key transactions, including a change of control.

Our directors, executive officers and each of our stockholders who own greater than 10% of our outstanding common stock together with their affiliates, in the aggregate, beneficially own approximately 23.8% of the outstanding shares of our common stock, based on shares outstanding as of December 31, 2017. As a result, these stockholders, if acting together, could exercise a significant level of influence over matters requiring approval by our stockholders, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. They may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. This concentration of ownership may also discourage a potential investor from acquiring our common stock due to the limited voting power of such stock or otherwise may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

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

We have never declared nor paid any dividends on our common stock. We intend to retain any earnings to finance the operation and expansion of our business and prospects, and we do not anticipate paying any cash dividends in the future. As a result, you may only receive a return on your investment in our common stock if the market price of our common stock increases.

If securities or industry analysts publish inaccurate or unfavorable research reports about our business or prospects, the market price of our common stock and trading volume could decline.

The trading 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 or prospects. 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, the market price of our common stock 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 could cause the market price of our common stock or trading volume to decline.

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

Our amended and restated certificate of incorporation and amended and restated 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 preferences 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 president, 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 amended and restated certificate of incorporation relating to the issuance of preferred stock and management of our business or our amended and restated 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 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.

The issuance of additional stock in connection with financings, acquisitions, investments, our stock incentive plans or otherwise will dilute all other stockholders.

Our amended and restated certificate of incorporation authorizes us to issue up to 1,000,000,000 shares of common stock and up to 100,000,000 shares of preferred stock with such rights and preferences as may be determined by our board of directors. Subject to compliance with applicable rules and regulations, we may issue our shares of common stock or securities convertible into our common stock from time to time in connection with a financing, acquisition, investment, our stock incentive plans or otherwise. We may from time to time issue additional shares of common stock at a discount from the then market price of our common stock. Any issuance of stock could result in substantial dilution to our existing stockholders and cause the market price of our common stock to decline.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters is located in Santa Clara, California where we currently lease approximately 210,000 square feet of space under a lease agreement that expires in 2023.

We also lease space for operations, sales personnel and research and development in locations throughout the U.S. and various international locations, including Canada, China, India, Ireland, Japan, Korea, Malaysia, Singapore, Taiwan, the United Kingdom, and United Arab Emirates. 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, and we believe that suitable additional or alternative space will be available as needed to accommodate ongoing operations and any such growth. We expect to incur additional expenses in connection with such new or expanded facilities.

Item 3. Legal Proceedings

The information set forth under the “Legal Proceedings” in Note 5 contained in the "Notes to Consolidated Financial Statements" in Item 8 of Part II of this Annual Report on Form 10-K is incorporated herein 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 Information

Our common stock is listed on the NYSE under the symbol “ANET”. The following table sets forth for the periods indicated the high and low sales prices of our common stock as reported on the New York Stock Exchange.

	High	Low
Fiscal 2016 Quarters		
First quarter	$ 79.22	$ 52.51
Second quarter	$ 75.40	$ 60.51
Third quarter	$ 86.35	$ 62.21
Fourth quarter	$ 98.90	$ 78.82
Fiscal 2017 Quarters		
First quarter	$ 134.65	$ 87.33
Second quarter	$ 162.97	$ 128.66
Third quarter	$ 193.24	$ 141.78
Fourth quarter	$ 245.65	$ 177.92

Holders of Record

As of February 9, 2018, there were 73 holders of record of our common stock. Because many of our shares of 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 record holders.

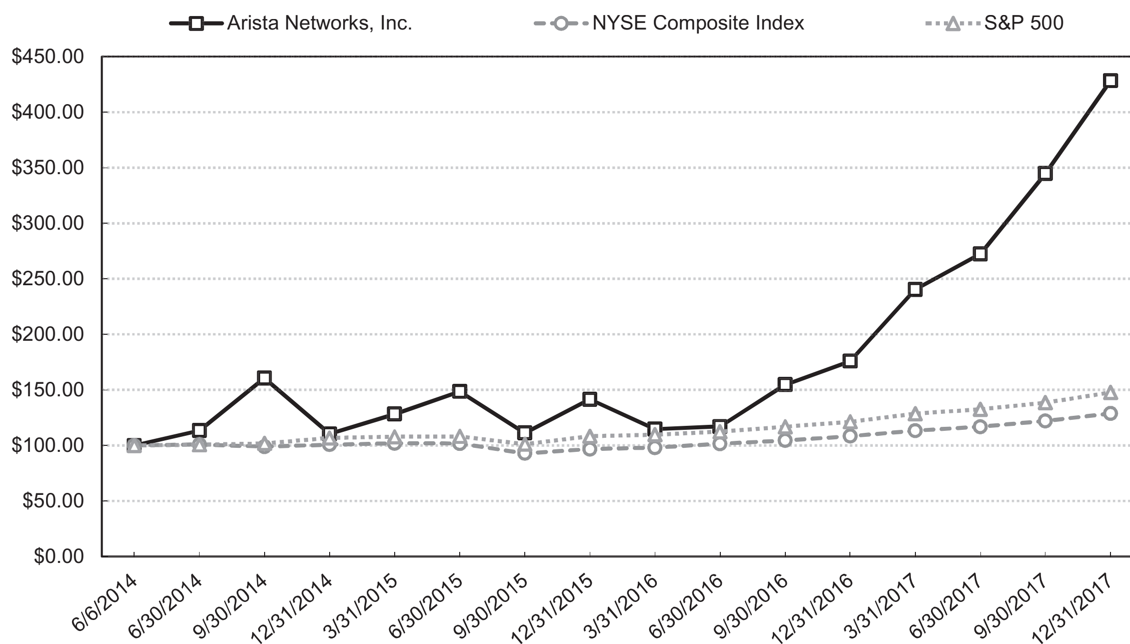
Dividend Policy

We have never declared or paid any cash dividends on our capital stock. We intend to retain any future earnings and do not expect to pay any dividends in the foreseeable future. Any future determination to declare cash dividends will be made at the discretion of our board of directors, subject to applicable laws, and will depend on a number of factors, including our financial condition, results of operations, capital requirements, contractual restrictions, general business conditions and other factors that our board of directors may deem relevant.

Stock Performance Graph

The following shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or incorporated by reference into any of our other filings under the Exchange Act or the Securities Act, except to the extent we specifically incorporate it by reference into such filing.

The following graph compares the cumulative total return of our common stock with the total return for the NYSE Composite Index and the Standard & Poor's 500 Index (the "S&P 500") from June 6, 2014 (the date of our initial public offering) through December 31, 2017. The graph assumes that $100 was invested on June 6, 2014's closing price in our common stock, the NYSE Composite Index and the S&P 500, and assumes reinvestment of any dividends. The stock price performance on the following graph is not necessarily indicative of future stock price performance.



Securities Authorized for Issuance Under Equity Compensation Plans

See Item 12 of Part III of this report regarding information about securities authorized for issuance under our equity compensation plans.

Recent Sales of Unregistered Equity Securities

There were no sales of unregistered securities during fiscal 2017.

Issuer Repurchases of Equity Securities

Under our equity incentive plans, certain participants may exercise options prior to vesting, subject to a right of a repurchase by us. During the fourth quarter of 2017, there were no repurchases of unvested shares of our common stock made pursuant to our equity incentive plans as a result of us exercising our rights nor pursuant to any publicly announced plan or program.

Item 6. Selected Consolidated Financial Data

The selected consolidated statements of operations data for fiscal 2017, 2016 and 2015 and the consolidated balance sheet data as of December 31, 2017 and 2016 are derived from our audited financial statements appearing in Part II, Item 8, “Financial Statements and Supplementary Data,” of this Annual Report on Form 10-K. The selected consolidated statements of operations data for fiscal 2014 and 2013 and the consolidated balance sheet data as of December 31, 2015, 2014 and 2013 are derived from audited financial statements not included in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of the results to be expected in the future. The following selected consolidated financial data below should be read in conjunction with Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” our consolidated financial statements, and the accompanying notes appearing in Part II, Item 8, “Financial Statements and Supplementary Data,” of this Annual Report on Form 10-K to fully understand factors that may affect the comparability of the information presented below.

	Year Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands, except per share data)				
Selected Consolidated Statements of Operations Data:					
Revenue	$ 1,646,186	$ 1,129,167	$ 837,591	$ 584,106	$ 361,224
Cost of revenue [1]	584,417	406,051	294,031	192,015	122,686
Total gross profit	1,061,769	723,116	543,560	392,091	238,538
Operating expenses [1]:					
Research and development	349,594	273,581	209,448	148,909	98,587
Sales and marketing	155,105	130,887	109,084	85,338	55,115
General and administrative	86,798	75,239	75,720	32,331	18,688
Total operating expenses	591,497	479,707	394,252	266,578	172,390
Income from operations	470,272	243,409	149,308	125,513	66,148
Other income (expense), net:					
Interest expense	(2,780)	(3,136)	(3,152)	(6,280)	(7,119)
Other income (expense), net	7,268	1,952	(147)	2,275	(754)
Total other income (expense), net	4,488	(1,184)	(3,299)	(4,005)	(7,873)
Income before provision for income taxes	474,760	242,225	146,009	121,508	58,275
Provision for income taxes [2]	51,559	58,036	24,907	34,658	15,815
Net income	$ 423,201	$ 184,189	$ 121,102	$ 86,850	$ 42,460
Net income attributable to common stockholders:					
Basic	$ 422,400	$ 182,965	$ 119,115	$ 68,889	$ 20,777
Diluted	$ 422,468	$ 183,039	$ 119,264	$ 70,524	$ 21,780
Net income per share attributable to common stockholders:					
Basic	$ 5.85	$ 2.66	$ 1.81	$ 1.42	$ 0.76
Diluted	$ 5.35	$ 2.50	$ 1.67	$ 1.29	$ 0.72
Weighted-average shares used in computing net income per share attributable to common stockholders:					
Basic	72,258	68,771	65,964	48,427	27,320
Diluted	78,977	73,222	71,411	54,590	30,051

(1) Includes stock-based compensation expense as follows:

	Year Ended December 31,				
	2017	2016	2015	2014	2013
			(in thousands)		
Cost of revenue	$ 4,353	$ 3,620	$ 3,048	$ 1,535	$ 408
Research and development	42,184	31,892	25,515	14,986	5,464
Sales and marketing	17,953	15,666	11,454	7,643	2,985
General and administrative	10,937	7,854	5,286	3,455	1,302
Total stock-based compensation	$ 75,427	$ 59,032	$ 45,303	$ 27,619	$ 10,159

(2) Provision for income taxes for 2017 included an excess tax benefit of $110.0 million resulting from the adoption of ASU 2016-09 and a provisional amount of $51.8 million in connection with the Tax Cuts and Jobs Act enacted on December 22, 2017. See Note 8 of the Notes to the Consolidated Financial Statements under Item 8 of the Form 10-K for details.

	December 31,				
	2017	2016	2015	2014	2013
			(in thousands)		
Consolidated Balance Sheet Data:					
Cash, cash equivalents and marketable securities	$ 1,535,555	$ 867,833	$ 687,326	$ 449,457	$ 113,664
Working capital	1,736,524	1,066,573	739,317	535,106	73,422
Total assets	2,460,860	1,729,007	1,159,890	811,023	364,520
Total indebtedness(1)	39,592	41,210	42,546	43,634	160,213
Total deferred revenue	515,262	372,935	196,808	106,468	58,904
Total stockholders' equity	$ 1,661,914	$ 1,107,820	$ 788,152	$ 555,658	$ 77,732

(1) Total indebtedness as of December 31, 2017, 2016, 2015 and 2014 included our lease financing obligations. Total indebtedness as of December 31, 2013 included our subordinated convertible promissory notes payable to related parties, subordinated convertible promissory notes payable to third parties, accrued interest payable on the notes and our lease financing obligations.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations together with the consolidated financial statements and related notes that are included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements based upon current plans, expectations and beliefs that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this Annual Report on Form 10-K.

Overview

We are a leading supplier of cloud networking solutions that use software innovations to address the needs of large-scale Internet companies, cloud service providers and next-generation data centers for enterprise support. Our cloud networking solutions consist of our Extensible Operating System, or EOS, a set of network applications and our Ethernet switching and routing platforms. Our cloud networking solutions deliver industry-leading performance, scalability, availability, programmability, automation and visibility. At the core of our cloud networking platform is EOS, which was purpose-built to be fully programmable and highly modular. The programmability of EOS has allowed us to create a set of software applications that address the requirements of cloud networking, including workflow automation, network visibility and analytics, and has also allowed us to rapidly integrate with a wide range of third-party applications for virtualization, management, automation, orchestration and network services.

We believe that cloud networks will continue to replace legacy network technologies, and that our cloud networking platform addresses the large and growing cloud networking segment of data center switching, which remains in the early stage of adoption. Cloud networks are subject to increasing performance requirements due to the growing number of connected devices, as well as new enterprise and consumer applications. Computing architectures are evolving to meet the need for constant connectivity and access to data and applications. We expect to continue growing our organization to meet the needs of new and existing customers as they increasingly realize the performance and cost benefits of our cloud networking solutions and as they expand their cloud networks. Accordingly, we intend to continue to invest in our research and development organization to enhance the functionality of our existing cloud networking platform, introduce new products and features, and build upon our technology leadership. We believe one of our greatest strengths lies in our rapid development of new features and applications.

We generate revenue primarily from sales of our switching products which incorporate our EOS software. We generate the majority of our services revenue from post contract support, or PCS, which end customers typically purchase in conjunction with our products. Our end customers span a range of industries and include large Internet companies, service providers, financial services organizations, government agencies, media and entertainment companies and others. As we have grown the functionality of our EOS software, expanded the range of our product portfolio and increased the size of our sales force, our revenue has continued to grow rapidly. We have also been profitable and operating cash flow positive for each year since 2010.

To continue to grow our revenue, it is important that we both obtain new customers and sell additional products to existing customers. We expect that a substantial portion of our future sales will be follow-on sales to existing customers. We intend to continue expanding our sales force and marketing activities in key geographies, as well as our relationships with channel, technology and system-level partners in order to reach new end customers more effectively, increase sales to existing customers, and provide services and support effectively. In order to support our strong growth, we have and may continue to accelerate our investment in infrastructure, such as enterprise resource planning software and other technologies to improve the efficiency of our operations.

Our development model is focused on the development of new products based on our EOS software and enhancements to EOS. We engineer our products to be agnostic to the underlying merchant silicon architecture. Today, we combine our EOS software with merchant silicon into a family of switching and routing products. This enables us to focus our research and development resources on our software core competencies and to leverage the investments made by merchant silicon vendors to achieve cost-effective solutions. We currently procure certain merchant silicon components from multiple vendors, and we continue to expand our relationships with these and other vendors. We work closely with third party contract manufacturers to manufacture our products. Our contract manufacturers deliver our products to our third party direct fulfillment facilities. We and our fulfillment partners then perform labeling, final configuration, quality assurance testing and shipment to our customers.

Historically, large purchases by a relatively limited number of end customers have accounted for significant portion of our revenue. We have experienced unpredictability in the timing of large orders, especially with respect to our large end customers, due to the complexity of orders, the time it takes end customers to evaluate, test, qualify and accept our products and factors specific to our end customers. Due to these factors, we expect continued variability in our customer concentration and timing of sales on a quarterly and annual basis. In addition, we have provided, and may in the future provide, pricing discounts to large end customers, which may result in lower margins for the period in which such sales occur. Our gross margins may also fluctuate as a result of the timing of such sales to large end customers.

Furthermore, to comply with the limited exclusion order and cease and desist order in the 945 Investigation as described in Note 5 of the Notes to the Consolidated Financial Statements under Item 8 of this Form 10-K, entitled Commitments and Contingencies, we have made design changes to our products for sale in the United States to address the features that were found to infringe the patent claims underlying the remedial orders in the 945 Investigation. We have also worked closely with our customers on the qualification and testing of our redesigned products. The timing of the completion of these qualification activities for a few of our larger customers has extended beyond year end and this has impacted our business. We continue to work with these customers to complete these procedures and improve the redesigns in order to meet customer requirements. We will need to complete any outstanding product modifications and qualification and acceptance processes for these customers

and any inability to do so in a timely manner may result in an impact to our business, our revenue and our deferred revenue balances.

We also filed a motion with the U.S. Court of Appeals for the Federal Circuit (the "CAFC") requesting that they stay the orders of the United States International Trade Commission (“USITC”), pending completion of the appeals of the decisions of the United States Patent Trial and Appeal Board (“PTAB”), and sought an expedited schedule for those appeals. On September 22, 2017, the CAFC denied the motion to stay, but has allowed us to import its redesigned products into the United States without being blocked by the USITC’s orders, subject to any determinations by the USITC in subsequent proceedings regarding the redesigned products. On October 27, 2017, the USITC instituted a modification proceeding to determine whether our redesigned products infringe the patent claims underlying the remedial orders in the 945 Investigation. The USITC has set a deadline of five months for the ALJ to issue a recommended determination, which may be extended by one month upon a showing of good cause. The recommended determination will be subject to review by the Commission after which the Commission will issue a final determination. The Commission has not set a target date for the final determination. The hearing was held on January 26, 2018.

Results of Operations

The following table summarizes historical results of operations for the periods presented and as a percentage of revenue for those periods. We have derived the data for the years ended December 31, 2017, 2016 and 2015 from our consolidated financial statements included in Item 8 of this Form 10-K (in thousands, except for percentages of revenue).

	Year Ended December 31,		
	2017	2016	2015
Consolidated Statements of Operations Data:			
Revenue			
Product	$ 1,432,810	$ 991,337	$ 744,877
Service	213,376	137,830	92,714
Total revenue	1,646,186	1,129,167	837,591
Cost of revenue[1]			
Product	538,035	369,768	263,585
Service	46,382	36,283	30,446
Total cost of revenue	584,417	406,051	294,031
Gross profit	1,061,769	723,116	543,560
Operating expenses[1]			
Research and development	349,594	273,581	209,448
Sales and marketing	155,105	130,887	109,084
General and administrative	86,798	75,239	75,720
Total operating expenses	591,497	479,707	394,252
Income from operations	470,272	243,409	149,308
Other income (expense), net			
Interest expense	(2,780)	(3,136)	(3,152)
Other income (expense), net	7,268	1,952	(147)
Total other income (expense), net	4,488	(1,184)	(3,299)
Income before provision for income taxes	474,760	242,225	146,009
Provision for income taxes	51,559	58,036	24,907
Net income	$ 423,201	$ 184,189	$ 121,102

[1] Includes stock-based compensation expense as follows:

	Year Ended December 31,		
	2017	2016	2015
Stock-Based Compensation Expense:			
Cost of revenue	$ 4,353	$ 3,620	$ 3,048
Research and development	42,184	31,892	25,515
Sales and marketing	17,953	15,666	11,454
General and administrative	10,937	7,854	5,286
Total stock-based compensation	$ 75,427	$ 59,032	$ 45,303

	Year Ended December 31,		
	2017	2016	2015
	(as a percentage of revenue)		
Revenue			
Product	87.0%	87.8%	88.9%
Service	13.0	12.2	11.1
Total revenue	100.0	100.0	100.0
Cost of revenue			
Product	32.7	32.8	31.5
Service	2.8	3.2	3.6
Total cost of revenue	35.5	36.0	35.1
Gross margin	64.5	64.0	64.9
Operating expenses			
Research and development	21.2	24.2	25.0
Sales and marketing	9.4	11.6	13.0
General and administrative	5.3	6.7	9.0
Total operating expenses	35.9	42.5	47.0
Income from operations	28.6	21.6	17.9
Interest expense	(0.2)	(0.3)	(0.4)
Other income (expense), net	0.4	0.2	—
Total other income (expense), net	0.2	(0.1)	(0.4)
Income before provision for income taxes	28.8	21.5	17.5
Provision for income taxes	3.1	5.1	3.0
Net income	25.7%	16.3%	14.5%

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Revenue, Cost of Revenue and Gross Profit (in thousands, except percentages)

	Year Ended December 31,				Change in	
	2017		2016			
	$	% of Revenue	$	% of Revenue	$	%
Revenue						
Product	$ 1,432,810	87.0%	$ 991,337	87.8%	$ 441,473	44.5%
Service	213,376	13.0	137,830	12.2	75,546	54.8
Total revenue	1,646,186	100.0	1,129,167	100.0	517,019	45.8
Cost of revenue						
Product	538,035	32.7	369,768	32.8	168,267	45.5
Service	46,382	2.8	36,283	3.2	10,099	27.8
Total cost of revenue	584,417	35.5	406,051	36.0	178,366	43.9
Gross profit	$ 1,061,769	64.5%	$ 723,116	64.0%	$ 338,653	46.8%
Gross margin	64.5%		64.0%			

Revenue by Geography (in thousands, except percentages)

	Year Ended December 31,			
	2017	% of Total	2016	% of Total
Americas	$ 1,192,289	72.4 %	$ 874,740	77.5 %
Europe, Middle East and Africa	299,547	18.2	168,789	14.9
Asia-Pacific	154,350	9.4	85,638	7.6
Total revenue	$ 1,646,186	100.0 %	$ 1,129,167	100.0 %

Revenue

We generate revenue primarily from sales of our products. We also derive a portion of our revenue from sales of PCS, which is typically purchased in conjunction with our products, and subsequent renewals of those contracts. We expect our revenue may vary from period to period based on, among other things, the timing and size of orders, the delivery and acceptance of products, and the impact of significant transactions with unique terms and conditions that may require deferral of revenue.

