

# ARISTA NETWORKS, INC.

## FORM 10-Q (Quarterly Report)

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

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended June 30, 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: 001-36468

**ARISTA NETWORKS, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

20-1751121  
(I.R.S. Employer  
Identification Number)

5453 Great America Parkway  
Santa Clara, California 95054  
(Address of principal executive offices)

(408) 547-5500  
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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 shares outstanding of the registrant's Common Stock, \$0.0001 par value, as of August 1, 2014 was 64,403,957.

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**ARISTA NETWORKS, INC.**

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**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**ARISTA NETWORKS, INC.**  
**Condensed Consolidated Balance Sheets**  
**(Unaudited)**

*(in thousands, except par value)*

	June 30, 2014	December 31, 2013
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 397,198	\$ 113,664
Accounts receivable, net of allowances of \$2,521 and \$2,339 as of June 30, 2014 and December 31, 2013	67,946	77,999
Inventories	71,068	73,360
Deferred tax assets	8,696	12,356
Prepaid expenses and other current assets	9,768	4,144
Notes receivable	8,000	4,000
Total current assets	562,676	285,523
Property and equipment, net	68,799	67,204
Restricted cash	—	4,040
Deposits and other assets	3,806	3,212
Deferred tax assets	7,497	4,541
<b>TOTAL ASSETS</b>	<b>\$ 642,778</b>	<b>\$ 364,520</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 20,000	\$ 14,741
Accrued liabilities	28,016	26,909
Deferred revenue	37,888	41,306
Convertible notes payable, related party	—	24,743
Accrued interest payable, related party	—	4,484
Convertible notes payable	—	74,050
Accrued interest payable	—	12,967
Other current liabilities	11,790	10,144
Total current liabilities	97,694	209,344
Income taxes payable	15,072	14,716
Lease financing obligations, non-current	43,108	43,152
Other long-term liabilities	25,718	19,576
<b>TOTAL LIABILITIES</b>	<b>181,592</b>	<b>286,788</b>
Commitments and contingencies (Note 6)		
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$0.0001 par value—100,000 shares authorized, no shares issued and outstanding as of June 30, 2014; no shares authorized, issued and outstanding as of December 31, 2013	—	—
Convertible preferred stock, \$0.0001 par value— no shares and 24,000 shares authorized, issued and outstanding at June 30, 2014 and December 31, 2013; aggregate liquidation preference of \$6,000 as of December 31, 2013 (none as of June 30, 2014)	—	5,992
Common stock, \$0.0001 par value—1,000,000 and 176,000 shares authorized as of June 30, 2014 and December 31, 2013; 64,386 and 31,927 shares issued and outstanding as of June 30, 2014 and December 31, 2013	7	3
Additional paid-in capital	384,253	28,737
Retained earnings	76,911	42,964
Accumulated other comprehensive income	15	36
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>461,186</b>	<b>77,732</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 642,778</b>	<b>\$ 364,520</b>

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

**ARISTA NETWORKS, INC.**  
**Condensed Consolidated Statements of Income**  
**(Unaudited)**

*(in thousands, except per share amounts)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue	\$ 137,947	\$ 83,485	\$ 255,154	\$ 144,833
Cost of revenue	44,567	29,584	80,460	48,804
Gross profit	93,380	53,901	174,694	96,029
Operating expenses:				
Research and development	34,888	21,086	68,334	40,600
Sales and marketing	20,711	13,045	39,366	23,180
General and administrative	7,126	3,506	14,357	7,242
Total operating expenses	62,725	37,637	122,057	71,022
Income from operations	30,655	16,264	52,637	25,007
Other income (expense), net:				
Interest expense—related party	(350)	(433)	(782)	(861)
Interest expense	(1,085)	(1,339)	(2,424)	(2,662)
Interest and other income (expense), net	2,472	(1)	1,708	(100)
Total other income (expense), net	1,037	(1,773)	(1,498)	(3,623)
Income before provision for income taxes	31,692	14,491	51,139	21,384
Provision for income taxes	10,074	4,240	17,192	4,522
Net income	<u>\$ 21,618</u>	<u>\$ 10,251</u>	<u>\$ 33,947</u>	<u>\$ 16,862</u>
Net income attributable to common stockholders:				
Basic	<u>\$ 14,212</u>	<u>\$ 4,948</u>	<u>\$ 19,985</u>	<u>\$ 8,063</u>
Diluted	<u>\$ 14,851</u>	<u>\$ 5,159</u>	<u>\$ 21,121</u>	<u>\$ 8,372</u>
Net income per share attributable to common stockholders:				
Basic	<u>\$ 0.37</u>	<u>\$ 0.18</u>	<u>\$ 0.59</u>	<u>\$ 0.30</u>
Diluted	<u>\$ 0.34</u>	<u>\$ 0.18</u>	<u>\$ 0.54</u>	<u>\$ 0.29</u>
Weighted-average shares used in computing net income per share attributable to common stockholders:				
Basic	<u>38,491</u>	<u>26,926</u>	<u>33,834</u>	<u>26,607</u>
Diluted	<u>44,057</u>	<u>29,252</u>	<u>38,962</u>	<u>28,650</u>

