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

FORM 10-Q

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

For the quarterly period ended January 31, 2014

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: 001-33347

Aruba Networks, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**02-0579097**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**

1344 Crossman Ave.
Sunnyvale, California 94089-1113
(408) 227-4500
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

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

The number of outstanding shares of the registrant's common stock was 106,769,787 as of March 3, 2014.

ARUBA NETWORKS, INC.
FORM 10-Q
QUARTER ENDED JANUARY 31, 2014

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

ARUBA NETWORKS, INC.
CONSOLIDATED BALANCE SHEETS
(unaudited)

	January 31, 2014	July 31, 2013
	(in thousands, except per share amounts)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 110,562	$ 144,919
Short-term investments	167,689	269,882
Accounts receivable, net of allowance for doubtful accounts of $276 and $805 as of January 31, 2014 and July 31, 2013, respectively	82,152	93,191
Inventory	37,409	28,895
Deferred cost of revenue	16,726	12,657
Prepaids and other current assets	18,869	20,090
Deferred income tax assets, current	22,693	29,076
Total current assets	456,100	598,710
Property and equipment, net	27,432	27,536
Goodwill	67,242	67,242
Intangible assets, net	22,189	26,937
Deferred income tax assets, non-current	20,152	19,788
Other non-current assets	8,588	6,530
Total assets	$ 601,703	$ 746,743
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 17,335	$ 24,891
Accrued liabilities	72,634	94,632
Income taxes payable, current	869	662
Deferred revenue, current	132,953	109,765
Total current liabilities	223,791	229,950
Deferred revenue, non-current	42,418	31,578
Other non-current liabilities	10,745	8,990
Total liabilities	276,954	270,518
Commitments and contingencies (Note 12)		
Stockholders' equity		
Common stock: $0.0001 par value; 350,000 shares authorized; 106,485 and 113,409 shares issued and outstanding at January 31, 2014 and July 31, 2013, respectively	11	11
Additional paid-in capital	490,067	623,155
Accumulated other comprehensive loss	(1,400)	(1,540)
Accumulated deficit	(163,929)	(145,401)
Total stockholders' equity	324,749	476,225
Total liabilities and stockholders' equity	$ 601,703	$ 746,743

See Notes to Consolidated Financial Statements.

ARUBA NETWORKS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended January 31,		Six Months Ended January 31,	
	2014	2013	2014	2013
	(in thousands, except per share amounts)			
Revenue				
Product	$ 141,755	$ 130,901	$ 272,586	$ 250,123
Professional services and support	34,601	24,461	64,697	49,721
Total revenue	176,356	155,362	337,283	299,844
Cost of revenue				
Product	43,303	37,665	83,421	73,826
Professional services and support	10,050	6,991	18,483	12,948
Total cost of revenue	53,353	44,656	101,904	86,774
Gross profit	123,003	110,706	235,379	213,070
Operating expenses				
Research and development	42,585	34,688	83,030	66,651
Sales and marketing	69,569	57,398	132,613	111,317
General and administrative	14,468	12,399	28,983	24,350
Total operating expenses	126,622	104,485	244,626	202,318
Operating income (loss)	(3,619)	6,221	(9,247)	10,752
Other income, net				
Interest income	217	293	478	609
Other income (expense), net	(80)	978	190	1,254
Total other income, net	137	1,271	668	1,863
Income (loss) before income taxes	(3,482)	7,492	(8,579)	12,615
Provision for income taxes	7,219	2,502	9,949	8,451
Net income (loss)	$ (10,701)	$ 4,990	$ (18,528)	$ 4,164
Shares used in computing net income (loss) per common share, basic	107,153	112,584	109,608	112,280
Net income (loss) per common share, basic	$ (0.10)	$ 0.04	$ (0.17)	$ 0.04
Shares used in computing net income (loss) per common share, diluted	107,153	123,270	109,608	122,953
Net income (loss) per common share, diluted	$ (0.10)	$ 0.04	$ (0.17)	$ 0.03

See Notes to Consolidated Financial Statements.

ARUBA NETWORKS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(unaudited)

	Three Months Ended January 31,		Six Months Ended January 31,	
	2014	2013	2014	2013
	(in thousands)			
Net income (loss)	$ (10,701)	$ 4,990	$ (18,528)	$ 4,164
Other comprehensive income (loss), net of tax:				
Available-for-sale investments:				
Gross unrealized gains (losses)	57	(34)	205	(62)
Realized (gains) losses reclassified into earnings	(35)	—	(65)	—
Net change in unrealized gains (losses) on available-for-sale investments	22	(34)	140	(62)
Net change in cumulative translation adjustments	—	(8)	—	11
Other comprehensive income (loss)	22	(42)	140	(51)
Comprehensive income (loss)	$ (10,679)	$ 4,948	$ (18,388)	$ 4,113

See Notes to Consolidated Financial Statements.

ARUBA NETWORKS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Six Months Ended January 31,	
	2014	2013
	(in thousands)	
Cash flows from operating activities		
Net income (loss)	$ (18,528)	$ 4,164
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	14,250	10,859
Change in provision for doubtful accounts	(173)	183
Write-downs for excess and obsolete inventory	2,937	3,214
Stock-based compensation expense	56,163	47,595
Accretion of purchase discounts on short-term investments	1,129	535
Loss on disposal of fixed assets	232	—
Change in carrying value of contingent rights liability	—	(1,665)
Deferred income taxes	3,979	(1,056)
Excess tax benefit associated with stock-based compensation	(721)	(1,990)
Changes in operating assets and liabilities:		
Accounts receivable	11,212	9,877
Inventory	(11,451)	(12,021)
Prepaids and other current assets	2,373	(272)
Deferred cost of revenue	(4,069)	1,078
Other non-current assets	(2,058)	2,376
Accounts payable and other current and non-current liabilities	(36,284)	(55)
Deferred revenue	34,028	15,134
Income taxes payable	1,584	4,633
Net cash provided by operating activities	54,603	82,589
Cash flows from investing activities		
Purchases of short-term investments	(87,119)	(124,012)
Proceeds from sales of short-term investments	89,240	50,502
Proceeds from maturities of short-term investments	99,083	60,098
Purchases of property and equipment	(7,854)	(10,807)
Investments in privately-held companies	—	(1,500)
Net cash provided by (used in) investing activities	93,350	(25,719)
Cash flows from financing activities		
Proceeds from issuance of common stock	10,473	15,648
Repurchases of common stock under stock repurchase program	(193,504)	(30,511)
Excess tax benefit associated with stock-based compensation	721	1,990
Net cash used in financing activities	(182,310)	(12,873)
Effect of exchange rate changes on cash and cash equivalents	—	19
Net increase (decrease) in cash and cash equivalents	(34,357)	44,016
Cash and cash equivalents, beginning of period	144,919	133,629
Cash and cash equivalents, end of period	$ 110,562	$ 177,645
Supplemental disclosure of cash flow information		
Income taxes paid	$ 3,046	$ 2,134
Non-cash investing and financing activities:		
Unpaid purchases of property and equipment, end of period	$ 891	$ —

See Notes to Consolidated Financial Statements.

1. The Company and its Significant Accounting Policies

The Company

Aruba Networks, Inc. (the "Company"), incorporated in the state of Delaware on February 11, 2002, is a leading global provider of enterprise mobility solutions. The Company's Mobile Virtual Enterprise ("MOVE") architecture leverages its diverse products (including its Aruba Operating System ("AOS"), controllers, wireless access points, switches, application software modules, access management solution, and multi-vendor management solution software) to unify wired and wireless network infrastructures into one seamless access solution for its customers, enabling them to provide network access to traveling business professionals, remote workers, employees and guests of branch offices and corporate headquarters. The Company derives its revenue from sales of its AOS operating system, controllers, wireless access points, switches, application software modules, access management solution, multi-vendor management solution software, and professional services and support. The Company has offices in the Americas, Europe, the Middle East and Africa ("EMEA"), and Asia Pacific ("APAC") regions and employs staff around the world.

Basis of Presentation

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with United States of America ("U.S.") generally accepted accounting principles ("GAAP") for interim financial information, pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the financial information and footnotes required by GAAP for complete financial statements. The accompanying Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances, transactions and cash flows have been eliminated. The July 31, 2013 Consolidated Balance Sheet data was derived from audited financial statements but do not include all disclosures required by U.S. GAAP.

The unaudited Consolidated Financial Statements have been prepared on the same basis as the Company's audited financial statements as of and for the year ended July 31, 2013 and include all adjustments necessary for the fair statement of the Company's financial position as of January 31, 2014; the results of operations and statements of comprehensive income for the three and six months ended January 31, 2014 and 2013; and the statements of cash flows for the six months ended January 31, 2014 and 2013. The results of operations for the three and six months ended January 31, 2014 are not necessarily indicative of the operating results for any subsequent quarter, for the fiscal year ending July 31, 2014 or any future periods.

The accompanying statements are unaudited and should be read in conjunction with the audited Consolidated Financial Statements and related notes contained in the Company's Annual Report on Form 10-K filed with the SEC on September 24, 2013.

Significant Accounting Policies

There have been no significant changes in the Company's accounting policies for the second quarter and first half of fiscal 2014, as compared to the significant accounting policies described in the Company's Annual Report on Form 10-K for the year ended July 31, 2013.

Recent Accounting Pronouncements

In June 2013, the Financial Accounting Standards Board ("FASB") issued guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists, with the purpose of reducing diversity in practice. This new standard requires the netting of unrecognized tax benefits ("UTBs") against a deferred tax asset for a loss or other carryforward that would apply in settlement of the uncertain tax positions. Accounting Standards Update ("ASU") 2013-11 is required for the Company's fiscal year beginning August 1, 2014. Early adoption is permitted. The Company will adopt ASU 2013-11 for the fiscal year beginning August 1, 2014. The Company expects that the impact of ASU 2013-11 will be to reduce its long-term tax liability for UTBs and reduce its deferred tax assets shown in the consolidated balance sheets.

2. Business Combinations

On May 13, 2013, the Company acquired Meridian Apps, Inc. ("Meridian"), a privately-held mobile-software company providing software for visitor engagement through indoor way-finding and targeted location-based messaging. As a result of the acquisition, Meridian became a wholly owned subsidiary of the Company. The Company is offering new indoor location-based services by combining its unique, network-based contextual information about users, devices and applications with Meridian's Wi-Fi based visitor engagement solution for smart phones and tablets.

The results of operations of Meridian are included in the Company's consolidated Statement of Operations from the date of acquisition. The Company does not consider the acquisition of Meridian to be material to its results of operations or financial position, and therefore, the Company is not presenting pro-forma financial information of combined operations.

The purchase price consideration was $16.8 million, consisting of cash consideration. In addition, the Company is obligated to pay additional cash compensation of up to $10.2 million to certain former Meridian employees who became employees of the Company, which will be made over a period of approximately three years from the closing date, subject to certain continued employment restrictions. For the second quarter and first half of fiscal 2014, the Company recorded $0.9 million and $1.8 million, respectively, in general and administrative expenses associated with this additional cash compensation.

In connection with this acquisition, the Company allocated the total purchase price consideration to the net assets and liabilities acquired, including identifiable intangible assets, based on their respective fair values at the acquisition date. The excess purchase price over the value of the net tangible and identifiable intangible assets was recorded as goodwill, which is not expected to be deductible for income tax purposes. There are a number of factors contributing to the amount of goodwill, including Meridian workforce and the expectation that the acquisition of Meridian will create synergies, which will provide future value to the Company.

The following table summarizes the allocation of the purchase price consideration:

	Amount	Estimated Useful Lives
	(in thousands)	
Purchase price consideration:		
Cash	$ 16,777	
Tangible assets acquired and liabilities assumed	$ (1,218)	
Identifiable intangible assets:		
Existing technology	5,000	3 years
Patent	2,000	11 years
Customer contracts and related relationships	300	4 years
Trade name and trademarks	400	4 years
Goodwill	10,295	
Total net assets acquired	$ 16,777	

3. Contingent Rights Liability Arising from Business Combinations

On September 2, 2010, the Company completed its acquisition of Azalea Networks ("Azalea") for a total purchase price of $42.0 million. As part of the purchase consideration for each share of the Company received by the Azalea shareholders, each Azalea shareholder also received a right ("Contingent Rights") to receive an amount of cash equal to the shortfall generated if a share was sold below the target value within the payment period, as specified in the arrangement. For shares not held in escrow, the payment period began on August 1, 2011 and ended on December 31, 2011. The Contingent Rights related to these shares were settled in cash of $1.9 million in January 2012. For shares held in escrow, the payment period began on the later of January 2, 2012 or the date such shares are released from escrow to the Azalea shareholders, if at all, and ending on the earlier of thirty calendar days following such release date or December 31, 2012. The rights related to the escrow shares are subject to forfeiture in certain circumstances. For shares held in escrow, the Company made claims against all of the escrow shares prior to the claim period expiration, which was April 1, 2012. Currently the escrow shares remain in escrow pending the resolution of the Company's claims.

At the acquisition date, the Company recorded a liability for the estimated fair value of the contingent rights of $9.5 million. The change in fair value of this contingent right was primarily driven by changes in the Company's common stock price. Gains and losses as a result of the revaluation of the contingent rights liability are included in other income, net in the Consolidated Statements of Operations.

During the second quarter of fiscal 2013, the Company released the contingent rights liability as a result of the payment period expiring on December 31, 2012, resulting in a $1.3 million gain recorded in other income (expense), net. For the second half of fiscal 2013, the Company recorded other income (expense), net, of $1.7 million consisting of a $0.4 million gain from revaluation of the contingent rights liability and a $1.3 million gain relating to the expiration of the payment period for the Contingent Rights. As a result of the expiration on the payment period on December 31, 2012, the contingent right liability did not have an impact during the second quarter and first half of fiscal 2014.

4. Goodwill and Intangible Assets

The following table presents details of the Company's goodwill:

	Amount
	(in thousands)
Balance at July 31, 2012	$ 56,947
Goodwill acquired in acquisition of Meridian	10,295
Balance at July 31, 2013	$ 67,242
Changes in goodwill	—
Balance at January 31, 2014	$ 67,242

The following table presents details of the Company's intangible assets:

	Estimated Useful Lives	Gross Value	Accumulated Amortization	Net Value
	(in thousands, except estimated useful lives)			
Balance at January 31, 2014				
Existing technology	3 to 7 years	$ 41,383	$ (24,757)	$ 16,626
Patents/core technology	4 to 11 years	9,046	(5,325)	3,721
Customer contracts	4 to 7 years	7,533	(6,177)	1,356
Support agreements	5 to 6 years	2,917	(2,822)	95
Tradenames/trademarks	1 to 5 years	1,150	(817)	333
Non-compete agreements	2 to 4 years	912	(854)	58
Total		$ 62,941	$ (40,752)	$ 22,189

	Estimated Useful Lives	Gross Value	Accumulated Amortization	Net Value
	(in thousands, except estimated useful lives)			
Balance at July 31, 2013				
Existing technology	3 to 7 years	$ 41,383	$ (21,269)	$ 20,114
Patents/core technology	4 to 11 years	9,046	(4,784)	4,262
Customer contracts	4 to 7 years	7,533	(5,537)	1,996
Support agreements	5 to 6 years	2,917	(2,805)	112
Tradenames/trademarks	1 to 5 years	1,150	(767)	383
Non-compete agreements	2 to 4 years	912	(842)	70
Total		$ 62,941	$ (36,004)	$ 26,937

Amortization expense related to intangible assets was recorded as follows in the Consolidated Statements of Operations:

	Three Months Ended January 31,		Six Months Ended January 31,	
	2014	2013	2014	2013
	(in thousands)			
Cost of product revenue	$ 2,025	$ 1,436	$ 4,030	$ 2,871
Cost of professional services and support revenue	—	135	—	270
Sales and marketing	353	344	706	684
Research and development	6	6	12	12
Total amortization expense	$ 2,384	$ 1,921	$ 4,748	$ 3,837

The following table presents the estimated future amortization expense of intangible assets as of January 31, 2014:

	Amount
	(in thousands)
Fiscal Year	
2014 (remaining six months)	$ 4,489
2015	8,485
2016	4,646
2017	1,835
2018	1,307
Thereafter	1,427
Total	$ 22,189

5. Net Income (Loss) Per Common Share

Basic net income (loss) per common share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per common share is calculated by giving effect to all potentially dilutive common shares, including stock options and awards, unless the result is anti-dilutive. The following tables set forth the computation of net income (loss) per share:

	Three Months Ended January 31,		Six Months Ended January 31,	
	2014	2013	2014	2013
	(in thousands, except per share amounts)			
Net income (loss)	$ (10,701)	$ 4,990	$ (18,528)	$ 4,164
Weighted-average common shares outstanding, basic	107,153	112,584	109,608	112,280
Dilutive effect of potential common shares	—	10,686	—	10,673
Weighted-average common shares outstanding, diluted	107,153	123,270	109,608	122,953
Net income (loss) per share, basic	$ (0.10)	$ 0.04	$ (0.17)	$ 0.04
Net income (loss) per share, diluted	$ (0.10)	$ 0.04	$ (0.17)	$ 0.03

The following outstanding stock options and awards were excluded from the computation of diluted net income (loss) per common share for the periods presented because including them would have had an anti-dilutive effect.

	Three Months Ended January 31,		Six Months Ended January 31,	
	2014	2013	2014	2013
	(in thousands)			
Options to purchase common stock	1,102	1,472	1,201	1,578
Restricted stock awards	1,345	2,171	1,295	2,053
Employee stock purchase plan	11	180	17	1

6. Short-Term Investments

Short-term investments consist of the following:

	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Balance at January 31, 2014				
Corporate bonds	$ 61,881	$ 90	$ (7)	$ 61,964
U.S. government agency securities	82,897	51	(1)	82,947
U.S. treasury bills	17,707	20	—	17,727
Commercial paper	1,994	3	—	1,997
Certificates of deposit	1,500	—	—	1,500
Municipal notes and bonds	1,554	—	—	1,554
Total short-term investments	$ 167,533	$ 164	$ (8)	$ 167,689

	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Balance at July 31, 2013				
Corporate bonds	$ 79,493	$ 29	$ (97)	$ 79,425
U.S. government agency securities	133,794	43	(11)	133,826
U.S. treasury bills	36,317	39	—	36,356
Commercial paper	13,672	3	—	13,675
Certificates of deposit	5,000	10	—	5,010
Municipal notes and bonds	1,590	—	—	1,590
Total short-term investments	$ 269,866	$ 124	$ (108)	$ 269,882

The cost basis and fair value of the short-term investments by contractual maturity are presented below:

	Cost Basis	Fair Value
	(in thousands)	
Balance at January 31, 2014		
One year or less	$ 83,663	$ 83,707
Over one year and less than two years	83,870	83,982
Total short-term investments	$ 167,533	$ 167,689

	Cost Basis	Fair Value
	(in thousands)	
Balance at July 31, 2013		
One year or less	$ 165,614	$ 165,682
Over one year and less than two years	104,252	104,200
Total short-term investments	$ 269,866	$ 269,882

The Company reviews the individual securities in its portfolio to determine whether a decline in a security's fair value below the amortized cost basis is other-than-temporary. The Company determined that as of January 31, 2014 and July 31, 2013 there were no investments in its portfolio that were other-than-temporarily impaired.

The following table summarizes the fair value and gross unrealized losses of the Company's investments with unrealized losses aggregated by type of investment instrument and the length of time that individual securities have been in a continuous unrealized loss position:

	Less than 12 Months	
	Fair Value	Unrealized Loss
	(in thousands)	
Balance at January 31, 2014		
Corporate bonds	$ 16,044	$ (7)
U.S. government agency securities	10,031	(1)
	$ 26,075	$ (8)

	Less than 12 Months	
	Fair Value	Unrealized Loss
	(in thousands)	
Balance at July 31, 2013		
Corporate bonds	$ 51,850	$ (97)
U.S. government agency securities	26,611	(11)
	$ 78,461	$ (108)

As of January 31, 2014 and July 31, 2013, no securities were in a continuous unrealized loss position for more than twelve months.

7. Fair Value of Financial Instruments

Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be either recorded or disclosed at fair value, the Company considers the principal or most advantageous market in which it would transact, and it also considers assumptions that market participants would use when pricing the asset or liability.

The Company determines the fair values of its financial instruments based on a three-level fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The classification of a financial asset or liability within the hierarchy is based upon the lowest level input that is significant to the fair value measurement. The fair value hierarchy prioritizes the inputs into three levels that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities.

Level 2 — Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

Level 3 — Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Such unobservable inputs include an estimated discount rate used in the Company's discounted present value analysis of future cash flows, which reflects the Company's estimate of debt with similar terms in the current credit markets. As there is currently minimal activity in such markets, the actual rate could be materially different.

Level 1 instruments are valued based on quoted market prices in active markets for identical instruments. Level 1 instruments consist primarily of bank deposits with third-party financial institutions and highly liquid money market securities with original maturities at date of purchase of 90 days or less and are stated at cost, which approximates fair value.

Level 2 securities are valued using quoted market prices for similar instruments, non-binding market prices that are corroborated by observable market data, or discounted cash flow techniques and include the Company's investments in certain corporate bonds, U.S. government agency securities, U.S. treasury bills, commercial paper, municipal notes and bonds.

Level 3 instruments are valued based on unobservable inputs that are supported by little or no market activity and reflect the Company's own assumptions in measuring fair value.

Short-term investments are recorded at fair value, defined as the exit price in the principal market in which the Company would transact representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

There were no transfers between levels during the second quarter and first half of fiscal 2014.