Product revenue increased $441.5 million, or 44.5%, in the year ended December 31, 2017 compared to 2016. The increase was primarily driven by increased product shipments to our existing customers as they continued to expand their businesses. In addition, our newer switch products have continued to gain market acceptance, which has contributed to our revenue growth. Service revenue increased $75.5 million, or 54.8%, in the year ended December 31, 2017 compared to 2016 as a result of continued growth in initial and renewal support contracts as our customer installed base continued to expand.

We continue to experience pricing pressure on our products and services due to competition, but demand for our products and growth in our installed base has more than offset this pricing pressure. Deferred product revenue at December 31, 2017 remained consistent with the balance at December 31, 2016. The deferred product revenue balance at December 31, 2016 primarily included customer arrangements with new product and new customer acceptance clauses, which expired during the current year, while the balance at December 31, 2017 primarily represents arrangements with a few of our larger customers related to the ongoing qualification activities of our 945 investigation-related product redesigns. As we enter 2018, we expect to continue to work with these customers to complete their qualification activities, which may impact our business.

Cost of Revenue and Gross Margin

Cost of revenue primarily consists of amounts paid for inventory to our third-party contract manufacturers and merchant silicon vendors, overhead costs in our manufacturing operations department, and other manufacturing-related costs associated with manufacturing our products and managing our inventory. We expect our cost of product revenue to increase as our product revenue increases. Cost of providing PCS and other services consists primarily of personnel costs for our global customer support organization.

Gross margin, or gross profit as a percentage of revenue, has been and will continue to be affected by a variety of factors, including sales to large end customers who generally receive lower pricing, manufacturing-related costs including costs associated with supply chain sourcing activities, merchant silicon costs, the mix of products sold, and excess/obsolete inventory write-downs, including charges for excess/obsolete component inventory held by our contract manufacturers. We expect our gross margins to fluctuate over time, depending on the factors described above and others.

Cost of revenue increased $178.4 million or 43.9% for the year ended December 31, 2017 compared to the same period in 2016. The increase in cost of revenue was primarily due to an increase in product shipment volumes and the corresponding increase in product revenue. Gross margin increased from 64.0% to 64.5% for the year ended December 31, 2017 compared to the same period in 2016. The increase in gross margin was primarily driven by improved service margins as we scaled our services business on a relatively fixed cost base and slightly better product margins due to end customer mix. This improvement was partially offset by an increase in excess and obsolete inventory-related charges as we transition to new products.

Operating Expenses (in thousands, except percentages)

Our operating expenses consist of research and development, sales and marketing and general and administrative expenses. The largest component of our operating expenses is personnel costs. Personnel costs 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 operating expenses to continue to increase in absolute dollars in the near term as we continue to invest in the growth of our business.

	Year Ended December 31,				Change in	
	2017		2016			
	$	% of Revenue	$	% of Revenue	$	%
Operating expenses:						
Research and development	$ 349,594	21.2%	$ 273,581	24.2%	$ 76,013	27.8%
Sales and marketing	155,105	9.4	130,887	11.6	24,218	18.5
General and administrative	86,798	5.3	75,239	6.7	11,559	15.4
Total operating expenses	$ 591,497	35.9%	$ 479,707	42.5%	$ 111,790	23.3%

Research and development.

Research and development expenses consist primarily of personnel costs, prototype expenses, third-party engineering and contractor support costs, and an allocated portion of facility and IT costs including depreciation. Our research and development efforts are focused on maintaining and developing additional functionality for our existing products and on new product development, including new releases and upgrades to our EOS software and applications. We expect our research and development expenses to increase in absolute dollars as we continue to invest heavily in software development in order to expand the capabilities of our cloud networking platform, introduce new products and features and build upon our technology leadership.

Research and development expenses increased $76.0 million, or 27.8%, for the year ended December 31, 2017 compared to the same period in 2016. The increase was primarily due to a $36.9 million increase in personnel costs driven by headcount growth, resulting in additional compensation costs including stock-based compensation, and a $31.6 million increase in prototype and third-party engineering costs driven by additional outsourced development projects and costs associated with litigation-related changes in product design. In addition, facility and IT costs increase by $5.3 million due to the headcount growth.

Sales and marketing.

Sales and marketing expenses consist primarily of personnel costs, marketing and promotional activities, and an allocated portion of facility and IT costs including depreciation. We expect our sales and marketing expenses to increase in absolute dollars as we continue to expand our sales and marketing efforts worldwide.

Sales and marketing expenses increased $24.2 million, or 18.5% for the year ended December 31, 2017 compared to the same period in 2016. The increase included a $15.4 million increase in personnel costs, which was primarily due to increased headcount as well as higher sales volumes, driving increased compensation costs, including commissions and stock-based compensation. In addition, sales support costs increased by $8.1 million compared to 2016, reflecting increased professional services and field demonstration costs to support our sales infrastructure and expand our customer base.

General and administrative.

General and administrative expenses consist primarily of Cisco and Optumsoft litigation related expenses, personnel costs, professional services fees, and an allocated portion of facility and IT costs including depreciation. General and administrative personnel costs include those for our executive, finance, human resources and legal functions. Our professional services fees are primarily due to external legal, accounting, and tax services. We expect our general and administrative expenses to fluctuate in absolute dollars from period to period depending on the timing and progress of our litigation activities.

General and administrative expenses increased $11.6 million, or 15.4%, for the year ended December 31, 2017 compared to the same period in 2016. The increase was primarily due to a $4.5 million increase in the Cisco litigation related expenses, which included bond costs associated with the importation and sale of affected products and components during the presidential review period of the 945 Investigation. In addition, personnel costs increased by $3.9 million primarily due to increased stock-based compensation and higher salary related costs driven by increased headcount.

Other Income (Expense), Net (in thousands, except percentages)

Other income (expense) consists primarily of interest income from our cash equivalents and marketable securities, foreign currency transaction gains and losses, and interest expense on our lease financing obligation. We expect our interest income to grow in 2018 as we continue to grow our cash balance and invest our excess cash in marketable securities. We expect our foreign currency gains and losses to continue to fluctuate in the future due to changes in foreign currency exchange rates.

	Year Ended December 31,				Change in	
	2017		2016			
	$	% of Revenue	$	% of Revenue	$	%
Other income (expense), net:						
Interest expense	$ (2,780)	(0.2)%	$ (3,136)	(0.3)%	$ 356	(11.4)%
Other income (expense), net	7,268	0.4	1,952	0.2	5,316	272.3
Total other income (expense), net	$ 4,488	0.2 %	$ (1,184)	(0.1)%	$ 5,672	(479.1)%

Other income (expense), net improved during the year ended December 31, 2017 compared to 2016 primarily due to an increase in interest income as we continued to generate cash and expand our marketable securities portfolio.

Provision for Income Taxes (in thousands, except percentages)

We operate in a number of tax jurisdictions and are subject to taxes in each country or jurisdiction in which we conduct business. Earnings from our non-U.S. activities are subject to local country income tax and may be subject to U.S. income tax. Generally, our U.S. tax obligations are reduced by a credit for foreign income taxes paid on these earnings which avoids double taxation. Our tax expense to date consists of federal, state and foreign current and deferred income taxes.

	Year Ended December 31,				Change in	
	2017		2016			
	$	% of Revenue	$	% of Revenue	$	%
Provision for income taxes	$ 51,559	3.1%	$ 58,036	5.1%	$ (6,477)	(11.2)
Effective tax rate	10.9%		24.0%			

Our provision for income taxes was approximately $51.6 million and $58.0 million for the year ended December 31, 2017 and 2016, respectively, which resulted in a decrease in our effective tax rate from 24.0% in 2016 to 10.9% in 2017. The reduction in our effective tax rate was primarily due to the recognition of $110.0 million of excess tax benefits on share-based awards in the provision for income taxes as a result of our adoption of ASU 2016-09 in 2017, combined with a favorable geographical mix of our earnings towards jurisdictions with lower tax rates than the U.S. These positive drivers were partially offset by the inclusion of provisional tax amount totaling $51.8 million resulting from the recently enacted Tax Cuts and Jobs Act (the "Tax Act").

The Tax Act makes significant changes to the U.S. tax code, which include, but are not limited to, a U.S. federal corporate tax rate decrease from 35% to 21% effective January 1, 2018, and a shift to a modified territorial tax regime, which requires companies to pay a one-time transition tax on the mandatory deemed repatriation of the cumulative earnings of certain foreign subsidiaries as of December 31, 2017. As of December 31, 2017, we had not yet completed our accounting for the tax effects of the Tax Act. As a result, we recorded a provisional tax

amount of $18.8 million for the transition tax and a provisional tax amount of $33.0 million related to the re-measurement of certain deferred tax assets and liabilities, based on the tax rates at which they are expected to reverse in the future.

We will continue to refine our estimates related to the impact of the Tax Act during the one year measurement period allowed under Staff Accounting Bulletin 118 ("SAB 118"). In addition, our future effective tax rate is anticipated to fluctuate as a result of excess tax benefits to be included in the income tax provision.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Revenue, Cost of Revenue and Gross Profit (in thousands, except percentages)

	Year Ended December 31,					
	2016		2015		Change in	
	$	% of Revenue	$	% of Revenue	$	%
Revenue						
Product	$ 991,337	87.8%	$ 744,877	88.9%	$ 246,460	33.1%
Service	137,830	12.2	92,714	11.1	45,116	48.7
Total revenue	1,129,167	100.0	837,591	100.0	291,576	34.8
Cost of revenue						
Product	369,768	32.8	263,585	31.5	106,183	40.3
Service	36,283	3.2	30,446	3.6	5,837	19.2
Total cost of revenue	406,051	36.0	294,031	35.1	112,020	38.1
Gross profit	$ 723,116	64.0%	$ 543,560	64.9%	$ 179,556	33.0%
Gross margin	64.0%		64.9%			

Revenue by Geography (in thousands, except percentages)

	Year Ended December 31,			
	2016	% of Total	2015	% of Total
Americas	$ 874,740	77.5 %	$ 646,919	77.3 %
Europe, Middle East and Africa	168,789	14.9	128,400	15.3
Asia-Pacific	85,638	7.6	62,272	7.4
Total revenue	$ 1,129,167	100.0 %	$ 837,591	100.0 %

Revenue

Product revenue increased $246.5 million or 33.1% in the year ended December 31, 2016 compared to 2015. The increase during the period was primarily driven by increased shipments to our existing customers as they continue to grow and expand their businesses, increasing their demand for our products and related accessories. The introduction of new products contributed to our revenue growth, both with existing and new customers. Service revenue increased 48.7% in the year ended December 31, 2016 as a result of continued growth in initial and renewal support contracts as our customer installed base continued to expand. We also continued to experience pressure in product and service pricing due to competitive market conditions. However, this pricing pressure was more than offset by the increased demand drivers outlined above.

Cost of Revenue and Gross Margin

Cost of revenue increased $112.0 million or 38.1% for the year ended December 31, 2016 compared to the same period in 2015. The increase in cost of revenue was primarily due to an increase in product shipment volumes. In addition, we incurred increased costs as we added capacity to our manufacturing and operations infrastructure. Gross margin decreased from 64.9% to 64.0% for the year ended December 31, 2016 compared to the same period in 2015. The decrease during the period was primarily the result of changes in customer mix as

we expanded our business including increased contributions from larger customers who typically receive higher discount levels, and increased costs associated with the expansion of manufacturing and operations capacity. These unfavorable changes were partially offset by improved service margins as we scale our services business.

Operating Expenses (in thousands, except percentages)

	Year Ended December 31,					
	2016		2015		Change in	
	$	% of Revenue	$	% of Revenue	$	%
Operating expenses:						
Research and development	$ 273,581	24.2%	$ 209,448	25.0%	$ 64,133	30.6%
Sales and marketing	130,887	11.6	109,084	13.0	21,803	20.0
General and administrative	75,239	6.7	75,720	9.0	(481)	(0.6)
Total operating expenses	$ 479,707	42.5%	$ 394,252	47.0%	$ 85,455	21.7%

Research and development

Research and development expenses increased $64.1 million, or 30.6%, for the year ended December 31, 2016 compared to the same period in 2015. The increase was primarily due to an increase in personnel costs of $31.2 million resulting from an increase in compensation costs, including stock-based compensation and corporate bonus expense, primarily driven by headcount growth. Prototype spend and third-party engineering and consulting costs increased by $27.3 million, related to additional outsourced development projects, increased internal development activity related to new products and increased costs associated with litigation-related changes in product design. Facilities and IT infrastructure costs increased $3.1 million primarily due to continued expansion and support of our research and development activities.

Sales and marketing

Sales and marketing expenses increased $21.8 million, or 20.0% for the year ended December 31, 2016 compared to the same period in 2015. The increase was primarily due to an increase in personnel costs of $21.0 million, reflecting increased compensation costs, including sales incentive compensation and corporate bonus expense, primarily driven by headcount growth and higher sales volumes. In addition, sales and customer engineering consulting expenses mostly related to international expansion increased by $1.3 million, and marketing promotion, trade shows and events increased by $1.1 million, as compared to the same period in 2015. The increase was partially offset by a decrease in product field demonstration costs of $1.7 million primarily related to significant costs incurred in the previous year due to several next generation product transitions.

General and administrative

General and administrative expenses decreased $(0.5) million, or (0.6)%, for the year ended December 31, 2016 compared to the same period in 2015. The decrease was primarily due to a reduction in litigation expenses of $5.6 million during the year ended December 31, 2016 as compared to the same period in 2015. This decrease was primarily related to the timing of litigation activities associated with the Cisco and OptumSoft legal matters outlined in Note 5 to the Consolidated Financial Statements. This decrease was largely offset by an increase in personnel costs of $4.9 million in the year ended December 31, 2016 as compared to the same period in 2015. This reflects increased compensation costs, including increased stock-based compensation and corporate bonus expense, primarily driven by headcount growth.

Other Income (Expense), Net (in thousands, except percentages)

	Year Ended December 31,					
	2016		2015		Change in	
	$	% of Revenue	$	% of Revenue	$	%
Other income (expense), net:						
Interest expense	$ (3,136)	(0.3)%	$ (3,152)	(0.4)%	$ 16	(0.5)%
Other income (expense), net	1,952	0.2	(147)	—	2,099	(1,427.9)
Total other income (expense), net	$ (1,184)	(0.1)%	$ (3,299)	(0.4)%	$ 2,115	(64.1)%

Other income (expense), net improved during the year ended December 31, 2016 compared to 2015 primarily due to a net increase in interest income as we expanded our marketable securities portfolio.

Provision for Income Taxes (in thousands, except percentages)

	Year Ended December 31,					
	2016		2015		Change in	
	$	% of Revenue	$	% of Revenue	$	%
Provision for income taxes	$ 58,036	5.1%	$ 24,907	3.0%	$33,129	133.0%
Effective tax rate	24.0%		17.1%			

Provision for income taxes was approximately $58.0 million and $24.9 million for the year ended December 31, 2016 and 2015, respectively. The change in our provision was primarily due to an increase in profit before income taxes. The increase in the provision was also a result of additional state and foreign taxes, non-deductible permanent differences, offset by a shift in the geographic foreign earnings mix taxed at a lower rate than the U.S. tax rate.

Liquidity and Capital Resources

Our principal sources of liquidity are cash, cash equivalents, marketable securities, and cash generated from operations. As of December 31, 2017, our total balance of cash, cash equivalents and marketable securities was $1.5 billion, of which approximately $118.0 million was held outside the U.S. in our foreign subsidiaries. The Tax Act included a one-time transition tax on unremitted foreign earnings, and accordingly, we recorded tax expense of $18.8 million in the fourth quarter of 2017 related to the transition tax on the one-time mandatory deemed repatriation of all our foreign earnings as of December 31, 2017. See Note 8 of the Notes to Consolidated Financial Statements under Item 8 of this Form 10-K for additional information on income taxes.

Our cash, cash equivalents and securities are held for working capital purposes. Our marketable securities investment portfolio is primarily invested in highly-rated securities with the primary objective of minimizing the potential risk of principal loss. We plan to continue to invest for long-term growth. We believe that our existing balances of cash, cash equivalents and marketable securities together with cash generated from operations will be sufficient to meet our working capital requirements and our growth strategies for at least the next 12 months. Our future capital requirements will depend on many factors, including our growth rate, the timing and extent of our spending to support research and development activities, the timing and cost of establishing additional sales and marketing capabilities, the introduction of new and enhanced product and service offerings, our costs associated with supply chain activities, including access to outsourced manufacturing, our costs related to investing in or acquiring complementary or strategic businesses and technologies, the continued market acceptance of our products, and costs incurred related to outstanding litigation claims. If we require or elect to seek additional capital through debt or equity financing in the future, we may not be able to raise capital on terms acceptable to us or at all. If we are required and unable to raise additional capital when desired, our business, operating results and financial condition may be adversely affected.

Cash Flows

	Year Ended December 31,		
	2017	2016	2015
		(in thousands)	
Cash provided by operating activities	$ 631,627	$ 174,295	$ 237,784
Cash provided by (used in) investing activities	(392,580)	(325,979)	184,170
Cash provided by financing activities	51,469	32,745	25,854
Effect of exchange rate changes	753	(464)	(513)
Net increase (decrease) in cash and cash equivalents	$ 291,269	$ (119,403)	$ 447,295

Cash Flows from Operating Activities

Our primary source of cash provided by operating activities has been cash collections from our customers. We expect cash inflows from operating activities to be affected by increased sales and timing of collections. Our primary uses of cash from operating activities have been for personnel costs, inventory purchases from our contract manufacturers, investment in research and development, and litigation expenses.

During the year ended December 31, 2017, cash provided by operating activities was $631.6 million, primarily from net income of $423.2 million with non-cash adjustments to net income of $105.9 million, and a net increase of $102.5 million in cash from changes in our operating assets and liabilities. Our operating cash benefited $142.3 million from increased deferred revenue reflecting ongoing growth in service and support contracts, $43.5 million from increased accrued liabilities driven by increased inventory purchases and product development activities, and $19.9 million from increased income taxes payable. These favorable changes were partially offset by a growth in inventory of $69.7 million, supporting overall growth in the business and the expansion of our manufacturing and supply chain activities, by a decline in accounts payable of $30.1 million due to timing of vendor payments primarily related to inventory purchases, and by an increase in prepaid expenses and other assets of $11.6 million primarily due to increased prepaid taxes.

During the year ended December 31, 2016, cash provided by operating activities was $174.3 million, primarily from net income of $184.2 million with non-cash adjustments to net income of $58.6 million, partially offset by a net decrease in cash from changes in our operating assets and liabilities of $68.4 million. The decrease in cash from changes in operating assets and liabilities was primarily due to an increase in working capital requirements with accounts receivable up $108.9 million, inventories and inventory deposits up $207.5 million, and increased prepaid expenses and current assets (excluding inventory deposits) of $54.8 million which was primarily driven by an increase in deferred cost of inventory associated with increased product revenue deferrals referenced below. These increases reflect substantial growth in the business and the expansion of our manufacturing and supply chain activities at our new contract manufacturer. These working capital increases were partially offset by an increase in deferred revenue of $176.1 million reflecting ongoing growth in service and support contracts and a significant increase in product deferred revenue related to contract acceptance terms, as well as an increase in accounts payable and accrued liabilities of $69.3 million primarily due to timing of inventory purchases, and an increase in income taxes payable of $42.7 million.