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

**ARISTA NETWORKS, INC.**  
**Condensed Consolidated Statements of Comprehensive Income**  
**(Unaudited)**  
*(in thousands)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	\$21,618	\$10,251	\$33,947	\$16,862
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	12	(34)	(21)	(67)
Other comprehensive income (loss)	12	(34)	(21)	(67)
Comprehensive income	<u>\$21,630</u>	<u>\$10,217</u>	<u>\$33,926</u>	<u>\$16,795</u>

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

**ARISTA NETWORKS, INC.**  
**Condensed Consolidated Statements of Stockholders' Equity**  
**(Unaudited)**  
*(in thousands)*

	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance—December 31, 2013	24,000	\$ 5,992	31,927	\$ 3	\$ 28,737	\$ 42,964	\$ 36	\$ 77,732
Net income	—	—	—	—	—	33,947	—	33,947
Other comprehensive loss, net of tax	—	—	—	—	—	—	(21)	(21)
Issuance of common stock from initial public offering, net of offering costs	—	—	6,037	1	238,723	—	—	238,724
Conversion of convertible preferred stock into common stock upon initial public offering	(24,000)	(5,992)	24,000	3	5,989	—	—	—
Conversion of notes payable and accrued interest into common stock upon initial public offering	—	—	1,543	—	66,338	—	—	66,338
Conversion of notes payable and accrued interest, related party, into common stock upon initial public offering	—	—	701	—	30,153	—	—	30,153
Tax benefit for equity incentive plans	—	—	—	—	454	—	—	454
Stock-based compensation	—	—	—	—	11,487	—	—	11,487
Vesting of stock options and restricted stock	—	—	—	—	1,940	—	—	1,940
Exercise of stock options, net of repurchases	—	—	178	—	432	—	—	432
Balance—June 30, 2014	—	\$ —	64,386	\$ 7	\$ 384,253	\$ 76,911	\$ 15	\$ 461,186

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

**ARISTA NETWORKS, INC.**  
**Condensed Consolidated Statements of Cash Flows**  
**(Unaudited)**  
*(in thousands)*

	<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 33,947	\$ 16,862
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,713	1,484
Stock-based compensation	11,487	3,815
Deferred income taxes	703	(2,090)
Provision for bad debts	374	313
Unrealized gain on notes receivable	(4,000)	—
Amortization of debt discount	527	553
Write-off of debt discount on notes payable	680	—
Excess tax benefit on stock based-compensation	(459)	(213)
Changes in operating assets and liabilities:		
Accounts receivable	9,678	(27,545)
Inventories	2,291	(12,651)
Prepaid expenses and other current assets	(5,621)	(1,914)
Deposits and other assets	(596)	118
Accounts payable	4,789	2,227
Accrued liabilities	626	7,951
Deferred revenue	2,779	14,816
Interest payable	(1,630)	2,232
Interest payable—related party	670	744
Income taxes payable	372	945
Other liabilities	2,616	1,101
Net cash provided by operating activities	<u>63,946</u>	<u>8,748</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(8,579)	(12,212)
Change in restricted cash	4,040	—
Net cash used in investing activities	<u>(4,539)</u>	<u>(12,212)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from initial public offering, net of issuance cost	241,862	—
Repayment on notes payable	(20,000)	—
Principal payments of lease financing obligations	(335)	—
Proceeds from issuance of common stock upon exercising options, net of repurchases	2,078	5,282
Excess tax benefit on stock-based compensation	459	213
Net cash provided by financing activities	<u>224,064</u>	<u>5,495</u>
Effect of exchange rate changes	63	(54)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>283,534</u>	<u>1,977</u>
<b>CASH AND CASH EQUIVALENTS—Beginning of period</b>	<u>113,664</u>	<u>88,655</u>
<b>CASH AND CASH EQUIVALENTS—End of period</b>	<u><u>\$ 397,198</u></u>	<u><u>\$ 90,632</u></u>

	Six Months Ended June 30,	
	2014	2013
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid for income taxes	\$ 18,433	\$ 5,896
Cash paid for interest— lease financing obligation	\$ 1,283	\$ —
Cash paid for interest— notes payable	\$ 3,639	\$ —
<b>SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING INFORMATION:</b>		
Increase (decrease) in accounts payable and accrued liabilities related to property and equipment	\$ (2,261)	\$ 317
Conversion of convertible preferred stock to common stock upon initial public offering	\$ 5,992	\$ —
Conversion of notes payable and accrued interest to common stock upon initial public offering	\$ 66,338	\$ —
Conversion of notes payable and accrued interest, related party, to common stock upon initial public offering	\$ 30,153	\$ —
Unpaid deferred offering costs	\$ 3,138	\$ —
Acquisition of building with financing obligation	\$ 456	\$ 17,713