The fair value measurements of the Company's cash, cash equivalents and short-term investments consisted of the following:

	Level 1	Level 2	Level 3	Total
		(in thousands)		
Balance at January 31, 2014				
Assets				
Cash and cash equivalents:				
Cash deposits with third-party financial institutions	$ 106,886	$ —	$ —	$ 106,886
Money market funds	3,676	—	—	3,676
Commercial paper	—	—	—	—
Short-term investments:				
Certificates of deposit	1,500	—	—	1,500
Corporate bonds	—	61,964	—	61,964
U.S. government agency securities	—	82,947	—	82,947
U.S. treasury bills	—	17,727	—	17,727
Commercial paper	—	1,997	—	1,997
Municipal notes and bonds	—	1,554	—	1,554
Total assets measured and recorded at fair value	$ 112,062	$ 166,189	$ —	$ 278,251

	Level 1	Level 2	Level 3	Total
		(in thousands)		
Balance at July 31, 2013				
Assets				
Cash and cash equivalents:				
Cash deposits with third-party financial institutions	$ 129,290	$ —	$ —	$ 129,290
Money market funds	8,612	—	—	8,612
U.S. government agency securities	3,017	—	—	3,017
Commercial paper	4,000	—	—	4,000
Short-term investments:				
Certificates of deposit	5,010	—	—	5,010
Corporate bonds	—	79,425	—	79,425
U.S. government agency securities	—	133,826	—	133,826
U.S. treasury bills	—	36,356	—	36,356
Commercial paper	—	13,675	—	13,675
Municipal notes and bonds	—	1,590	—	1,590
Total assets measured and recorded at fair value	$ 149,929	$ 264,872	$ —	$ 414,801

Other Investments

As of January 31, 2014 and July 31, 2013, the Company has investments in privately-held companies of $1.8 million and included in other non-current assets in the accompanying Consolidated Balance Sheets. These investments are recorded at cost and are adjusted to fair value only in the event that they become other-than-temporarily impaired.

8. Consolidated Balance Sheet Components

The following tables provide details of selected consolidated balance sheet items:

	January 31, 2014	July 31, 2013
	(in thousands)	
Inventory:		
Raw materials	$ 366	$ 288
Finished goods	37,043	28,607
Total	$ 37,409	$ 28,895

	January 31, 2014	July 31, 2013
	(in thousands)	
Accrued Liabilities:		
Compensation and benefits	$ 35,925	$ 25,214
Marketing	18,304	41,014
Litigation reserves	—	14,125
Other	18,405	14,279
Total	$ 72,634	$ 94,632

The $14.1 million decrease in litigation reserves from July 31, 2013 to January 31, 2014 is due to a settlement payment made during the first quarter of fiscal 2014.

	Estimated Useful Lives	January 31, 2014	July 31, 2013
	(in thousands, except estimated useful lives)		
Property and Equipment, net			
Computer equipment	2 to 3 years	$ 25,306	$ 23,109
Computer software	2 to 5 years	14,949	13,525
Machinery and equipment	2 years	33,050	29,009
Furniture and fixtures	5 years	4,490	4,304
Leasehold improvements	1 to 6 years	7,120	5,892
Total property and equipment, gross		84,915	75,839
Less: accumulated depreciation and amortization		(57,483)	(48,303)
Total property and equipment, net		$ 27,432	$ 27,536

Depreciation and amortization expense of property and equipment for the second quarter of fiscal 2014 and 2013 was $4.8 million and $3.9 million, respectively. Depreciation and amortization expense of property and equipment for the first half of fiscal 2014 and 2013 was $9.5 million and $7.0 million, respectively.

	January 31, 2014	July 31, 2013
	(in thousands)	
Deferred Revenue:		
Product	$ 53,541	$ 38,974
Professional services and support	79,412	70,791
Total deferred revenue, current	132,953	109,765
Professional services and support, non-current	42,418	31,578
Total deferred revenue	$ 175,371	$ 141,343

Deferred product revenue relates to arrangements where not all revenue recognition criteria have been met. Deferred professional services and support revenue primarily represents customer payments made in advance for support contracts. Support contracts are typically billed on an annual basis in advance and revenue is recognized ratably over the support period, typically one to five years. The primary changes in the deferred revenue balances are due to quarter-end inventory stocking orders of our value-added distributors, growth of annual maintenance contracts from customers, and transactions which have certain acceptance or deployment provisions that will be recognized as revenue when revenue recognition criteria are met.

9. Income Taxes

The effective tax rate in all periods is the result of the mix of income earned in various tax jurisdictions that apply a broad range of income tax rates. Accordingly, changes in the jurisdictional mix of pre-tax income in the current year could result in pre-tax income being higher or lower than the prior year in countries with lower statutory tax rates, which could cause the Company's effective income tax rate to fluctuate. The impact of such changes could be meaningful in countries with statutory income tax rates that are significantly lower than the U.S. statutory income tax rate of 35%. The Company's effective tax rates were 207.3% and 33.4% for the second quarter of fiscal 2014 and 2013, respectively, and 116.0% and 67.0% for the first half of fiscal 2014 and 2013, respectively.

For the second quarter and first half of fiscal 2014, the Company computed the provision for income taxes based upon the actual tax rates for those periods as the Company determined that small changes in the estimated income or loss between tax jurisdictions would result in significant changes in the estimated annual effective tax rates. For the second quarter and first half of 2014, the Company's effective tax rates differed from the U.S. federal statutory tax of 35% rate primarily due to non-deductible stock based compensation, foreign operations, and fixed amortization of deferred tax charges related to the fiscal 2012 intercompany sale of intellectual property ("IP") rights. Future effective tax rates could be adversely affected if earnings are lower than anticipated in countries where the Company has lower statutory tax rates or by unfavorable changes in tax laws and regulations or their interpretation.

For the second quarter and first half of fiscal 2013, the Company's effective tax rates differed from the U.S. federal statutory tax rate of 35% primarily due to non-deductible stock based compensation, foreign operations and fixed amortization of deferred tax charges related to the fiscal 2012 intercompany sale of intellectual property rights, a $1.8 million adjustment recorded for prior period tax expense, and a benefit to the provision for income taxes of $3.8 million related to the re-instatement of the U.S. federal research credit. This U.S. federal research credit of $3.8 million consisted of $1.9 million that was recorded discretely in the second quarter of fiscal 2013 and the remaining $1.9 million reduced the annual effective tax rate.

The increase in the effective tax rate between the second quarter of fiscal 2014 and 2013 and the increase in the effective tax rate between the first half of fiscal 2014 and 2013 is primarily due to the tax benefits recognized in the first half of fiscal 2013 relating to the re-instatement of the U.S. federal research credit, a valuation allowance on California tax research credit, a difference in the mix of earnings among jurisdictions with different tax rates, and the effect of a different pre-tax income or loss relative to fixed amortization of deferred tax charges. These factors are net of a $1.8 million adjustment recorded for prior period tax expense in the first half of fiscal 2013. For further information, refer to "Prior Period Adjustment" described at the end of this Note.

In fiscal 2012, the Company implemented a new corporate organization structure to more closely align its corporate organization with the international nature of its business activities and to reduce its overall effective tax rate through changes in how it develops and uses its intellectual property and the structure of its international procurement and sales, including transfer-price arrangements for intercompany transactions. Therefore, the Company incurred and recorded IP structure charges starting in fiscal 2012. IP structure charges consist primarily of non-recurring items of gain recognized in the United States related to the international restructuring of the Company's corporate organization during fiscal 2012, including the transfer of certain intellectual property and inventory overseas. The tax associated with the IP structure charges are deferred and amortized for financial reporting purposes under Accounting Standards Codification ("ASC") 740-10-25-3(e) (Income Taxes) and ASC 810-10-45-8 (Consolidation). For the first half of fiscal 2014, fiscal 2013 and fiscal 2012, the corporate reorganization resulted in an increase to the effective tax rate due to the non-recurring items of gain triggered in the United States related to the reorganization as described above. The deferred charge resulted in a 45.5 point increase to the effective tax rate for the first half of fiscal 2014, from 70.5% to 116.0%. While the Company has yet to realize any tax savings to date, the Company expects to realize a reduction in the effective tax rate as a result of the corporate reorganization after the deferred charges have been fully amortized.

Each quarter the Company assesses the likelihood that it will be able to recover its deferred tax assets. The Company will reduce a deferred tax asset by a valuation allowance if it is "more likely than not" that some portion or all of the deferred tax asset will not be realized. A deferred tax asset is recorded when there is a future deductible amount, but a valuation allowance is needed if taxable income is anticipated to be insufficient to realize the future deductible amount. The Company considers available evidence, both positive and negative, including historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. The Company believes that its realization of its California tax research credit carryforwards is not more likely than not to be realized; therefore the Company has recorded a valuation allowance on certain California tax research credit carryforwards generated in fiscal years before 2013 and a full valuation on credits earned after fiscal 2012. For the first half of fiscal 2014, the Company recorded an increase in the valuation allowance by $1 million relating to California tax research credits earned during the first half of fiscal 2014. It is reasonably possible that a material increase in the valuation allowance could occur in the future depending on changes, if any, in the mix of earnings in the jurisdictions in which the Company operates, the percentage of revenue from California customers, the Company's evaluation of prudent and feasible tax planning strategies, the Company's expectation of exercising elections available under the applicable tax laws, and the Company's projections of the future growth and forecasted earnings. An increase to the valuation allowance would have the effect of increasing the income tax provision in the Consolidated Statements of Operations and Comprehensive Income (Loss) in the period that the valuation allowance is increased.

Prior Period Adjustment

In the first quarter of fiscal 2013, the Company recorded an out-of-period adjustment to correct an error that increased the provision for income taxes by $1.8 million which related to the fourth quarter of fiscal 2012. The impact of this correction would have resulted in an increase in net loss of $1.8 million for the fourth quarter of fiscal 2012 and fiscal 2012. The Company assessed the impact of this adjustment on previously reported financial statements and for fiscal 2013 and concluded that the adjustment was not material, either individually or in the aggregate to previously reported consolidated financial statements. On that basis, the Company recorded the adjustment in the first quarter of fiscal 2013.

10. Equity Incentive Plans and Benefit Plans

Stock Option and Award Activity

The following table summarizes the information about shares available for grant and outstanding stock option activity:

	Shares Available for Grant	Options Outstanding: Number of Shares	Options Outstanding: Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value *(in thousands)*
Balance at July 31, 2012	532,596	13,264,031	$ 6.63	3.9	$ 112,868
Shares reserved for issuance	5,576,433	—			
Restricted stock awards granted	(7,252,248)	—			
Restricted stock awards forfeited	1,393,834	—			
Options exercised	—	(2,860,592)	6.71		$ 38,697
Options cancelled	306,970	(355,870)	14.94		
Balance at July 31, 2013	557,585	10,047,569	6.29	2.9	$ 121,227
Shares reserved for issuance	5,670,469	—			
Restricted stock awards granted	(3,280,028)	—			
Restricted stock awards forfeited	661,162	—			
Options exercised	—	(1,105,917)	3.94		$ 16,967
Options cancelled	121,210	(121,210)	19.81		
Balance at January 31, 2014	3,730,398	8,820,442	$ 6.40	2.5	$ 120,782

Restricted Stock Award Activity

The following table summarizes the information about non-vested restricted stock awards and units:

	Shares	Weighted Average Grant Date Fair Value per Share
Balance at July 31, 2012	8,422,681	$ 19.49
Awards granted	7,252,248	18.76
Awards vested	(3,493,341)	19.51
Awards forfeited	(1,393,834)	20.44
Balance at July 31, 2013	10,787,754	18.87
Awards granted	3,280,028	18.29
Awards vested	(2,554,409)	19.46
Awards forfeited	(661,162)	19.62
Balance at January 31, 2014	10,852,211	$ 18.51

Fair Value Disclosures

The fair value of each option is estimated on the date of grant using the Black-Scholes model with the below assumptions.

Employee Stock Options

There were no stock option grants during the second quarter and first half of fiscal 2014.

Employee Stock Purchase Plan

The fair value of the purchase right for the Employee Stock Purchase Plan is estimated on the date of grant using the Black-Scholes model with the following weighted average assumptions:

	Six Months Ended January 31,	
	2014	2013
Risk-free interest rates	0.1% to 0.4%	0.1% to 0.2%
Expected term (in years)	0.5 to 2.0	0.5 to 2.0
Dividend yield	—%	—%
Volatility	57% to 64%	54% to 63%

The following table shows for each purchase date during the first half of fiscal 2014 and 2013, the shares issued and the weighted average purchase price per share:

	September 1, 2013	September 1, 2012
Shares issued	432,749	348,520
Weighted average purchase price per share	$ 14.12	$ 16.65

Stock-based Compensation Expense

Stock-based compensation expense consists primarily of expenses for stock options, restricted stock awards, and employee stock purchase rights granted to employees. The following table summarizes stock-based compensation expense:

	Three Months Ended January 31,		Six Months Ended January 31,	
	2014	2013	2014	2013
	(in thousands)			
Cost of revenue	$ 2,202	$ 1,679	$ 4,360	$ 3,180
Research and development	11,306	9,212	22,114	17,639
Sales and marketing	11,071	10,039	21,382	18,784
General and administrative	4,165	4,103	8,307	7,992
Total	$ 28,744	$ 25,033	$ 56,163	$ 47,595

The following table presents stock-based compensation expense by award-type:

	Three Months Ended January 31,		Six Months Ended January 31,	
	2014	2013	2014	2013
	(in thousands)			
Stock options	$ 1,259	$ 2,510	$ 2,958	$ 5,233
Stock awards	25,098	19,673	48,932	36,973
Employee stock purchase plan	2,387	2,850	4,273	5,389
Total	$ 28,744	$ 25,033	$ 56,163	$ 47,595

Stock-based compensation expense for the second quarter of fiscal 2014 and 2013 included $5.7 million and $3.2 million, respectively, for stock awards issuable under the Company's Executive Officer Bonus Plan and Corporate Bonus Plan (the "Bonus Plans"). For the first half of fiscal 2014 and 2013, stock-based compensation expense included $11.4 million and $6.7 million, respectively, for stock awards issuable under the Bonus Plans.

Stock Repurchase Program

As of January 31, 2014, the Company's Board of Directors had authorized a stock repurchase program for an aggregate amount of up to $300.0 million (consisting of an original $100.0 million authorization on June 13, 2012, plus subsequent authorizations of $100.0 million on July 15, 2013 and $100.0 million on October 9, 2013). The Company is authorized to make repurchases in the market until the Board of Directors terminates the program or until such repurchases reach the authorized amount, whichever occurs first. Any repurchases under the program will be funded either from available working capital or external financing. The number of shares repurchased and the timing of repurchases are based on the price of the Company's common stock, general business and market conditions, and other investment considerations. Shares are retired upon repurchase. The Company's policy related to repurchases of its common stock is to charge any excess of cost over par value entirely to additional paid-in capital.

During the second quarter and first half of fiscal 2014, the Company repurchased a total of 4,653,460 and 11,017,240 shares for a total purchase price of $80.0 million and $193.5 million, respectively. During the second quarter and first half of fiscal 2013, the Company repurchased a total of 1,014,001 and 1,604,142 shares for a total purchase price of $19.0 million and $30.5 million, respectively. As of January 31, 2014, the Company repurchased a cumulative total of 17,737,076 shares for a total purchase price of $299.6 million, with $0.4 million remaining authorized under the stock repurchase program.

On February 20, 2014, the Company announced that the Board of Directors authorized the repurchase of up to an additional $200 million of its outstanding common stock under the stock repurchase program. Refer to Note 13, Subsequent Events, of Notes to Consolidated Financial Statements.

11. Segment Information and Significant Customers

The Company operates as one reportable and operating segment, selling its AOS operating system, controllers, wireless access points, switches, application software modules, access management solution, multi-vendor management solution software, and professional services and support.

A reportable segment is defined as a component of an enterprise for which separate financial information is available and is evaluated regularly by the chief operating decision maker, or decision making group, for resource allocation and for assessing performance. The Company's chief operating decision maker is its chief executive officer ("CEO"), who reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. The Company operates as a single reportable and operating segment. Revenue is attributed by geographic location based on the ship-to location of the Company's customers.

The following presents total revenue by geographic region:

	Three Months Ended January 31,		Six Months Ended January 31,	
	2014	2013	2014	2013
	(in thousands)			
United States	$ 113,890	$ 94,005	$ 222,205	$ 186,757
Europe, Middle East and Africa	33,768	28,579	59,764	50,129
Asia Pacific	24,260	27,816	47,254	52,469
Rest of World	4,438	4,962	8,060	10,489
Total	$ 176,356	$ 155,362	$ 337,283	$ 299,844

The Company's product revenue was $141.8 million and $130.9 million for the second quarter of fiscal 2014 and 2013, respectively. The Company's product revenue was $272.6 million and $250.1 million for the first half of fiscal 2014 and 2013, respectively.

Professional services and support revenue was $34.6 million and $24.5 million for the second quarter of fiscal 2014 and 2013, respectively. The Company's professional services and support revenue was $64.7 million and $49.7 million for the first half of fiscal 2014 and 2013, respectively.

The following table presents significant channel partners contributing 10% or more of total revenue:

	Three Months Ended January 31,		Six Months Ended January 31,	
	2014	2013	2014	2013
ScanSource, Inc.	20.3%	19.9%	20.8%	20.0%
Synnex Corp.	10.9%	10.0%	12.2%	*

(*) Indicates less than 10%.

The following table presents significant channel partners accounting for 10% or more of total net accounts receivable:

	January 31, 2014	July 31, 2013
ScanSource, Inc.	16.3%	21.4%
Synnex Corp.	*	12.1%
Avnet Logistics U.S. LP	14.5%	13.1%

(*) Indicates less than 10%.

The following table sets forth the Company's long-lived assets (property and equipment) by geographic region based on the location of the asset:

	January 31, 2014	July 31, 2013
	(in thousands)	
United States	$ 18,443	$ 19,291
All other countries	8,989	8,245
Total	$ 27,432	$ 27,536

12. Commitments and Contingencies

Legal Matters

The Company is involved in disputes, claims, litigation, investigations, proceedings and other legal actions, consisting of intellectual property, commercial, securities, and employment matters from time to time that arise in the ordinary course of business, including the legal matters identified below.

U.S. Federal Court Class Action Litigation. On May 23, 2013, a purported stockholder class action lawsuit captioned Mazzafero v. Aruba Networks, Inc., et al., was filed in the United States District Court for the Northern District of California against the Company and certain of its officers. The purported class action alleges claims for violations of the federal securities laws, and seeks unspecified compensatory damages and other relief. The Company believes that it has meritorious defenses to these claims and intends to defend the litigation vigorously. Based on information currently available, the Company has determined that the amount of any possible loss or range of possible loss is not reasonably estimable.

The Company reviews all legal matters at least quarterly and assesses whether an accrual for loss contingencies needs to be recorded. The assessment reflects the impact of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. The Company records an accrual for loss contingencies when management believes that it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Legal matters are subject to uncertainties and are inherently unpredictable; however, the Company believes that it has valid defenses with respect to its pending legal matters. Actual liability in any such matters may be materially different from the Company's estimates, which could result in the need to adjust the liability and record additional expenses. Patent litigation in particular is subject to significant postural shifts over short time frames, making the Company's ability to assess probable liability particularly speculative in any given fiscal quarter even though the matter may be resolved in the next fiscal quarter. If an unfavorable resolution were to occur, there exists the possibility of a material adverse impact on the Company's consolidated financial condition, results of operations or cash flows for the period in which the resolution occurs or on future periods.

In addition, these actions or other third-party claims against the Company may cause the Company to incur costly litigation and/or substantial settlement charges. Furthermore, the resolution of any patent related litigation may require the Company to make royalty payments, which could adversely affect gross margins in future periods. If any of those events were to occur, the Company's business, financial condition, results of operations, and cash flows could be adversely affected in any particular period by an unfavorable resolution of one or more of these contingencies.

Lease Obligations

The Company leases office spaces under non-cancelable operating leases with various expiration dates through June 2018. Future minimum lease payments under non-cancelable operating leases are as follows:

Fiscal Year	Amount (in thousands)
2014 (remaining six months)	$ 3,555
2015	6,863
2016	6,926
2017	2,721
2018	1,341
Total minimum payments	$ 21,406

Employee Agreements

The Company has signed various employment agreements with certain executives pursuant to which if their employment is terminated without cause, the executives are entitled to receive certain benefits, including, but not limited to, accelerated stock option vesting.

Non-cancelable Purchase Commitments

The Company outsources the production of its hardware to third-party contract manufacturers, and enters into various inventory-related purchase commitments with these contract manufacturers and other suppliers. In addition, from time to time, the Company also enters into significant information technology and marketing agreements with its vendors, which are non-cancelable. The Company had $41.7 million and $40.0 million in non-cancelable purchase commitments as of January 31, 2014 and July 31, 2013, respectively. The Company expects to sell the products that it has committed to purchase from its third-party contract manufacturers and other suppliers.

Product Warranties

The Company's accrued liability for estimated future product warranty costs is included as a component of accrued liabilities in the accompanying Consolidated Balance Sheets. The following table summarizes the activity related to the Company's accrued liability for estimated future warranty costs:

	Warranty Amount (in thousands)
As of July 31, 2013	$ 777
Provision	365
Obligations fulfilled during period	(240)
As of January 31, 2014	$ 902

	Warranty Amount (in thousands)
As of July 31, 2012	$ 818
Provision	539
Obligations fulfilled during period	(373)
As of January 31, 2013	$ 984

Indemnification

In its sales agreements, the Company may agree to indemnify its indirect sales channels and end user customers for certain expenses or liabilities resulting from claimed infringements of patents, trademarks or copyrights of third parties. The terms of these indemnification provisions are generally perpetual any time after execution of the agreement. The agreements generally limit the scope of the available remedies in a variety of industry-standard methods, including, but not limited to, product usage and geography-based limitations, a right to control the defense or settlement of any claim, and a right to replace or modify the infringing products to make them non-infringing. In certain circumstances, the Company may be subject to uncapped indemnity obligations. To date the Company has not paid any amounts to settle claims or defend lawsuits pursuant to such indemnification provisions. The Company believes the likelihood of such claims is remote. Accordingly, the Company has no liabilities recorded for these agreements as of January 31, 2014 and July 31, 2013. In addition, the Company indemnifies its officers, directors, and certain key employees while they are serving in good faith in their company capacities.