During the year ended December 31, 2015, cash provided by operating activities was $237.8 million, primarily from net income of $121.1 million with non-cash adjustments to net income of $36.0 million, and a net increase in cash from changes in our operating assets and liabilities of $80.6 million. The net increase in cash from changes in operating assets and liabilities was primarily due to an increase in deferred revenue of $90.3 million, largely related to short and long-term services contracts and product revenue deferrals related to contracts with acceptance terms. In addition, we experienced an increase in cash of $32.0 million from income taxes payable and an increase in our accounts payable and accrued liabilities of $29.4 million due to the timing of payments. These operating liability increases were offset by an increase in our accounts receivable of $47.3 million and an increase in inventory of $14.1 million due to increased business volume and timing, and prepaid expenses and current assets increased $7.8 million in the period.

Cash Flows from Investing Activities

Our investing activities have consisted primarily of purchases of available for sale marketable securities, net of proceeds from maturities of marketable securities, and capital expenditures. We expect to continue investing in these activities to support the continued growth of our business.

During the year ended December 31, 2017, cash used in investing activities was $392.6 million, consisting of purchases of marketable securities of $585.4 million, purchases of property, equipment and other assets of $15.3 million, partially offset by proceeds of $206.3 million from maturities of marketable securities and proceeds of $3.0 million from repayment of notes receivable.

During the year ended December 31, 2016, cash used in investing activities was $326.0 million, consisting of purchases of marketable securities of $439.7 million, purchases of property, equipment and other assets of $21.4 million, and an additional investment in a privately held company of $2.5 million. These decreases were partially offset by proceeds from the maturity of available-for-sale securities of $137.9 million.

During the year ended December 31, 2015, cash provided by investing activities was $184.2 million, consisting of proceeds from the maturity of available-for-sale securities of $208.2 million, partially offset by purchases of property, equipment and other assets of $19.2 million and an increase in restricted cash of $4.0 million related to a security deposit required for a facility lease.

Cash Flows from Financing Activities

Our financing activities have consisted primarily of proceeds from the issuance of our common stock under employee equity incentive plans, offset by principal payments for lease financing obligations related to our headquarters facility.

During the year ended December 31, 2017, cash provided by financing activities was $51.5 million, consisting primarily of proceeds of $44.6 million from employee stock option exercises, partially offset by $4.0 million of minimum tax withheld for employees, and proceeds of $12.5 million from employee stock purchases under our ESPP, partially offset by payments of $1.6 million for lease financing obligations.

During the year ended December 31, 2016, cash provided by financing activities was $32.7 million, consisting primarily of proceeds from the exercise of stock options of $24.9 million and proceeds from the issuance of common stock from our ESPP of $10.3 million, partially offset by payments of $1.3 million for lease financing obligations.

During the year ended December 31, 2015, cash provided by financing activities was $25.9 million, consisting primarily of proceeds from the exercise of stock options of $17.8 million and the proceeds from the issuance of common stock from our ESPP of $9.4 million, partially offset by payments of $1.1 million for lease financing obligations.

Off-Balance Sheet Arrangements

As of December 31, 2017, we did not have any relationships with any unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Contractual Obligations and Commitments

Our contractual commitments will have an impact on our future liquidity. Our contractual obligations represent material expected or contractually committed future payment obligations. We believe that we will be able to fund these obligations through cash generated from operations and from our existing balances of cash, cash equivalent and marketable securities.

The following summarizes our contractual obligations and commitments as of December 31, 2017 (in thousands):

	Payments Due by Period				
	Total	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years
Financing lease obligation [1]	$ 37,692	$ 6,113	$ 12,770	$ 13,545	$ 5,264
Operating lease obligations	51,004	9,127	16,686	15,318	9,873
Purchase commitments with contract manufacturers and suppliers	147,854	147,854	—	—	—
Other non-cancellable purchase obligations	47,250	47,250	—	—	
Total	$ 283,800	$ 210,344	$ 29,456	$ 28,863	$ 15,137

(1) Includes interest and land lease.

The contractual obligation table above excludes tax liabilities of $37.9 million related to uncertain tax positions and the transition tax due under the Tax Act because we are unable to make a reasonably reliable estimate of the timing of settlement, if any, of these future payments.

Critical Accounting Policies and Estimates

We have prepared our consolidated financial statements in accordance with GAAP 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 at the date of the financial statements, 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. Actual results may differ from these estimates. The critical accounting estimates, assumptions and judgments that we believe have the most significant impact on our consolidated financial statements are the following:

Revenue Recognition

We generate revenue from sales of our products which incorporate our EOS software and accessories such as cables and optics to direct customers and channel partners together with post contract customer support ("PCS"). We typically sell products and PCS in a single transaction. We recognize revenue 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 collectability 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 stand-alone purchase orders or purchase orders issued pursuant to the terms and conditions of a master sales agreement. It is our practice to identify an end customer prior to shipment to a reseller or distributor.
- *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 generally do not have significant obligations for future performance, rights of return, or pricing credits associated with our product sales. In instances where substantive acceptance provisions are specified in the customer arrangement, revenue and deferred cost of revenue is deferred until all acceptance criteria have been met.
- *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.

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

PCS, which includes technical support, hardware repair and replacement parts beyond standard warranty, bug fixes, patches and unspecified upgrades on a when-and-if-available basis, is offered under renewable, fee-based contracts. We initially defer PCS revenue and recognize it ratably over the life of the PCS contract, with the related expenses recognized as incurred. PCS contracts usually have a term of one to three years. We include billed but unearned PCS revenue in deferred revenue.

We report revenue net of sales taxes. We include shipping charges billed to customers in revenue and the related shipping costs are included in cost of goods sold.

Multiple-Element Arrangements

Most of our arrangements, other than renewals of PCS, are multiple element arrangements with a combination of products and PCS. Products and PCS generally qualify as separate units of accounting. Our hardware deliverables include EOS software, which together deliver the essential functionality of our products. For multiple element arrangements, we allocate revenue to each unit of accounting based on the relative selling price. The relative selling price for each element is based upon the following hierarchy: vendor-specific objective evidence ("VSOE"), if available; third-party evidence ("TPE"), if VSOE is not available; and best estimate of selling price ("BESP"), if neither VSOE nor TPE is available. As we have not been able to establish VSOE or TPE for our products and most of our services, we generally utilize BESP for the purposes of allocating revenue to each unit of accounting.

- *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 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 able to obtain reliable evidence of TPE of selling price.
- *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 stand-alone basis. BESP is based on considering multiple factors including, but not limited to the sales channel (reseller, distributor or end customer), the geographies in which our products and services were sold (domestic or international) and size of the end customer.

We limit the amount of revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services, future performance obligations, or subject to customer-specific return, acceptance or refund privileges.

We account for multiple agreements with a single partner as one arrangement if the contractual terms and/or substance of those agreements indicate that they may be so closely related that they are, in effect, parts of a single arrangement.

We may occasionally accept returns to address customer satisfaction 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 when determining our sales return reserve estimate.

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers," which replaces primarily all existing revenue recognition guidance under GAAP and establishes common principles for recognizing revenue for all industries. Based on our assessment, we will adopt the new standard in our first quarter of 2018 using the modified retrospective method. We do not expect the impact from adopting the new revenue guidance to have a material impact on our results of operations or financial condition in the year of adoption. See Note 1 of the Notes to Consolidated Financial Statements under Item 8 of this Form 10-K for details.

Inventory Valuation and Contract Manufacturer/Supplier Liabilities

Inventories primarily consist of finished goods and strategic components, primarily integrated circuits. Inventories are stated at the lower of cost (computed using the first-in, first-out method) and net realizable value. Manufacturing overhead costs and inbound shipping costs are included in the cost of inventory. We record a provision when inventory is determined to be in excess of anticipated demand, or obsolete, to adjust inventory to its estimated realizable value.

Our contract manufacturers procure components and assemble products on our behalf based on our forecasts. We record a liability and a corresponding charge for non-cancellable, non-returnable purchase commitments with our contract manufacturers or suppliers for quantities in excess of our demand forecasts or that are considered obsolete due to manufacturing and engineering change orders resulting from design changes.

We use significant judgment in establishing our forecasts of future demand and obsolete material exposures. These estimates depend on our assessment of current and expected orders from our customers, product development plans and current sales levels. If actual market conditions are less favorable than those projected by management, which may be caused by factors within and outside of our control, we may be required to increase our inventory write-downs and liabilities to our contract manufacturers and suppliers, which could have an adverse impact on our gross margins and profitability. We regularly evaluate our exposure for inventory write-downs and adequacy of our contract manufacturer liabilities.

Income Taxes

Income tax expense is an estimate of current income taxes payable in the current fiscal year based on reported income before income taxes. Deferred income taxes reflect the effect of temporary differences and carryforwards that we recognize for financial reporting and income tax purposes.

We account for income taxes under the liability approach for deferred income taxes, which requires recognition of deferred income tax assets and liabilities for the expected future tax consequences of events that have been recognized in our consolidated financial statements, but have not been reflected in our taxable income. 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 income tax assets will be realized based on the positive and negative evidence available. We record a valuation allowance to reduce the deferred tax assets to the amount that we are more likely than not to realize.

We believe that we have adequately reserved for our uncertain tax positions, although we can provide no assurance that the final tax outcome of these matters will not be materially different. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made and could have a material impact on our financial condition and results of operations. The provision for income taxes includes the effects of any reserves that we believe are appropriate, as well as the related net interest and penalties.

We regularly review our tax positions and benefits to be realized. We recognize tax liabilities based upon our estimate of whether, and to 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. We recognize interest and penalties related to income tax matters as income tax expense.

Loss Contingencies

In the ordinary course of business, we are a party to claims and legal proceedings including matters relating to commercial, employee relations, business practices and intellectual property. In assessing loss contingencies, we use significant judgment and assumptions to estimate the likelihood of loss, impairment of an asset or the incurrence of a liability, as well as our ability to reasonably estimate the amount of loss. We record a provision for contingent losses when it is both probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. We will record a charge equal to the minimum estimated liability for litigation costs or a loss contingency only when both of the following conditions are met: (i) information available prior to issuance of our consolidated financial statements indicates that it is probable that a liability had been incurred at the date of the financial statements and (ii) the range of loss can be reasonably estimated. We regularly evaluate current information available to us to determine whether such accruals should be adjusted and whether new accruals are required.

Recent Accounting Pronouncements

Refer to "Recent Accounting Pronouncements" in Note 1 to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in foreign currency exchange rates, interest rates and investments in privately held companies.

Foreign Currency Exchange Risk

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. Substantially all of our revenue is denominated in U.S. dollars, and therefore, our revenue is not directly subject to foreign currency risk. However, we are indirectly exposed to foreign currency risk. A stronger U.S. dollar could make our products and services more expensive in foreign countries and therefore reduce demand. A weaker U.S. dollar could have the opposite effect. Such economic exposure to currency fluctuations is difficult to measure or predict because our sales are also influenced by many other factors.

Our expenses are generally denominated in the currencies in which our operations are located, which is primarily in the U.S. and to a lesser extent in Europe and Asia. Our results of operations and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates and may be adversely affected in the future due to changes in foreign exchange rates. For the year ended December 31, 2017 and 2016, the effect of a hypothetical 10% change in foreign currency exchange rates applicable to our business would not have had a material impact on our operating results. To date, foreign currency transaction gains and losses and exchange rate fluctuations have not been material to our financial statements. While we have not engaged in the hedging of our foreign currency transactions to date, we may in the future hedge selected significant transactions denominated in currencies other than the U.S. dollar.

Interest Rate Sensitivity

As of December 31, 2017 and 2016, we had cash, cash equivalents and marketable securities totaling $1.5 billion and $867.8 million, respectively. Cash equivalents and marketable securities were invested primarily in money market funds, corporate bonds, U.S. agency mortgage-backed securities, U.S. treasury securities and commercial papers. 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 U.S. A decline in interest rates would reduce our interest income. For the year ended December 31, 2017 and 2016, the effect of a hypothetical 100 basis point increase or decrease in overall interest rates would not have had a material impact on our interest income.

On the other hand, when interest rates rise, our marketable securities purchased at a lower yield would incur a mark-to-market unrealized loss. Under certain circumstances, if we are forced to sell our marketable securities prior to maturity, we may incur realized losses in such investments. However, because of the conservative

and short-term nature of the investments in our portfolio, a change in interest rates is not expected to have a material impact on our consolidated financial statements.

Investments in Privately Held Companies

Our non-marketable equity investments in privately held companies are recorded in investments, non-current in our consolidated balance sheets and are accounted for using the cost method. As of December 31, 2017 and 2016, the total carrying amount of our investments in privately held companies was $36.1 million.

Some of the privately held companies in which we invested are in the startup or development stages. These investments are inherently risky because the markets for the technologies or products these companies are developing are typically in the early stages and may never materialize. We could lose our entire investment in these companies. Our evaluation of investments in privately held companies is based on the fundamentals of the businesses invested in, including among other factors, the nature of their technologies and potential for financial return.

Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of Arista Networks, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Arista Networks, Inc. (the Company) as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 16, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2008.
San Jose, California
February 16, 2018

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of Arista Networks, Inc.

Opinion on Internal Control over Financial Reporting

We have audited Arista Networks, Inc.'s internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Arista Networks, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Arista Networks Inc. as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "financial statements") of the Company and our report dated February 16, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

San Jose, California
February 16, 2018

ARISTA NETWORKS, INC.
Consolidated Balance Sheets
(In thousands, except par value)

	December 31,	
	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 859,192	$ 567,923
Marketable securities	676,363	299,910
Accounts receivable, net of rebates and allowances of $7,535 and $1,521, respectively	247,346	253,119
Inventories	306,198	236,490
Prepaid expenses and other current assets	177,330	168,684
Total current assets	2,266,429	1,526,126
Property and equipment, net	74,279	76,961
Investments	36,136	36,136
Deferred tax assets	65,125	70,960
Other assets	18,891	18,824
TOTAL ASSETS	$ 2,460,860	$ 1,729,007
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 52,200	$ 79,457
Accrued liabilities	133,827	90,951
Deferred revenue	327,706	273,350
Other current liabilities	16,172	15,795
Total current liabilities	529,905	459,553
Income taxes payable	34,067	14,498
Lease financing obligations, non-current	37,673	39,593
Deferred revenue, non-current	187,556	99,585
Other long-term liabilities	9,745	7,958
TOTAL LIABILITIES	798,946	621,187
Commitments and contingencies (Note 5)		
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.0001 par value—100,000 shares authorized and no shares issued and outstanding as of December 31, 2017 and 2016	—	—
Common stock, $0.0001 par value—1,000,000 shares authorized as of December 31, 2017 and 2016; 73,706 and 70,811 shares issued and outstanding as of December 31, 2017 and 2016	7	7
Additional paid-in capital	804,731	674,183
Retained earnings	859,114	435,105
Accumulated other comprehensive loss	(1,938)	(1,475)
TOTAL STOCKHOLDERS' EQUITY	1,661,914	1,107,820
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,460,860	$ 1,729,007

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

ARISTA NETWORKS, INC.
Consolidated Statements of Income
(In thousands, except per share amounts)

	Year Ended December 31,		
	2017	2016	2015
Revenue:			
Product	$ 1,432,810	$ 991,337	$ 744,877
Service	213,376	137,830	92,714
Total revenue	1,646,186	1,129,167	837,591
Cost of revenue:			
Product	538,035	369,768	263,585
Service	46,382	36,283	30,446
Total cost of revenue	584,417	406,051	294,031
Gross profit	1,061,769	723,116	543,560
Operating expenses:			
Research and development	349,594	273,581	209,448
Sales and marketing	155,105	130,887	109,084
General and administrative	86,798	75,239	75,720
Total operating expenses	591,497	479,707	394,252
Income from operations	470,272	243,409	149,308
Other income (expense), net:			
Interest expense	(2,780)	(3,136)	(3,152)
Other income (expense), net	7,268	1,952	(147)
Total other income (expense), net	4,488	(1,184)	(3,299)
Income before provision for income taxes	474,760	242,225	146,009
Provision for income taxes	51,559	58,036	24,907
Net income	$ 423,201	$ 184,189	$ 121,102
Net income attributable to common stockholders:			
Basic	$ 422,400	$ 182,965	$ 119,115
Diluted	$ 422,468	$ 183,039	$ 119,264
Net income per share attributable to common stockholders:			
Basic	$ 5.85	$ 2.66	$ 1.81
Diluted	$ 5.35	$ 2.50	$ 1.67
Weighted-average shares used in computing net income per share attributable to common stockholders:			
Basic	72,258	68,771	65,964
Diluted	78,977	73,222	71,411

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

ARISTA NETWORKS, INC.
Consolidated Statements of Comprehensive Income
(In thousands)

	Year Ended December 31,		
	2017	2016	2015
Net income	$ 423,201	$ 184,189	$ 121,102
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	672	(348)	(494)
Net change in unrealized gains (losses) on available-for-sale securities	(1,135)	(452)	153
Other comprehensive loss	(463)	(800)	(341)
Comprehensive income	$ 422,738	$ 183,389	$ 120,761

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

ARISTA NETWORKS, INC.
Consolidated Statements of Stockholders' Equity
(In thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
Balance—December 31, 2014	65,528	$ 7	$ 426,171	$ 129,814	$ (334)	$ 555,658
Net income	—	—	—	121,102	—	121,102
Other comprehensive loss, net of tax	—	—	—	—	(341)	(341)
Tax benefit for equity incentive plans	—	—	37,003	—	—	37,003
Stock-based compensation	—	—	45,303	—	—	45,303
Issuance of common stock in connection with employee equity incentive plans	2,577	—	27,201	—	—	27,201
Vesting of early exercised stock options and restricted stock	27	—	2,226	—	—	2,226
Balance — December 31, 2015	68,132	7	537,904	250,916	(675)	788,152
Net income	—	—	—	184,189	—	184,189
Other comprehensive loss, net of tax	—	—	—	—	(800)	(800)
Tax benefit for equity incentive plans	—	—	42,084	—	—	42,084
Stock-based compensation	—	—	59,032	—	—	59,032
Issuance of common stock in connection with employee equity incentive plans	2,694	—	35,181	—	—	35,181
Minimum tax withholding paid for net share settlement of equity awards	(15)	—	(1,100)	—	—	(1,100)
Vesting of early exercised stock options and restricted stock	—	—	1,082	—	—	1,082
Balance — December 31, 2016	70,811	7	674,183	435,105	(1,475)	1,107,820
Cumulative-effect adjustment to beginning balance [1]	—	—	1,471	808	—	2,279
Net income	—	—	—	423,201	—	423,201
Other comprehensive loss, net of tax	—	—	—	—	(463)	(463)
Stock-based compensation	—	—	75,427	—	—	75,427
Issuance of common stock in connection with employee equity incentive plans	2,918	—	57,111	—	—	57,111
Minimum tax withholding paid for net share settlement of equity awards	(23)	—	(4,025)	—	—	(4,025)
Vesting of early-exercised stock options	—	—	564	—	—	564
Balance — December 31, 2017	73,706	$ 7	$ 804,731	$ 859,114	$ (1,938)	$ 1,661,914

(1) During our first fiscal quarter of 2017, we adopted Accounting Standards Update 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." Refer to Note 1 - Recently Adopted Accounting Pronouncements for further details. This adoption resulted in a cumulative-effect adjustment to the beginning balance of Additional Paid-in Capital and Retained Earnings, respectively, for 2017.