13. Subsequent Events

On February 20, 2014, the Company announced that the Board of Directors authorized the repurchase of up to an additional $200.0 million of its outstanding common stock under the stock repurchase program approved by the Board of Directors in June 2012 (the "Program"). Under the Program, repurchases may be made from time to time on the open market and will be funded from available working capital until the Board of Directors terminates the program or until repurchases reach the authorized amount, whichever occurs first. The number of shares to be purchased and the timing of purchases will be based on the price of the Company's common stock, general business and market conditions and other investment considerations. The Program does not require the Company to purchase any specific number of shares and may be suspended or discontinued at any time without prior notice.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

In addition to historical information, this report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. You can identify these forward-looking statements by words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "plan," "predict," "potential," "should," "will," "would" and other similar expressions. These statements include, among other things, statements concerning our expectations:

- *that we will increase offshore operations by establishing additional offshore capabilities for certain engineering and general and administrative functions in China, India and Ireland;*
- *that international revenue will increase in absolute dollars and remain in the approximate percentage range of prior years;*
- *that research and development expenses for fiscal 2014 will increase on an absolute dollar basis and as a percentage of revenue compared to fiscal 2013;*
- *that sales and marketing expenses for fiscal 2014 will continue to be our most significant operating expense and will increase on an absolute dollar basis as we continue to invest strategically in this area and remain approximately flat as a percentage of revenue compared to fiscal 2013;*
- *that general and administrative expenses for fiscal 2014 will increase in absolute dollars and decrease as a percentage of revenue compared to fiscal 2013;*
- *that our existing cash, cash equivalents, short-term investments and cash generated from operations will be sufficient to meet anticipated cash requirements for at least the next 12 months;*
- *that we anticipate achieving cash tax savings and a reduction in our overall tax rate as a result of the corporate organization structure implemented in fiscal 2012; and*
- *that we will continue our international expansion and increase our market penetration both domestically and internationally through our network of channel partners and by increasing our direct sales force.*

These forward-looking statements are based on information available to us as of the date of this report and current expectations, forecasts and assumptions are subject to certain risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this report, and in particular, the risks discussed under the heading "Risk Factors" in Part II, Item 1A of this report and those discussed in other documents we file with the Securities and Exchange Commission, or SEC. Our forward-looking statements should not be relied upon as representing our views as of any subsequent date, and we are under no obligation to, and expressly disclaim any responsibility to, update or alter our forward-looking statements, whether as a result of new information, future events or otherwise. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

The following information should be read in conjunction with the Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements included in this report.

Overview

Aruba Networks, Inc. is a leading global provider of enterprise mobility solutions. We develop, market and sell products and services designed to solve our customers' secure mobility requirements though our Mobile Virtual Enterprise ("MOVE") architecture, which unifies the network infrastructure, access management and mobility applications into one integrated system that offers strong security and a simplified approach to bring-your-own-device ("BYOD") initiatives.

We believe the market for mobility solutions in the enterprise is changing and that the proliferation of mobile devices is forcing information technology ("IT") departments to radically revise the way they approach provisioning and supporting these devices in the workplace. Our goal is to provide simplified, dependable solutions that permit IT departments to quickly, securely and cost-effectively meet their mobility and BYOD needs. We address these needs with our flexible MOVE architecture, a fundamentally new network architecture, designed for an increasingly mobile universe of end-users. Our MOVE architecture is comprised of three major components. The first component consists of our mobility-centric network infrastructure, the second component consists of our next-generation access management solution, and the third component consists of our mobility applications.

We primarily conduct business in three geographic regions: (1) Americas, (2) Europe, the Middle East and Africa ("EMEA"), and (3) Asia Pacific ("APAC"). Our products and services have been sold to more than 30,000 customers worldwide, including some of the largest and most complex global organizations. Our customer base spans major industries and verticals, including general enterprise, high tech enterprise, industrial enterprise, higher education, K-12 education, health care, retail, federal/state/local government, financial services and hospitality. We typically sell to and support these customers through a two-tier distribution model in most areas of the world, including the U.S. Our VADs and OEMs sell our portfolio of products, including a variety of our support services, to a diverse number of VARs, system integrators and service providers. Also, certain of our OEMs sell directly to end customers.

Major Trends Affecting Our Financial Results

Worldwide Economic Conditions

Our business depends on the overall demand for IT initiatives and on the economic health and general willingness of our current and prospective customers to make capital commitments. If the conditions in the global economic environment remain uncertain or continue to be volatile, or if these conditions deteriorate, our business, operating results, and financial condition may be adversely affected in a material way. Economic weakness, customer financial difficulties and constrained spending on IT initiatives have resulted, and may in the future result, in challenging and delayed sales cycles and could negatively impact our ability to forecast future periods. The impact of uncertainty regarding the U.S. federal budget including the effect of the recent sequestration or other significant cuts in U.S. government spending has negatively impacted our financial results and could continue to adversely affect our future results. We cannot be assured of the level of future IT spending, the deterioration of which could have a material adverse effect on our results of operations.

Revenue

Our ability to increase our revenue will depend significantly on, among other things, continued growth in the market for enterprise mobility and remote networking solutions, continued acceptance of our products in the marketplace, our ability to continue to attract new customers and distribution partners, our ability to compete, the willingness of customers to displace wired networks with wireless LANs, our ability to retain existing distribution partners, and our ability to continue to sell into our installed base of existing customers. We believe that our MOVE architecture, including our ClearPass and Aruba Instant offerings, will enable broader networking initiatives by both our current and potential customers. Our growth in support revenue is tied to increasing the number of products under support contracts, which is dependent on growing our installed base of customers, maintaining or improving the attach rate of support offerings to product sales and renewing existing support contracts. While we rely primarily on our partners to deliver professional services associated with our products, we sometimes deliver professional services directly to end customers, especially as we introduce new products. Our future profitability and rate of growth, if any, will also be directly affected by the timing and size of orders, product and channel mix, relative amount of professional services, average selling prices, costs of our products, our ability to effectively manage our two-tier distribution model, general economic conditions, and the extent to which we invest in our sales and marketing, research and development, and general and administrative resources.

The revenue growth that we have experienced has been driven primarily by an expansion of our customer base coupled with increased purchases from existing customers. We believe the growth we have experienced is the result of business enterprises and other organizations needing to provide secure mobility to their users in a manner that we believe is more cost effective than the traditional approach of using port-centric networks. Our revenue grew 13.5% and 12.5% in the second quarter and first half of fiscal 2014, respectively, compared to the same periods in fiscal 2013.

Our ability to meet our product revenue expectations is dependent upon (1) new orders received, shipped, and recognized in a given quarter, (2) the amount of orders booked but not shipped in prior quarters that are shipped and recognized in the current quarter, and (3) the amount of deferred revenue entering a given quarter that is recognized as revenue in the quarter. We typically ship products within 10 days after the receipt of an order.

Our product deferred revenue is comprised of:

- product orders that have shipped but where the terms of the agreement, typically with our large customers, contain acceptance terms and conditions or other terms that require that the revenue be deferred until all revenue recognition criteria are met; and
- product orders shipped to our VADs and OEMs for which we have not yet received persuasive evidence of sell-through from the VADs or OEMs.

Costs and Expenses

The substantial majority of our cost of product revenue consisted of payments to third parties to manufacture our products, including Wistron NeWeb Corp. ("WNC"), Sercomm, Accton Technology Corporation ("Accton"), and Flextronics International Ltd. ("Flextronics"), who were our largest contract manufacturers for the second quarter and first half of fiscal 2014.

Our operating expenses consist of research and development, sales and marketing, and general and administrative expenses. The largest component of our operating expenses in each of these categories is personnel costs. Personnel costs consist of salaries, benefits and incentive compensation for our employees, including commissions for sales personnel and stock-based compensation for employees. As of January 31, 2014, we had 1,687 employees worldwide compared to 1,567 employees at October 31, 2013, and 1,473 employees at July 31, 2013. The increase in employees is the most significant driver behind the increase in costs and operating expenses in the second quarter and first half of fiscal 2014. We expect to continue hiring additional employees as we continue to invest in our infrastructure, operations and our sales and channel capacity.

Stock Repurchase

As of January 31, 2014, our Board of Directors had authorized a stock repurchase program for an aggregate amount of up to $300.0 million (consisting of an original $100.0 million authorization on June 13, 2012, plus subsequent authorizations of $100.0 million on July 15, 2013 and $100.0 million on October 9, 2013). On February 20, 2014, we announced that our Board of Directors authorized the repurchase of up to an additional $200.0 million of our outstanding common stock under the stock repurchase program. Refer to Note 13, Subsequent Events, of the Notes to Consolidated Financial Statements.

We are authorized to make repurchases in the market until our Board of Directors terminates the program or until our repurchases reach the authorized amount, whichever occurs first. Any repurchases under the program will be funded from available working capital. The number of shares repurchased and the timing of repurchases are based on the price of our common stock, general business and market conditions, and other investment considerations. Shares are retired upon repurchase. Our policy related to repurchases of our common stock is to charge any excess of cost over par value entirely to additional paid-in capital.

During the second quarter and first half of fiscal 2014, we repurchased a total of 4,653,460 and 11,017,240 shares for a total purchase price of $80.0 million and $193.5 million, respectively. During the second quarter and first half of fiscal 2013, we repurchased a total of 1,014,001 shares and 1,604,142 shares for a total purchase price of $19.0 million and $30.5 million, respectively. As of January 31, 2014, we repurchased a cumulative total of 17,737,076 shares for a total purchase price of $299.6 million, with $0.4 million remaining authorized under the stock repurchase program.

Revenue, Cost of Revenue and Operating Expenses

Revenue

We derive our revenue from sales of our AOS operating system, controllers, wired and wireless access points, switches, application software modules, access-management solution, multi-vendor management solution software, and professional services and support.

We sell our products and services directly through our sales force and indirectly through partners including VADs, VARs, service providers and OEMs. We expect revenue from indirect channels to continue to constitute a significant majority of our future revenue.

We sell our products to channel partners and end customers located in the United States, EMEA, APAC, and other parts of the world. We continue to expand into international locations and introduce our products in new markets, and we expect international revenue to increase in absolute dollars and remain in the approximate percentage range of recent years. For more information about our international revenue, see Note 11, Segment Information and Significant Customers, of Notes to Consolidated Financial Statements.

Professional services revenue consists of consulting and training services. Consulting services primarily consist of design as well as onsite and remote support services. Training services are typically instructor-led or online courses on the use of our products. Support services typically consist of software updates, on a when-and-if available basis, and telephone and Internet access to technical support personnel and hardware support. We provide customers with rights to unspecified software product upgrades and to maintenance releases and patches released during the term of the support period.

Cost of Revenue

Cost of product revenue consists primarily of manufacturing costs for our products, shipping and logistics costs, charges for inventory obsolescence, amortization of existing technology and warranty obligations. We utilize third parties to manufacture our products and perform shipping logistics. We have outsourced the substantial majority of our manufacturing, repair and supply chain operations. Accordingly, the substantial majority of our cost of product revenue consists of payments to our contract manufacturers. Our contract manufacturers produce our products in Asia using quality assurance programs and standards that we jointly established. Manufacturing, engineering and documentation controls are conducted at our facilities in Sunnyvale, California, Bangalore, India and Beijing, China. Cost of product revenue also includes amortization expense from our purchased intangible assets.

Cost of professional services and support revenue is primarily comprised of personnel costs, including stock-based compensation expense, for providing technical support. In addition, we engage third-party support vendors to complement our internal support resources, the costs of which are included within costs of professional services and support revenue.

Gross Margin

Our gross margin has been, and will continue to be, affected by a variety of factors, including:

- changes in the mix of products and services sold or manner in which products are sold in our channel;
- the percentage of revenue from international regions;
- increases in price competition and discounting pressures;
- increases in material, labor or other manufacturing-related costs;
- excess product component or obsolescence charges from our contract manufacturers;
- write-downs for obsolete or excess inventory;
- increases in costs due to changes in component pricing or charges incurred due to component holding periods if our forecasts do not accurately anticipate product demand;
- timing of revenue recognition and revenue deferrals;
- warranty-related issues;
- freight charges;
- our introduction of new products or new product platforms or entry into new markets with different pricing and cost structures;
- amortization expense from our intangible assets which is mainly existing technology;
- amortization of capitalized software development costs;
- support attach rates and usage; and
- timing of investments in headcount and resources to support our professional service offerings.

Due to higher net effective discounts for products sold through our indirect channels, our overall gross margin for indirect channel sales are typically lower than those associated with direct sales. We expect product revenue from our indirect channels to continue to be a significant majority of our future revenue. Further, we expect that within our indirect channels, sales through our VADs and OEMs will continue to be significant, which will negatively impact our gross margins as VADs and OEMs generally experience a larger net effective discount than our other channel partners.

Research and Development Expenses

Research and development expenses primarily consist of personnel costs and facilities costs. We expense research and development expenses as incurred. We are devoting substantial resources to the continued development of additional functionality for existing products and the development of new products. We intend to continue to invest significantly in our research and development efforts because we believe it is essential to maintaining our competitive position. For fiscal 2014, we expect research and development expenses to increase on an absolute dollar basis and as a percentage of revenue compared to fiscal 2013.

Sales and Marketing Expenses

Sales and marketing expenses represent the largest component of our operating expenses and primarily consist of personnel costs, sales commissions, marketing programs and facilities costs. A portion of the amortization expense related to our intangible assets is also included in sales and marketing expenses. Marketing programs are intended to generate revenue from new and existing customers and are expensed as incurred. We plan to continue to invest strategically in sales and marketing with the intent to add new customers and increase penetration within our existing customer base, expand our domestic and international sales and marketing activities, build brand awareness and sponsor additional marketing events. We expect future sales and marketing expenses to continue to be our most significant operating expense. Generally, sales personnel are not immediately productive, and thus, the increase in sales and marketing expenses that we experience as we hire additional sales personnel is not expected to immediately result in increased revenue. Some of our sales personnel may not become as productive as anticipated. As a result, these expenses will reduce our operating margin until the new sales personnel become productive and generate revenue. Accordingly, the timing of sales personnel hiring and the rate at which they become productive will affect our future performance. For fiscal 2014, we expect sales and marketing expenses will continue to be our most significant operating expense and will increase on an absolute dollar basis as we continue to invest strategically in this area and remain approximately flat as a percentage of revenue compared to fiscal 2013.

General and Administrative Expenses

General and administrative expenses primarily consist of personnel and facilities costs related to our executive, finance, human resources, information technology and legal organizations, as well as insurance, investor relations, and IT infrastructure costs related to our enterprise resource planning ("ERP") system. Further, our general and administrative expenses include professional services consisting of outside legal, audit, Sarbanes-Oxley and IT consulting costs, and non-income tax reserves. We have incurred in the past, and may continue to incur, significant legal costs defending ourselves against claims made by third parties. These expenses are expected to continue as part of our ongoing operations and, depending on the timing and outcome of lawsuits and the legal process, legal costs and any resulting damages could have a significant impact on our financial statements. For fiscal 2014, we expect general and administrative expenses to increase in absolute dollars and decrease as a percentage of revenue compared to fiscal 2013. However, third-party professional services are subject to material fluctuations given the needs of the business, which may cause our expected expenditures in absolute dollars and as a percentage of revenue to differ from our forecasted expectations.

Other Income, net

Other income, net includes interest income on cash balances, accretion of discount or amortization of premium on short-term investments, losses or gains from foreign exchange rate changes, and changes in the valuation of our contingent rights liability related to the acquisition of Azalea Networks. Our contingent right liability was outstanding from September 2, 2010 to December 31, 2012 (expiration date). For more information on our contingent rights liability, see Note 3, Contingent Rights Liability Arising from Business Combinations, of the Notes to Consolidated Financial Statements.

Critical Accounting Policies

Our Consolidated Financial Statements are prepared in accordance with U.S. GAAP. These accounting principles require us to make estimates and judgments that affect the reported amounts of assets and liabilities as of the date of the Consolidated Financial Statements, as well as the reported amounts of revenue and expenses during the periods presented. We believe that the estimates and judgments upon which we rely are reasonable based upon information available to us at the time that these estimates and judgments are made. To the extent there are material differences between these estimates and actual results, our Consolidated Financial Statements will be affected. The accounting policies that reflect our more significant estimates and judgments and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results include revenue recognition, share-based compensation, inventory valuation, allowance for doubtful accounts, impairment of goodwill and intangible assets, and accounting for income taxes.

Our critical accounting policies are disclosed in our Annual Report on Form 10-K for our fiscal 2013 filed on September 24, 2013. There have been no material changes in the matters for which we make critical accounting estimates in the preparation of our consolidated financial statements during the second quarter and first half of fiscal 2014, as compared to those disclosed in our Annual Report for fiscal 2013.

Recent Accounting Pronouncements

Refer to Recent Accounting Pronouncements under Note 1, The Company and its Significant Accounting Policies, of the Notes to Consolidated Financial Statements for recent accounting pronouncements, including the expected dates of adoption and estimated effects, if any, that could have on us.

Results of Operations

The following table presents our historical operating results as a percentage of total revenue for the periods indicated:

	Three Months Ended January 31,		Six Months Ended January 31, 2014	
	2014	2013	2014	2013
Revenue:				
Product	80.4 %	84.3%	80.8 %	83.4%
Professional services and support	19.6 %	15.7%	19.2 %	16.6%
Total revenue	100.0 %	100.0%	100.0 %	100.0%
Cost of revenue:				
Product	24.6 %	24.2%	24.7 %	24.6%
Professional services and support	5.7 %	4.5%	5.5 %	4.3%
Total cost of revenue	30.3 %	28.7%	30.2 %	28.9%
Gross margin	69.7 %	71.3%	69.8 %	71.1%
Operating expenses:				
Research and development	24.1 %	22.3%	24.6 %	22.3%
Sales and marketing	39.4 %	37.0%	39.3 %	37.1%
General and administrative	8.3 %	8.0%	8.6 %	8.1%
Total operating expenses	71.8 %	67.3%	72.5 %	67.5%
Operating income (loss)	(2.1)%	4.0%	(2.7)%	3.6%
Other income, net:				
Interest income	0.1 %	0.2%	0.1 %	0.2%
Other income (expense), net	— %	0.6%	0.1 %	0.4%
Income (loss) before income taxes	(2.0)%	4.8%	(2.5)%	4.2%
Provision for income taxes	4.1 %	1.6%	3.0 %	2.8%
Net income (loss)	(6.1)%	3.2%	(5.5)%	1.4%

Revenue

	Three Months Ended January 31,		Six Months Ended January 31,	
	2014	2013	2014	2013
	(in thousands)			
Total revenue	$ 176,356	$ 155,362	$ 337,283	$ 299,844
Type of revenue:				
Product	$ 141,755	$ 130,901	$ 272,586	$ 250,123
Professional services and support	34,601	24,461	64,697	49,721
Total revenue	$ 176,356	$ 155,362	$ 337,283	$ 299,844
Percent revenue by type:				
Product	80.4%	84.3%	80.8%	83.4%
Professional services and support	19.6%	15.7%	19.2%	16.6%
Revenue by geography:				
United States	$ 113,890	$ 94,005	$ 222,205	$ 186,757
Europe, the Middle East and Africa	33,768	28,579	59,764	50,129
Asia Pacific	24,260	27,816	47,254	52,469
Rest of World	4,438	4,962	8,060	10,489
Total revenue	$ 176,356	$ 155,362	$ 337,283	$ 299,844
Percent revenue by geography:				
United States	64.6%	60.5%	65.9%	62.3%
Europe, the Middle East and Africa	19.1%	18.4%	17.7%	16.7%
Asia Pacific	13.8%	17.9%	14.0%	17.5%
Rest of World	2.5%	3.2%	2.4%	3.5%
Total revenue by sales channel:				
Indirect	$ 157,300	$ 144,401	$ 306,501	$ 278,053
Direct	19,056	10,961	30,782	21,791
Total revenue	$ 176,356	$ 155,362	$ 337,283	$ 299,844
Percent revenue by sales channel:				
Indirect	89.2%	92.9%	90.9%	92.7%
Direct	10.8%	7.1%	9.1%	7.3%

For the second quarter of fiscal 2014, total revenue increased $21.0 million, or 13.5%, over the second quarter of fiscal 2013. For the first half of fiscal 2014, total revenue increased $37.4 million, or 12.5%, compared to the first half of fiscal 2013. The revenue growth was driven primarily by an expansion of our customer base coupled with increased purchases from existing customers as a result of on-going strength in the enterprise wireless market, which continues to benefit from BYOD initiatives and strong early uptake of 802.11ac solutions. This growth was partially offset by a decline in sales to Asia Pacific customers affected by a decrease in certain service provider sales compared with earlier periods.

Product revenue increased $10.9 million, or 8.3%, during the second quarter of fiscal 2014 compared to the second quarter of fiscal 2013, and $22.5 million, or 9.0%, during the first half of fiscal 2014 compared to the first half of fiscal 2013. The increase in product revenue was primarily driven by a combination of strong demand for our Controllers and Access Points, particularly our Instant access points, in particular our 802.11ac products, and increasing demand for our ClearPass and Instant solutions.

The rapid proliferation of Wi-Fi enabled mobile devices, the increase in demand for multimedia-rich mobility applications, and the rise of both server and desktop virtualization are driving the increase in demand for our products. Our MOVE architecture, further enhanced by the introduction of ClearPass and Instant solutions, continues to gain momentum as companies move toward a next generation access network. We continue to add new customers each quarter.

Professional services and support revenue increased $10.1 million, or 41.5%, during the second quarter of fiscal 2014 compared to the second quarter of fiscal 2013, and $15.0 million, or 30.1% during the first half of fiscal 2014 compared to the first half of fiscal 2013. The increase in support revenue for both periods was primarily a result of increased initial sales and renewals of post-contract support agreements boosted by higher product sales and a larger customer install base. The increase in professional service revenue for both periods was primarily a result of increased demand for our ClearPass, AirWave and Public Facing Enterprise ("PFE") solutions, leveraged by an expansion of our internal professional services team and our installation services partners. We also experienced higher professional service revenue in the second quarter of fiscal 2014 compared to the second quarter of fiscal 2013 as a result of a large sales arrangement which included professional services of approximately $2.3 million.

As a percentage of total revenue, U.S. revenue increased $19.9 million, or 21.2%, and $35.4 million, or 19.0%, during the second quarter and first half of fiscal 2014, respectively, compared to the comparable periods in fiscal 2013. Revenue from shipments to locations outside the U.S. increased $1.1 million, or 1.8%, and $2.0 million, or 1.8%, during the second quarter and first half of fiscal 2014, respectively, compared to the comparable periods in fiscal 2013 due to increasing international demand for our products.

Revenue from our indirect sales channels increased $12.9 million, or 8.9%, and $28.4 million, or 10.2%, during the second quarter and first half of fiscal 2014, respectively, compared to comparable periods in fiscal 2013. Going forward, we expect to continue to derive a significant majority of our total revenue from indirect channels as we continue to focus on expanding our channels and improving the efficiency of marketing and selling our products through these channels.

Cost of Revenue and Gross Margin

	Three Months Ended January 31,		Six Months Ended January 31,	
	2014	2013	2014	2013
	(in thousands)			
Total revenue	$ 176,356	$ 155,362	$ 337,283	$ 299,844
Cost of product revenue	43,303	37,665	83,421	73,826
Cost of professional services and support revenue	10,050	6,991	18,483	12,948
Total cost of revenue	53,353	44,656	101,904	86,774
Gross profit	$ 123,003	$ 110,706	$ 235,379	$ 213,070
Gross margin	69.7%	71.3%	69.8%	71.1%

For the second quarter and first half of fiscal 2014, our total cost of revenue increased $8.7 million, or 19.5%, and $15.1 million, or 17.4%, respectively, as compared to the same periods in fiscal 2013. This increase was primarily due to the corresponding increase in our product revenue. The substantial majority of our cost of product revenue consisted of payments to WNC, Sercomm, Accton, and Flextronics, our largest contract manufacturers. For the second quarter of fiscal 2014, payments to WNC, Sercomm, Accton, and Flextronics constituted approximately 45%, 24%, 16%, and 6%, respectively, of our cost of product revenue. For the first half of fiscal 2014, payments to WNC, Sercomm, Accton, and Flextronics constituted approximately 42%, 24%, 20%, and 6%, respectively, of our cost of product revenue. Additionally, cost of product revenue was impacted by an increase of $0.6 million and $1.3 million in stock-based compensation expense and amortization of intangible assets during the second quarter and first half of fiscal 2014, respectively, as compared to the same periods in fiscal 2013 primarily as a result of an increase in headcount and amortization of intangibles associated with new products.

For the second quarter and first half of fiscal 2014, our cost of professional services and support revenue increased $3.1 million, or 43.8%, and $5.5 million, or 42.7%, respectively, as compared to the same periods in fiscal 2013. For each period the increase was primarily due to the corresponding increase in our service revenue, as well as increased outside services as we expanded our customer support call centers and increased costs associated with our initiative to increase professional services delivery capabilities to accelerate the expansion of our solutions. In the second quarter of fiscal 2014, we experienced higher costs of professional services of approximately $1.4 million as a result of a large transaction. Additionally, cost of professional services and support revenue was impacted by an increase of $1.8 million and $3.3 million in personnel compensation and related expenses during the second quarter and first half of fiscal 2014, respectively, as compared to the same periods in fiscal 2013 primarily as a result of an increase in headcount.

Our total gross margin decreased 160 basis points to 69.7% for the second quarter of fiscal 2014 compared to 71.3% for the comparable period in fiscal 2013, primarily as a result of higher professional services mix, adjustments to our product standard costs and changes in our product and geographical mix. Gross margin decreased 130 basis points to 69.8% for the first half of fiscal 2014 compared to 71.1% in the comparable period of fiscal 2013, primarily due to higher professional services mix and changes in our product and geographical mix.

As we expand internationally, we will likely incur additional costs to conform our products to comply with local laws or local product specifications. In addition, we plan to continue hiring additional professional services personnel to support various product initiatives and our international customer base, which would increase our cost of professional services and support.

Research and Development Expenses

	Three Months Ended January 31,		Six Months Ended January 31,	
	2014	2013	2014	2013
	(in thousands)			
Research and development expenses	$ 42,585	$ 34,688	$ 83,030	$ 66,651
Percent of total revenue	24.1%	22.3%	24.6%	22.3%

For the second quarter and first half of fiscal 2014, our research and development expenses increased $7.9 million, or 22.8%, and $16.4 million, or 24.6%, respectively, as compared to the same periods in fiscal 2013. The increase in both periods was primarily due to an increase in headcount related expenses as we continued to enhance our technology solutions, develop new products and support our business growth strategy.

For the second quarter of fiscal 2014, compensation and related expenses increased $4.1 million, or 16.4%, compared to the second quarter of fiscal 2013 primarily as a result of increased headcount, including an increase in stock-based compensation expense of $2.1 million. Expensed equipment and depreciation and amortization expenses increased $1.4 million, as we purchased prototypes and additional lab equipment to support our product development efforts. Facilities and IT-related expenses related to our worldwide research and development efforts also increased $1.4 million as the result of an increase in personnel during the second quarter of fiscal 2014 over the same period in fiscal 2013.

For the first half of fiscal 2014, personnel compensation and related expenses increased $8.5 million, or 17.7%, compared to the same period in fiscal 2013 primarily as a result of increased headcount, including an increase in stock-based compensation expense of $4.5 million. Expensed equipment and depreciation and amortization expenses increased $3.0 million, as we purchased prototypes and additional lab equipment to support our product development efforts. Facilities and IT-related expenses related to our worldwide research and development efforts also increased $3.2 million as the result of an increase in personnel during the first half of fiscal 2014 compared to the same period in fiscal 2013.

Sales and Marketing Expenses

	Three Months Ended January 31,		Six Months Ended January 31,	
	2014	2013	2014	2013
	(in thousands)			
Sales and marketing expenses	$ 69,569	$ 57,398	$ 132,613	$ 111,317
Percent of total revenue	39.4%	37.0%	39.3%	37.1%

For the second quarter and first half of fiscal 2014, our sales and marketing expenses increased $12.2 million, or 21.2%, and $21.3 million, or 19.1%, respectively, as compared to the same periods in fiscal 2013. For each period, the increase was primarily a result of expanding our headcount and higher sales commission expense in support of our go-to-market strategy.

For the second quarter of fiscal 2014, personnel and related costs increased $8.8 million, compared to the same period in fiscal 2013, including an increase in stock-based compensation expense of $1.0 million. As a result of increased headcount, recruiting, training, equipment, travel, and other related expenses increased $1.2 million in the second quarter of fiscal 2014 compared to the same period in fiscal 2013. Marketing expenses increased $1.0 million during the second quarter of fiscal 2014 compared to the same period in fiscal 2013, primarily due to field marketing efforts and programs to introduce and promote our new and existing products. Facilities and IT-related expenses related to our sales and marketing organization also increased $0.6 million during the second quarter of fiscal 2014 compared to the same period in fiscal 2013.

For the first half of fiscal 2014, personnel and related costs increased $14.4 million, compared to the same period in fiscal 2013, including an increase in stock-based compensation expense of $2.6 million. As a result of increased headcount, recruiting, training, equipment, travel and other related expenses increased $1.6 million in the first half of fiscal 2014 compared to the same period in fiscal 2013. Marketing expenses increased $2.7 million during the first half of fiscal 2014 compared to the same period in fiscal 2013, primarily due to field marketing efforts and programs to introduce and promote our new and existing products. Facilities and IT-related expenses related to our sales and marketing organization also increased $1.7 million during the first half of fiscal 2014 compared to the same period in fiscal 2013.

General and Administrative Expenses

	Three Months Ended January 31,		Six Months Ended January 31,	
	2014	2013	2014	2013
	(in thousands)			
General and administrative expenses	$ 14,468	$ 12,399	$ 28,983	$ 24,350
Percent of total revenue	8.3%	8.0%	8.6%	8.1%

For the second quarter and first half of fiscal 2014, our general and administrative expenses increased $2.1 million, or 16.7%, and $4.6 million, or 19.0%, respectively, as compared to the same periods in fiscal 2013. The increase in both periods was primarily a result of expanding our headcount to support our business growth.

For the second quarter of fiscal 2014, personnel and related costs increased $1.6 million, including an increase in stock-based compensation expense of $0.1 million, over the same period in fiscal 2013 as a result of increased headcount and higher compensation incentives. Additionally, expenses related to third-party technical services to support our networking and financial information system infrastructures increased $0.5 million.

For the first half of fiscal 2014, personnel and related costs increased $3.4 million, including an increase in stock-based compensation expense of $0.3 million, over the same period in fiscal 2013 as a result of increased headcount and higher compensation incentives. Additionally, we increased our corporate tax reserves by $0.7 million and we incurred $0.4 million of higher third-party technical services expenses related to our networking and financial information system infrastructure.

Other Income (Expense), Net

	Three Months Ended January 31,		Six Months Ended January 31,	
	2014	2013	2014	2013
	(in thousands)			
Interest income	$ 217	$ 293	$ 478	$ 609
Other income (expense), net	(80)	978	190	1,254
Total other income, net	$ 137	$ 1,271	$ 668	$ 1,863
Percent of total revenue	0.1%	0.8%	0.2%	0.6%

Interest income decreased in the second quarter and first half of fiscal 2014 compared to same periods in fiscal 2013, primarily as result of lower investment balances as a result of the volume of stock repurchases under our share repurchase program.

Other income (expense), net decreased during the second quarter of fiscal 2014 compared to same period in fiscal 2013, primarily as a result of the change in the valuation of our contingent rights liability related to the acquisition of Azalea. In the second quarter of fiscal 2013, the contingent right liability with Azalea expired resulting in a gain of $1.3 million, which was partially offset by losses on foreign currency. For further information refer to Note 3, Contingent Rights Liability Arising from Business Combinations, of the Notes to Consolidated Financial Statements.

Provision for Income Taxes

	Three Months Ended January 31,		Six Months Ended January 31,	
	2014	2013	2014	2013
	(in thousands)			
Income (loss) before income taxes	$ (3,482)	$ 7,492	$ (8,579)	$ 12,615
Provision for income taxes	7,219	2,502	9,949	8,451
Net income (loss)	$ (10,701)	$ 4,990	$ (18,528)	$ 4,164
Effective tax rate	207.3%	33.4%	116.0%	67.0%

Our effective tax rate in all periods is the result of the mix of income earned in various tax jurisdictions that apply a broad range of income tax rates. Accordingly, changes in the jurisdictional mix of pre-tax income in the current year could result in pre-tax income being higher or lower than the prior year in countries with lower statutory tax rates, which could cause our effective income tax rate to fluctuate. The impact of such changes could be meaningful in countries with statutory income tax rates that are significantly lower than the U.S. statutory income tax rate of 35%. For the second quarter and first half of fiscal 2014, we computed our provision for income taxes based upon the actual tax rates for those periods as we determined that small changes in the estimated income or loss between tax jurisdictions would result in significant changes in the estimated annual effective tax rate. For the second quarter and first half of fiscal 2014, our effective tax rates differed from the U.S federal statutory tax rate of 35% primarily due to non-deductible stock-based compensation expense, foreign operations and fixed amortization of deferred tax charges related to the fiscal 2012 intercompany sale of intellectual property rights. Future effective tax rates could be adversely affected if earnings are lower than anticipated in countries where we have lower statutory tax rates or by unfavorable changes in tax laws and regulations or their interpretation.

For the second quarter and first half of fiscal 2013, our effective tax rates differed from the U.S. federal statutory tax rate of 35% primarily due to non-deductible stock-based compensation expense, foreign operations, fixed amortization of deferred tax charges related to the fiscal 2012 intercompany sale of intellectual property rights, a $1.8 million adjustment recorded for prior period tax expense, and a benefit to the provision for income taxes of $3.8 million related to the re-instatement of the U.S. federal research credit. This U.S. federal research credit of $3.8 million consisted of $1.9 million that was recorded discretely in the second quarter of fiscal 2013 and the remaining $1.9 million reduced the annual effective tax rate.

The increase in the effective tax rate between the second quarter of fiscal 2014 and 2013, and the increase in the effective tax rate between the first half of fiscal 2014 and 2013 are primarily due to the tax benefits recognized in the first half of fiscal 2013 relating to the re-instatement of the U.S. federal research credit, a valuation allowance on California research credit, a difference in the mix of earnings among jurisdictions with different tax rates, and the effect of a different pre-tax income or loss relative to fixed amortization of deferred tax charges. These factors are net of a $1.8 million adjustment for prior period tax expense which was recorded in the first quarter of fiscal 2013.

In fiscal 2012, we implemented a new corporate organization structure to more closely align our corporate organization with the international nature of our business activities and to reduce our overall effective tax rate through changes in how we develop and use our intellectual property and the structure of our international procurement and sales, including transfer-price arrangements for intercompany transactions.

We recorded a deferred charge during the first quarter of fiscal 2012 related to the deferral of income tax expense on intercompany profits that resulted from the sale of our intellectual property rights outside of North and South America to our Irish subsidiary. We also record deferred charges on other sales of intangible properties as they occur. The deferred charge from these transactions is included in prepaids and other current and non-current assets on the Consolidated Balance Sheets. As of January 31, 2014, the balance in prepaids and other current assets was $4.2 million and $3.1 million in other non-current assets. The deferred charge is amortized on a straight-line basis as a component of income tax expense over three to eleven years, based on the economic life of the intellectual property and will increase our effective tax rate during the amortization period. The deferred charge resulted in a 45.5 point increase to our effective tax rate for the first half of fiscal 2014 from 70.5% to 116.0%. While we have yet to realize any tax savings to date, we expect to realize a reduction in our effective tax rate as a result of our corporate reorganization after the deferred charges have been fully amortized.

We file income tax returns in the U.S. federal jurisdiction, various U.S. state and local jurisdictions, and in various foreign jurisdictions. Due to the Company's net operating loss and credit carryforwards, substantially all years are subject to examination. There are no material income tax audits currently in progress as of January 31, 2014.

For further information, refer to Note 10, Income Taxes, of the Notes to Consolidated Financial Statements.

Liquidity and Capital Resources

	January 31, 2014	July 31, 2013
	(in thousands)	
Working capital	$ 232,309	$ 368,760
Cash and cash equivalents	$ 110,562	$ 144,919
Short-term investments	$ 167,689	$ 269,882

	Six Months Ended January 31,	
	2014	2013
	(in thousands)	
Cash provided by operating activities	$ 54,603	$ 82,589
Cash provided by (used in) investing activities	$ 93,350	$ (25,719)
Cash used in financing activities	$ (182,310)	$ (12,873)

As of January 31, 2014, our principal sources of liquidity were our cash, cash equivalents and short-term investments. Cash and cash equivalents are comprised of cash, sweep funds and money market funds with an original maturity of 90 days or less at the time of purchase. Short-term investments include corporate bonds, U.S. government agency securities, U.S. treasury bills, commercial paper, certificates of deposit, and municipal notes and bonds. Cash, cash equivalents and short-term investments decreased by $136.6 million during the first half of fiscal 2014 from $ 414.8 million as of July 31, 2013 to $278.3 million as of January 31, 2014, primarily as a result of stock repurchases under our stock repurchase program of $193.5 million and the payment of a legal settlement of $14.0 million during the first quarter of fiscal 2014. As of January 31, 2014 and July 31, 2013 we had $49.8 and $35.0 million of cash and cash equivalents, respectively, held outside the United States, the majority of which can be repatriated without adverse tax consequences. Historically, we have required capital principally to fund our working capital needs, stock repurchase program and acquisition activities. It is our investment policy to invest excess cash in a manner that preserves capital, provides liquidity and maintains appropriate diversification and optimizes current income within our policy's framework. We are averse to principal loss and attempt to ensure the safety and preservation of our invested funds by limiting default risk, market risk and reinvestment risk. Our investment policy is designed to prevent fluctuations in market value which could materially affect our financial results.

Cash Flows from Operating Activities

Our cash flows from operating activities will continue to be affected principally by our profitability, working capital requirements, the extent to which we increase spending on personnel and the continued growth in revenue and cash collections. The timing of hiring sales personnel in particular affects cash flows as there is a lag between the hiring of sales personnel and the generation of revenue and related cash flows. In the future, we anticipate achieving cash tax savings and a reduction in our overall tax rate as a result of our corporate organization structure implemented in fiscal 2012 offset by increases in our cash tax obligations after our tax loss and credit carryforwards have been utilized. Our largest source of operating cash flows is cash collections from our customers. Our primary uses of cash from operating activities are for personnel related expenditures, purchases of inventory, and rent payments.

During the six-month period ended January 31, 2014, net cash provided by operating activities decreased $28.0 million compared to the similar period in fiscal 2013. This decrease was primarily due to a decrease in cash flows of $2.6 million generated from operations after adjusting our net income (loss) for the first half of fiscal 2014 for non-cash items (primarily as a result of an increase in depreciation and amortization of $3.4 million and an increase of stock-based compensation expense of $8.6 million) and a decrease of $25.4 million from the change in operating assets and liabilities (primarily as a result of a decrease in accounts payable and other liabilities of $36.2 million and by an increase in deferred revenue of $18.9 million).

The decrease in cash flows generated from operating activities of $2.6 million was primarily driven by an increase in payroll compensation and related benefits driven by an increase of headcount of approximately 20% between the first half of fiscal 2014 and first half of fiscal 2013, primarily in sales and marketing and research and development.

The decrease of $36.2 million in accounts payable and other liabilities was primarily due to lower partner rebates balances due to timing of payments and payment of a legal settlement in the first quarter of fiscal 2014. The increase of $18.9 million in deferred revenue was primarily due to quarter end inventory stocking orders of our value-added distributors, growth of annual maintenance contracts from our customers, and transactions which have certain acceptance or deployment provisions which will be recognized as revenue when the revenue recognition criteria are met.

Cash Flows from Investing Activities

Cash provided by (used in) investing activities increased $119.1 million during the first half of fiscal 2014 compared to the same period in fiscal 2013. We purchased $36.9 million less short-term investments in the first half of fiscal 2014 compared to same period in fiscal 2013, as we liquidated some investments to finance our share repurchase program. Proceeds from the sales and maturities of short-term investments in the first half of fiscal 2014 increased $77.7 million compared to the same period in fiscal 2013 in order to fund our share repurchase program. Purchases of property and equipment in the first half of fiscal 2014 decreased by $3.0 million compared to the same period in fiscal 2013 due to new product timing and leverage of our fiscal 2013 research and development infrastructure investments and unpaid balance of purchases of property and equipment at the end of the quarter ended January 31, 2014 of $0.9 million.

Cash Flows from Financing Activities

Cash used in financing activities decreased by $169.4 million during the first half of fiscal 2014 compared to the same period in fiscal 2013. Cash used in our stock repurchase program increased by $163.0 million compared to the first half of fiscal 2013. Cash proceeds from issuance of common stock decreased by $5.2 million compared to the first half of fiscal 2013 primarily due to a lower number of stock options outstanding because no additional stock options have been granted subsequent to fiscal 2012. In addition, the excess tax benefits associated with stock-based compensation expense decreased by $1.3 million compared to the first half of fiscal 2013.

Based on our current cash, cash equivalents, short-term investments, and cash generated from operations we expect that we will have sufficient resources to fund our operations for the next 12 months. However, we may, in the future, seek to raise additional capital or incur indebtedness to fund our operations or support acquisition activity. Our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our sales and marketing activities, the timing and extent of expansion into new territories, the timing of introductions of new products and enhancements to existing products, the continuing market acceptance of our products and potential future business acquisitions.

Contractual Obligations and Commitments

Operating leases and purchase obligations

The following is a summary of our contractual obligations at January 31, 2014:

	Total	Less Than 1 Year	1 — 3 Years	4 — 5 Years	More Than 5 Years
			(in thousands)		
Operating leases	$ 21,406	$ 7,019	$ 11,956	$ 2,431	$ —
Purchase obligations (1)	41,670	30,148	8,588	1,233	1,701
Total contractual obligations	$ 63,076	$ 37,167	$ 20,544	$ 3,664	$ 1,701

(1) Purchase obligations represent contractual amounts that result from requirements to purchase goods and services to be used in our operations and exclude contractual amounts that are cancelable without penalty. These contractual amounts are related principally to inventory, information technology and marketing related purchase agreements.

Uncertain tax positions

Other long-term liabilities on our consolidated balance sheet at January 31, 2014 include $9.4 million of long-term income taxes payable for uncertain tax positions. We are unable to reliably estimate the timing of future payments related to uncertain tax positions and therefore have excluded them from the preceding table.

Off-Balance Sheet Arrangements

In the ordinary course of business, we have invested in privately held companies, which we evaluate on an ongoing basis to determine if they should be accounted for as variable interest entities. For the quarter ended January 31, 2014, we evaluated our investments in these privately held companies and concluded that we are not the primary beneficiary of any variable interest from investment entities. As a result, we account for these investments on a cost basis and do not consolidate the activity of these entities. Certain events may require a reassessment of our investments in privately held companies to determine if they meet the criteria for variable interest entities and to determine which stakeholders in such entities will be the primary beneficiary. Because we may not control these entities, we may not have the ability to influence these events. In the event of a reassessment, we may be required to make additional disclosures or consolidate these entities in future periods. As of January 31, 2014, we had no off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Risk

As of January 31, 2014, foreign currency cash accounts totaled $20.4 million, primarily in Euro, British Pounds, Chinese Yuan, Australian Dollars, and Indian Rupees.

All of our sales contracts are denominated in U.S. Dollars, and therefore, our revenue is not subject to significant foreign currency risk. Our operating expenses and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Euro, British Pound, Chinese Yuan, Australian Dollar, and Indian Rupee. To date, we have not entered into any hedging contracts because expenses in foreign currencies have been insignificant, and exchange rate fluctuations have had little impact on our operating results and cash flows.

We assessed the risk of loss in fair values from the impact of hypothetical changes in foreign currency exchange rates. For foreign currency exchange rate risk, a 10% increase or decrease of foreign currency exchange rates against the U.S. dollar with all other variables held constant would have resulted in a $2.0 million change in the value of our foreign currency cash accounts at January 31, 2014.

Interest Rate Sensitivity

We had cash, cash equivalents and short-term investments totaling $278.3 million and $414.8 million as of January 31, 2014, and July 31, 2013, respectively. The cash, cash equivalents and short-term investments are held for working capital purposes. We do not use derivative financial instruments in our investment portfolio. We have an investment portfolio of fixed income securities that are classified as "available-for-sale securities." These securities, like all fixed income instruments, are subject to interest rate risk and will fall in value if market interest rates increase. We attempt to limit this exposure by investing primarily in short-term securities. Due to the short duration and conservative nature of our investment portfolio, a movement of 10% in market interest rates would not have a material impact on our operating results and the total value of the portfolio over the next fiscal year. If overall interest rates had fallen by 10% during the first half of fiscal 2014, our interest income on cash, cash equivalents and short-term investments would have not resulted in a material decrease assuming consistent investment levels.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as amended (the "Exchange Act"). In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on our evaluation, our chief executive officer and chief financial officer concluded that, as of January 31, 2014, 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 rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the second quarter of fiscal 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Internal control over financial reporting means 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.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The information set forth under the heading "*Legal Matters"* in Note 12, Commitments and Contingencies, of Notes to Consolidated Financial Statements in Item 1 of Part I, Item 1 of this Form 10-Q is incorporated herein by reference. For additional discussion of certain risks associated with legal proceedings, see Item 1A, "*Risk Factors*."