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

ARISTA NETWORKS, INC.
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31,		
	2017	**2016**	**2015**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 423,201	$ 184,189	$ 121,102
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	20,640	19,749	13,671
Stock-based compensation	75,427	59,032	45,303
Deferred income taxes	8,426	(21,720)	(24,409)
Amortization of investment premiums	1,452	1,493	1,471
Changes in operating assets and liabilities:			
Accounts receivable, net	5,773	(108,856)	(47,281)
Inventories	(69,708)	(144,361)	(14,123)
Prepaid expenses and other current assets	(11,645)	(115,074)	(7,827)
Other assets	907	2,866	(3,087)
Accounts payable	(30,104)	38,678	9,037
Accrued liabilities	43,535	30,629	20,398
Deferred revenue	142,327	176,126	90,340
Income taxes payable	19,921	42,650	32,018
Other liabilities	1,475	8,894	1,171
Net cash provided by operating activities [(1)]	631,627	174,295	237,784
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from maturities of marketable securities	206,332	137,855	208,200
Purchases of marketable securities	(585,373)	(439,711)	—
Purchases of property and equipment	(15,279)	(21,419)	(19,989)
Proceeds from repayment of notes receivable	3,000	—	—
Investment in privately-held companies	—	(2,500)	—
Change in restricted cash	(1,260)	(204)	(4,041)
Net cash provided by (used in) investing activities	(392,580)	(325,979)	184,170
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments of lease financing obligations	(1,617)	(1,336)	(1,086)
Proceeds from issuance of common stock under equity plans	57,111	35,181	27,201
Minimum tax withholding paid on behalf of employees for net share settlement	(4,025)	(1,100)	—
Proceeds from initial public offering, net of issuance cost	—	—	(261)
Net cash provided by financing activities [(1)]	51,469	32,745	25,854
Effect of exchange rate changes	753	(464)	(513)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	291,269	(119,403)	447,295
CASH AND CASH EQUIVALENTS—Beginning of year	567,923	687,326	240,031
CASH AND CASH EQUIVALENTS—End of year	$ 859,192	$ 567,923	$ 687,326
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid for income taxes, net of refunds	$ 44,216	$ 39,638	$ 6,591
Cash paid for interest — lease financing obligation	$ 2,814	$ 2,916	$ 2,999

ARISTA NETWORKS, INC.
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31,		
	2017	**2016**	**2015**
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING INFORMATION:			
Property and equipment included in accounts payable and accrued liabilities	$ 3,811	$ 869	$ 3,957
Vesting of early exercised stock options and restricted stock awards	$ 564	$ 1,082	$ 2,226

(1) During our first fiscal quarter of 2017, we adopted Accounting Standards Update 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." Refer to Note 1- Recently Adopted Accounting Pronouncements for further details. This adoption resulted in an increase in net cash provided by operating activities and a corresponding decrease in net cash provided by financing activities of $42.9 million and $37.3 million for the years ended December 31, 2016 and 2015, respectively.

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

ARISTA NETWORKS, INC.
Notes to Consolidated Financial Statements

1. Organization and Summary of Significant Accounting Policies

Organization

Arista Networks, Inc. (together with our subsidiaries, "we," "our" or "us") is a supplier of cloud networking solutions that use software innovations to address the needs of large-scale Internet companies, cloud service providers and next-generation enterprise. Our cloud networking solutions consist of our Extensible Operating System, a set of network applications and our 10/25/40/50/100 Gigabit Ethernet switching and routing platforms. We are incorporated in the state of Delaware. Our corporate headquarters are located in Santa Clara, California, and we have wholly-owned subsidiaries throughout the world, including North America, Europe, Asia and Australia.

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Arista Networks, Inc. and its wholly owned subsidiaries and are prepared in accordance with U.S. generally accepted accounting principles (GAAP). All significant intercompany accounts and transactions have been eliminated.

Certain reclassifications of prior period amounts were made in the current year to conform to the current period presentation.

Use of Estimates

The preparation of the accompanying consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the amounts reported and disclosed in the consolidated financial statements and accompanying notes. Those estimates and assumptions include, but are not limited to, revenue recognition and deferred revenue; allowance for doubtful accounts, sales rebates and return reserves; accounting for income taxes, including the valuation allowance on deferred tax assets and reserves for uncertain tax positions; valuation of inventory and contract manufacturer/supplier liabilities; recognition and measurement of contingent liabilities; determination of fair value for stock-based awards; and valuation of warranty accruals. We evaluate our estimates and assumptions based on historical experience and other factors and adjust those estimates and assumptions when facts and circumstances dictate. Actual results could differ materially from those estimates.

Concentrations of Business and Credit Risk

We work closely with third-party contract manufacturing suppliers to manufacture our products. As of December 31, 2017 and 2016, we had three suppliers, who provided substantially all of our electronic manufacturing services. Our contract manufacturing suppliers deliver our products to our third party direct fulfillment facilities. We and our fulfillment partners then perform labeling, final configuration, quality assurance testing and shipment to our customers. Our products rely on key components, including certain integrated circuit components and power supplies, some of which our contract manufacturers purchase on our behalf from a limited number of suppliers, including certain sole source providers. We generally do not have guaranteed supply contracts with our component suppliers, and our suppliers could delay shipments or cease manufacturing such products or selling them to us at any time. If we are unable to obtain a sufficient quantity of these components on commercially reasonable terms or in a timely manner, or if we are unable to obtain alternative sources for these components, sales of our products could be delayed or halted entirely or we may be required to redesign our products. Quality or performance failures of our products or changes in our contractors' or vendors' financial or business condition could disrupt our ability to supply quality products to our customers. Any of these events could result in lost sales and damage to our end-customer relationships, which would adversely impact our business, financial condition and results of operations.

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash, cash equivalents, marketable securities, restricted cash, and accounts receivable. Our cash, cash equivalents, restricted cash and marketable securities are invested in high quality financial instruments with banks and financial institutions. Such 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 ongoing 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, the credit limits extended and review of the invoicing terms of the arrangement. In situations where a customer may be thinly capitalized and we have limited payment history with it, we will either establish a small credit limit or require it to prepay its purchases. We generally do not require our customers to provide collateral to support accounts receivable. We have recorded an allowance for doubtful accounts for those receivables that we have determined not to be collectible. We mitigate credit risk in respect to the notes receivable by performing ongoing credit evaluations of the borrower to assess the probability of collecting all amounts due to us under the existing contractual terms.

We market and sell our products through both our direct sales force and our channel partners, including distributors, value-added resellers, system integrators and original equipment manufacturer ("OEM") partners and in conjunction with various technology partners. Significant customers are those which represent more than 10% of our total net revenue during the period or net accounts receivable balance at each respective balance sheet date. As of December 31, 2017, we had two customers who represented 30% and 18% of total accounts receivable, respectively. As of December 31, 2016, we had one customer who represented 36% of total accounts receivable. For the year ended December 31, 2017, 2016 and 2015, there was one customer who represented 16%, 16% and 12% of our total revenue, respectively.

Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income (loss). Unrealized gains and losses on available-for-sale investments and foreign currency translation adjustments are included in our other comprehensive income or loss.

Cash and Cash Equivalents

We consider all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents. Cash and cash equivalents consist of cash on deposit with various financial institutions and highly liquid investments in money market funds. Interest is accrued as earned. As of December 31, 2017, we had restricted cash of $5.5 million that primarily included $4.0 million pledged as collateral representing a security deposit required for a facility lease and $1.1 million related to a letter of credit issued to a business partner. As of December 31, 2016, we had restricted cash of $4.2 million primarily for the security deposit for a facility lease. Our restricted cash is classified as other assets in our consolidated balance sheets.

Marketable Securities

We classify all highly liquid investments in debt and equity securities with maturities of greater than three months at the date of purchase as marketable securities. We have classified and accounted for our marketable securities as available-for-sale. We determine the appropriate classification of these investments at the time of purchase and reevaluate such designation at each balance sheet date. We may or may not hold securities with stated maturities greater than 12 months until maturity. After consideration of our risk versus reward objectives, as well as our liquidity requirements, we may sell these securities prior to their stated maturities. As we view these securities as available to support current operations, we classify securities with maturities beyond 12 months as current assets under the caption marketable securities in the accompanying consolidated balance sheets. We carry these securities at fair value, and report the unrealized gains and losses, net of taxes, as a component of stockholders' equity, except for unrealized losses determined to be other-than-temporary, which we record as other income (expense), net. We determine any realized gains or losses on the sale of marketable securities on a specific identification method, and we record such gains and losses as a component of interest and other income, net.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount, net of allowances for doubtful accounts, and sales rebates and returns reserves. We estimate our allowance for doubtful accounts based upon the collectability of the receivables in light of historical trends, adverse situations that may affect our customers' ability to pay and prevailing economic conditions. This evaluation is done in order to identify issues which may impact the collectability of receivables and related estimated required allowance. Revisions to the allowance are recorded as an adjustment to bad debt expense. After appropriate collection efforts are exhausted, specific accounts receivable

deemed to be uncollectible are charged against the allowance in the period they are deemed uncollectible. Recoveries of accounts receivable previously written-off are recorded as credits to bad debt expense. We primarily estimate our sales rebates and returns reserves based on historical rates applied against current period gross revenues. Specific customer returns, rebates and allowances are considered when determining our estimates. Revisions to the reserves are recorded as adjustments to revenue.

Fair Value Measurements

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. We apply fair value accounting for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. These assets and liabilities include cash and cash equivalents, marketable securities, accounts receivable, accounts payable, and accrued liabilities. Cash equivalents, accounts receivable, accounts payable and accrued liabilities are stated at carrying amounts as reported in the consolidated financial statements, which approximate fair value due to their short-term nature.

Assets and liabilities recorded at fair value on a recurring basis in the accompanying consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. We use a fair value hierarchy to measure fair value, maximizing the use of observable inputs and minimizing the use of unobservable inputs. The three-tiers of the fair value hierarchy are 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 supported by little or no market data for the related assets or liabilities and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

Foreign Currency

The functional currency of our foreign subsidiaries is either the U.S. dollar or their local currency.

Transaction re-measurement - Assets and liabilities denominated in a currency other than a subsidiary's functional currency are re-measured into the subsidiary's functional currency using exchange rates in effect at the end of the reporting period, with gains and losses recorded in other income (expense), net in the consolidated statements of income. We recognized $0.5 million, $0.7 million, and $0.5 million in transaction losses for the years ended December 31, 2017, 2016 and 2015, respectively.

Translation - Assets and liabilities of subsidiaries denominated in foreign functional currencies are translated into U.S. dollars at the closing exchange rate on the balance sheet date and equity related balances are translated at historical exchange rates. Revenues, costs and expenses in foreign functional currencies are translated using average exchange rates that approximate those in effect during the period. Translation adjustments are accumulated as a separate component of accumulated other comprehensive income within stockholders' equity.

Inventory Valuation and Contract Manufacturer/Supplier Liabilities

Inventories primarily consist of finished goods and strategic components, primarily integrated circuits. Inventories are stated at the lower of cost (computed using the first-in, first-out method) and net realizable value. Manufacturing overhead costs and inbound shipping costs are included in the cost of inventory. We record a provision when inventory is determined to be in excess of anticipated demand, or obsolete, to adjust inventory to its estimated realizable value. For the years ended December 31, 2017, 2016 and 2015, we recorded charges of $28.1 million, $12.1 million and $9.0 million, respectively, within cost of product revenue for inventory write-downs.

Our contract manufacturers procure components and assemble products on our behalf based on our forecasts. We record a liability and a corresponding charge for non-cancellable, non-returnable purchase commitments with our contract manufacturers or suppliers for quantities in excess of our demand forecasts or that are considered obsolete due to manufacturing and engineering change orders resulting from design changes. For the years ended December 31, 2017, 2016 and 2015, we recorded charges of $21.2 million, $6.2 million and $3.9 million, respectively, within cost of product revenue for such liabilities with our contract manufacturers and suppliers.

We use significant judgment in establishing our forecasts of future demand and obsolete material exposures. These estimates depend on our assessment of current and expected orders from our customers, product development plans and current sales levels. If actual market conditions are less favorable than those projected by management, which may be caused by factors within and outside of our control, we may be required to increase our inventory write-downs and liabilities to our contract manufacturers and suppliers, which could have an adverse impact on our gross margins and profitability. We regularly evaluate our exposure for inventory write-downs and adequacy of our contract manufacturer liabilities.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets, generally from three to five years. Our building is depreciated over 30 years and leasehold improvements are depreciated over the shorter of the estimated useful lives of the improvements or the remaining lease term. The leased building under our build-to-suit lease is capitalized and included in property and equipment as we were involved in the construction funding and did not meet the "sale-leaseback" criteria.

Investments

Our investments in privately held companies are accounted for under the cost method and are included in investments, non-current in the accompanying consolidated balance sheets. Our investments under the cost method are recorded at historical cost at the time of investment.

Impairment of Long-Lived Assets and Investments

The carrying amounts of our long-lived assets, including property and equipment and investments in privately held companies, are periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Recoverability of these assets is measured by comparison of the carrying amount of each asset to the future undiscounted cash flows the asset is expected to generate over their remaining lives. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset. No impairment of any long-lived assets or investments was identified for any of the periods presented.

Loss Contingencies

In the ordinary course of business, we are a party to claims and legal proceedings including matters relating to commercial, employee relations, business practices and intellectual property. In assessing loss contingencies, we use significant judgment and assumptions to estimate the likelihood of loss, impairment of an asset or the incurrence of a liability, as well as our ability to reasonably estimate the amount of loss. We record a provision for contingent losses when it is both probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. We will record a charge equal to the minimum estimated liability for litigation costs or a loss contingency only when both of the following conditions are met: (i) information available prior to issuance of our consolidated financial statements indicates that it is probable that a liability had been incurred at the date of the financial statements and (ii) the range of loss can be reasonably estimated. We regularly evaluate current information available to us to determine whether such accruals should be adjusted and whether new accruals are required.

Revenue Recognition

We generate revenue from sales of our products which incorporate our EOS software and accessories such as cables and optics to direct customers and channel partners together with post contract customer support

("PCS"). We typically sell products and PCS in a single transaction. We recognize revenue 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 collectability 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 stand-alone purchase orders or purchase orders issued pursuant to the terms and conditions of a master sales agreement. It is our practice to identify an end customer prior to shipment to a reseller or distributor.
- *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 generally do not have significant obligations for future performance, rights of return or pricing credits associated with our product sales. In instances where substantive acceptance provisions are specified in the customer arrangement, revenue and the related cost of revenue is deferred until all acceptance criteria have been met.
- *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.
- *Collectability is reasonably assured*. We assess probability of collectability on a customer-by-customer basis. Our customers and channel partners are subjected to a credit review process that evaluates their financial condition and ability to pay for products and services.

PCS, which includes technical support, hardware repair and replacement parts beyond standard warranty, bug fixes, patches and unspecified upgrades on a when-and-if-available basis, is offered under renewable, fee-based contracts. We initially defer PCS revenue and recognize it ratably over the life of the PCS contract, with the related expenses recognized as incurred. PCS contracts usually have a term of one to three years. We include billed but unearned PCS revenue in deferred revenue.

We report revenue net of sales taxes. We include shipping charges billed to customers in revenue and the related shipping costs are included in cost of goods sold.

Multiple-Element Arrangements

Most of our arrangements, other than renewals of PCS, are multiple element arrangements with a combination of products and PCS. Products and PCS generally qualify as separate units of accounting. Our hardware deliverables include EOS software, which together deliver the essential functionality of our products. For multiple element arrangements, we allocate revenue to each unit of accounting based on the relative selling price. The relative selling price for each element is based upon the following hierarchy: vendor-specific objective evidence ("VSOE"), if available; third-party evidence ("TPE"), if VSOE is not available; and best estimate of selling price ("BESP"), if neither VSOE nor TPE is available. As we have not been able to establish VSOE or TPE for our products and most of our services, we generally utilize BESP for the purposes of allocating revenue to each unit of accounting.

- *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 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 able to obtain reliable evidence of TPE of selling price.
- *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 stand-alone basis. BESP is based on considering multiple factors including, but not limited to the sales channel (reseller, distributor or end customer), the geographies in which our products and services were sold (domestic or international) and size of the end customer.

We limit the amount of revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services, future performance obligations, or subject to customer-specific return, acceptance or refund privileges.

We account for multiple agreements with a single partner as one arrangement if the contractual terms and/or substance of those agreements indicate that they may be so closely related that they are, in effect, parts of a single arrangement.

We may occasionally accept returns to address customer satisfaction 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 when determining our sales return reserve estimate.

Research and Development Expenses

Costs related to the research, design and development of our products are charged to research and development expenses as incurred. Software development costs are capitalized beginning when a product's technological feasibility has been established and ending when the product is available for general release to customers. Generally, our products are released soon after technological feasibility has been established. As a result, costs incurred subsequent to achieving technological feasibility have not been significant and accordingly, all software development costs have been expensed as incurred.

Warranty

We offer a one-year warranty on all of our hardware products and a 90-day warranty against defects in the software embedded in the products. We use judgment and estimates when determining warranty costs based on historical costs to replace product returns within the warranty period at the time we recognize revenue. We accrue for potential warranty claims at the time of shipment as a component of cost of revenues based on historical experience and other relevant information. We reserve for specifically identified products if and when we determine we have a systemic product failure. Although we engage in extensive product quality programs, if actual product failure rates or use of materials differ from estimates, additional warranty costs may be incurred, which could reduce our gross margin. The accrued warranty liability is recorded in accrued liabilities in the accompanying consolidated balance sheets.

Segment Reporting

We develop, market and sell cloud networking solutions, which consist of our Gigabit Ethernet switches and related software. We have one business activity and there are no segment managers who are held accountable for operations or operating results below the Company level. Our chief operating decision maker is our Chief Executive Officer, who reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. Accordingly, we have determined that we operate as one reportable segment.

Stock-Based Compensation

Compensation expense related to stock-based transactions, including stock options, restricted stock units ("RSUs"), restricted stock awards ("RSAs"), and stock purchase rights under our employee stock purchase program is measured and recognized in the financial statements based on the fair value of the equity granted on a straight-line basis over the requisite service periods of the awards, which typically ranges from two to five years. Prior to 2017, the stock-based compensation expense was recognized net of estimated forfeitures. Beginning the first quarter of fiscal 2017, upon the adoption of ASU 2016-09, *Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting,* we elected to account for forfeitures as they occur and no longer include an estimate of future forfeitures in the expense recognition. See Recently Adopted Accounting Pronouncements below for details.

Excess tax benefits generated from stock option exercises and other equity awards are recorded as a reduction to provision for income taxes in the consolidated statements of income. Prior to 2017, before we adopted ASU 2016-09, such excess tax benefits were recognized as additional paid-in capital in the consolidated balance sheets. See *Recently Adopted Accounting Pronouncements* below for details. Excess tax benefits resulting from stock awards were $110.0 million, $42.1 million and $37.0 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Income Taxes

Income tax expense is an estimate of current income taxes payable in the current fiscal year based on reported income before income taxes. Deferred income taxes reflect the effect of temporary differences and carryforwards that we recognize for financial reporting and income tax purposes.

We account for income taxes under the liability approach for deferred income taxes, which requires recognition of deferred income tax assets and liabilities for the expected future tax consequences of events that have been recognized in our consolidated financial statements, but have not been reflected in our taxable income. 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 income tax assets will be realized based on the positive and negative evidence available. We record a valuation allowance to reduce the deferred tax assets to the amount that we are more likely than not to realize.

We believe that we have adequately reserved for our uncertain tax positions, although we can provide no assurance that the final tax outcome of these matters will not be materially different. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made and could have a material impact on our financial condition and results of operations. The provision for income taxes includes the effects of any reserves that we believe are appropriate, as well as the related net interest and penalties.

We regularly review our tax positions and benefits to be realized. We recognize tax liabilities based upon our estimate of whether, and to 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. We recognize interest and penalties related to income tax matters as income tax expense.

Net Income per Share of Common Stock

Basic and diluted net income per share attributable to common stockholders is calculated in conformity with the two-class method required for participating securities. Our shares of common stock subject to repurchase are considered participating securities. In addition, our convertible preferred stock prior to conversion to common shares upon our initial public offering in June 2014, were also considered to be participating securities. Under the two-class method, net income attributable to common stockholders is calculated as net income less earnings attributable to participating securities. In computing diluted net income attributable to common stockholders, undistributed earnings are re-allocated to reflect the potential impact of dilutive securities. Basic net income per common share is computed by dividing the net income attributable to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted net income per share attributable to common stockholders is computed by dividing the net income attributable to common stockholders by the weighted-average number of common shares outstanding, including potential dilutive common shares assuming the dilutive effect of outstanding stock options, restricted stock units, and employee stock purchase plan using the treasury stock method. For purposes of this calculation, these amounts are excluded from the calculation of diluted net income per share of common stock if their effect is antidilutive.