Item 1A. Risk Factors

Set forth below and elsewhere in this report, and in other documents we file with the SEC, are risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this report and in our other public statements. Because of the following factors, as well as other factors affecting our financial condition and operating results, past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods. The description below includes any material changes to and supersedes the description of the risk factors affecting our business previously discussed in "Part I, Item 1A Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended July 31, 2013 and "Part II, Other Information, Item 1A. Risk Factors" of our Quarterly Report on Form 10-Q for the fiscal quarter ended October 31, 2013. These risks are not presented in order of importance or probability of occurrence.

This section should be read in conjunction with the unaudited consolidated financial statements and accompanying notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations in this Quarterly Report on Form 10-Q.

Risks Related to Our Business and Industry

Risks Relating to Our Finances and Operations

Our operating results may fluctuate significantly, which makes our future results difficult to predict and could cause our operating results to fall below expectations or our guidance and could cause our stock price to fluctuate.

Our annual and quarterly operating results have fluctuated in the past and may fluctuate significantly in the future, which makes it difficult for us to predict our future results. These fluctuations may be due to a variety of factors, many of which are outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful, and investors should not rely on our past results as an indication of our future performance.

In general, our product revenue reflects orders shipped in the same quarter that orders are received. In addition, we receive a substantial portion of our orders for each fiscal quarter in the last month of that fiscal quarter, which is a trend we expect to continue. We face risks of both under-estimating and over-estimating the amount and timing of orders from our customers. On the one hand, even though we may have business indicators about customer demand during a quarter, if we are unable to ship enough product to fulfill the orders we receive in the last month of each fiscal quarter, we would be forced to delay those shipments and the revenue that goes with those orders. On the other hand, because our budgeted expense levels depend in part on our expectations of future revenue, if the orders we receive in the last month of each fiscal quarter do not meet our expectations, we may not be able to reduce our costs quickly enough to compensate for the amount of unexpected revenue shortfall. If either of these eventualities were to occur, we would expect our revenue to be adversely affected, and we might fail to meet securities analysts' and investors' expectations, which could cause our stock price to decline.

In addition to other risks listed in this "Risk Factors" section, factors that may cause our operating results to fluctuate include:

- the impact of unfavorable worldwide economic and market conditions;
- the amount of orders booked but not shipped in prior quarters that are shipped in the current quarter;
- reductions in customers' budgets for information technology purchases and delays in their purchasing cycles;
- the sale of our products in the timeframes we anticipate, including the number and size of orders in each quarter;
- our dependence on several large vertical markets, including the government, health care, retail, enterprise and education vertical markets;
- our ability to control costs, including our operating expenses, and the costs of the components we purchase;
- product mix and average selling prices, as well as increased discounting of products by us and our competitors;
- our ability to maintain volume manufacturing pricing from our contract manufacturers and component suppliers;
- our contract manufacturers' and component suppliers' ability to meet our product demand forecasts;
- any decision to increase or decrease operating expenses in response to changes in the marketplace or perceived marketplace opportunities;
- our ability to derive benefits from our investments in sales, marketing, engineering or other activities;
- volatility in our stock price, which may lead to higher stock compensation expenses;

- the timing of revenue recognition in any given quarter as a result of timing of the orders meeting the relevant revenue recognition criteria;
- fluctuations in our tax rate due to various factors, including the mix of our domestic and international revenue;
- the impact of one-time events, such as acquisitions and litigation settlements;
- the regulatory environment for the certification and sale of our products; and
- seasonal demand for our products, some of which may not be currently evident due to our revenue growth during recent fiscal years.

Our prospects should be considered and evaluated in light of the risks and uncertainties frequently encountered by companies of our size, resources and operating history in rapidly evolving markets characterized by rapid technological change. Because our quarterly operating results are difficult to predict even in the near term, in one or more future quarterly periods, our operating results may fall below the expectations of securities analysts and investors or below any guidance we may provide to the market. If this were to occur, the trading price of our common stock could decline significantly. Stock price declines could occur, and have occurred in the past, even when we have met our publicly stated revenue and/or earnings guidance.

Our business, operating results and growth rates may be adversely affected by unfavorable economic and market conditions.

Our business depends significantly on economic conditions generally and the demand for products and services in the enterprise mobility market specifically. Global economic conditions have been challenging due to the recent recession, adverse global credit conditions, low economic growth, high unemployment rates, reduced capital spending, and uncertainty regarding the U.S. federal budget, policy, spending and planning, including debates concerning the U.S. borrowing limits. The sovereign debt default risks in certain European Union countries as well as conflicts in the Middle East, Eastern Europe and elsewhere have created political and economic uncertainties that have impacted, and continue to impact, worldwide markets. Economic growth in the U.S. and many other countries remains low and the length of time these adverse economic conditions may persist is unknown.

These global and regional adverse economic conditions directly and indirectly impact our customers and the decisions they make regarding whether to make capital commitments and spend resources on IT generally and our solutions in particular. A customer's decision to purchase our solutions, or to replace existing infrastructure, tends to be discretionary and generally involves a significant commitment of capital and other resources. As a result, when our customers and potential customers are faced with weak economic conditions, we can expect one or more of the following customer reactions: reductions in overall IT expenditures, longer sales cycles, demand for lower prices, requests for longer payment terms, reduced unit sales, and purchases of lower cost solutions with fewer features.

These types of customer reactions have in the past resulted in (and may in the future continue to result in) delayed sales cycles, canceled sales and lower overall revenues, which have (as we experienced in the third quarter of our fiscal 2013) negatively impacted (and may again negatively impact) our ability to meet our financial forecasts and achieve our expected rates of growth. Although we would expect the impacts of these customer reactions to ameliorate as economic conditions improve, one or all of these reactions could continue or increase even if global and regional economic and market conditions become more favorable.

Although demand for products and services in the enterprise mobility market has continued to grow despite the global economic slowdown, the rate of that growth has slowed. We believe that the adverse global economic climate has played (and will continue to play) a role in the slower growth rates for products and services in the enterprise mobility market, including our suite of solutions. If the overall market demand for the types of solutions we sell does not grow or fails to grow at the rates we expect (and we do not otherwise increase our share of the market), then our revenue, business and operating results would likely be adversely impacted. In addition, if interest rates were to rise or foreign exchange rates were to weaken for our international customers, overall demand for our solutions could be further dampened, and related IT spending might be reduced. Furthermore, any increase in worldwide commodity prices might result in higher component prices and increased shipping costs, both of which would be likely to negatively impact our financial results.

We expect our gross margin to vary over time and our recent level of product and services gross margin may not be sustainable. Fluctuations and/or declines in our gross margin could cause our stock price to decline.

Our product and services gross margins vary from quarter to quarter. For example, our level of product margins declined in fiscal 2013 relative to fiscal 2012 and may continue to decline and may be adversely affected in the future by numerous factors, including: changes in the mix of products and services sold, the percentage of revenue we receive from international regions, increased price competition and discounting pressures (particularly on larger deals), increases in material, labor or other manufacturing-related costs, excess product component or obsolescence charges from our contract manufacturers, write-downs for obsolete or excess inventory, increased costs due to changes in component pricing or charges incurred due to component holding periods if our forecasts do not accurately anticipate product demand, timing of revenue recognition and revenue deferrals, warranty-related issues, product discounting, freight charges, or our introduction of new products or new product platforms or entry into new markets with different pricing and cost structures. If one or more of these factors were to impact our results, our gross margin may be adversely affected, which in turn could cause our stock price to decline.

If we fail to manage future growth effectively, our business would be harmed.

We have expanded our operations and anticipate that further expansion will be required in order to sustain and increase our growth. We intend to continue our international expansion and increase our market penetration both domestically and internationally through our network of channel partners and by increasing our direct sales force. For example, during the first half of our fiscal 2014, we significantly increased the size of our direct sales force. In addition, we have increased our offshore operations by establishing additional offshore capabilities for certain engineering and general and administrative functions in China, India and Ireland, which we plan to continue.

This growth has placed and, we expect it will continue to place, significant demands on our management, infrastructure and other resources. To manage any future growth, we will need to hire, integrate and retain highly skilled and motivated employees. We will also need to continue to improve and expand our information technology and financial infrastructure, operating and administrative systems and controls, and continue to manage headcount, capital and processes in an efficient manner. Likewise, as we expand our professional services organization, we will need to manage that growth to ensure that our ability to deliver services aligns with demand.

If we fail to manage our growth effectively, we may experience a wide variety of negative impacts to our business. For example, we expect that our continued growth will require us to make significant investments in information technology, or IT, infrastructure. If we do not timely purchase or properly implement these IT infrastructure purchases, we could inaccurately forecast customer demand for a particular product, which could lead to insufficient inventory and lost sales opportunities. Alternatively, if our IT systems fail to operate as we intend, we could overestimate demand and finish a quarter with obsolete or excess inventory. If any of these were to occur, our growth rate could be impeded. In addition, if our IT systems and related control environments are insufficient to scale with the growth of our operations, we may identify one or more significant deficiencies or material weaknesses in our internal control over financial reporting. If this were to occur, we could miss a filing deadline for one of our periodic reports, which could in turn cause investors to lose confidence in us, negatively impact our ability to access the capital market and cause our stock price to decline.

Also, any future growth would add complexity to our organization and to our business, which would require effective coordination within our organization and increased risks associated with complex accounting. We may not be able to successfully implement improvements to our systems and processes in a timely or efficient manner to manage our increasingly disparate and complex organization, which could result in additional operating inefficiencies and could cause our costs to increase more than planned, negatively impact our ability to provide high quality products and services, damage our reputation and brand, and ultimately reduce our rate of growth and harm our business. In addition, if our expanded sales force does not produce results consistent with our expectations, we will not grow our revenue as quickly as planned and the increased expense for new sales personnel without the anticipated offsetting revenue could negatively impact our operating margins and profitability.

In our recent history we have incurred net losses and we may not achieve profitability in the future.

We have a history of losses, with a few quarters of profitability during our fiscal 2013, 2012 and 2011. We reported a net loss of $31.6 million for fiscal 2013, a net loss of $8.9 million for fiscal 2012 and net income of $70.7 million for fiscal 2011. As of July 31, 2013 and 2012, our accumulated deficit was $145.4 million and $113.8 million, respectively. Expenses associated with the continued development and expansion of our business, including expenditures to hire and retain additional personnel for sales and marketing and technology development, as well as costs of investing in infrastructure and IT systems to sustain our business, could limit our ability to sustain operating profits. If we fail to increase revenue or manage our cost structure, we may not achieve profitability again in the future. As a result, our business could be harmed, and our stock price could decline.

Impairment of our goodwill or other assets would negatively affect our results of operations.

Our acquisitions have resulted in total goodwill of $67.2 million and intangible assets, net of $22.2 million as of January 31, 2014. Goodwill is reviewed for impairment at least annually. Other intangible assets that are deemed to have finite useful lives are amortized over their useful lives but reviewed for impairment upon certain events or changes in circumstances. Screening for and assessing whether impairment indicators exist, or if events or changes in circumstances have occurred, requires significant judgment. Therefore, it is possible that a charge to operations might occur as a result of future goodwill and intangible asset impairment tests.

If goodwill or intangible assets were deemed to be impaired, an impairment loss equal to the amount by which the carrying amount exceeds the fair value of the assets would be recognized, which would result in incremental expenses for that quarter and a reduction to any earnings or an increase to any loss for the period in which the impairment was determined to have occurred. If and when these write-downs occur, they could harm our business, financial condition, and results of operations. No goodwill or long-lived assets impairment charges were recorded during our fiscal 2013, 2012, or 2011.

As in the past, any future economic weakness could cause price and volume fluctuations in global stock markets that might also reduce the market price of our common stock. Declines in our stock price, level of revenues or gross margins would increase the risk that goodwill and intangible assets might become impaired in future periods, which would have an adverse effect on our results of operations. In addition, in response to changes in industry and market conditions, we may be required to strategically realign our resources and consider restructuring, disposing of, or otherwise exiting businesses. Any decision to limit investment in or dispose of or otherwise exit businesses may result in the recording of special charges, such as inventory and technology-related write-offs, workforce reduction costs, charges relating to consolidation of excess facilities, or claims from third parties who were resellers or users of discontinued products.

We may need to raise additional funds in the future and those funds may not be available on acceptable terms or at all.

We believe that our existing cash, cash equivalents, short-term investments and cash generated from operations will be sufficient to meet our anticipated cash requirements for at least the next 12 months. We may, however, seek to raise substantial additional capital to: fund our operations, continue our research and development, develop and commercialize new products, acquire companies, license products or other intellectual property, expand sales and marketing activities, or repurchase shares of our common stock.

Our future funding requirements will depend on many factors, including: customer acceptance of our solutions, cost of our research and development efforts, cost of establishing additional sales, marketing and distribution channels, cost of defending and prosecuting intellectual property infringement claims, competition from our competitors, including pricing pressures that negatively affect our gross margins, the market for different types of funding and overall economic conditions, and the cost of building out our infrastructure.

We may require additional funds in the future, and we may not be able to obtain those funds on acceptable terms, or at all. If we raise additional funds by issuing equity or convertible debt securities, our stockholders may experience dilution. Debt financing, if available, may involve covenants restricting our operations or our ability to incur additional debt. Any debt or additional equity financing that we might raise could contain terms that are not favorable to us or our stockholders.

If we do not have, or are not able to obtain, sufficient funds, we may have to delay development or commercialization of our products or license to third parties the rights to commercialize products or technologies that we would otherwise seek to commercialize. If we raise additional funds through collaboration and licensing arrangements with third parties, it may be necessary to relinquish some rights to our technologies or our products, or to grant licenses on terms that are not favorable to us. If we are unable to raise adequate funds, we may have to liquidate some or all of our assets, or delay, reduce the scope of or eliminate some or all of our development programs. We also may have to reduce sales, marketing, customer support or other resources devoted to our products or cease operations. Any of these actions could harm our operating results.

Access to capital and ability to bid for acquisitions against much larger capitalized competitors could prevent us from making acquisitions, which could cause us to forego opportunities that would otherwise have increased our market share or expanded our product portfolio.

We have in the past, and may in the future, seek to acquire businesses or technologies to stimulate our growth, enhance our existing solutions, acquire additional talented employees and/or foster our ability to bring new solutions to market. We intend to address these needs through acquisitions of other companies, business divisions, technologies, and personnel. However, even if we are able to identify attractive acquisition targets, we may not be able to complete those acquisitions, which could negatively impact our growth strategy and cause us to unnecessarily expend management time and other resources.

In any competitive bidding contest for a prospective acquisition target, we may not be able to provide the most attractive offer because several of our competitors have significantly greater cash available for acquisitions. As a result, we may be required to make our offer contingent upon obtaining outside equity or debt financing, which could be perceived by the target as inferior to a non-contingent cash offer, even if our offer were higher. In addition, our larger competitors have greater resources than we do to devote to identifying potential acquisition targets, which also puts us at a competitive disadvantage. If our larger competitors are successful in identifying more candidates and/or placing more favorable bids for target companies, we would be compelled to forego opportunities that otherwise might have increased our market share, employee count or technologies. Furthermore, if our larger competitors purchase market-leading companies in a complementary space, we then might not be able to partner with or purchase another company in the same space. If this were to occur, the solutions we offer would lack a desirable feature set (unless we were able to spend the time and money necessary to build that feature set ourselves), which would place us at a competitive disadvantage and could result in us losing market share to our larger competitors.

We may engage in future acquisitions that could disrupt our business, cause dilution to our stockholders and harm our business, operating results and financial condition.

In the event we are successful in acquiring new businesses, products or technologies, we will face additional risks, including the following:

- difficulties in integrating the personnel, operations, systems (including financial reporting and internal control systems), technologies and products of the acquired companies, particularly companies located in foreign jurisdictions or with widespread operations and/or complex products;
- challenges in retaining and motivating key personnel from these acquired businesses, particularly those critical to the continued success of those businesses;
- markets not evolving as we anticipated or acquired technologies not proving to be those needed to be successful in our markets;
- difficulties in maintaining uniform standards, controls, procedures and policies across locations, or in managing geographically or culturally diverse locations;
- acquired product quality complications or exposures to new legal liabilities;
- diversion of management attention from normal daily operations;
- challenges of managing larger and more widespread operations;
- difficulties in completing projects associated with in-process research and development (R&D) intangibles;
- challenges in entering markets in which we have no or limited direct prior experience that have strong competitors;
- challenges of creating a new go-to market sales action for acquired products outside our traditional area of expertise;
- increased expenses without sufficient offsetting revenue from the acquired business;
- failure to achieve targeted cost and revenue synergies;
- acquired business liabilities, including claims of patent or other intellectual property infringement;
- initial dependence on unfamiliar or small supply partners; and
- loss of key employees, customers, distributors, vendors and other business partners of both us and the companies we acquire.

In addition, even if we manage these integration and other risks, the acquisition may fall short of our expectations and may not strengthen our competitive position or otherwise achieve our goals. Moreover, any future acquisition could be viewed negatively by financial markets or investors, which could cause a decline in our stock price.

Depending on the terms of the acquisitions, we could be required to take one or more of the following actions:

- issue shares of our common stock, which would cause dilution;
- use a substantial portion of our cash resources, or incur debt, which may require us to agree to restrictive financial covenants;
- assume known or unknown liabilities;
- record goodwill and non-amortizable intangible assets that are subject to potential periodic impairment charges;
- incur amortization expenses related to intangible assets;
- incur tax expenses related to the acquisition effect on our intercompany cost sharing arrangement and legal structure; or
- incur large and immediate write-offs and restructuring expenses.

Certain acquisition candidates in the industries in which we participate, particularly in the software business, may carry higher relative valuations (based on earnings multiples) than we do. Acquiring a business may be dilutive to our earnings, especially if the acquired business has little or no revenue. Ultimately, mergers and acquisitions of high-technology companies are inherently risky and subject to many factors outside of our control, and we cannot assure investors that our previous or future acquisitions will be successful.

<u>Risks Relating to our Products, Target Market and Competition</u>

The market in which we compete is highly competitive, and competitive pressures from existing and new companies may have a material adverse effect on our business, revenue, growth rates and market share.

The enterprise mobility market in which we compete is highly competitive and is influenced by the following factors:

- comprehensiveness of our solutions;
- performance, reliability and features of our solutions;
- average sales price (including the size of any discounts), total cost of ownership, and return-on-investment;
- ability to introduce new products quickly and efficiently;
- ability to easily deploy and operate our solutions in our customers' existing networks;
- interoperability of our solutions with other devices;
- scalability of our solutions;
- ability to reduce production costs;
- brand awareness and reputation;

- strength and scale of sales and marketing efforts, professional services and customer support;
- ability to maintain and establish distribution channels in markets throughout the world;
- ability to provide timely, cost-effective support and professional services;
- ability to provide secure mobile access to the network;
- speed of mobile connectivity offering;
- ability to support accounting of complex transactions;
- ability to allow centralized management of products; and
- ability to conform to standards and obtain regulatory and other industry certifications.

Currently, we compete with a number of large and well-established public companies in the broader edge-access market (primarily in the WLAN space), including Cisco Systems, Inc., Hewlett-Packard Company and Motorola Solutions, Inc., as well as smaller public and private companies and new market entrants. A number of our current or potential competitors have longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical, sales, marketing and other resources than we do. As a result, these competitors may be able to devote greater resources to the promotion and sale of their products and services, better initiate or withstand substantial price competition, more readily take advantage of acquisitions or other opportunities, more quickly develop and expand their product and service offerings and more quickly anticipate, influence or adapt to new or emerging technologies and customer requirements than we can.

Competitors offering a broader range of products than we offer have in the past bundled (and may in the future continue to bundle) products in a manner that makes it challenging for us to compete based on price. Some of these competitors also may have the ability to leverage their relationships with customers based on other products or incorporate functionality into existing products to gain business in a manner that discourages customers from purchasing our products.

We expect competition to intensify in the future based on the following factors:

- continued consolidation among our competitors;
- emergence of new companies as competitors in our markets or new markets in which we may participate;
- expansion by us into new geographic and product markets with new competitors (including companies outside of the traditional infrastructure market) as we broaden our offering of solutions;
- introduction by other companies of new products in the markets we serve or may enter;
- marketing of competitive products and services by our channel partners; and
- the rapid pace of technological advancement.

For example, some of our competitors have made acquisitions or entered into partnerships or other strategic relationships with one another to offer more comprehensive solutions than they individually had offered. We expect this trend to continue as companies attempt to strengthen or maintain their market positions. The companies resulting from these consolidations could create more compelling product offerings and offer greater pricing flexibility, either or which would make competing on the basis of price, sales and marketing programs, technology or product functionality more difficult for us. Continued industry consolidation may adversely impact customer perception of the viability of medium-sized technology companies and, consequently, customer willingness to purchase from such companies.

In addition, we can expect competition to develop from new market entrants, which could include our channel partners and customers. If our channel partners purchase companies that compete with us or otherwise begin to market products and services that compete with our products and services, the resulting pressures could adversely affect our business, operating results and financial condition in a material way and may even result in the termination of our relationship with those channel partners. Any actual or speculated consolidation among competitors, or the acquisition of our partners and/or resellers by competitors or new market entrants, is likely to increase the competitive pressures faced by us as customers may delay spending decisions or not purchase our products at all. As we continue to expand globally, we may see new competition in different geographic regions from existing companies with strong technological, marketing and sales positions in those markets. In particular, we have experienced price-focused competition from competitors in Asia, especially from China, and we anticipate this will continue. Moreover, companies with whom we have strategic alliances in some areas may be competitors in other areas, which could negatively impact our existing business relationship with these companies and harm our business.

Competitive products may have better performance, more and/or better features, lower prices and broader acceptance than our products. As a result, if we do not keep pace with product and technology advances, there could be a material adverse effect on our competitive position, revenue and prospects for growth. Even if we keep pace with technological advances and market products with better performance or features than our competitors, potential customers may prefer to purchase from their existing suppliers (or a single provider) rather than a new supplier, regardless of product performance or features. Each of these competitive factors could result in increased pricing pressure, reduced profit margin, increased sales and marketing expenses and failure to increase (or the loss of) market share, any of which would likely seriously harm our business, operating results or financial condition.

We depend upon the development of new products and enhancements to our existing products. If we fail to predict and respond to the changing needs of end-customers or to emerging technological trends and industry standards, we may not be able to remain competitive and our business, operating results, financial condition and market share could be adversely affected.

The enterprise mobility market in which we participate is characterized by quickly changing end-customer needs and rapidly evolving technological trends and industry standards, which result in the frequent introduction of new products and services. For example, changes in customer network architectures are driving a demand for, among other things, cloud-based solutions. To succeed, we must accurately anticipate and rapidly adapt to the new device purchases and application preferences of our end-user customers, quickly react to other technological advances that affect our market, and out-pace our competitors by bringing new products, features and services to market that will meet the latest customer demands, market trends and regulatory requirements. We have to prioritize development activities and balance resources across multiple solutions. The demands of new product development in one area of our business may negatively impact our ability to invest and compete in other areas. If, for any reason, we fail to successfully react to these market pressures, do not bring competitive new products to market in a timely fashion or otherwise fail to balance our resources effectively, then we may not be able to remain competitive and our business, operating results, financial condition and market share could be adversely affected.

Adaptability to Changing End-Customer Habits and Needs

We expend significant resources on research and development attempting to drive or otherwise anticipate and react to our customers' needs. In addition, from time to time, we acquire other companies to expedite our ability to more rapidly bring products to market and enhance our range of product offerings. For example, for the fiscal year ended July 31, 2013, we spent approximately $139.7 million dollars on R&D of new products and technologies and on enhancements to our existing products, as well as an additional cash payment of $16.8 million to acquire Meridian Apps, Inc. In addition, we are obligated to pay additional cash consideration of up to $10.2 million to certain former Meridian employees who became our employees, which will be made over a period of approximately three years from the closing date of the acquisition, subject to certain continued employment restrictions. Both R&D in the enterprise mobility industry and the process of acquiring and integrating new technologies are complex and filled with uncertainties, including:

- loss of opportunities due to R&D;
- delays in customer purchases due to budgetary concerns, lengthy evaluation cycles or internal decisions to rely on older technologies or defer purchases until newer technologies are available;
- failure of new products or enhancements to achieve anticipated acceptance rates by our channel partners or the market, including failures resulting from accelerated obsolescence of new products due to technological or acquisition-related advances made by our competitors; or
- incompatibility of new products with our existing solutions in terms of technical integration and/or go-to-market strategy.

As a result, we cannot guarantee that any of our significant research and development or acquisition expenditures will lead to the successful or timely introduction of high quality products that will be adopted in our market or compete successfully against the offerings of our competitors.

Response to Technological Advances and Evolving Industry Standards

We also expend significant resources on research and development so that we can rapidly respond to the latest technological advances and industry standards in the enterprise mobility market. We manufacture our products to comply with standards established by various standards bodies, including the Institute of Electrical and Electronics Engineers, Inc., or the IEEE, to ensure that our products are designed to be compatible with industry standards for secure communications over wireless and wireline networks. If we are not able to adapt to new or changing standards that are ratified by these bodies, our ability to sell our products may be adversely affected. In addition, if we adapt too quickly to an evolving standard, we face the risk that the adaptation we make may not be aligned with the final adopted standard. For example, recently we began shipping products that comply with the new 802.11ac wireless LAN standard, or the .11ac standard. Although these products are backwards compatible with the .11n standard, we cannot guarantee that the new .11ac standard will be widely adopted or that the IEEE will not modify the .11ac standard in the future. We remain subject to any changes adopted by various standards bodies, which would require us to modify our products to comply with the new standards, require additional time and expense and could cause a disruption in our ability to market and sell the affected products.

Race to Market and Marketplace Pressures

Even if we accurately anticipate customer needs and react in a timely way to evolving industry standards and technological advances, we may not be successful in developing new products or new product enhancements, or our competitors could beat us to market with their solutions or offer better functionality than we are able to provide. Additionally, even if we are successful in bringing a product to market, once a product is in the marketplace, its selling price often decreases over the life of the product, especially after a new competitive product is publicly announced. To lessen the effect of price decreases, our product management team attempts to reduce development and manufacturing costs in order to maintain or improve our margin. However, if cost reductions do not occur in a timely manner, there could be a material adverse effect on our operating results and market share. Further, the introduction of new products may decrease the demand for older products currently included in our inventory balances. As a result, we may need to record incremental inventory reserves for the older products that we do not expect to sell. These new products also may have lower selling prices, higher costs or lower gross margins than our existing products, which could negatively impact our revenue and profitability. In addition, the introduction of new products and software updates may negatively affect our reputation if customers with legacy products become dissatisfied because the legacy products are unable to support and benefit from our software updates. Any of these challenges may have a material adverse effect on our operating results and market share.

If we are unable to recruit and retain employees, including members of our senior management, on a cost-effective basis, or if we fail to effectively integrate new personnel into our organization, we will not be able to compete effectively and our business would be harmed.

Our ability to compete is substantially dependent upon the performance of our employees, including members of our senior management. As a result, our success is substantially dependent upon our ability to attract and retain talented personnel for all areas of our organization, particularly in our sales, research and development, and customer service departments. Experienced management and technical, sales, marketing and support personnel in the IT industry are in high demand, and competition for their talents is intense, especially in the San Francisco Bay Area. Additionally, fluctuations or a sustained decrease in the price of our stock or pressures on our ability to grant equity to new and existing employees could affect our ability to attract and retain the best talent. In the event our competitors offer more attractive salaries, benefits or equity grants, we may not be successful in attracting and retaining such personnel on a timely basis, on competitive terms, or at all. The loss of, or the inability to recruit, talented employees would have a material adverse effect on our business.

All of our executive officers are at-will employees, and we do not maintain any key-man life insurance policies. The loss of the services of any members of our management team may significantly delay or prevent the achievement of our product development and other business objectives and could harm our business. For example, on November 21, 2013, we announced the resignation of our Executive Vice President of Worldwide Sales and the hiring of his replacement. The migration from one key executive officer with extended Company tenure to a new head of sales necessarily involves a number of transitional risks, including potentially adverse effects on our ability to retain and recruit sales personnel, as well as uncertainties during the new executive's transitional period which in this case will occur primarily in the first half of our fiscal 2014.

If the market for our products and services does not continue to grow as we expect, our sales, future operating results and financial condition would be adversely affected.

We develop and provide enterprise mobility products and services. The success of our business depends substantially on the continued growth and reliance on Wi-Fi in these markets. The recent growth of the market for Wi-Fi networks is being driven by the increased use of Wi-Fi-enabled mobile devices and the use of Wi-Fi as a preferred connectivity option to support video, voice and other higher-bandwidth uses.

As one of the leading providers of enterprise mobility products and services that operate in a Wi-Fi environment, our year-over-year sales growth depends in part on the growth of the Wi-Fi market as a whole. We expect the market for Wi-Fi in general to continue to grow in the near future, but there can be no guarantee that future growth rates will be consistent with historical growth rates. Moreover, even though we have continued to grow with the Wi-Fi market, growth in the Wi-Fi market as a whole may be driven in any given year by particular segments of the market in which we have a less significant presence, in which case we would not expect to grow in lock step with the larger market.

There are a number of reasons why the Wi-Fi market as a whole and the enterprise mobility market in particular may not continue to grow at the rate we expect, including: lower customer adoption rates than we forecast for our new technologies, increases in government regulation in the Wi-Fi market, customer use of alternative technologies (such as 4G and licensed spectrum) to address mobility requirements, increased use by enterprise customers of low-cost, consumer-grade, or customers purchasing Wi-Fi products or managed services from partners with whom we do not have broad, or any, relationships. In the event that continued growth and reliance on Wi-Fi slows in the markets we serve, we expect that our sales, future operating results and financial condition would be negatively impacted.

The highly technical and complex nature of our solutions (including the professional services we offer) may lead to unanticipated liabilities or losses, which could cause harm to our reputation and adversely affect our business.

Our solutions (including our professional services offerings) are highly technical and complex and, when deployed, are critical to the operation of many networks. We have focused, and intend to focus in the future, on getting our new solutions to market quickly. Due to our rapid product introductions, defects and bugs that may be contained in our products may not have manifested prior to shipment. We cannot provide assurance that our pre-shipment testing programs will be adequate to detect all defects. As a result, some errors in our products may only be discovered after a product has been installed and used by end users. Any errors, bugs, defects, malware or security vulnerabilities discovered in our products after commercial release could result in temporary or permanent withdrawal of a product, monetary penalties, decreased customer satisfaction, loss of current or prospective customers, damage to our brand and reputation, reduced sales opportunities, loss of revenues or delay in revenue recognition, reduction in the market acceptance of our new products or new versions of our products, increased development costs, incurrence of product re-engineering expenses, contractual penalties with partners, increased inventory costs and increased service and warranty cost, any of which could adversely affect our business, operating results and financial condition. In addition, when we provide professional services, we face a number of risks associated with the implementation of our solutions, ranging from inadvertent damage to customer property during installation to improper implementation and configuration, any of which could harm our reputation, adversely affect our business and otherwise expose us to increased liabilities or losses.

We could face claims for product liability, breach of contract, tort or breach of warranty, including claims relating to changes to our products made by our channel partners. Our contracts with customers, channel partners and others contain provisions relating to warranty disclaimers and liability limitations, which may not be upheld. Defending a lawsuit, regardless of its merit, is costly and may divert management's attention and adversely affect the market's perception of us and our products. In addition, if our business liability insurance coverage proves inadequate or future coverage is unavailable on acceptable terms or at all, our business, operating results and financial condition could be adversely impacted.

Risks Relating to Our Sales

Because we sell a majority of our products through VADs, VARs, system integrators and OEMs, if we experience problems affecting our sales with these channel partners, our revenue, cash flow and market share could be harmed.

Our future success is highly dependent upon establishing and maintaining successful relationships with a variety of VADs, VARs, and OEMs, which we refer to as our channel partners. If our channel partners do not perform their services adequately or efficiently, fail to meet their obligations to us, exit the industry, elect to replace our products with products of our competitors or otherwise reduce or terminate our contractual relationship, and we are not able to quickly find adequate replacements, there could be a material adverse effect on our revenue, cash flow and market share.

We have dedicated a significant amount of effort to increase the use of our VADs and VARs in each of our theatres of operations. The percentage of our total revenue fulfilled from sales through our indirect channel was 93.4%, 92.5% and 93.0% for fiscal 2013, 2012 and 2011, respectively. We expect that over time, our channel partner sales will continue to constitute a significant majority of our total revenue. The table below represents the percentage of total revenue from our top channel partners:

	Three Months Ended January 31,		Six Months Ended January 31,	
	2014	2013	2014	2013
ScanSource, Inc.	20.3%	19.9%	20.8%	20.0%
Synnex Corp.	10.9%	10.0%	12.2%	*

(*) Indicates less than 10%.

Because each of our top channel partners represents such a significant percentage of our overall revenue, the loss of all or substantially all sales generated by any one of these top channel partners would be harmful to our business. However, we cannot be certain that our top channel partners, or any of our other channel partners, will continue to sell our products and services at the same volumes, or at all, because we have no minimum purchase commitments with any of them and the contracts we do have generally provide that our channel partners use only reasonable commercial efforts to sell our products. Recently one of our channel partners, Alcatel-Lucent, publicly announced that it had agreed to sell its enterprise business unit to a new owner. While Alcatel-Lucent accounted for less than 10% of our total revenues during the first half of fiscal 2014 and our fiscal 2013 and 2012, we cannot guarantee that we will continue to do business with the new owner, which could negatively impact our revenues. In addition, our contracts with these channel partners do not prohibit them from offering products or services that compete with ours or from terminating our contracts on short notice. For example, our agreements with our top channel partners, ScanSource, Inc. and Synnex Corp., are for no more than one-year terms.

Existing and future channel partners will likely make decisions about whether or not to sell our products based on the quality of our products, the market acceptance of our products, the fact that our direct sales channel may compete with them, whether we elect to establish relationships with channel partners they perceive to be competitive threats, the discounts we offer versus those that our competitors may provide and the commercial viability of our contracts with them. If we fail to maintain the quality of our products or to update and enhance them, existing and future channel partners may elect to work instead with one or more of our competitors. In addition, the terms of our arrangements with our channel partners must be commercially reasonable for both parties. If we are unable to reach agreements that are beneficial to both parties, then our channel partner relationships will not succeed. Our competitors may be effective in providing incentives to existing and potential channel partners to favor their products or to prevent or reduce sales of our products and services. Furthermore, we compete with some of our channel partners, including through our direct sales, which may lead these channel partners to use other suppliers that do not directly sell their own products and services. Other channel partners, particularly some of our OEMs who already have diverse product lines, may acquire one of our competitors or internally develop competitive products and then elect to limit or stop incorporating our solutions into their product lines. For this or any other reason, our channel partners may choose not to focus primarily on the sale of our products or offer our products at all.

Some of our channel partners may have insufficient financial resources and may not be able to withstand changes in worldwide business conditions, including economic downturns, abide by our inventory and credit requirements, or have the ability to meet their financial obligations to us. The table below represents the percentage of total accounts receivable from our top channel partners:

	January 31, 2014	July 31, 2013
ScanSource, Inc.	16.3%	21.4%
Synnex Corp.	*	12.1%
Avnet Logistics U.S. LP	14.5%	13.1%

(*) Indicates less than 10%.

In addition to being unable to meet financial obligations to us, channel partners who are impacted by the poor overall economic climate may be forced to layoff sales and support personnel, which may in turn negatively impact their ability to sell our products and services. These channel partners may also face cash flow problems that could prevent them from capitalizing on larger deals that would require them to make inventory purchases beyond their available cash or lines of credit. If the economic situation for these channel partners does not improve, we may be negatively impacted by increased bad debt or decreased sales or both.

Our reliance on our channel partners may expose us to additional risks that could harm our business.

By relying on our indirect channel partners for a significant percentage of our revenue, we may have less contact with the end users of our products, thereby making it more difficult for us to establish brand awareness, ensure proper delivery and installation of our products, service ongoing customer requirements and respond to evolving customer needs. Reduced contact with the end users of our products also would make it more difficult and more costly to establish direct sales relationships with these end users in the event our indirect relationships terminate. In addition, we may be exposed to import/export and other risks when our indirect channel partners make sales into restricted jurisdictions. We depend on our channel partners globally to comply with applicable regulatory requirements. To the extent that they fail to do so, that could have a material adverse effect on our business, operating results, and financial condition.

We rely primarily on our channel partners to deliver professional services associated with our products. If our channel partners fail to timely and efficiently deliver those services to our end customers, our end customers would become dissatisfied and our reputation and business could be harmed unless we could provide those professional services ourselves. We do not have a large professional services organization and, accordingly, we may not be able to efficiently and cost-effectively deliver the professional services our end customers expect. If we do not effectively manage our channel partners and ensure that they deliver high quality professional services or if we do not deliver those professional services ourselves, our reputation and business could be harmed.

We may provide our indirect channel partners volume discounts off of our list prices, which could reduce our margin to the extent revenue from such channel partners increases as a proportion of our overall revenue. Historically, we have seen fluctuations in our gross margins based on changes in the balance of our distribution channels. Although variability to date has not been significant, there can be no assurance that changes in the balance of our distribution model in future periods would not have an adverse effect on our gross margins and profitability.

Recruiting, retaining and supporting qualified channel partners and training them in our technology and product offerings requires significant time and resources. Our channel partners compete with one another and, as a result, our efforts to recruit new partners may adversely impact existing partners and negatively affect their willingness to continue to distribute our solutions. In order to develop and expand our distribution channel, we must continue to scale and improve our processes and procedures that support our channel partners, including investment in systems and training, and those processes and procedures may become increasingly complex and difficult to manage. We have previously entered into OEM agreements with partners pursuant to which they rebrand and resell our products as part of their product portfolios. These types of relationships are complex and require additional processes and procedures that may be challenging and costly to implement, maintain and manage. Our failure to successfully manage and develop our distribution channel and the programs, processes and procedures that support it could adversely affect our ability to generate revenues from the sale of our products.

In addition, as we expand into new regions domestically and internationally, we incur substantial costs in hiring, training and retaining salespersons and system engineers in those territories to support our channel partners. If we are not successful in hiring and enabling these new sales personnel, then the revenues that we expect them to generate both directly and through our channel partners may not be sufficient to justify the expense and our business would be harmed.

Our ability to sell our solutions is highly dependent on the quality of our support and services offerings, and our failure to offer high quality support and services would have a material adverse effect on our sales and results of operations.

Our customers rely on our support and services organizations to assist them and our partners in implementing our solutions and resolving issues relating to our solutions. A high level of support is critical for the successful marketing and sale of our solutions. In some cases, our channel partners provide support directly to our end-customers. We do not have complete control over the level or quality of support provided by our channel partners. These channel partners may also provide support for other third-party products, which may potentially distract resources from support for our products. If we or our channel partners do not effectively assist our end customers in deploying our solutions, succeed in helping our end customers quickly resolve post-deployment issues, or provide effective ongoing support, it would adversely affect our ability to sell our products to existing customers and could harm our reputation with potential 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. As a result, our failure, or the failure of our channel partners, to maintain high quality support and services would have a material adverse effect on our business, operating results and financial condition.

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

The timing of our revenue is difficult to predict due the length of our sales cycle, the buying habits and budgetary considerations of our customers, the actual or perceived condition of the economy and the impact of revenue recognition rules on our sales agreements, which can be complex as a result of various determinations used when allocating the total arrangement consideration among different sale elements. The length of our sales cycle is influenced by a number of factors. First, because of the highly technical nature of our solutions, our sales efforts, particularly for our new products, involve educating our proposed customers about the use and benefits of our solutions, including the technical capabilities of our solutions and the potential cost savings our solutions can provide. Second, because a customer's decision to purchase certain of our products, particularly new products, involves a significant commitment of its resources, customers may undertake an in-depth evaluation process, which may involve not only our products but also those of our competitors. These customer evaluations typically range from four to nine months in length, but can be longer. In particular, customers considering the design and implementation of large network deployments may engage in very lengthy procurement processes that may delay or impact expected future orders. Specifically, we view the federal and service provider verticals as highly dependent on large transactions, and therefore we have in the past and may in the future experience fluctuations from period to period in these verticals.

Even after a customer makes the decision to purchase our solutions, there are a number of factors that may still impact the timing of the actual sale and recognition of revenue from that sale. For example, we may successfully complete a proof of concept with a customer and the customer's IT department may agree to make the purchase, but because of internal customer budget constraints including spending reductions or freezes, additional required departmental approvals or unplanned administrative, processing or other delays, the actual sale and deployment may be postponed. We have experienced and may experience in the future purchase delays due to the volatile global economic environment and due to customer anticipation of new Wi-Fi or other standards, or announced releases of new products or enhancements by our competitors or us. In addition, depending on the terms of the sale, we have from time to time been required to delay recognition of revenue from certain purchases. If sales expected from a specific customer for a particular quarter are not realized in that quarter or at all, our business, operating results and financial condition could be adversely affected in a material way. In addition to the challenges presented by long sales cycles and risks of purchase delays by our customers, our revenue can also be difficult to predict due to customers that sporadically place large orders with short lead times. As a result, we cannot easily predict whether a sale will be completed, the particular fiscal period in which a sale will be completed or the fiscal period in which revenue from a sale will be recognized, which in turn makes our operating results difficult to forecast and may cause our operating results to vary significantly and unexpectedly from quarter to quarter.

Sequestration or other actions of the U.S. Government resulting in significant cuts in U.S. government spending could adversely affect our sales and future results.

On August 2, 2011, the President signed into law the Budget Control Act of 2011, or the Budget Control Act, which raised the debt ceiling and put into effect a series of actions for deficit reduction. The Budget Control Act triggered automatic reductions in discretionary and mandatory spending, known as "sequestration" starting in 2013. In December 2013, the Bipartisan Budget Act of 2013 changed the sequestration caps for our fiscal 2014 and fiscal 2015, which ameliorates some of the spending cuts otherwise required by the sequester. As a result of sequestration, certain federal government customers have become more cautious with contract awards and spending, sometimes delaying purchase orders while awaiting further

Congressional budget action. Because we depend on several large vertical markets that rely directly or indirectly on federal support, including government, health care and education, any decreased spending as a result of sequestration could, as we have experienced, cause customers to delay program or contract start dates, or cause customers to issue stop work orders or terminate contracts, any of which would adversely impact our sales and future operating results.

Risks Related to Tax

Changes in our tax rates could adversely affect our future results.

Our provision for income taxes could be adversely affected by lower than anticipated earnings in countries that have lower tax rates, and higher than anticipated in countries that have higher tax rates. This factor can result in our effective tax rate being volatile from year to year and from quarter to quarter. Our provision for income taxes also could be adversely affected by non-deductible stock-based compensation, changes in research and development tax credit laws, transfer pricing adjustments, changes in the valuation of our deferred tax assets and liabilities, changes in actual results versus our estimates, or changes in accounting principles, tax laws, and regulations, including possible U.S. changes to the taxation of earnings of our foreign subsidiaries.

We are also subject to the periodic examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. We may underestimate the outcome of such examinations which, if significant, would have a material adverse effect on our results of operations and financial condition.

If we do not achieve increased tax benefits as a result of our recently modified corporate structure, our financial condition and operating results could be adversely affected.

We implemented a modified structure of our corporate organization to more closely align our corporate organization with the international nature of our business activities and to reduce our overall effective tax rate. Although we anticipate achieving a reduction in our overall effective tax rate in the future as a result of these changes, it is possible that the taxing authorities of the jurisdictions in which we operate or to which we are otherwise deemed to have sufficient tax nexus will challenge the tax benefits that we expect to realize as a result of the modified structure. In addition, future changes to U.S. or non-U.S. tax laws, including proposed legislation to reform U.S. taxation of international business activities, would negatively impact the anticipated tax benefits of the new structure. Any benefits to our tax rate will also depend on our ability to operate our business in a manner consistent with the new structure of our corporate organization and applicable taxing provisions, including by eliminating the amount of cash distributed to us by our subsidiaries. If any of these negative effects were to occur, we might not achieve the financial efficiencies that we have anticipated, and our future operating results and financial condition could be adversely affected.