Recently Adopted Accounting Pronouncements

Improvements to Share-Based Payment Accounting

In March 2016, the Financial Accounting Standards Board (the "FASB") amended the existing accounting standard for stock-based compensation, issuing Accounting Standards Update ("ASU") 2016-09, *Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting*, which impacts several aspects of accounting for share-based payment transactions, including the income tax consequences, forfeitures, classification of awards as either equity or liabilities, and classification on the statement of cash flows. We adopted this standard during our first fiscal quarter of 2017. The impact of the adoption was as follows:

- Income tax accounting - The standard eliminates additional paid-in-capital ("APIC") pools and requires excess tax benefits and tax deficiencies on share-based awards to be recognized in the income statement prospectively as discrete items upon exercise or vesting of such awards. The standard also requires excess tax benefits to be recognized regardless of whether the benefit reduces taxes payable. We adopted the guidance related to the timing of previously unrecognized excess tax benefits on a modified retrospective basis, which resulted in the recognition of a cumulative effect adjustment of $1.8 million that increased retained earnings and increased our long-term deferred income tax as of January 1, 2017.
- Earnings per share - Because excess tax benefits are no longer recognized in APIC, the assumed proceeds from applying the treasury stock method when calculating dilutive shares was amended to exclude the amount of excess tax benefits that would be recognized upon exercise or vesting of such awards. As a result, this reduces the assumed shares to be repurchased under the treasury stock method, thereby increasing the amount of dilutive shares used to compute earnings per share. We adopted the guidance related to the exclusion of excess tax benefits in calculating earnings per share on a prospective basis.
- Forfeitures of stock options and awards - Under the new standard, we can make an accounting policy election to either estimate the number of share-based awards that are expected to vest, or account for forfeitures when they occur. We elected to account for forfeitures when they occur and adopted this change on a modified retrospective basis. As a result, we recorded the cumulative effect of the change as a $1.0 million decrease to retained earnings as of January 1, 2017.
- Cash flow presentation of excess tax benefits - Prior to the new standard, we were required to present excess tax benefits on share-based awards as a cash inflow from financing activities with a corresponding cash outflow from operating activities. The new standard required that these excess tax benefits be classified with other income tax cash flows as an operating activity. We elected to adopt the guidance related to the presentation of excess tax benefits in our consolidated statements of cash flows on a retrospective basis. This resulted in an increase in net cash provided by operating activities and a corresponding decrease in net cash provided by financing activities of $42.9 million and $37.3 million for the years ended December 31, 2016 and 2015, respectively.

Simplifying the Measurement of Inventory

In July 2015, the FASB issued ASU 2015-11, *Inventory: Simplifying the Measurement of Inventory*, which simplifies the measurement of inventory to be measured at the lower of cost and net realizable value. The guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. We adopted this standard in our first quarter of fiscal 2017 on a prospective basis, and the adoption did not have a material impact on our consolidated financial statements.

Recent Accounting Pronouncements Not Yet Effective

Revenue Recognition

During May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). In 2016, the FASB issued ASU No. 2016-08, ASU No. 2016-10 and ASU No. 2016-12, which provide interpretive clarifications on the new guidance in Topic 606 (collectively, "the new standard"). The new standard replaces primarily all existing revenue recognition guidance under GAAP and establishes common principles for recognizing revenue for all industries. It also provides guidance on the accounting for costs to fulfill or obtain a customer contract. Under the new standard, the recognition of revenue is based on consideration expected to be entitled from the transfer of goods or services to a customer. The new standard is effective for interim and annual periods

beginning after December 15, 2017 and permits the use of either the retrospective or cumulative effect transition method. The retrospective method requires a retrospective approach to each prior reporting period presented with the option to elect certain practical expedients as defined within the guidance. The cumulative approach requires a retrospective approach with the cumulative effect of initially applying the guidance recognized at the date of initial application and providing certain additional disclosures as defined per the guidance.

We have finalized our assessment of the new standard, including completing our contract reviews and our evaluation of the costs of obtaining a contract. We will adopt the new standard in our first quarter of 2018 using the modified retrospective method. Based on our assessment, the impact of the new standard on the date of adoption is not material and is primarily related to the deferral of incremental commission costs of obtaining customer service contracts, which are currently expensed as incurred. Under the new standard, we will defer all such costs and amortize them over the expected period of benefit. The new standard also requires companies to account for termination clauses at the onset of an arrangement. While there is limited history of cancellations, our prepaid subscription offerings are generally cancellable by customers with 30 days' notice. While these prepaid amounts are currently recorded to deferred revenue, the new standard requires that we record these amounts as other liabilities. In addition, the new standard may impact the amount and timing of revenue recognition of certain sales arrangements and the related disclosures on our consolidated financial statements. However, we do not expect the impact from any of these changes to have a material impact on our results of operations or financial condition in the year of adoption.

Financial Instruments

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments-Recognition and Measurement of Financial Assets and Financial Liabilities,* which enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The guidance addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The standard is effective for us for our first quarter of fiscal 2018 and we will adopt it utilizing the modified retrospective transition method. Based on the composition of our investment portfolio, we do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

Leases

In February 2016, the FASB issued ASU No, 2016-02, *Leases,* which addresses the classification and recognition of lease assets and liabilities formerly classified as operating leases under GAAP. The guidance will address certain aspects of recognition and measurement, and quantitative and qualitative aspects of presentation and disclosure. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The guidance may be early adopted. We plan to adopt this guidance at the beginning of 2019. The guidance will be applied to the earliest period presented using a modified retrospective approach. The guidance includes practical expedients that relate to identification, classification, and initial direct costs associated with leases commencing prior to the effective date, and the ability to apply hindsight in evaluating lease options related to extensions, terminations or asset purchases. A practical expedient also exists to treat leases entered into prior effective date under existing GAAP unless the lease has been modified. We are currently assessing the impact this guidance may have on our consolidated financial statements as well as the transition method that we will use to adopt the guidance.

Credit Losses of Financial Instruments

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which requires a financial asset measured at amortized cost basis to be presented at the net amount expected to be collected. Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. This standard is effective for us for our first quarter of 2020. We are currently assessing the impact this guidance may have on our consolidated financial statements.

Classification of Cash Flow Elements

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Task Force),* which addresses eight specific cash flow

issues with the objective of reducing the existing diversity in practice in how certain transactions are presented and classified in the statement of cash flows. The guidance will be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The standard is effective for us for our first quarter of fiscal 2018. We do not expect the guidance to have a material impact on our consolidated financial statements.

Income Taxes on Intra-Entity Transfers of Assets

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory,* which addresses recognition of current and deferred income taxes for intra-entity asset transfers when assets are sold to an outside party. Current GAAP prohibits the recognition of current and deferred income taxes until the asset has been sold to an outside party. This prohibition on recognition is considered an exception to the principle of comprehensive recognition of current and deferred income taxes in GAAP. The new guidance requires an entity to recognize the income tax consequences when the transfer occurs eliminating the exception. The guidance will be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The standard is effective for us for our first quarter of fiscal 2018. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

Restricted Cash in Statement of Cash Flows

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force,* which requires that amounts generally described as restricted cash or restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This standard should be applied using a retrospective transition method to each period presented. This standard is effective for us for our first quarter of fiscal 2018. We do not anticipate this standard will have a material impact on our consolidated financial statements.

Scope of Modification Accounting in Stock Compensation

In May 2017, the FASB issued ASU 2017-09, *Compensation-Stock Compensation (Topic 718) Scope of Modification Accounting* which addresses providing clarity to reduce diversity in practice, cost and complexity in the application of modification accounting when there is a change in terms or conditions of a share-based payment award. The guidance will be applied on a prospective basis to awards modified on or after the adoption date. This standard is effective for us for our first quarter of fiscal 2018. We do not anticipate this standard will have a material impact on our consolidated financial statements.

2. Fair Value Measurements

We measure and report our cash equivalents, restricted cash, and available-for-sale marketable securities at fair value. The following table set forth the fair value of our financial assets by level within the fair value hierarchy (in thousands):

	December 31, 2017			
	Level I	Level II	Level III	Total
Financial Assets:				
Money market funds	$ 701,145	$ —	$ —	$ 701,145
Money market funds - restricted	5,505	—	—	5,505
Commercial Paper	—	11,924	—	11,924
U.S. government notes	136,647	—	—	136,647
Corporate bonds	—	312,484	—	312,484
Agency securities	—	228,036	—	228,036
Total financial assets	$ 843,297	$ 552,444	$ —	$ 1,395,741

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	December 31, 2016			
	Level I	Level II	Level III	Total
Financial Assets:				
Money market funds	$ 305,182	$ —	$ —	$ 305,182
Money market funds - restricted	4,245	—	—	4,245
Commercial Paper	—	5,962	—	5,962
U.S. government notes	110,756	—	—	110,756
Corporate bonds	—	183,192	—	183,192
Total financial assets	$ 420,183	$ 189,154	$ —	$ 609,337

3. Balance Sheet Components

Marketable Securities

The following table summarizes the unrealized gains and losses and fair value of our available-for-sale marketable securities (in thousands):

	December 31, 2017			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Commercial paper	$ 11,924	$ —	$ —	$ 11,924
U.S. government notes	137,025	—	(378)	136,647
Corporate bonds	313,080	20	(616)	312,484
Agency securities	215,923	2	(617)	215,308
Total marketable securities	$ 677,952	$ 22	$ (1,611)	$ 676,363

	December 31, 2016			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Commercial paper	$ 5,962	$ —	$ —	$ 5,962
U.S. government notes	110,945	5	(194)	110,756
Corporate bonds	183,455	109	(372)	183,192
Total marketable securities	$ 300,362	$ 114	$ (566)	$ 299,910

We did not realize any other-than-temporary losses on our marketable securities for the year ended December 31, 2017 and 2016. We invest in marketable securities that have maximum maturities of up to two years and are generally deemed to be low risk based on their credit ratings from the major rating agencies. The longer the duration of these marketable securities, the more susceptible they are to changes in market interest rates and bond yields. As interest rates increase, those marketable securities purchased at a lower yield show a mark-to-market unrealized loss. The unrealized losses are due primarily to changes in credit spreads and interest rates. We expect to realize the full value of these investments upon maturity or sale and therefore, we do not consider any of our marketable securities to be other-than-temporarily impaired as of December 31, 2017.

As of December 31, 2017, the contractual maturities of our investments did not exceed 24 months. The fair values of available-for-sale investments, by remaining contractual maturity, are as follows (in thousands):

	December 31, 2017
Due in 1 year or less	$ 386,506
Due in 1 year through 2 years	289,857
Total marketable securities	$ 676,363

The weighted average remaining duration of our current marketable securities is approximately 0.9 years as of December 31, 2017. As we view these securities as available to support current operations, we classify securities with maturities beyond 12 months as current assets under the caption marketable securities in the consolidated balance sheets.

Accounts Receivable, net

Accounts receivable, net consists of the following (in thousands):

	December 31,	
	2017	2016
Accounts receivable	$ 254,881	$ 254,640
Allowance for doubtful accounts	(112)	(204)
Product sales rebate and returns reserve	(7,423)	(1,317)
Accounts receivable, net	$ 247,346	$ 253,119

Allowance for Doubtful Accounts

Activity in the allowance for doubtful accounts consists of the following (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Balance at the beginning of year	$ 204	$ 963	$ 1,063
Additions (deductions) charged (credited) to expense	17	(292)	335
Deductions/write-offs	(109)	(467)	(435)
Balance at the end of year	$ 112	$ 204	$ 963

Product Sales Rebate and Returns Reserve

Activity in the product sales rebate and returns reserve consists of the following (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Balance at the beginning of year	$ 1,317	$ 566	$ 2,031
Additions charged against revenue	17,371	5,122	818
Consumption	(11,265)	(4,371)	(2,283)
Balance at the end of year	$ 7,423	$ 1,317	$ 566

The increase in activity in 2017 primarily relates to channel rebates that we began to offer in the current year.

Inventories

Inventories consist of the following (in thousands):

	December 31,	
	2017	2016
Raw materials	$ 69,673	$ 99,190
Finished goods	236,525	137,300
Total inventories	$ 306,198	$ 236,490

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consists of the following (in thousands):

	December 31,	
	2017	2016
Inventory deposit	$ 34,141	$ 60,315
Prepaid income taxes	38,134	17,383
Other current assets	96,215	79,140
Other prepaid expenses and deposits	8,840	11,846
Total prepaid expenses and other current assets	$ 177,330	$ 168,684

Property and Equipment, net

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

	December 31,	
	2017	2016
Equipment and machinery	$ 47,711	$ 40,721
Computer hardware and software	22,124	17,420
Furniture and fixtures	3,020	2,879
Leasehold improvements	30,548	29,498
Building	35,154	35,154
Construction-in-process	4,742	421
Property and equipment, gross	143,299	126,093
Less: accumulated depreciation	(69,020)	(49,132)
Property and equipment, net	$ 74,279	$ 76,961

Depreciation expense was $20.2 million, $19.4 million and $13.4 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	December 31,	
	2017	2016
Accrued payroll related costs	$ 56,626	$ 52,854
Accrued manufacturing costs	35,703	14,824
Accrued product development costs	21,201	7,103
Accrued warranty costs	7,415	6,744
Accrued professional fees	7,086	6,829
Accrued taxes	794	1,098
Other	5,002	1,499
Total accrued liabilities	$ 133,827	$ 90,951

Warranty Accrual

The following table summarizes the activity related to our accrued liability for estimated future warranty costs (in thousands):

	Year Ended December 31,	
	2017	2016
Warranty accrual, beginning of year	$ 6,744	$ 4,718
Liabilities accrued for warranties issued during the year	5,542	5,421
Warranty costs incurred during the year	(4,871)	(3,395)
Warranty accrual, end of year	$ 7,415	$ 6,744

There were no significant specific product warranty reserves recorded for the years ended December 31, 2017 or 2016.

4. Investments

Investments in Privately Held Companies

As of December 31, 2017 and 2016, we held non-marketable equity investments of approximately $36.1 million and $36.1 million, respectively, in privately held companies which are accounted for under the cost method. To date, we have not recognized any impairment losses on our investments.

5. Commitments and Contingencies

Operating Leases

We lease various operating spaces in North America, Europe, Asia and Australia under non-cancelable operating lease arrangements that expire on various dates through 2025. 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.

As of December 31, 2017, the aggregate future minimum payments under non-cancelable operating leases consist of the following (in thousands):

Years Ending December 31,		
2018	$	9,127
2019		8,336
2020		8,350
2021		7,741
2022		7,577
Thereafter		9,873
Total minimum future lease payments	$	51,004

Rent expense for all operating leases amounted to $9.4 million, $8.1 million and $5.4 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Financing Obligation—Build-to-Suit Lease

In August 2012, we executed a lease for a building then under construction in Santa Clara, California to serve as our headquarters. The lease term is 120 months and commenced in August 2013. Based on the terms of the lease agreement and due to our involvement in certain aspects of the construction, we were deemed the owner of the building (for accounting purposes only) during the construction period. Upon completion of construction in 2013, we concluded that we had forms of continued economic involvement in the facility, and therefore did not meet with the provisions for sale-leaseback accounting. We continue to maintain involvement in the property post construction and lack transferability of the risks and rewards of ownership, due to our required maintenance of a $4.0 million letter of credit, in addition to our ability and option to sublease our portion of the leased building for fees substantially higher than our base rate. Therefore, the lease is accounted for as a financing obligation and lease payments will be attributed to (1) a reduction of the principal financing obligation; (2) imputed interest expense; and (3) land lease expense, representing an imputed cost to lease the underlying land of the building. At the conclusion of the initial lease term, we will de-recognize both the net book values of the asset and the remaining financing obligation.

As of December 31, 2017 and 2016, we have recorded assets of $53.4 million, representing the total costs of the building and improvements incurred, including the costs paid by the lessor (the legal owner of the building) and additional improvement costs paid by us, and a corresponding financing obligation of $39.6 million and $41.2 million, respectively. As of December 31, 2017, $1.9 million and $37.7 million were recorded as short-term and long-term financing obligations, respectively.

Land lease expense under our lease financing obligation amounted to $1.3 million for each of the years ended December 31, 2017, 2016 and 2015 respectively.

As of December 31, 2017, the future minimum payments due under the lease financing obligation were as follows (in thousands):

Years Ending December 31,	
2018	$ 6,113
2019	6,293
2020	6,477
2021	6,674
2022	6,871
Thereafter	5,264
Total payments	37,692
Less: interest and land lease expense	(21,730)
Total payments under facility financing obligations	15,962
Property reverting to landlord	23,630
Present value of obligation	39,592
Less: current portion	(1,919)
Lease financing obligations, non-current	$ 37,673

Purchase Commitments

We outsource most of our manufacturing and supply chain management operations to third-party contract manufacturers, who procure components and assemble products on our behalf based on our forecasts in order to reduce manufacturing lead times and ensure adequate component supply. We issue purchase orders to our contract manufacturers for finished product and a significant portion of these orders consist of firm non-cancellable commitments. In addition, we purchase strategic component inventory from certain suppliers under purchase commitments that in some cases are non-cancellable, including integrated circuits, which are consigned to our contract manufacturers. As of December 31, 2017, we had non-cancellable purchase commitments of $195.1 million, of which $147.9 million was to our contract manufacturers and suppliers. In addition, we have provided deposits to secure our obligations to purchase inventory. We had $36.9 million and $63.1 million in deposits as of December 31, 2017 and 2016, respectively. These deposits are classified in 'Prepaid expenses and other current assets' and 'Other assets' in our accompanying consolidated balance sheets.

Guarantees

We have entered into agreements with some of our direct customers and channel partners that contain indemnification provisions relating to potential situations where claims could be alleged that our products infringe the intellectual property rights of a third party. We have at our option and expense the ability to repair any infringement, replace product with a non-infringing equivalent-in-function product or refund our customers all or a portion of the value of the product. Other guarantees or indemnification agreements include guarantees of product and service performance and standby letters of credit for leased facilities and corporate credit cards. We have not recorded a liability related to these indemnification and guarantee provisions and our guarantee and indemnification arrangements have not had any significant impact on our consolidated financial statements to date.

Legal Proceedings

OptumSoft, Inc. Matters

On April 4, 2014, OptumSoft filed a lawsuit against us in the Superior Court of California, Santa Clara County titled *OptumSoft, Inc. v. Arista Networks, Inc.*, in which it asserts (i) ownership of certain components of our EOS network operating system pursuant to the terms of a 2004 agreement between the companies; and (ii) breaches of certain confidentiality and use restrictions in that agreement. Under the terms of the 2004 agreement, OptumSoft provided us with a non-exclusive, irrevocable, royalty-free license to software delivered by OptumSoft comprising a software tool used to develop certain components of EOS and a runtime library that is incorporated

into EOS. The 2004 agreement places certain restrictions on our use and disclosure of the OptumSoft software and gives OptumSoft ownership of improvements, modifications and corrections to, and derivative works of, the OptumSoft software that we develop.

In its lawsuit, OptumSoft has asked the Court to order us to (i) give OptumSoft access to our software for evaluation by OptumSoft; (ii) cease all conduct constituting the alleged confidentiality and use restriction breaches; (iii) secure the return or deletion of OptumSoft's alleged intellectual property provided to third parties, including our customers; (iv) assign ownership to OptumSoft of OptumSoft's alleged intellectual property currently owned by us; and (v) pay OptumSoft's alleged damages, attorney's fees, and costs of the lawsuit. David Cheriton, one of our founders and a former member of our board of directors, who resigned from our board of directors on March 1, 2014 and has no continuing role with us, is a founder and, we believe, the largest stockholder and director of OptumSoft. The 2010 David R. Cheriton Irrevocable Trust dated July 28, 2010, a trust for the benefit of the minor children of Mr. Cheriton, is one of our largest stockholders.

On April 14, 2014, we filed a cross-complaint against OptumSoft, in which we assert our ownership of the software components at issue and our interpretation of the 2004 agreement. Among other things, we assert that the language of the 2004 agreement and the parties' long course of conduct support our ownership of the disputed software components. We ask the Court to declare our ownership of those software components, all similarly-situated software components developed in the future and all related intellectual property. We also assert that, even if we are found not to own certain components, such components are licensed to us under the terms of the 2004 agreement. However, there can be no assurance that our assertions will ultimately prevail in litigation. On the same day, we also filed an answer to OptumSoft's claims, as well as affirmative defenses based in part on OptumSoft's failure to maintain the confidentiality of its claimed trade secrets, its authorization of the disclosures it asserts and its delay in claiming ownership of the software components at issue. We have also taken additional steps to respond to OptumSoft's allegations that we improperly used and/or disclosed OptumSoft confidential information. While we believe we have meritorious defenses to these allegations, we believe we have (i) revised our software to remove the elements we understand to be the subject of the claims relating to improper use and disclosure of OptumSoft confidential information and made the revised software available to our customers and (ii) removed information from our website that OptumSoft asserted disclosed OptumSoft confidential information.