An increasing amount of our cash and cash equivalents may in the future be held outside of the United States and we could be subject to repatriation delays and costs, which could reduce our financial flexibility.

Under our international structure, we expect an increasing amount of our cash and cash equivalents may in the future be held outside the U.S., while many of our liabilities are payable in the U.S. Repatriation of some of the funds could be subject to delay for local country approvals and could have potentially adverse tax consequences. As a result of having a lower amount of future cash and cash equivalents in the U.S., our financial flexibility in the future may be reduced, particularly in the areas of acquisition and other investment activity.

Risks Relating to Our Manufacturing and Supply Chain

Because we outsource the manufacturing of most of our hardware products to third-party manufacturers, if these manufacturers do not implement adequate quality controls or suffer significant changes in their financial or business condition, our ability to supply quality products to our customers could be disrupted and our business could be harmed.

We outsource the manufacturing of our products to primarily four contract manufacturers and original design manufacturers, Accton, Flextronics, Sercomm and Wistron NeWeb Corp, each of which conducts its manufacturing activities in China. Our reliance on these third-party manufacturers reduces our control over the manufacturing process and exposes us to a variety of risks, including: interruptions in steady flow of inventory at steady prices due to lack of long-term supply contracts, long lead times to qualify new third-party manufacturers, reduced control over quality assurance, product costs, and product supply and timing, increased reliance on system interoperability to ensure timely product deliveries, and the potential for infringement or misappropriation of our intellectual property.

Because these contract manufacturers are all located in Asia, we face additional risks, including supply interruption in the event of unrest, disease outbreak or other disruptions in the region. In addition, shipping products from Asia in the most cost-effective manner requires at least 22 days of travel by sea to the U.S., which in turn requires us to have significant advance notice of any inventory requirements. Any manufacturing disruption or shipping delay by these third-party manufacturers could severely impair our ability to fulfill orders.

Because we do not have long-term contracts with these manufacturers, we typically fulfill our supply requirements with individual orders. As a result, these manufacturers do not guarantee us any amount of capacity, the continuation of particular pricing terms or the extension of credit limits. This means that our third-party manufacturers are not obligated to continue to fulfill our supply requirements and could decrease or cease supplies to us or raise prices on short notice, which could result in supply shortages and negative effects on our gross margin. For example, our manufacturing agreement with Flextronics has only a one-year term, may not be renewed and may be terminated for any reason upon 180 days' advance written notice. In addition, our orders with these manufacturers represent a relatively small percentage of the overall orders received by them from their customers. As a result, fulfilling our orders may not be considered a priority in the event our contract manufacturers are constrained in their abilities to fulfill all of their customer obligations in a timely manner.

We provide demand forecasts to our contract manufacturers. If the demand forecast is binding and we overestimate our requirements, our contract manufacturers may assess charges, or we may have liabilities for excess inventory, each of which could negatively affect our gross margin. Conversely, because lead times for required materials and components vary significantly and depend on factors such as the specific supplier, contract terms and the demand for each component at a given time, if we underestimate our requirements, our contract manufacturers may have inadequate materials and components required to produce our products. This could result in an interruption of the manufacturing of our products, delays in shipments and deferral or loss of revenue. In addition, on occasion we have underestimated our requirements, and, as a result, we have been required to pay additional fees to our contract manufacturers in order for manufacturing to be completed and shipments to be made on a timely basis.

If for any reason our manufacturers do not continue manufacturing our products, we will be required to identify one or more alternative manufacturers. It is time consuming, costly and often impractical to begin using new manufacturers. Also, the addition of manufacturing locations or contract manufacturers would increase the complexity of our supply chain management. In addition, changes in our third-party manufacturers may cause significant interruptions in supply if the new manufacturers have difficulty manufacturing products to our specifications or those of our OEM partners. As a result, our ability to meet our scheduled product deliveries to our customers could be adversely affected, which could cause the loss of sales to existing or potential customers, delayed revenue or an increase in our costs.

Although we perform rigorous in-house quality control inspection and testing at both of our fulfillment centers to ensure the reliability and quality of our hardware components, we do not have the ability to control the manufacturing processes of our third-party manufacturers. As a result, quality or performance failures of our products due to the internal quality controls of our third-party manufacturers could disrupt our ability to supply quality products to our customers and thereby have a material adverse effect on our business, revenue and financial condition.

Some of our business processes depend upon our IT systems as well as the systems and processes of third parties. If those systems fail or are interrupted, our processes may function at a diminished level or not at all. This could negatively impact our ability to ship products or otherwise operate our business, and our financial results could be harmed. In addition, as a result of current global financial market conditions, natural disasters or other causes, it is possible that any of our manufacturers could experience interruptions in production, cease operations or alter our current arrangements, in which case our ability to ship products to our customers would be delayed, sales of our products would be negatively affected and our business, operating results and financial condition would be harmed.

Because our third-party manufacturers purchase some components, subassemblies and products from a single supplier or a limited number of suppliers, the loss of any of these suppliers could cause us to incur additional set-up costs, result in delays in manufacturing and delivering our products, cause us to carry excess or obsolete inventory and ultimately materially adversely affect our business.

To manufacture our products, we utilize components from many suppliers. Whenever possible, we strive to have multiple sources for these components to ensure continuous supply and competitive costs. We work in conjunction with the extensive supply chain management organizations at all of our manufacturing partners to select and utilize quality suppliers. However, several of the components we source are technically unique and only available from specific suppliers. We rely on our contract manufacturers to obtain the components, subassemblies and products necessary for the manufacture of our products and we do not maintain direct contractual supply arrangements with any of these suppliers. Any reduction or interruption in these components and subassemblies or a significant increase in the price of these supplies could have a negative impact on our business, particularly if supplies of technically unique components were disrupted.

For example, the chipsets that our contract manufacturers source and incorporate into our hardware products are currently available only from a limited number of suppliers. In addition, the majority of our access points incorporate components from Qualcomm, and some of our mobility controllers incorporate components from Broadcom. As a result, most of our product revenue is dependent upon the sale of products that incorporate components from Qualcomm or Broadcom. However, neither we, nor our manufacturing partners, have entered into any long-term supply agreements with these suppliers. As there are no other sources for identical components, in the event that our contract manufacturers are unable to obtain these components from Qualcomm or Broadcom, we would be required to redesign our hardware and software in order to incorporate components from alternative sources. The resulting stoppage or delay in selling our products and the expense of redesigning our products could result in lost sales opportunities and damage to customer relationships, which would adversely affect our reputation, business and operating results.

We also incorporate certain generally available software programs into our architecture through license agreements with third parties. Although we do not have supply agreements with Qualcomm or Broadcom, in some cases, we have entered into license agreements that allow us to incorporate certain of their components into our products. These license agreements are only for one-year terms and each may be terminated prior to the end of the then-current term. If these agreements were to be terminated, we would be required to redesign our hardware and software in order to incorporate technology from alternative sources.

Even when we have multiple sources for certain components and subassemblies, we remain subject to potential price increases and limited availability due to increased market demand for such components and subassemblies by third parties. In the past, unexpected demand for communication products caused worldwide shortages of certain electronic parts, making the predictability of component availability more limited. For example, from time to time, we have experienced component shortages that resulted in delays of product shipments. The development of alternate sources for those components is time-consuming, difficult, and costly. In addition, the lead times associated with certain components are lengthy and preclude rapid changes in quantities and delivery schedules. Any future growth in our business, IT spending and the economy in general is likely to create greater pressures on us and our suppliers to accurately forecast overall component demand and to establish optimal component inventories. We carry very little to no inventory of our product components, and we and our contract manufacturers rely on our suppliers to deliver necessary components in a timely manner. As a result, even if available, we or our contract manufacturers may not be able to secure sufficient components at reasonable prices or of acceptable quality to build products in a timely manner and, therefore, may not be able to meet customer demands for our products, which would have a material adverse effect on our business, operating results and financial condition.

Our inventory management relating to our sales to our two-tier distribution channel is complex, and excess inventory may harm our gross margins.

We must manage our inventory relating to sales to our distributors effectively because inventory held by them could affect our results of operations. Inventory management requires us to make forecasts that are based on multiple assumptions, each of which may cause our estimates to be inaccurate which, in turn, could negatively affect our ability to provide products to our customers. Our distributors may increase orders during periods of product shortages, cancel orders if their inventory is too high, or delay orders in anticipation of new products. They also may adjust their orders in response to the supply of our products and the products of our competitors that are available to them, and in response to seasonal fluctuations in end-user demand. Revenue from our distributors generally is recognized based on a sell-through method using information provided by them, and they are generally given business terms that allow them to rotate a portion of inventory, receive credits for changes in selling price, and participate in various cooperative marketing programs. Inventory management remains an area of focus as we balance the need to maintain strategic inventory levels to ensure competitive lead times against the risk of inventory obsolescence because of rapidly changing technology and customer requirements. When facing component supply-related challenges, we have increased our efforts in procuring components in order to meet customer expectations. If we ultimately determine that we have excess inventory, we may have to reduce our prices and write down inventory, which in turn could result in lower gross margins.

If we are unable to manage our supply chain and manufacturing to the actual demand for our solutions, our supply and manufacturing costs could increase, our ability to fulfill orders could be delayed, sales opportunities could be lost and our excess or obsolete inventory levels could increase, any of which could have an adverse impact on our gross margins, business and operating results.

To satisfy end customer and distribution center demand for our solutions, our product line management estimates demand on a rolling monthly basis and those forecasts drive the supply decisions that we make. Typically, we require 90 days from an initial estimate of a specified amount of product demand to actual delivery of that amount of product. If we significantly overestimate demand, an oversupply of product could result in excess or obsolete inventory level increases that could adversely affect our gross margin. Conversely, if actual demand for a specific product, such as our new .11ac access points, turns out to be significantly higher than our estimates, we could suffer any or all of the following adverse effects:

- we might be required to request expedited manufacture or shipment of additional product to satisfy the unexpected demand, which would result in supply chain and manufacturing surcharges and a decrease to our gross margins;
- we might be required to delay the sale and thereby delay recognition of revenue; or
- if we are unable to deliver the product on an acceptable time frame for the customer, we may cause damage to our reputation with both our customers, resellers and distributors, lose a sale opportunity and thereby cause a decrease to our revenue and harm to our business.

We have experienced occasional inventory shortages in the past, including shortages caused by manufacturing process and quality control issues, that have affected our operations. These issues are particularly acute during product transition periods, such as the one we are going through now with the roll-out of our 802.11ac access points. We may in the future experience a shortage of certain products as a result of manufacturing issues at our third-party manufacturers or their downstream suppliers, capacity problems experienced by our third-party manufacturers, or strong demand in the industry for subcomponents to our products. A return to robust growth in the economy is likely to create greater pressures on us and our suppliers to accurately project overall demand and to establish optimal supply levels and manufacturing capacity, especially for labor-intensive components and highly complex products. If shortages should occur for our product components or for the resources of our third-party manufacturers, our costs are likely to increase or, in the worst case, supplies may not be available at all, in which case our revenue and gross margins could suffer until other sources can be developed.

In addition, we believe that we may be faced with the following supply chain and manufacturing challenges in the future:

- new markets in which we participate may grow quickly, which may make it difficult to quickly obtain our product requirements in a timely fashion;
- as we acquire companies and new technologies, we may be dependent, at least initially, on unfamiliar supply chains or relatively small supply partners that may not be reliable or cost-effective suppliers; and
- we may face new competition for the subcomponents used in our products from companies both in and outside of our mobile enterprise market.

Risks Relating to Our International Operations

Our international sales and operations subject us to additional risks that may adversely affect our operating results.

Our customers, suppliers and employees are located throughout the world and in fiscal 2013, approximately 37% of our revenue was generated by customers outside the U.S. In addition, some product configuration and fulfillment is handled in Singapore and a portion of our engineering, support and order management efforts are currently handled by personnel located in India and China. We expect to expand our offshore development efforts within India and China and expect to continue to add personnel in additional countries.

Because we have sizeable sales and operations outside the U.S., we experience greater complexity in our operations and are exposed to a set of global risks that could negatively impact sales or profitability, including:

- the difficulty and cost of managing and staffing international offices and the increased travel, infrastructure and legal compliance costs associated with multiple international locations;
- challenges in enforcing contracts and collecting accounts receivable, and longer payment cycles, especially in emerging markets;
- the need to localize our products for international customers, including customs classifications and certifications;
- tariffs, trade barriers and trade disputes, import/export regulations and other regulatory or contractual limitations on our ability to sell, support or develop our products in certain foreign markets;
- the difficulty and cost of managing foreign distribution centers and implementing professional services in smaller foreign markets;
- changes in U.S. and non-U.S. rules related to trade, environmental, health and safety, technical standards and consumer protection;
- limited protection for intellectual property rights in some countries;
- employment regulations and local labor laws, including increased cost of terminating international employees in some countries;
- tax issues, such as tax law and treaty changes, variations in tax laws from country to country and as compared to the U.S., obligations under tax incentive agreements, difficulties in repatriating cash generated or held abroad in a tax-efficient manner and difficulties in securing local country approvals for cash repatriations;
- increased exposure to foreign currency exchange rate risk;
- foreign exchange regulations, which may limit our ability to convert or repatriate foreign currency;
- cultural, business practice, legal, regulatory and language differences;
- increased exposure to instability in economic or political conditions, including inflation, recession and actual or anticipated military or political conflicts;
- natural disasters, public health crises or outbreaks of disease; and
- litigation in foreign court systems and foreign administrative proceedings.

All of our hardware products are manufactured in Asia. If manufacturing in this region is disrupted, our overall capacity could be significantly reduced and sales or profitability could be negatively impacted. We have engineering resources in India that could be disrupted as a result of political conflicts in that region. We also sell our products and services throughout the Middle East and Eastern Europe, and demand for our products and services could be negatively impacted by political conflicts and hostilities in these and other regions. The potential for future unrest, terrorist attacks, increased global conflicts and the escalation of existing conflicts has created worldwide uncertainties that have negatively impacted, and may continue to negatively impact, demand for certain of our products.

As we continue to expand our business globally, our success will depend, in large part, on our ability to anticipate and effectively manage these and other risks associated with our international operations. Our failure to manage any of these risks successfully could harm our international operations and reduce our international sales, adversely affecting our business, operating results and financial condition.

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

Because we incorporate encryption technology into our products, our products are subject to U.S. export controls and may be exported outside the U.S. only with the required level of export license or through an export license exception. In addition, various countries regulate the import of certain encryption technology and radio frequency transmission equipment and have enacted laws that could limit our ability to distribute our products or could limit our customers' ability to implement our products in those countries. Changes in our products or changes in export and import regulations may increase the cost of building and selling our products, create delays in the introduction of our products in international markets, prevent our customers with international operations from deploying our products throughout their global systems or, in some cases, prevent the export or import of our products to certain countries altogether. Any change in export or import regulations or related legislation, shift in approach to the enforcement or scope of existing regulations, or change in the countries, persons or technologies targeted by such regulations, could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential customers with international operations. In addition, because we sell through indirect channel partners, we may incur liabilities on account of actions by our channel partners, including such actions as inadvertent sales of our products to countries in violation of applicable import or export regulations. Any decreased use of our products or limitation on our ability to export or sell our products would harm our business, operating results and financial condition.

We may not successfully sell our products in certain international geographic markets or develop and manage new sales channels in accordance with our business plans.

We expect to sell our products in certain international geographic markets where we do not have significant current business and to a broader customer base. To succeed in certain of these markets, we believe we will need to develop and manage new sales channels and distribution arrangements. Because we have limited experience in developing and managing such channels, we may not be successful in further penetrating certain geographic regions, supporting multi-national customers or reaching a broader customer base. In addition, certain geographic markets have slower wide area networks or restrictions on our ability to transmit certain data, which negatively impact the performance of certain of our solutions. As a result, local infrastructure insufficiencies or our failure to develop or manage additional sales channels effectively would limit our ability to succeed in these markets and could adversely affect our ability to grow our customer base and revenue.

We are exposed to fluctuations in currency exchange rates, which could negatively affect our financial condition and operating results.

To date, substantially all of our international sales have been denominated in U.S. dollars; however, most of our expenses associated with our international operations are denominated in local currencies. Foreign currencies periodically experience rapid fluctuations in value against the U.S. dollar. Any foreign currency devaluation against the U.S. dollar increases the real cost of our products to our customers and partners in foreign markets where we sell in U.S. dollars, which has resulted in the past and may result in the future in delayed or cancelled purchases of our products and, as a result, lower revenue. In addition, this increase in cost increases the risk to us that we will be unable to collect amounts owed to us by such customers or partners, which in turn would impact our revenue and could adversely impact our business and financial results in a material way. Any devaluation may also lead us to more aggressively discount our prices in foreign markets in order to maintain competitive pricing, which would negatively impact our revenue and gross margin. Conversely, a weakened U.S. dollar could increase the cost of local operating expenses and procurement of raw materials to the extent we purchase components in foreign currencies. To date, we have not used risk management techniques to hedge the risks associated with these fluctuations. Even if we were to implement hedging strategies, not every exposure can be hedged and, where hedges are put in place based on expected foreign currency exchange exposure, they are based on forecasts that may vary or that may later prove to have been inaccurate. As a result, fluctuations in foreign currency exchange rates or our failure to successfully hedge against these fluctuations could have a material adverse effect on our operating results and financial condition.

Failure to comply with the U.S. Foreign Corrupt Practices Act and similar laws associated with our activities outside the U.S. could subject us to penalties and other adverse consequences.

A significant portion of our revenue is and will be from jurisdictions outside of the U.S. As a result, we are subject to the U.S. Foreign Corrupt Practices Act, or the FCPA, which generally prohibits U.S. companies and their intermediaries from making payments to foreign officials for the purpose of directing, obtaining or keeping business, and requires companies to maintain reasonable books and records and a system of internal accounting controls. The FCPA applies to companies and individuals alike, including company directors, officers, employees and agents. Under the FCPA, we may be held liable for the corrupt actions taken by our employees, strategic or local partners or other representatives. In addition, the U.S. government may seek to rely on a theory of successor liability and hold us responsible for FCPA violations committed by companies or associated with assets that we acquire.

In many foreign countries where we operate, particularly in countries with developing economies, local laws and customs may differ significantly from those in the U.S. For example, it may be a local custom in certain countries for businesses to engage in practices that are prohibited by our internal policies and procedures or U.S. regulations applicable to us, such as the FCPA, the U.K. Bribery Act and other similar local laws. Even though we have conducted formal FCPA compliance training, we cannot guarantee that that our employees, contractors, and agents will comply with all of our policies and procedures. As a result of our rapid growth, our development of infrastructure designed to identify FCPA matters and monitor compliance is at an early stage. If we or our intermediaries fail to comply with the requirements of the FCPA or similar legislation (whether intentionally or accidentally), 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, operating results and financial conditions. We may also face collateral consequences such as debarment and the loss of our export privileges.

Risks Relating to Intellectual Property and Security

Claims by others that we infringe their intellectual property rights could harm our business.

Third parties have asserted and may in the future assert claims of infringement of intellectual property rights against our company, our customers or our channel partners. Due to the rapid pace of technological change in our industry, much of our business and many of our products rely on proprietary technologies of third parties, and we may not be able to obtain, or continue to obtain, licenses from such third parties on reasonable terms. Technology companies frequently enter into litigation based on allegations of patent infringement or other violations of intellectual property rights. In addition, patent holding companies seek to monetize patents they have purchased or otherwise obtained. As our business expands, through acquisitions or organically, and the number of products and competitors in our market increases, we expect that infringement claims may increase in number and significance. Intellectual property lawsuits are subject to inherent uncertainties due to the complexity of the technical issues involved, and we cannot be certain that we will be successful in defending ourselves against intellectual property claims. Furthermore, a successful claimant could secure a judgment that requires us to pay substantial damages or prevents us from distributing certain products or performing certain services. In addition, we might be required to seek a license for the use of this intellectual property, which may not be available on commercially acceptable terms or at all. Alternatively, we may be required to develop non-infringing technology, which could require significant effort and expense and may ultimately not be successful. Any claims or proceedings against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time, result in the diversion of significant operational resources, or require us to enter into royalty or licensing agreements, or require us to pay substantial settlement amounts or judgment damages. In an effort to avoid costly litigation or for other reasons, we may determine to settle these types of claims or proceedings at any time, and the amounts we may have to pay could be material. In light of our operation results, a large settlement or non-appealable judgment could have a material adverse effect on our financial condition.

System security risks, data protection breaches, and cyber-attacks on our systems or products could compromise our proprietary information (or information of our customers), disrupt our internal operations and harm public perception of our products, which could cause our business and reputation to suffer, create additional liabilities and adversely affect our financial results and stock price.

In the ordinary course of business, we store sensitive data that may include any of the following categories of information on our internal systems, networks and servers:

- intellectual property,
- our proprietary business information and that of our customers, suppliers and business partners,
- customer and end-user data, which may include personally identifiable information, location-based data and financial information.

Additionally, we design and sell solutions that allow our customers to wirelessly access sensitive data on their own systems and to remotely manage and operate networks and applications that contain, transmit and store a variety of information. Our solutions incorporate complex technology and must operate and support a wide range of mobile devices that use Wi-Fi as well as the complex applications that run on those devices, which use multiple communication industry standards. In addition, the amount of data we store for our users on our servers (including personal information) has been increasing.

The secure maintenance of sensitive information on our own networks and the intrusion protection features of our solutions are both critical to our operations and business strategy. We devote significant resources to network security, data encryption, and other security measures to protect our systems and data, but these security measures cannot provide absolute security. For example, we use encryption and authentication technologies to secure the transmission and storage of data and prevent third-party access to data or accounts, but these security measures are subject to third-party security breaches, employee error, malfeasance, faulty password management, or other irregularities. If a third party were to fraudulently induce an employee or customer into disclosing user names, passwords or other sensitive information (or otherwise illicitly obtain that type of information), that information may in turn be used to access our IT systems and the data located there.