The parties tried Phase I of the case, relating to contract interpretation and application of the contract to certain claimed source code, in September 2015. On December 16, 2015, the Court issued a Proposed Statement of Decision Following Phase 1 Trial, and on January 8, 2016, OptumSoft filed objections to that Proposed Statement of Decision. On March 23, 2016, the Court issued a Final Statement of Decision Following Phase I Trial, in which it agreed with and adopted our interpretation of the 2004 agreement and held that we, and not OptumSoft, own all the software at issue in Phase I. The remaining issues that were not addressed in the Phase I trial are set to be tried in Phase II including the application of the Court's interpretation of the 2004 agreement as set forth in the Final Statement of Decision Following Phase I Trial to any other source code that OptumSoft claims to own following a review. Phase II was previously scheduled to be tried in April 2016; however, that trial date has been vacated and a new trial date has not yet been set.

We intend to vigorously defend against any claims brought against us by OptumSoft. However, we cannot be certain that, if litigated, any claims by OptumSoft would be resolved in our favor. For example, if it were determined that OptumSoft owned components of our EOS network operating system, we would be required to transfer ownership of those components and any related intellectual property to OptumSoft. If OptumSoft were the owner of those components, it could make them available to our competitors, such as through a sale or license. An adverse litigation ruling could result in a significant damages award against us and injunctive relief. In addition, OptumSoft could assert additional or different claims against us, including claims that our license from OptumSoft is invalid.

With respect to the legal proceedings described above, it is our belief that while a loss is not probable, it may be reasonably possible. Further, at this stage in the litigation, any possible loss or range of loss cannot be estimated. However, the outcome of litigation is inherently uncertain. Therefore, if one or more of these legal matters were resolved against us in a reporting period for a material amount, our consolidated financial statements for that reporting period could be materially adversely affected.

Cisco Systems, Inc. ("Cisco") Matters

We are currently involved in several litigation matters with Cisco Systems, Inc. These matters are summarized below.

Cisco Systems, Inc. v. Arista Networks, Inc. (Case No. 4:14-cv-05343) ("'43 Case")

On December 5, 2014, Cisco filed a complaint against us in the District Court for the Northern District of California alleging that we infringe U.S. Patent Nos. 6,377,577; 6,741,592; 7,023,853; 7,061,875; 7,162,537; 7,200,145; 7,224,668; 7,290,164; 7,340,597; 7,460,492; 8,051,211; and 8,356,296 (respectively, "the '577 patent," "the '592 patent," "the '853 patent," "the 875 patent," "the '537 patent," "the '145 patent," "the '668 patent," "the '164 patent," "the '597 patent," "the '492 patent," "the '211 patent," and "the '296 patent"). Cisco seeks, as relief for our alleged infringement in the '43 Case, lost profits and/or reasonable royalty damages in an unspecified amount, including treble damages, attorney's fees, and associated costs. Cisco also seeks injunctive relief in the '43 Case. On February 10, 2015, the Court granted our unopposed motion to stay the '43 Case until the proceedings before the United States International Trade Commission ("USITC") pertaining to the same patents (as discussed below) became final. Trial has not been scheduled in the '43 Case.

Cisco Systems, Inc. v. Arista Networks, Inc. (Case No. 5:14-cv-05344) ("'44 Case")

On December 5, 2014, Cisco filed a complaint against us in the District Court for the Northern District of California alleging that we infringe numerous copyrights pertaining to Cisco's "Command Line Interface" or "CLI" and U.S. Patent Nos. 7,047,526 and 7,953,886 (respectively, "the '526 patent" and "the '886 patent"). As relief for our alleged patent infringement in the '44 Case, Cisco seeks lost profits and/or reasonable royalty damages in an unspecified amount including treble damages, attorney's fees, and associated costs as well as injunctive relief. As relief for our alleged copyright infringement, Cisco seeks monetary damages for alleged lost profits, profits from our alleged infringement, statutory damages, attorney's fees, and associated costs.

As described below, on May 25, 2016, our petition for Inter Partes Review ("IPR") of the '886 patent was instituted by the United States Patent Trial and Appeal Board ("PTAB"). Cisco subsequently agreed to dismiss its claims as to the '886 patent with prejudice.

On December 14, 2016, following a two-week trial, the jury found that we had proven our copyright defense of *scenes a faire* and that Cisco had failed to prove infringement of the '526 patent, and on that basis, judgment was entered in our favor on all claims on December 19, 2016.

On January 17, 2017, Cisco filed a motion for judgment as a matter of law, challenging the sufficiency of the evidence in support of our *scenes a faire* defense. Cisco did not file any post-trial motion regarding the '526 patent, nor did it file a motion for a new trial. We also filed a conditional motion for judgment as a matter of law and/or for a new trial on several grounds, which would be at issue only if the court granted Cisco's motion. The hearing on both parties' motions was held on April 27, 2017. On May 10, 2017, the court denied Cisco's motion and denied our motions as moot.

Cisco filed a notice of appeal on June 6, 2017, and the parties have submitted their appeal briefs to the U.S. Court of Appeals of the Federal Circuit. A hearing date has not yet been set.

Arista Networks, Inc. v. Cisco Systems, Inc. (Case No. 5:16-cv-00923) ("'23 Case")

On February 24, 2016, we filed a complaint against Cisco in the District Court for the Northern District of California alleging antitrust violations and unfair competition. On August 23, 2016, the Court granted Cisco's motion to stay the '23 Case until judgment was entered on Cisco's copyright claims in the '44 Case. On March 2, 2017, the Court lifted the stay and trial is set for August 3, 2018.

On March 23, 2017, Cisco filed a motion to dismiss our complaint in the '23 Case. On October 10, 2017, the Court issued an order granting in part and denying in part Cisco's motion to dismiss, with leave for us to amend to cure any deficiencies as to the claims that were dismissed.

Certain Network Devices, Related Software, and Components Thereof (Inv. No. 337-TA-944) ("944 Investigation")

On December 19, 2014, Cisco filed a complaint against us in the USITC alleging that we violated 19 U.S.C. § 1337 ("Section 337"). The USITC instituted Cisco's complaint as Investigation No. 337-TA-944. Cisco initially alleged that certain of our switching products infringe the '592, '537, '145, '164, '597, and '296 patents. Cisco subsequently dropped the '296 patent from the 944 Investigation. Cisco sought, among other things, a limited exclusion order barring entry into the United States of accused switch products (including our 7000 Series of switches) and components and software therein and a cease and desist order against us restricting our activities with respect to our imported accused switch products and components and software therein.

On February 2, 2016, the Administrative Law Judge ("ALJ") issued his initial determination finding a violation of Section 337. More specifically, the ALJ found that a violation has occurred in the importation into the United States, the sale for importation, or the sale within the United States after importation, of certain network devices, related software, and components thereof that the ALJ found infringed asserted claims 1, 2, 8-11, and 17-19 of the '537 patent; asserted claims 6, 7, 20, and 21 of the '592 patent; and asserted claims 5, 7, 45, and 46 of the '145 patent. The ALJ did not find a violation of Section 337 with respect to any asserted claims of the '597 and '164 patents. On June 23, 2016, the Commission issued its Final Determination, which found a violation with respect to the '537, '592, and '145 patents, and found no violation with respect to the '597 and '164 patents. The Commission also issued a limited exclusion order and a cease and desist order pertaining to network devices, related software and components thereof that infringe one or more of claims 1, 2, 8-11, and 17-19 of the '537 patent; claims 6, 7, 20, and 21 of the '592 patent; and claims 5, 7, 45, and 46 of the '145 patent. On August 22, 2016, the Presidential review period for the 944 Investigation expired. The USITC orders will be in effect until the expiration of the '537, '592, and '145 patents.

Both we and Cisco filed petitions for review of the USITC's Final Determination to the U.S. Court of Appeals for the Federal Circuit ("Federal Circuit"). The appeal was fully briefed and oral argument was held on June 6, 2017. On September 27, 2017, the Federal Circuit affirmed the USITC's Final Determination.

On August 26, 2016, Cisco filed an enforcement complaint under Section 337 with the USITC. Cisco alleges that we are violating the cease and desist and limited exclusion orders issued in the 944 Investigation by engaging in the "marketing, distribution, offering for sale, selling, advertising, and/or aiding or abetting other entities in the sale and/or distribution of products that Cisco alleges continue to infringe claims 1-2, 8-11, and 17-19 of the '537 patent," despite the design changes we have made to those products. Cisco asks the USITC to (1) enforce the cease and desist order; (2) modify the Commission's limited exclusion order and/or cease and desist order "in any manner that would assist in the prevention of the unfair practices that were originally the basis for issuing such Order or assist in the detection of violations of such Order"; (3) impose the maximum statutory civil penalties for violation of the cease and desist order "including monetary sanctions for each day's violation of the cease and desist order of the greater of $100,000 or twice the domestic value of the articles entered or sold, whichever is higher"; (4) bring a civil action in U.S. district court "requesting collection of such civil penalties and the issuance of a mandatory injunction preventing further violation of Cease and Desist Order"; and (5) impose "such other remedies and sanctions as are appropriate and within the Commission's authority." On September 28, 2016, the Commission instituted the enforcement proceeding. The proceeding has been assigned to ALJ Shaw, who presided over the underlying investigation. The target date for the investigation was initially set for September 20, 2017. On June 20, 2017, the ALJ issued his initial determination finding that we did not violate the June 23, 2016 cease and desist order. The initial determination also recommended a civil penalty of $307 million if the Commission decided to overturn the finding of no violation. On July 3, 2017, the parties filed petitions for review of certain findings in the initial determination.

On August 4, 2017, the Commission issued an order remanding the investigation to the ALJ to make additional findings on certain issues and issue a remand initial determination. The Commission ordered the ALJ to set a schedule for completion of any necessary remand proceedings and a new target date for the enforcement action. On August 25, 2017 the ALJ issued an Initial Determination setting a June 4, 2018 deadline for the remand initial determination and September 4, 2018 as the new target date for the enforcement action. On September 18, 2017, the Commission determined not to review the Initial Determination setting the target date. The ALJ held a hearing on February 1, 2018.

<u>Certain Network Devices, Related Software, and Components Thereof (Inv. No. 337-TA-945) ("945 Investigation")</u>

On December 19, 2014, Cisco filed a complaint against us in the USITC alleging that we violated Section 337. The USITC instituted Cisco's complaint as Investigation No. 337-TA-945. Cisco alleged that certain of our switching products infringe the '577, '853, '875, '668, '492, and '211 patents. Cisco sought, among other things, a limited exclusion order barring entry into the United States of accused switch products (including our 7000 Series of switches) related software, and components therein and a cease and desist order against us restricting our activities with respect to our imported accused switch products and components and software therein.

On December 9, 2016, the ALJ issued her initial determination finding a violation of Section 337. More specifically, the ALJ found that a violation has occurred in the importation into the United States, the sale for importation, or the sale within the United States after importation, of certain network devices, related software, and components thereof that the ALJ found infringe asserted claims 1, 7, 9, 10, and 15 of the '577 patent and asserted claims 1, 2, 4, 5, 7, 8, 10, 13, 19, 56, and 64 of the '668 patent. The ALJ did not find a violation of Section 337 with respect to asserted claim 2 of the '577 patent or any asserted claims of the '853, '492, '875, and '211 patents.

On May 4, 2017, the Commission issued its Final Determination, which found a violation with respect to the '577 and '668 patents, and found no violation with respect to the '211, '853, '875 and '492 patents. The Commission also issued a limited exclusion order and a cease and desist order pertaining to network devices, related software and components thereof that infringe one or more of claims 1, 7, 9, 10, and 15 of the '577 patent and 1, 2, 4, 5, 7, 8, 10, 13, 18, 56, and 64 of the '668 patent. On July 4, 2017, the 60-day Presidential review period for the 945 Investigation expired. During the 60-day Presidential review period, the USITC Orders permitted Arista to continue importing and selling products covered by the orders so long as we paid a 5% bond. Because the United States Trade Representative did not disapprove the USITC's final determination, the limited exclusion order and cease and desist order are now in full effect.

On May 25, 2017 and June 1, 2017, the PTAB issued final written decisions finding all claims of the '577 and '668 patents that we were found to have infringed in the 945 Investigation unpatentable. On June 1, 2017 and June 2, 2017, we filed emergency petitions to suspend the remedial orders in the 945 Investigation. On July 20, 2017, the Commission issued a notice denying our petition to suspend the remedial orders. On July 21, 2017, we filed a motion to stay the remedial orders in the 945 Investigation pending disposition of the relevant appeals and sought expedited consideration of our motion. On September 11, 2017, the Commission denied our motion to stay.

On June 30, 2017, Cisco filed a petition for review of the USITC's Final Determination to the Federal Circuit regarding the '853, '492, '875 and '211 patents. On July 21, 2017, we filed a petition for review of the Final Determination to the Federal Circuit.

On August 25, 2017 we filed a motion with the Federal Circuit requesting that the Federal Circuit stay the remedial orders pending the completion of the appeal of the 945 Investigation. On September 22, 2017, the Federal Circuit issued an order denying our motion to stay, but ordered that our redesigned products be allowed to enter the country "unless and until Commission proceedings are initiated and completed to produce an enforceable determination that such a redesign is barred" by a Commission remedial order.

On September 27, 2017, Cisco filed a petition with the USITC requesting that the Commission institute a modification proceeding to determine whether our redesigned products infringe the patent claims underlying the remedial orders in the 945 Investigation. On October 27, 2017, the Commission instituted the modification proceeding. The proceeding has been assigned to ALJ McNamara, who presided over the underlying investigation. The Commission has set a deadline of five months for the ALJ to issue a recommended determination on what, if any, modifications to the remedial orders issued in the 945 Investigation are appropriate. This deadline may be extended by one month upon a showing of good cause. The recommended determination will be subject to review by the Commission after which the Commission will issue a final determination. The Commission has not set a target date for the final determination. The hearing was held on January 26, 2018.

Inter Partes Reviews

We have filed petitions for Inter Partes Review of the ’597, ’211, ’668, ’853, ’537, ’577, ’886, and ’526 patents. IPRs relating to the ’597 (IPR No. 2015-00978) and ’211 (IPR No. 2015-00975) patents were instituted in October 2015 and hearings on these IPRs were completed in July 2016. On September 28, 2016, the PTAB issued a final written decision finding claims 1, 14, 39-42, 71, 72, 84, and 85 of the ’597 patent unpatentable. The PTAB also found that claims 29, 63, 64, 73, and 86 of the ’597 patent had not been shown to be unpatentable. On October 5, 2016, the PTAB issued a final written decision finding claims 1 and 12 of the ’211 patent unpatentable. The PTAB also found that claims 2, 6-9, 13, 17-20 of the ’211 patent had not been shown to be unpatentable. Both parties have appealed the final written decisions on the ’211 and ’537 patent IPRs. The hearing for the ’211 IPR appeal is set for March 2018.

The IPR relating to the ’886 patent was instituted on May 25, 2016. Following that decision, Cisco agreed to dismiss its claims as to the ?886patent with prejudice, and we dismissed our counterclaims as to the ?886patent without prejudice.

IPRs relating to the ’668 (IPR No. 2016-00309), ’577 (IPR No. 2016-00303), ’853 (IPR No. 2016-0306), and ’537 (IPR No. 2016-0308) patents were instituted in June 2016 and hearings were held on March 7, 2017. On May 25, 2017, the PTAB issued final written decisions finding claims 1, 7-10, 12-16, 18-22, 25, and 28-31 of ’577 patent unpatentable, and that claim 2 of the ’577 patent, claim 63 of the ’853 patent, and claims 1, 10, 19, and 21 of the ’537 patent had not been shown to be unpatentable. On June 1, 2017, the PTAB issued a final written decision finding claims 1-10, 12-13, 15-28, 30-31, 33-36, 55-64, 66-67, and 69-72 of the ’668 patent unpatentable. We filed a Notice of Appeal concerning the ’577 patent on July 21, 2017, and Notices of Appeal concerning the ‘853 and ’537 patents on July 26, 2017. Cisco cross-appealed concerning the ’577 patent on July 26, 2017 and filed a Notice of Appeal concerning the ’668 patent on August 1, 2017. For the appeals of the IPRs on the ’668 and ’577 patents, the Federal Circuit granted our motion for an expedited briefing schedule, and the hearings were held on February 9, 2018. On February 14, 2018, the Federal Circuit affirmed the PTAB’s final written decision on the ’668 patent.

* * * * *

We intend to vigorously defend against each of the Cisco lawsuits, as summarized in the preceding paragraphs. However, we cannot be certain that any claims by Cisco will be resolved in our favor regardless of the merit of the claims. Any adverse litigation ruling could result in injunctive relief and USITC remedial orders, including the above described injunctive relief, could lead to significant penalties assessed or damages awarded against us or a requirement that we make substantial royalty payments to Cisco, and/or could require that we modify our products.

For example, in the 944 Investigation, the USITC issued a limited exclusion order barring entry into the United States of our network devices (including our 7000 Series of switches), related software, and components thereof that infringe one or more of the claims of the ’537, ?592,and ?145patents specified above and a cease and desist order restricting our activities with respect to such imported products. In the 945 Investigation, the USITC issued a limited exclusion order barring entry into the United States of our network devices, related software, and components thereof that infringe one or more of the claims of the ’577 and ’668 patents specified above and a cease and desist order restricting our activities with respect to such imported products.

To comply with these orders, we have sought to develop technical redesigns that no longer infringe the patents that are the subject of the orders. In any efforts to develop these technical redesigns for our products, we may be unable to do so in a manner that does not continue to infringe the patents or that is acceptable to our customers. Our redesign efforts could be extremely costly and time consuming as well as disruptive to our other development activities and distracting to management. Moreover, our ability to import redesigned products into the United States is based on rulings from U.S. Customs and Border Protection (“CBP”) and the Federal Circuit. While these favorable rulings currently allow us to import our redesigned products into the United States, the USITC could determine in an enforcement action or modification proceeding that our redesigned products continue to infringe the patents that are the subject of any USITC orders. In addition, the Federal Circuit or CBP could decide to withdraw or alter their rulings based on a change in circumstances. Any failure to effectively redesign our products, obtain customer acceptance of those redesigned products, retain authorization to import those redesigned products, or address the USITC findings in a manner that complies with the USITC orders, may cause

a disruption to our product shipments, a rejection or return of our redesigned products by (or a delay or loss of sales to) customers, subject us to penalties or damage awards, and materially and adversely affect our business, revenues, prospects, reputation, results of operations, and financial condition.

Specifically, in response to the USITC's findings in the 944 Investigation, we have made design changes to our products for sale in the United States to address the features that were found to infringe the '537, '592, and '145 patents. Following the issuance of the final determination in the 944 Investigation, we submitted a Section 177 ruling request to CBP seeking approval to import these redesigned products into the United States. On November 18, 2016, we received a 177 ruling from CBP finding that our redesigned products did not infringe the relevant claims of the ?537, '592, and ?145 patents, and approving the importation of those redesigned products into the United States. On January 13, 2017, at the request of Cisco and without our input, CBP issued a letter to us revoking its prior November 18 ruling. CBP subsequently conducted an *inter partes* proceeding between Arista and Cisco to determine whether our redesigned products infringe and whether to approve them for importation into the United States. On April 7, 2017, following the *inter partes* proceeding, CBP again ruled that our redesigned products do not infringe the relevant claims of the '537, '592, and '145 patents and again approved those redesigns for importation into the United States. On September 12, 2017, Cisco filed a second request with CBP seeking to revoke our approval to import our redesigns relating to the 944 Investigation. We have opposed Cisco's request, and CBP has not yet ruled on Cisco's request.

Similarly, on May 4, 2017, the USITC issued a limited exclusion order and cease and desist order in the 945 Investigation with respect to the '668 and '577 patents. We have made design changes to our products for sale in the United States to address the features that were found to infringe the '577 and '668 patents. We are making ongoing modifications to our products to also ensure that they continue to meet customer requirements, and we are working with our customers to qualify those modified products for use in our customers' networks. In particular, the '577 patent was directed to a feature that is implemented in the merchant silicon chips that we purchase from third-party suppliers. Because we do not design, build or manufacture these merchant silicon chips, we are limited in further modifications that we can make to our products for this patent. Our redesign efforts therefore consisted of removing the feature found to infringe the '577 patent in all of our products until this patent expires on June 30, 2018, and providing an alternative feature to address the '577 patent for a subset of those products. The redesign and qualification efforts to address the 945 Investigation findings could be extremely costly and time consuming for us and our customers as well as disruptive to our other development activities and distracting to management. We may not be able to complete, and our customers may not be able to qualify these redesigned products in a timely fashion, if at all. For example, some of our customers continue to test and qualify our redesigned products which address the '577 and '668 patents to ensure that they meet their network requirements. This could result in a delay or cancellation of purchases by some customers until the redesigned products are qualified or accepted by such customers, a rejection or return of our redesigned products by some customers or a loss of sales to some customers who are unable to qualify or accept the redesigned products, any of which could materially and adversely affect our business, revenues, deferred revenue balances, prospects, reputation, results of operations or financial condition.

Because the USITC did not suspend its orders in the 945 Investigation, despite a PTAB finding that every relevant claim of the '668 and '577 patents is unpatentable, we were barred from importing our redesigned products into the United States until we received approval from CBP. On July 21, 2017, we submitted a Part 177 request to CBP seeking approval to import our redesigned products into the United States. Following the Federal Circuit's order on September 22, 2017, allowing us to import our redesigned products, we withdrew our request. On October 12, 2017, CBP, over Cisco's objection, terminated the Part 177 proceedings, and confirmed that it will permit entry of our redesigns pursuant to the Federal Circuit's September 22, 2017 order.

In either the 944 enforcement action or the 945 modification proceeding, if the USITC determines that our redesigned products infringe any of the patents that are the subject of USITC remedial orders, those redesigned products will also be barred from import into the United States, or sale after importation. In addition, the USITC may impose the maximum statutory civil penalties for violation of the cease and desist order "including monetary sanctions for each day's violation of the cease and desist order of the greater of $100,000 or twice the domestic value of the articles entered or sold, whichever is higher," bring a civil action in U.S. district court "requesting collection of such civil penalties and the issuance of a mandatory injunction preventing further violation of Cease

and Desist Order," or impose "such other remedies and sanctions as are appropriate and within the Commission's authority." In the 944 enforcement action, the ALJ recommended a civil penalty of $307 million if the Commission were to reverse the ALJ's finding of no violation. Any such finding by the USITC in either the 944 enforcement action or the 945 modification proceeding could materially and adversely affect our business, prospects, reputation, results of operations and financial condition.

An adverse finding in the 944 enforcement action or the 945 modification proceeding would take effect immediately upon USITC's issuance of the final determination, without any Presidential review period. To address such a finding, we would have to further redesign our products to make them non-infringing, and until we made such changes we would not be able to import or ship our products to customers. Our further redesign efforts could be extremely costly and time consuming as well as disruptive to our other development activities and distracting to management. We may not be able to further redesign the products in a manner that does not continue to infringe the patents or that is acceptable to customers. We may not be able to complete, and our customers may not be able to qualify, such further redesigned products in a timely fashion, if at all, following the issuance of an adverse final determination, leading to a delay or cancellation of purchases by some customers until those redesigned products are qualified or accepted by such customers, a rejection or return of our redesigned products by some customers or a loss of sales to some customers who are unable to qualify or accept the redesigned products. Our redesign efforts could be extremely costly and time consuming as well as disruptive to our other development activities and distracting to management.

For example, in the 944 enforcement action, although the ALJ issued an initial determination finding that our redesigned products did not violate the June 23, 2016 cease and desist order, if the ALJ modifies the initial determination during the remand proceeding, or if the Commission finds a violation in its final determination on September 4, 2018, we will no longer be able to import or ship our products in the U.S. until we make further changes to address those findings, which could materially and adversely affect our business, revenues, prospects, reputation, results of operations or financial condition. We would also need to obtain USITC or CBP approval to resume importation of such redesigned products into the United States. In addition, the USITC would not provide a service and support exception for our previously redesigned products, and customers may be required to upgrade to new products to obtain service and support. If we are unable to obtain such approvals or provide such service and support exception, our business, prospects, reputation, results of operations or financial condition could be materially and adversely affected. In addition, if we are found to have violated the USITC's orders while those orders remain in effect, we may be subject to the penalties described above.

In the 945 modification proceeding, while the USITC orders are based upon patent claims that the PTAB has found to be invalid, these orders will remain in effect unless and until the PTAB decisions are affirmed on appeal and the United States Patent and Trademark Office ("PTO") cancels the patents or the patents expire. If the Commission finds a violation in its final determination for the 945 modification proceeding, we will no longer be able to import or ship our products in the U.S. until we make further changes to address those findings and/or until the PTAB decisions are so affirmed and the PTO cancels the patents or the patents expire, which could materially and adversely affect our business, revenues, prospects, reputation, results of operations or financial condition. We would also need to obtain USITC or CBP approval to resume importation of any such redesigned products into the United States. In addition, the USITC would not provide a service and support exception for our previously redesigned products, and customers may be required to upgrade to new products to obtain service and support. If we are unable to obtain such approvals or provide such service and support exception, our business, revenues, prospects, reputation, results of operations or financial condition could be materially and adversely affected. In light of the Federal Circuit's February 14, 2018 ruling affirming the PTAB's invalidity findings on the '668 patent, we plan to seek a stay of the ITC's remedial orders as they relate to the '668 patent. If our motion is denied, we would continue to be subject to the ITC's remedial orders on the '668 patent until all appeals have been fully resolved in our favor and the claims cancelled by the PTO. We may not prevail on this appeal in a timely manner, if at all. In addition, even if the PTAB decisions are ultimately affirmed on appeal and the patent claims are canceled, if we are found to have violated the USITC's orders while those orders remain in effect, we may be subject to the penalties described above.

To comply with the USITC's remedial orders, we have also made certain changes to our manufacturing, importation and shipping workflows. These changes have included shifting manufacturing and integration of our

products to be sold in the United States to U.S. facilities. Such changes may be extremely costly, time consuming, and we may not be able to implement such changes successfully. Any failure to successfully change our manufacturing and importation processes or shipping workflows in a manner that is compliant with the limited exclusion orders and cease and desist orders may cause a disruption in our product shipments and materially and adversely affect our business, prospects, reputation, results of operations, and financial condition.

In connection with these changes, to the extent that we are required to make further modifications to our supply chain to obtain alternative U.S. sources for subcomponents, we may be unable to obtain a sufficient quantity of these components on commercially reasonable terms or in a timely manner, if at all, which could delay or halt entirely production of our products or require us to make further modifications to our products to incorporate new components that are available in the United States. Any of these events could result in lost sales, reduced gross margins or damage to our end-customer relationships, which would materially and adversely impact our business, financial condition, results of operations and prospects.

Additionally, the existence of Cisco?s lawsuits against us could cause concern among our customers and partners and could adversely affect our business and results of operations. Many of our customers and partners require us to indemnify and defend them against third party infringement claims and pay damages in the case of adverse rulings. These claims could harm our relationships with our customers or channel partners, cause them to delay or defer purchasing decisions or deter them from doing business with us. From time to time, we may also be required to provide additional assurances beyond our standard terms. Whether or not we prevail in the lawsuit, we expect that the litigation will be expensive, time-consuming and a distraction to management in operating our business.

With respect to the various legal proceedings described above, it is our belief that while a loss is not probable, it may be reasonably possible. Further, at this stage in the litigation, any possible loss or range of loss cannot be estimated. However, the outcome of litigation is inherently uncertain. Therefore, if one or more of these legal matters were resolved against us in a reporting period for a material amount, our consolidated financial statements for that reporting period could be materially adversely affected.

In the Matter of Certain Semiconductor Devices, Semiconductor Device Packages, and Products Containing Same (U.S. International Trade Commission Investigation No. 337-TA-1010) (the "1010 Investigation")

On May 23, 2016, Tessera Technologies, Inc., Tessera, Inc., and Invensas Corp. ("Tessera") filed a complaint in the USITC alleging that Broadcom Limited, Broadcom Corporation, Avago Technologies Limited, and Avago Technologies U.S. Inc. ("Broadcom") and certain of Broadcom's customers violated 19 U.S.C. § 1337 ("Section 337"). On June 20, 2016, the USITC instituted Tessera's complaint as Investigation No. 337-TA-1010.

Tessera alleged that certain Broadcom semiconductor devices infringe U.S. Patent Nos. 6,856,007; 6,849,946; and 6,133,136. Tessera further alleges that Broadcom's downstream customers, Arista Networks, Inc.; ARRIS International plc; ARRIS Group, Inc.; ARRIS Technology, Inc.; ARRIS Enterprises LLC; ARRIS Solutions, Inc.; Pace Ltd.; Pace Americas, LLC; Pace USA; LLC, ASUSteK Computer Inc.; ASUS Computer International; Comcast Cable Communications, LLC; Comcast Cable Communications Management, LLC; Comcast Business Communications, LLC; HTC Corporation; HTC America, Inc.; NETGEAR, Inc.; Technicolor S.A.; Technicolor USA, Inc.; and Technicolor Connected Home USA LLC ("Downstream Respondents") are violating Section 337 by importing, selling after importation, or selling for importation products that incorporate the accused Broadcom semiconductor devices. The accused products included certain models of our switching products.

Tessera sought the following relief: (1) a permanent limited exclusion order excluding from importation into the U.S. all of Broadcom's semiconductor devices and semiconductor device packages, as well as Downstream Respondents' products containing Broadcom's semiconductor devices that infringe one or more of the three patents-in-suit and (2) a permanent cease and desist order prohibiting Broadcom and the Downstream Respondents and related companies from importing, marketing, advertising, demonstrating, warehousing inventory for distribution, offering for sale, selling, qualifying for use in the products of others, distributing, or using the accused Broadcom semiconductor devices and Downstream Respondents' products containing Respondents' semiconductor devices and semiconductor device packages that infringe one or more of the three patents subject to the USITC Investigation.

Tessera, Broadcom and the Downstream Respondents settled the 1010 Investigation on December 18, 2017 and all claims have been dismissed.

Other Matters

In the ordinary course of business, we are a party to other claims and legal proceedings including matters relating to commercial, employee relations, business practices and intellectual property. We record a provision for contingent losses when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. As of December 31, 2017, provisions recorded for contingent losses related to other claims and matters have not been significant. Based on currently available information, management does not believe that any additional liabilities relating to other unresolved matters are probable or that the amount of any resulting loss is estimable, and believes these other matters are not likely, individually and in the aggregate, to have a material adverse effect on our financial position, results of operations or cash flows. However, litigation is subject to inherent uncertainties and our view of these matters may change in the future. Were an unfavorable outcome to occur, there exists the possibility of a material adverse impact on our financial position, results of operations or cash flows for the period in which the unfavorable outcome occurs, and potentially in future periods.

6. Equity Award Plan Activities

2014 Equity Incentive Plan

In April 2014, the board of directors and stockholders approved the 2014 Equity Incentive Plan (the "2014 Plan"), effective on the first day that our common stock was publicly traded. Our board of directors has terminated the 2004 and 2011 equity plans as to future grants. However, these plans will continue to govern the terms and conditions of the outstanding options previously granted thereunder.

Awards granted under the 2014 Plan could be in the form of Incentive Stock Options ("ISOs"), Nonstatutory Stock Options ("NSOs"), Restricted Stock Awards ("RSAs"), Stock Appreciation Rights ("SARs") or Restricted Stock Units ("RSUs"). The number of shares available for grant and issuance under the 2014 Plan increases automatically on January 1 of each year commencing with 2016 by the number of shares equal to 3% of the outstanding shares of our common stock on the immediately preceding December 31, but not to exceed 12,500,000 shares, unless the board of directors, in its discretion, determines to make a smaller increase. As of December 31, 2017, there remained approximately 22.1 million shares available for issuance under the 2014 Plan.

On February 12, 2018, our board of directors authorized an increase to the shares available for issuance under the 2014 Plan of 3% of the total shares of common stock outstanding on December 31, 2017 effective January 1, 2018. The increase amounted to 2,211,176 shares.

2014 Employee Stock Purchase Plan

In April 2014, the board of directors and stockholders approved the 2014 Employee Stock Purchase Plan (the "ESPP"). The ESPP became effective on the first day that our common stock was publicly traded. The number of shares reserved for issuance under the ESPP increases automatically on January 1 of each year by the number of shares equal to 1% of our shares outstanding immediately preceding December 31, but not to exceed 2,500,000 shares, unless the board of directors, in its discretion, determines to make a smaller increase.

Under our 2014 ESPP eligible employees are permitted 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. Each offering period will be approximately two years starting on the first trading date after February 15 and August 15 of each year. Participants may purchase shares of common stock through payroll deductions up to 10% of their eligible compensation, subject to Internal Revenue Service mandated purchase limits. As of December 31, 2017, there remained 1,987,039 shares available for issuance under the ESPP.

On February 12, 2018, our board of directors authorized an increase to shares available for issuance under the ESPP of 1% of the total shares outstanding on December 31, 2017 effective January 1, 2018. The increase amounted to 737,058 shares.

Stock Option Activities

The following table summarizes the option activity under our stock plans and related information (in thousands, except years and per share amounts):

	Options Outstanding			
	Number of Shares Underlying Outstanding Options	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Term (Years) of Stock Options	Aggregate Intrinsic Value of Stock Options Outstanding
Balance—December 31, 2016	9,509	$ 28.79	6.9	$ 646,394
Options granted	170	96.60		
Options exercised	(2,260)	19.73		
Options canceled or expired	(395)	34.04		
Balance—December 31, 2017	7,024	$ 33.05	6.1	$ 1,422,637
Vested and exercisable—December 31, 2017	2,992	$ 20.70	5.4	$ 643,012
Vested and expected to vest—December 31, 2017	7,024	$ 33.05	6.1	$ 1,422,637

The weighted-average grant-date fair value of options granted during the year ended December 31, 2017, 2016 and 2015 was $40.17, $23.66 and $29.20 per share, respectively. The aggregate intrinsic value of options exercised during the year ended December 31, 2017, 2016 and 2015 was $307.7 million, $147.6 million and $152.4 million.

Restricted Stock Unit (RSU) Activities

A summary of the activity under our 2014 Plan and changes during the reporting period and a summary of information related to RSUs are presented below (in thousands, except years and per share amounts):

	Number of Shares	Weighted-Average Grant Date Fair Value Per Share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Unvested balance—December 31, 2016	1,375	$ 74.23	1.8	$ 133,081
RSUs granted	712	141.97		
RSUs vested	(456)	77.33		
RSUs forfeited/canceled	(94)	80.58		
Unvested balance—December 31, 2017	1,537	$ 104.29	1.6	$ 362,119

Employee Stock Purchase Plan Activities

During the year ended December 31, 2017, we issued 204,918 shares at an average purchase price of $61.15 under our ESPP. Shares available for future issuance under our ESPP, subsequent to the increase authorized by our board of directors, are approximately 2.7 million.

Shares Available for Grant

The following table presents the stock activity and the total number of shares available for grant as of December 31, 2017 (in thousands):

	Number of Shares
Balance—December 31, 2016	11,754
Authorized	2,124
Options granted	(170)
RSUs granted	(712)
Options canceled, expired or repurchased	399
RSUs forfeited	94
Shares traded for taxes	23
Balance—December 31, 2017	13,512

Stock-Based Compensation Expense

Total stock-based compensation expense related to options, RSAs, ESPP and RSUs granted were charged to the department to which the associated employee reported as follow (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Cost of revenue	$ 4,353	$ 3,620	$ 3,048
Research and development	42,184	31,892	25,515
Sales and marketing	17,953	15,666	11,454
General and administrative	10,937	7,854	5,286
Total stock-based compensation	$ 75,427	$ 59,032	$ 45,303

Determination of Fair Value

We record stock-based compensation awards based on fair value as of the grant date. We value RSUs at the market close price of our common stock on the date of grant. For option awards and ESPP offerings we use the Black-Scholes option pricing model to determine fair value. We recognize such costs as compensation expense generally on a straight-line basis over the requisite service period of the award.

Stock Options

For the years ended December 31, 2017, 2016 and 2015, the fair value of each stock option granted under our plans was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Year Ended December 31,		
	2017	2016	2015
Expected term (in years)	6.3	6.7	6.2
Risk-free interest rate	2.1%	1.5%	1.6%
Expected volatility	38.9%	38.9%	42.9%
Dividend rate	—%	—%	—%

As of December 31, 2017, the total unrecognized stock-based compensation expense for unvested stock options was $67.6 million, which is expected to be recognized over a weighted-average period of 3.6 years. The total fair value of options vested for the year ended December 31, 2017, 2016 and 2015 was approximately $30.7 million, $28.6 million and $22.8 million.

As of December 31, 2017, there was $147.3 million of unrecognized stock-based compensation expense related to unvested RSUs. This amount is expected to be recognized over a weighted-average period of 3.4 years. The total fair value of RSUs vested for the year ended December 31, 2017 was approximately $35.4 million.

ESPP

The following table summarizes the assumptions relating to our ESPP:

	Year Ended December 31,		
	2017	2016	2015
Expected term (in years)	1.2	1.2	1.4
Risk-free interest rate	1.1%	0.6%	0.3%
Expected volatility	31.7%	31.8%	34.8%
Dividend rate	—%	—%	—%

As of December 31, 2017, total unrecognized stock-based compensation expense related to unvested ESPP options was $1.8 million, which is expected to be recognized over a weighted-average period of 1.2 years.

7. Net Income Per Share Available to Common Stock

The following table sets forth the computation of our basic and diluted net income per share available to common stock (in thousands, except per share amounts):

	Year Ended December 31,		
	2017	2016	2015
Numerator:			
Basic:			
Net income	$ 423,201	$ 184,189	$ 121,102
Less: undistributed earnings allocated to participating securities	(801)	(1,224)	(1,987)
Net income available to common stockholders, basic	$ 422,400	$ 182,965	$ 119,115
Diluted:			
Net income attributable to common stockholders, basic	$ 422,400	$ 182,965	$ 119,115
Add: undistributed earnings allocated to participating securities	68	74	149
Net income attributable to common stockholders, diluted	$ 422,468	$ 183,039	$ 119,264
Denominator:			
Basic:			
Weighted-average shares used in computing net income per share available to common stockholders, basic	72,258	68,771	65,964
Diluted:			
Weighted-average shares used in computing net income per share available to common stockholders, basic	72,258	68,771	65,964
Add weighted-average effect of dilutive securities:			
Stock options, RSUs and RSAs	6,599	4,408	5,363
Employee stock purchase plan	120	43	84
Weighted-average shares used in computing net income per share available to common stockholders, diluted	78,977	73,222	71,411
Net income per share attributable to common stockholders:			
Basic	$ 5.85	$ 2.66	$ 1.81
Diluted	$ 5.35	$ 2.50	$ 1.67

The following weighted-average outstanding shares of common stock equivalents were excluded from the computation of diluted net income per share available to common stockholders for the periods presented because including them would have been anti-dilutive (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Stock options and RSUs to purchase common stock	58	2,594	2,427

8. Income Taxes

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

	Year Ended December 31,		
	2017	2016	2015
Domestic	$ 373,221	$ 196,202	$ 129,240
Foreign	101,539	46,023	16,769
Income before provision for income taxes	$ 474,760	$ 242,225	$ 146,009

The components of the provision for income taxes are as follows (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Current provision for income taxes:			
Federal	$ 36,862	$ 67,253	$ 43,706
State	3,645	10,529	5,500
Foreign	2,395	2,016	1,588
Total current	42,902	79,798	50,794
Deferred taxes:			
Federal	12,795	(18,579)	(23,896)
State	(3,404)	(3,564)	(2,300)
Foreign	(734)	381	309
Total deferred	8,657	(21,762)	(25,887)
Total provision for income taxes	$ 51,559	$ 58,036	$ 24,907

The reconciliation of the statutory federal income tax and our effective income tax is as follows:

	Year Ended December 31,		
	2017	2016	2015
U.S. federal statutory income tax	35.00%	35.00%	35.00%
State tax, net of federal benefit	(1.70)	(0.03)	(1.35)
Foreign tax differential	(7.62)	(3.24)	(2.16)
Tax credits	(3.84)	(4.24)	(6.72)
Change in valuation allowance	1.95	1.71	2.84
Permanent items	(1.10)	(1.02)	(1.32)
Uncertain tax positions and associated interest	0.77	(1.46)	(3.95)
Stock-based compensation	(23.74)	(2.81)	(5.29)
Tax Cuts and Jobs Act	11.14	—	—
Other, net	—	0.05	0.01
Total provision for income taxes	10.86%	23.96%	17.06%

We have operations and a taxable presence in numerous jurisdictions outside the U.S. In 2017, all of these countries have a lower tax rate than the U.S. The significant jurisdictions in which we have a presence include Cayman Islands, Ireland, and the United Kingdom.