Increasingly, companies are facing a wide variety of attacks from computer "hackers" who develop and deploy destructive software programs (such as viruses and worms) to attack networks. Due to our business model and the location of some of our development centers, we have faced and are likely to face similar threats that target both our internal systems and our solutions, which, in turn, may threaten our customers' networks, devices, applications and data. Because the techniques used by hackers to access or sabotage networks are becoming increasingly sophisticated, change frequently and generally are not recognized until launched against a target, even with the significant efforts we take to create security barriers to such attacks, it is virtually impossible for us to entirely eliminate this risk.

Although we make significant efforts to maintain the security and integrity of our systems and products, any destructive or intrusive breach of our internal systems could compromise our networks, creating system disruptions or slowdowns, and the information stored on our networks could be accessed, publicly disclosed, lost or stolen. Additionally, an effective attack on our products could disrupt the proper functioning of our products, allow unauthorized access to sensitive, proprietary or confidential information of ours or our customers, disrupt or temporarily interrupt customers' networking traffic, or cause other destructive outcomes, including the theft of information sufficient to engage in fraudulent financial transactions. If any of these types of security breaches were to occur and we were unable to protect sensitive data, our relationships with our business partners and customers could be materially damaged, our reputation and brand could be materially harmed, use of our solutions could decrease, and we could be exposed to a risk of loss or litigation and possible liability. In addition, incidents involving unauthorized access to or improper use of user information or incidents involving violation of our terms of service or policies could cause government authorities to initiate legal or regulatory actions against us in connection with such incidents, which could cause us to incur significant expense and liability or result in orders or consent decrees forcing us to modify our business practices. The risk that these types of events could seriously harm our business is likely to increase as we expand the number of web-based products and services we offer, and operate in more countries.

Real or perceived defects or errors in our products (particularly in our cloud-based offerings which are sometimes perceived as being inherently less secure) could result in claims by channel partners and end-customers for losses that they sustain, including losses resulting from security breaches of our systems, our end-customers' networks and/or downtime of those networks. If channel partners or end-customers make these types of claims, we may be required, or may choose, for customer relations or other reasons, to expend additional resources in order to help correct the problem, including warranty and repair costs, process management costs and costs associated with re-manufacturing our inventory. In addition, if an actual or perceived breach of security occurs in our network or in the network of a customer of one of our solutions (particularly our cloud-based offerings), regardless of whether the breach is attributable to our solutions, the market perception of the effectiveness of our solutions could be harmed. The economic costs to us to eliminate or alleviate cyber or other security problems, viruses, worms, malicious software systems and security vulnerabilities could be significant and may be difficult to anticipate or measure because the damage may differ based on the identity and motive of the programmer or hacker, which are often difficult to identify.

Because of the nature of information that may pass through or be stored on our systems, we are subject to complex and evolving U.S. and foreign laws and regulations regarding privacy, data protection and other matters. Violations of these complex and dynamic laws, rules and regulations may result in claims, changes to our business practices, monetary penalties, increased costs of operations, and/or other harms to our business.

There has been a sharp increase in laws in Europe, the U.S. and elsewhere imposing requirements for the handling of personal data, including data of employees, consumers and business contacts as well as privacy-related matters. For example, the State of California has adopted legislation requiring operators of commercial websites and mobile applications that collect personal information from California residents to conspicuously post and comply with privacy policies that satisfy certain requirements. Several other U.S. states have adopted legislation requiring companies to protect the security of personal information that they collect from consumers over the Internet, and more states may adopt similar legislation in the future. Foreign data protection, privacy, and other laws and regulations can be more restrictive than those in the U.S. The European Union has adopted various directives regulating data privacy and security and the transmission of content using the Internet involving residents of the European Union, including those directives known as the Data Protection Directive, the E-Privacy Directive, and the Privacy and Electronic Communications Directive, and may adopt similar directives in the future. The European Commission is currently considering a data protection regulation that may include operational requirements for companies receiving personal data that are different from those currently in place in the European Union, and that may also include significant penalties for non-compliance. In addition, some countries are considering legislation requiring local storage and processing of data that, if enacted, could increase the cost and complexity of selling our solutions in those jurisdictions. The introduction of new products or expansion of our activities in certain jurisdictions may subject us to additional laws and regulations.

These U.S. federal and state and foreign laws and regulations, which can be enforced by private parties or government entities, are constantly evolving. In addition, the application and interpretation of these laws and regulations are often uncertain, and may be interpreted and applied inconsistently from country to country and inconsistently with our current policies and practices. If our actions were determined to be in violation of any of these disparate laws and regulations, in addition to the possibility of fines, we could be ordered to change our data practices, which could have an adverse effect on our business and results of operations.

These existing and proposed laws and regulations can be costly to comply with and can delay or impede the development of new products, result in negative publicity, increase our operating costs, require significant management time and attention, and subject us to inquiries or investigations, claims or other remedies, including fines or demands that we modify or cease existing business practices. In addition, there is a risk that failures in systems designed to protect private, personal or proprietary data held by us will allow such data to be disclosed to or seen by others, resulting in application of regulatory penalties, enforcement actions, remediation obligations and/or private litigation by parties whose data were improperly disclosed. There is also a risk that we (directly or as the result of some third-party service provider we use) could be found to have failed to comply with the laws or regulations of some country regarding the collection, consent, handling, transfer, or disposal of such personal data, which could subject us to fines or other sanctions, as well as adverse reputational impact.

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 protect our proprietary information and technology through licensing agreements, third-party nondisclosure agreements and other contractual provisions, as well as through patent, trademark, copyright and trade secret laws in the U.S. and similar laws in other countries. We cannot provide assurances that these protections will be available in all cases or will be adequate to prevent our competitors from copying, reverse engineering or otherwise obtaining and using our technology, proprietary rights or products. For example, the laws of certain countries in which our products are manufactured or licensed do not protect our proprietary rights to the same extent as the laws of the U.S., and mechanisms for enforcement of intellectual property rights may be inadequate. In addition, third parties may seek to challenge, invalidate or circumvent our patents, trademarks, copyrights and trade secrets, or applications for any of the foregoing. To prevent substantial unauthorized use of our intellectual property rights, it may be necessary to prosecute actions for infringement and/or misappropriation of our proprietary rights against third parties. Any action that we initiate could result in significant costs and diversion of our resources and management's attention, and there can be no assurance that we will be successful. Furthermore, many of our current and potential competitors have the ability to dedicate substantially greater resources to enforce their 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.

Enterprises are increasingly concerned with the security of their data, and to the extent they elect to encrypt data between the end user and the server, our products will become less effective.

Our products depend on the ability to identify applications. Our products currently do not identify applications if the data is encrypted as it passes through our mobility controllers. Because most organizations currently encrypt most of their data transmissions only between sites and not on the LAN, the data is not encrypted when it passes through our mobility controllers. If more organizations elect to encrypt their data transmissions from the end user to the server, our products will offer limited benefits unless we have been successful in incorporating additional functionality into our products that address those encrypted transmissions. At the same time, if our products do not provide the level of network security expected by our customers, our reputation and brand would be damaged, and we would expect to experience decreased sales. Our failure to provide such additional functionality and expected level of network security could adversely affect our business, operating results and financial condition.

Our use of open source software could impose limitations on our ability to commercialize our products.

We incorporate open source software into our products. 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 we use. If we combine our proprietary software with open source software in a certain manner, we could, under certain of the open source licenses, be required to release the source code of our proprietary software to the public. This could 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 closely, the terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that such licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to commercialize our products. We could also be subject to similar conditions or restrictions should there be any changes in the licensing terms of the open source software incorporated into our products. In either event, we could be required to seek licenses from third parties in order to continue offering our products, to re-engineer our products or to discontinue the sale of our products in the event re-engineering cannot be accomplished on a timely basis, any of which could adversely affect our business, operating results and financial condition.

We rely on the availability of third-party licenses and could be subject to product release or shipment delays if we were unable to renew existing licenses or enter into applicable licenses for product enhancements or new products.

Many of our products are designed to include software or other intellectual property licensed from third parties. For example, our products incorporate certain technology that we license from Qualcomm. From time to time, we may be required to seek or renew licenses relating to various aspects of these products or to seek additional licenses for product enhancements or new products. There can be no assurance that the necessary licenses would be available on acceptable terms, if at all. The inability to obtain certain licenses or other rights or to obtain such licenses or rights on favorable terms, or the need to engage in litigation regarding these matters, could result in delays in product releases or shipments until such time, if ever, as equivalent technology could be identified, licensed or developed and integrated into our products and might have a material adverse effect on our business, operating results, and financial condition. Moreover, the inclusion in our products of software or other intellectual property licensed from third parties on a nonexclusive basis could limit our ability to protect our proprietary rights in our products.

Our business is subject to the risks of earthquakes, fire, floods and other natural catastrophic events, and to interruption by man-made problems such as computer viruses or terrorism.

Our corporate headquarters are located in the San Francisco Bay Area, a region known for seismic activity. A significant natural disaster, such as an earthquake, fire or a flood, occurring at our headquarters or in either China or Singapore, where our major contract manufacturers and distribution centers are located, could have a material adverse impact on our business, operating results and financial condition. In addition, our support operations are largely concentrated in a single location in India. A natural catastrophe in this location can bring down our support operation. Our servers are vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems. In addition, natural disasters, acts of terrorism or war could cause disruptions in our or our customers' businesses or the economy as a whole. We also rely on information technology systems to communicate among our workforce and with third parties. Any disruption to our communications, whether caused by a natural disaster or by man-made problems, such as power disruptions, could adversely affect our business. To the extent that any such disruptions result in delays or cancellations of customer orders, or the deployment of our products, our business, operating results and financial condition would be adversely affected.

Risks Relating to Applicable Laws and Regulations

New regulations or changes in existing regulations related to our products may result in unanticipated costs or liabilities, which could place additional burdens on the operations of our business and have a material adverse effect on our future sales, business and results of operations.

Our products are subject to governmental regulations in a variety of jurisdictions. If any of our products becomes subject to new regulations or if any of our products becomes specifically regulated by additional government entities, compliance with such regulations could become more burdensome, and there could be a material adverse effect on our business and results of operations. For example, radio emissions are subject to regulation in the U.S. and in other countries in which we do business. In the U.S., various federal agencies including the Center for Devices and Radiological Health of the Food and Drug Administration, the Federal Communications Commission, the Occupational Safety and Health Administration and various state agencies have promulgated regulations that concern the use of radio/electromagnetic emissions standards. Member countries of the European Union, or EU, have enacted similar standards concerning electrical safety and electromagnetic compatibility and emissions, and chemical substances and use standards.

Our wireless communication products operate through the transmission of radio signals. Currently, operation of these products in specified frequency bands does not require licensing by regulatory authorities. Regulatory changes restricting the use of frequency bands or allocating available frequencies could become more burdensome. Furthermore, regulators could seek to enforce existing laws, rules or regulations in a manner that could expose us or our customers to liability based on the manner in which our products are used. If any of these were to occur, there could be a material adverse effect on our future sales, business and results of operations.

The costs of compliance with numerous U.S. and foreign laws, rules and regulations are high and are likely to increase in the future. Any failure on our part to comply with these laws and regulations can result in negative publicity and diversion of management time and effort and may subject us to significant liabilities and other penalties. Furthermore, many of these laws were adopted prior to the advent of the Internet and related technologies and, as a result, do not contemplate or address the unique issues of the Internet and related technologies. The laws that do reference the Internet are being interpreted by the courts, but their applicability and scope remain uncertain. Current and new patent laws such as U.S. patent laws and European patent laws may affect the ability of companies, including us, to protect their innovations and defend against claims of patent infringement. Various U.S. and international laws restrict the distribution of materials considered harmful to children and impose additional restrictions on the ability of online services to collect information from minors. In the area of data protection, many states have passed laws requiring notification to users when there is a security breach for personal data, such as California's Information Practices Act. We face similar risks and costs as our products and services are offered in international markets and may be subject to additional regulations.

Compliance with environmental matters and worker health and safety laws could be costly, and noncompliance with these laws could have a material adverse effect on our results of operations, expenses and financial condition.

Some of our operations use substances regulated under various federal, state, local and international laws governing the environment and worker health and safety, including those governing the discharge of pollutants into the ground, air and water, the management and disposal of hazardous substances and wastes, and the cleanup of contaminated sites. Some of our products are subject to various federal, state, local and international laws governing chemical substances in electronic products. We could be subject to increased costs, fines, civil or criminal sanctions, third-party property damage or personal injury claims if we violate or become liable under environmental and/or worker health and safety laws.

We may be unable to obtain a sufficient supply of components and parts that are verified free of conflict minerals, which could result in a shortage of such components and parts, reputational damages or loss of sales if we are unable to determine that our products are free of such minerals.

In 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which included disclosure requirements regarding the use of "conflict" minerals mined from the Democratic Republic of Congo and adjoining countries (or DRC) and procedures regarding a manufacturer's efforts to prevent the sourcing of such "conflict" minerals. The final rules implementing these requirements were released in August 2012, and these rules may limit the pool of suppliers who can provide us verifiable DRC Conflict Free components and parts, and we are not certain that we will be able to obtain products in sufficient quantities that meet the DRC Conflict Free determination as required by the rules in order to declare our products DRC Conflict Free. Compliance with these rules is also likely to result in additional cost and expense, including the cost associated with the due diligence required to determine and verify the sources of any conflict minerals used in our products, in addition to the cost of remediation and other changes to products, processes, or sources of supply as a consequence of such verification activities. These rules may also affect the sourcing and availability of minerals used in the manufacture of our products, as there may be only a limited number of suppliers offering "conflict free" metals that can be used in our products. In addition, local states and other countries in which we do business may enact legislation that bars their departments and agencies from purchasing products from companies that are unable to certify that all product components are from conflict-free sources (whether DRC or otherwise). As a result, we may face reputational challenges and the loss of sales if we are required to publicly state that we are unable to sufficiently verify the origins for the defined "conflict" metals used in our products.

Failure of our suppliers, subcontractors, distributors, resellers and representatives to use acceptable legal or ethical business practices could negatively impact our business.

It is our policy to require our suppliers, subcontractors, distributors, resellers, and third-party sales representatives to operate in compliance with applicable laws, rules and regulations regarding working conditions, employment practices, environmental compliance, anti-corruption and trademark and copyright licensing. However, we do not control their labor and other business practices. If one of our suppliers, subcontractors, distributors, resellers, or other representatives violates labor or other laws or implements labor or other business practices that are regarded as unethical, the shipment of finished products to us could be interrupted, orders could be canceled, relationships could be terminated and our reputation could be damaged. If one of our suppliers or subcontractors fails to procure necessary license rights to trademarks, copyrights or patents, legal action could be taken against us that could impact the saleability of our products and expose us to financial obligations to a third-party. Any of these events could have a negative impact on our sales and results of operations.

Risks Related to Ownership of our Common Stock

Our stock price may be volatile.

The trading price of our common stock has been and may continue to be volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. Factors that could affect the trading price of our common stock could include:

- variations in our operating results;
- announcements of technological innovations, new products or product enhancements, strategic alliances or significant agreements by us or by our competitors;
- the gain or loss of significant customers;
- recruitment or departure of key personnel;
- the impact of unfavorable worldwide economic and market conditions;

- variations between our actual financial results and the published expectations of analysts;
- developments or disputes concerning our intellectual property or other proprietary rights;
- commencement of, or our involvement in, litigation;
- announcements by or about us regarding events or news adverse to our business;
- the loss or bankruptcy of any of our major customers, distribution partners or suppliers;
- variations in the operating results of other publicly traded corporations deemed by investors to be in our peer group;
- an announced acquisition of or by a competitor, or an announced acquisition of or by us;
- rumors and market speculation involving us or other companies in our industry;
- providing estimates of our future operating results, or changes in these estimates, either by us or by any securities analysts who follow our common stock, or changes in recommendations by any securities analysts who follow our common stock;
- significant sales, or announcement of significant sales, of our common stock by us or our stockholders;
- adoption or modification of regulations, policies, procedures or programs applicable to our business; and
- other events or factors, including those resulting from war, incidents of terrorism or responses to these events.

In addition, the stock market in general, and the market for technology companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry factors may seriously affect the market price of our common stock, regardless of our actual operating performance. In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. This litigation could result in substantial costs and a diversion of our management's attention and resources. All of these factors could cause the market price of our common stock to decline, and investors may lose some or all of the value of their investment.

If securities or industry analysts do not publish research or reports about our business, or if they issue an adverse or misleading opinion regarding our stock, our stock price and trading volume could decline.

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about us or our business. If any of the analysts who cover us issue an adverse or misleading opinion regarding our stock, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

Provisions in our charter documents, Delaware law, employment arrangements with certain of our executives, and our OEM supply agreement with Alcatel-Lucent could discourage a takeover that stockholders may consider favorable.

Provisions in our certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our management. These provisions include the following:

- our Board of Directors has the right to elect directors to fill a vacancy created by the expansion of the 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;
- our stockholders may not act by written consent or call special stockholders' meetings; as a result, a holder, or holders, controlling a majority of our capital stock would not be able to take certain actions other than at annual stockholders' meetings or special stockholders' meetings called by the Board of Directors, the Chairman of the Board, the Chief Executive Officer or the President;
- our certificate of incorporation prohibits cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- stockholders must provide advance notice and additional disclosures in order to nominate individuals for election to the board of directors or to propose matters that can 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 our company; and
- our Board of Directors may issue, without stockholder approval, shares of undesignated preferred stock; the ability to issue undesignated preferred stock makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to acquire us.

As a Delaware corporation, we are also subject to certain Delaware anti-takeover provisions. Under Delaware law, a corporation may not engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years or, among other things, the Board of Directors has approved the transaction. Our Board of Directors could rely on Delaware law to prevent or delay an acquisition of us.

Certain of our executives may be entitled to accelerated vesting of their stock options pursuant to the terms of their employment arrangements upon a change of control of our company. In addition to the arrangements currently in place with some of our executives, we may enter into similar arrangements in the future with other executives. Such arrangements could delay or discourage a potential acquisition of our company.

In addition, our OEM supply agreement with Alcatel-Lucent provides that, in the event of a change of control that would cause Alcatel-Lucent to purchase our products from an entity that is an Alcatel-Lucent competitor, we must, without additional consideration, (1) provide Alcatel-Lucent with any information required by Alcatel-Lucent to make, test and support the products that we distribute through our OEM relationship with Alcatel-Lucent, including all hardware designs and software source code, and (2) otherwise cooperate with Alcatel-Lucent to transition the manufacturing, testing and support of these products to Alcatel-Lucent. We are also obligated to promptly inform Alcatel-Lucent if and when we receive an inquiry concerning a bona fide proposal or offer to effect a change of control and will not enter into negotiations concerning a change of control without such prior notice to Alcatel-Lucent. Each of these provisions could delay or result in a discount to the proceeds our stockholders would otherwise receive upon a change of control or could discourage a third party from making a change of control offer.

We are required to evaluate our internal control over financial reporting under the Sarbanes-Oxley Act of 2002 and any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.

The Sarbanes-Oxley Act requires us to furnish a report by our management on our internal control over financial reporting. Such report contains, among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. We must continue to monitor, enhance and assess our internal control over financial reporting. If we are unable to assert in any future reporting period that our internal control over financial reporting is effective (or if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal control over financial reporting), we could lose investor confidence in the accuracy and completeness of our financial reports, which would have an adverse effect on our stock price.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Sales of Unregistered Securities

None.

(b) Purchases of Equity Securities by the Issuer and Affiliated Purchasers

As of January 31, 2014, our Board of Directors had authorized a stock repurchase program (the "Program") for an aggregate amount of up to $300.0 million (consisting of an original $100.0 million authorization on June 13, 2012, plus subsequent authorizations of $100.0 million on July 15, 2013 and $100 million on October 9, 2013) of which substantively all has been used under the Program through January 31, 2014. On February 20, 2014, we announced that our Board of Directors authorized the repurchase of up to an additional $200.0 million of our outstanding common stock under the stock repurchase program. Refer to Note 13, Subsequent Events, of the Notes to Consolidated Financial Statements.

We are authorized to make repurchases in the market until our Board of Directors' terminates the Program or until expenditures reach the authorized amount, whichever occurs first. Any repurchases under the Program will be funded from available working capital. The number of shares repurchased and the timing of repurchases are based on the price of our common stock, general business and market conditions, and other investment considerations. Shares are retired upon repurchase. Our policy related to repurchases of our common stock is to charge any excess of cost over par value entirely to additional paid-in capital.

The following table summarizes share repurchase activity for the three months ended January 31, 2014 (in thousands, except number of shares and per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Program	Maximum Approximate Dollar Value of Shares That May Yet Be Purchased Under the Program
November 1, 2013 - November 30, 2013	81,817	$ 17.72	81,817	$ 78,994
December 1, 2013 - December 31, 2013	4,450,329	$ 17.18	4,450,329	$ 2,525
January 1, 2014 - January 31, 2014	121,314	$ 17.50	121,314	$ 402
Total	4,653,460	$ 17.20	4,653,460	

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosure

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The following documents are filed as Exhibits to this report:

Exhibit Number	Description Document
31.1	Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a), as Adopted Pursuant to Section 302 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.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

† Confidential treatment has been requested for portions of this exhibit.

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.

Dated: March 6, 2014

ARUBA NETWORKS, INC.

By: /s/ Dominic P. Orr

Dominic P. Orr
President and Chief Executive Officer
(Principal Executive Officer)

Dated: March 6, 2014

ARUBA NETWORKS, INC.

By: /s/ Michael M. Galvin

Michael M. Galvin
Chief Financial Officer
(Principal Financial Officer)

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Dominic P. Orr, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aruba Networks, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally acceptable accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 6, 2014

/s/ Dominic P. Orr
Dominic P. Orr
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael M. Galvin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aruba Networks, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally acceptable accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 6, 2014

/s/ Michael M. Galvin
Michael M. Galvin
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION 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

I, Dominic P. Orr, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Aruba Networks, Inc., on Form 10-Q for the quarterly report period ended January 31, 2014 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Aruba Networks, Inc.

Date: March 6, 2014

/s/ Dominic P. Orr

Dominic P. Orr
President and Chief Executive Officer
(Principal Executive Officer)

I, Michael M. Galvin, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Aruba Networks, Inc., on Form 10-Q for the quarterly report period ended January 31, 2014 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Aruba Networks, Inc.

Date: March 6, 2014

/s/ Michael M. Galvin

Michael M. Galvin
Chief Financial Officer
(Principal Financial Officer)