The large increase in the stock-based compensation benefit in the current year is due to the recognition of excess tax benefits generated from stock awards as a component of the provision for income taxes attributable

to the adoption of ASU 2016-09 in the first fiscal quarter of 2017. Prior to the adoption, these benefits were recorded as a component of shareholders' equity.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 35 percent to 21 percent; (2) requiring companies to pay a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries; (3) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries; (4) requiring a current inclusion in U.S. federal taxable income of certain earnings of controlled foreign corporations; and (5) creating the base erosion anti-abuse tax ("BEAT"), a new minimum tax.

As of December 31, 2017, we had not yet completed our accounting for the tax effects of the enactment of the Tax Act. However, for the amounts that we were able to reasonably estimate, we recognized a provisional tax amount of $51.8 million, which consisted of the following:

- $18.8 million for the transition tax liability. We have not yet completed the calculation of the total post-1986 foreign earnings and profit ("E&P") and the income tax pools for all foreign subsidiaries. Further, the transition tax is based in part on the amount of those earnings held in cash and other specified assets. This amount may change when we finalize the calculation of post-1986 foreign E&P previously deferred from U.S. federal and state governments and regulatory organizations, which may result in a change to the provisional tax liability.
- $33.0 million to re-measure certain deferred tax assets and liabilities, based on the rates at which they are expected to reverse in the future. We are still analyzing certain aspects of the Tax Act and refining the estimate of the expected reversal of our deferred tax balances. This can potentially affect the measurement of these balances and potentially result in a change to the provisional amount.

The Tax Act also includes provisions for Global Intangible Low-Taxed Income ("GILTI") wherein taxes on foreign income are imposed in excess of a deemed return on tangible assets of foreign corporations. This income will effectively be taxed at a 10.5% tax rate in general. As a result, our deferred tax assets and liabilities are being evaluated to determine if they should be recognized for the basis differences expected to reverse as a result of GILTI provisions that are effective for us after the calendar year ending December 31, 2017, or whether the tax on GILTI provisions be recognized in the period the Tax Act was signed into law. Because of the complexity of the new provisions, we are continuing to evaluate how the provisions will be accounted for under the U.S. generally accepted accounting principles wherein companies are allowed to make an accounting policy election of either (i) account for GILTI as a component of tax expense in the period in which we are subject to the rules (the "period cost method"), or (ii) account for GILTI in our measurement of deferred taxes (the "deferred method"). Currently, we have not elected a method and will only do so after our completion of the analysis of the GILTI provisions and our election method will depend, in part, on analyzing our global income to determine whether we expect to have future U.S. inclusions in our taxable income related to GILTI and, if so, the impact that is expected.

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

	December 31,	
	2017	2016
Deferred tax assets:		
Property and equipment	$ 1,942	$ 473
Stock-based compensation	22,050	23,071
Reserves and accruals not currently deductible	41,024	49,436
Net operating losses	2,432	1,140
Tax credits	30,831	15,015
Other	2,115	194
Gross deferred tax assets	100,394	89,329
Valuation allowance	(35,132)	(16,894)
Total deferred tax assets	65,262	72,435
Deferred tax liabilities:		
Property and equipment	—	(198)
Accrued liabilities	(2,006)	(2,555)
Other	(9)	(3)
Total deferred tax liabilities	(2,015)	(2,756)
Net deferred tax assets	$ 63,247	$ 69,679

The following table presents the breakdown between non-current deferred tax assets and liabilities (in thousands):

	December 31,	
	2017	2016
Deferred tax assets, non-current	$ 65,125	$ 70,960
Deferred tax liabilities, non-current	(1,878)	(1,281)
Total net deferred tax assets	$ 63,247	$69,679

Recognition of deferred tax assets is appropriate when realization of these assets is more likely than not. We believe that all of the deferred tax assets were realizable with the exception of California and Canada deferred tax assets. Therefore, a valuation allowance of $35.1 million and $16.9 million was recorded as of December 31, 2017 and 2016, respectively, against the California and Canadian deferred tax assets as it was not more likely than not that these assets will be recognized. The net valuation allowance increased by $18.2 million and $4.2 million as of December 31, 2017 and 2016, respectively.

As of December 31, 2017, we had no net operating loss carryforwards for federal and state income tax purposes. For foreign jurisdictions, we had combined foreign net operating loss carryforwards of $12.8 million which do not expire.

As of December 31, 2017, we had U.S. federal credit carryforwards of $0.2 million, which begin to expire in 2038. We had state credit carryforwards of $59.5 million, which can be carried over indefinitely. For foreign jurisdictions, we had $1.2 million of Canadian scientific research and experimental development tax credit carry-forwards, which begin to expire in 2034.

Utilization of the net operating losses and tax credit carryforwards may be subject to limitations due to ownership changes limitations provided in the Internal Revenue code and similar state or foreign provisions. In all years up to December 31, 2017, such limitations had no impact to our deferred tax assets.

Our policy with respect to our undistributed foreign subsidiaries earnings is to consider those earnings to be indefinitely reinvested. As discussed above the Tax Act required a one-time transition tax on previously untaxed accumulated and current E&P. Correspondingly, all undistributed earnings were deemed to be taxed in the current year and distribution of the unremitted earnings will not have any significant U.S. federal and state income tax impact. We are still in process of assessing our cash needs and the associated state and foreign income tax effects of ultimate cash repatriation. As of December 31, 2017, 2016 and 2015, the undistributed earnings approximated $82.3 million, $36.4 million and $16.4 million, respectively. The determination of the future tax consequences of the remittance of these earnings is not practicable.

Uncertain Tax Positions

We recognize uncertain tax positions only to the extent that management believes that it is more likely than not the position will be sustained. The reconciliation of the beginning and ending amount of gross unrecognized tax benefits as of December 31, 2017, 2016 and 2015 was as follows (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Gross unrecognized tax benefits—beginning balance	$ 26,915	$ 22,239	$ 21,322
Increases related to tax positions taken in a prior year	1,243	46	346
Increases related to tax positions taken during current year	22,202	11,359	7,385
Decreases related to tax positions taken in a prior year	(21)	(426)	(228)
Decreases related to settlements with taxing authorities	—	(432)	—
Decreases related to lapse of statute of limitations	(1,504)	(5,871)	(6,586)
Gross unrecognized tax benefits—ending balance	$ 48,835	$ 26,915	$ 22,239

As of December 31, 2017, 2016 and 2015, the total amount of gross unrecognized tax benefits was $48.8 million, $26.9 million and $22.2 million of which $23.5 million, $13.9 million and $13.0 million would affect our effective tax rate if recognized, respectively.

Our policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. We have recorded a net expense for interest and penalties of $0.4 million and a net benefit of $0.5 million in the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, we recognized a liability for interest and penalties of $1.0 million and $0.6 million, respectively.

We have been selected for examination by the Internal Revenue Service ("IRS") for our 2014 tax year. It is difficult to determine when the examinations will be settled or their final outcomes in the foreseeable future. We believe that we have adequately provided reserves for any reasonably foreseeable adjustment to our tax returns.

The statute of limitations for Federal remains open for 2014 and forward. Because of the net operating loss and tax credit carryforwards, all tax years remain open to state tax examination. The majority of our foreign tax returns are open to audit under the statute of limitations of the respective foreign countries, in which the subsidiaries are located. It is possible that the amount of existing unrecognized tax benefits may decrease within the next 12 months as a result of statute of limitation lapses in some of the jurisdictions and the settlement of the aforementioned IRS examination, however, an estimate of the range cannot be made.

9. Segment Information

We have determined that we operate as one reportable segment. The following table represents revenue based on the customer's location, as determined by the customer's shipping address (in thousands):

	Year Ended December 31,		
	2017	2016	2015
United States	$ 1,174,705	$ 862,352	$ 634,413
Other Americas	17,584	12,388	12,506
Europe, Middle East and Africa	299,547	168,789	128,400
Asia Pacific	154,350	85,638	62,272
Total revenue	$ 1,646,186	$ 1,129,167	$ 837,591

Long lived assets, excluding intercompany receivables, investments in subsidiaries, privately held equity investments and deferred tax assets, net by location are summarized as follows (in thousands):

	December 31,	
	2017	2016
United States	$ 69,128	$ 69,352
International	5,151	7,609
Total	$ 74,279	$ 76,961

10. Post-Employment Benefits

We have a 401(k) Plan that covers substantially all of our employees in the U.S. Effective January 1, 2017, we have elected to match 100% of employees' contributions up to a maximum of 3% of an employee's annual salary. Matching contributions will be immediately vested. For the year ended December 31, 2017, we contributed approximately $3.5 million for the matching contributions. For the years ended December 31, 2016 and 2015, we did not provide a discretionary company match to employee contributions.

11. Selected Quarterly Financial Information (Unaudited)

The following table sets forth selected unaudited quarterly consolidated statements of income data for each of the quarters in the years ended December 31, 2017 and 2016:

	Three Months Ended							
	Dec. 31, 2017	Sep. 30, 2017	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sep. 30, 2016	Jun. 30, 2016	Mar. 31, 2016
	(in thousands)							
Revenue:								
Product	$ 407,195	$ 380,344	$ 353,904	$ 291,367	$ 289,008	$ 254,238	$ 235,616	$ 212,475
Service	60,672	57,289	51,307	44,108	38,961	36,023	33,125	29,721
Total revenue	467,867	437,633	405,211	335,475	327,969	290,261	268,741	242,196
Cost of revenue:								
Product	147,919	145,874	134,406	109,836	108,057	94,777	88,021	78,913
Service	12,783	11,142	11,028	11,429	9,757	9,064	9,269	8,193
Total cost of revenue	160,702	157,016	145,434	121,265	117,814	103,841	97,290	87,106
Gross profit	307,165	280,617	259,777	214,210	210,155	186,420	171,451	155,090
Operating expenses:								
Research and development	107,180	79,610	81,194	81,610	71,398	70,648	69,020	62,515
Sales and marketing	38,808	40,640	38,630	37,027	38,321	33,216	31,744	27,606
General and administrative	21,789	19,535	23,319	22,155	22,941	19,535	17,529	15,234
Total operating expenses	167,777	139,785	143,143	140,792	132,660	123,399	118,293	105,355
Income from operations	139,388	140,832	116,634	73,418	77,495	63,021	53,158	49,735
Other income (expense), net:								
Interest expense	(741)	(701)	(623)	(715)	(918)	(735)	(732)	(751)
Other income (expense), net	2,988	2,136	1,119	1,025	560	639	416	337
Total other income (expense), net	2,247	1,435	496	310	(358)	(96)	(316)	(414)
Income before income taxes	141,635	142,267	117,130	73,728	77,137	62,925	52,842	49,321
Provision for (benefit from) income taxes [(1)]	37,802	8,545	14,445	(9,233)	18,354	11,668	13,938	14,076
Net income	$ 103,833	$ 133,722	$ 102,685	$ 82,961	$ 58,783	$ 51,257	$ 38,904	$ 35,245
Net income per share attributable to common stockholders:								
Basic	$ 1.42	$ 1.84	$ 1.42	$ 1.16	$ 0.84	$ 0.74	$ 0.57	$ 0.52
Diluted	$ 1.29	$ 1.68	$ 1.30	$ 1.07	$ 0.79	$ 0.69	$ 0.53	$ 0.48

(1) Provision for (benefit from) income taxes for the first, second, third and fourth quarter of 2017 included an excess tax benefits of $28.8 million, $19.1 million, $23.8 million and $38.3 million, respectively, resulting from the adoption of ASU 2016-09. In addition, provision for income taxes for the fourth quarter of 2017 included a provisional amount of $51.8 million in connection with the Tax Act enacted on December 22, 2017. See Note 8 for details.

Item 9. Change in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Management, with the participation of our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2017. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a 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 its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Based on the evaluation of our disclosure controls and procedures as of December 31, 2017, our CEO and CFO 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 Securities and Exchange Commission (SEC) rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Securities and Exchange Act of 1934, as amended, that occurred during the year ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations of Internal Controls

Our management, including our CEO and CFO, does not expect that our disclosure controls and procedures or our internal controls over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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 Securities Exchange Act of 1934. Our internal control over financial reporting is a process designed under the supervision of our principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the Consolidated Financial Statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2017, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework (2013 framework). Based on that assessment, management concluded that, as of December 31, 2017, our internal control over financial reporting was effective.

The effectiveness of our internal control over financial reporting as of December 31, 2017, has been audited by Ernst & Young LLP, the independent registered public accounting firm that audits our Consolidated Financial Statements, as stated in their report included in Item 8 of this Annual Report on Form 10-K, which expresses an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2017.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers, and Corporate Governance

Information required by this Item is incorporated herein by reference to our definitive proxy statement with respect to our 2018 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 11. Executive Compensation

Information required by this Item is incorporated herein by reference to our definitive proxy statement with respect to our 2018 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

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

Information required by this Item is incorporated herein by reference to our definitive proxy statement with respect to our 2018 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 13. Certain Relationships and Related Transactions and Director Independence

Information required by this Item is incorporated herein by reference to our definitive proxy statement with respect to our 2018 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 14. Principal Accountant Fees and Services

Information required by this Item is incorporated herein by reference to our definitive proxy statement with respect to our 2018 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

PART IV

Item 15. Exhibits and Financial Statement Schedules

Documents filed as part of this Annual Report on Form 10-K are as follows:

1. Consolidated Financial Statements

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

2. Financial Statement Schedules

   Financial statement schedules have been omitted because they are not required, not applicable, not present in amounts sufficient to require submission of the schedule, or the required information is shown in the Consolidated Financial Statements or Notes thereto.

3. Exhibits

   The documents required to be filed by Item 601 of Regulation S-K.

Item 16. Form 10-K Summary

None.

SIGNATURES

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

Arista Networks, Inc.
(Registrant)

Dated: February 16, 2018 By: /s/ JAYSHREE ULLAL

Jayshree Ullal
President, Chief Executive Officer and Director
(Principal Executive Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Jayshree Ullal and Ita Brennan, jointly and severally, his or her attorney-in-fact, with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Annual Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his or her substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ JAYSHREE ULLAL **Jayshree Ullal**	President, Chief Executive Officer and Director (Principal Executive Officer)	February 16, 2018
/s/ ITA BRENNAN **Ita Brennan**	Chief Financial Officer (Principal Accounting and Financial Officer)	February 16, 2018
/s/ ANDY BECHTOLSHEIM **Andy Bechtolsheim**	Founder, Chief Development Officer and Director	February 16, 2018
/s/ CHARLES GIANCARLO **Charles Giancarlo**	Director	February 16, 2018
/s/ ANN MATHER **Ann Mather**	Director	February 16, 2018
/s/ DAN SCHEINMAN **Dan Scheinman**	Director	February 16, 2018
/s/ MARK TEMPLETON **Mark Templeton**	Director	February 16, 2018
/s/ NIKOS THEODOSOPOULOS **Nikos Theodosopoulos**	Director	February 16, 2018

EXHIBIT INDEX

Exhibit Number	Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
3.1	Amended and Restated Certificate of Incorporation of the Registrant.	10-Q	001-36468	3.1	8/8/2014	
3.2	Bylaws of the Registrant.	10-Q	001-36468	3.2	8/8/2014	
4.1	Form of the Registrant's common stock certificate.	S-1/A	333-194899	4.1	4/21/2014	
4.2	Investors' Rights Agreement, dated October 16, 2004, between Registrant and certain holders of Registrant's capital stock named therein.	S-1	333-194899	4.2	3/31/2014	
4.3	Investors' Rights Agreement, dated January 4, 2011, between Registrant and certain holders of Registrant's capital stock named therein.	S-1	333-194899	4.3	3/31/2014	
10.1	Form of Indemnification Agreement between the Registrant and each of its directors and executive officers.	S-1/A	333-194899	10.1	5/2/2014	
10.2 †	2004 Equity Incentive Plan.	S-1	333-194899	10.2	3/31/2014	
10.3 †	2011 Equity Incentive Plan.	S-1	333-194899	10.3	3/31/2014	
10.4 †	2014 Equity Incentive Plan.	S-1/A	333-194899	10.4	5/27/2014	
10.5 †	2014 Employee Stock Purchase Plan.	10-K	001-36468	10.5	3/12/2015	
10.6 †	Offer Letter, dated October 17, 2004, by and between the Registrant and Kenneth Duda.	S-1	333-194899	10.6	3/31/2014	
10.7 †	Offer Letter, dated June 8, 2007, by and between the Registrant and Anshul Sadana.	S-1	333-194899	10.7	3/31/2014	
10.8 †	Offer Letter, dated August 1, 2008, by and between the Registrant and Jayshree Ullal.	S-1	333-194899	10.8	3/31/2014	
10.9 †	Offer Letter, dated March 27, 2013, by and between the Registrant and Charles Giancarlo.	S-1	333-194899	10.9	3/31/2014	
10.10 †	Offer Letter, dated June 3, 2013, by and between the Registrant and Ann Mather.	S-1	333-194899	10.10	3/31/2014	
10.12	Lease between Arista Networks, Inc. and The Irvine Company LLC, dated August 10, 2012, as amended on February 28, 2013.	S-1	333-194899	10.15	3/31/2014	
10.13	Second Amendment to Lease, by and between Arista Networks, Inc. and The Irvine Company LLC, dated July 30, 2014.	10-Q	001-36468	10.1	8/8/2014	
10.14	License Agreement, dated November 30, 2004, by and between the Registrant and Optumsoft, Inc.	S-1	333-194899	10.16	3/31/2014	
10.15‡	Manufacturing Services Letter Agreement, dated February 5, 2007, between the Registrant and Jabil Circuit, Inc.	S-1	333-194899	10.17	3/31/2014	
10.16 †	Employee Incentive Plan.	S-1/A	333-194899	10.21	4/21/2014	
10.17 †	Offer Letter, dated May 18, 2015, by and between the Registrant and Ita Brennan.	8-K	001-36468	10.1	5/14/2015	
10.18 †	Severance Agreement, effective May 18, 2015, by and between the Registrant and Ita Brennan.	8-K	001-36468	10.2	5/14/2015	
10.20 †	2015 Global Sales Incentive Plan.	10-Q	001-36468	10.3	5/5/2016	
10.21 ‡	Amended and Restated Manufacturing Services Agreement, dated February 18, 2016, between the Registrant and Sanmina Corporation.	10-Q	001-36468	10.1	11/3/2016	
10.22 †	Offer letter, dated January 2, 2013, by and between the Registrant and Marc Taxay.	10-Q	001-36468	10.1	5/8/2017	

Exhibit Number	Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.23 †	Severance Agreement, dated March 30, 2015, by and between the Registrant and Marc Taxay.	10-Q	001-36468	10.2	5/8/2017	
10.24 †	Offer letter, dated February 14, 2017, by and between the Registrant and John McCool.	10-Q	001-36468	10.3	5/8/2017	
10.25 †	Severance Agreement, dated March 20, 2017, by and between the Registrant and John McCool.	10-Q	001-36468	10.4	5/8/2017	
21.1	List of Subsidiaries of the Registrant.					✓
23.1	Consent of Independent Registered Public Accounting Firm.					✓
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					✓
31.2	Certification of the Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.					✓
32.1*	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.					✓
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 or arrangement.

‡ Confidential treatment has been requested for portions of this exhibit. These portions have been omitted and have been filed separately with the Securities and Exchange Commission.

* The certifications attached as Exhibit 32.1 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 Arista 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.

ARISTA

www.arista.com

News and information about Arista Networks products and technologies, customer support, careers, worldwide locations, and more.

investors.arista.com

Stock information, earnings and conference webcasts, annual reports, and corporate governance and historical financial information.