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

**ARISTA NETWORKS, INC.**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**1. Overview and Basis of Presentation**

**Organization**

Arista Networks, Inc. (together with our subsidiaries, “we,” “our” or “us”) is a supplier of cloud networking solutions that use software innovations to address the needs of large-scale Internet companies, cloud service providers and next-generation enterprise. Our cloud networking solutions consist of our Extensible Operating System, a set of network applications and our 10/40/100 Gigabit Ethernet switches. We were incorporated in October 2004 in the State of California under the name Arastra, Inc. In March 2008, we reincorporated in the State of Nevada and in October 2008 changed our name to Arista Networks, Inc. We reincorporated in the state of Delaware in March 2014. Our corporate headquarters are located in Santa Clara, California, and we have wholly-owned subsidiaries throughout the world, including North America, Europe, Asia and Australia.

**Initial Public Offering**

On June 6, 2014, we completed our initial public offering (the “IPO”) in which we sold 6,037,500 shares of our common stock at a public offering price of \$43.00 per share, which included 787,500 shares of common stock issued pursuant to the exercise in full of the over-allotment option granted to the underwriters. The IPO resulted in proceeds of \$238.7 million, net of underwriting discounts and commissions of \$15.6 million and other estimated issuance costs of \$5.3 million. In connection with the closing of the IPO, all of our outstanding convertible preferred stock automatically converted into 24,000,000 shares of common stock on a one-to-one basis.

Upon the closing of our IPO, all noteholders with the exception of one noteholder converted the principal and accrued interest amount outstanding under their subordinated convertible promissory notes into shares of our common stock at the IPO price of \$43.00 per share. The noteholder, who did not elect to so convert, was paid a total of \$23.6 million which included principal and accrued interest less applicable withholding taxes of \$1.1 million. The remainder of the noteholders converted the remaining debt balance of approximately \$96.5 million including principal and accrued interest into 2.2 million shares of our common stock.

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and following the requirements of the U.S. Securities and Exchange Commission (the “SEC”) for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. GAAP can be condensed or omitted. In management’s opinion, the unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of our financial information. The results for the three and six months ended June 30, 2014, are not necessarily indicative of the results expected for the full fiscal year.

The condensed consolidated balance sheet as of December 31, 2013 has been derived from the audited consolidated financial statements at that date but does not include all of the information and notes required by generally accepted accounting principles for complete financial statements.

The accompanying unaudited condensed consolidated financial statements include the accounts of Arista Networks, Inc. and our wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

The accompanying unaudited condensed consolidated financial statements and related financial information should be read in conjunction with the audited consolidated financial statements and related footnotes included in our prospectus filed pursuant to Rule 424(b) under the Securities Act of 1933, as amended (the “Securities Act”), with the SEC on June 6, 2014 (the “Prospectus”).

There have been no material changes in our significant accounting policies from those that were disclosed in our audited consolidated financial statements for the year ended December 31, 2013 included in the Prospectus.

### **Use of Estimates**

The preparation of the accompanying unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the amounts reported and disclosed in the unaudited condensed consolidated financial statements and accompanying notes. Those estimates and assumptions include, but are not limited to, revenue recognition and deferred revenue; determination of fair value for stock-based awards; accounting for income taxes, including the valuation allowance on deferred tax assets and reserves for uncertain tax positions; valuation of inventory; valuation of warranty accruals; and the recognition and measurement of contingent liabilities. We evaluate our estimates and assumptions on an ongoing basis using historical experience and other factors and adjust those estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ from these estimates, and those differences could be material to the unaudited condensed consolidated financial statements.

### **Business Concentrations**

We work closely with third parties to manufacture and deliver our products. As of June 30, 2014 and December 31, 2013, two suppliers provided all of our electronic manufacturing services. Our products rely on key components, including certain integrated circuit components and power supplies some of which our contract manufacturers purchase on our behalf from a limited number of suppliers, including certain sole source providers. We do not have guaranteed supply contracts with any of our component suppliers, and our suppliers could delay shipments or cease manufacturing such products or selling them to us at any time. If we are unable to obtain a sufficient quantity of these components on commercially reasonable terms or in a timely manner, sales of our products could be delayed or halted entirely or we may be required to redesign our products. Quality or performance failures of our products or changes in our contractors' or vendors' financial or business condition could disrupt our ability to supply quality products to our customers. Any of these events could result in lost sales and damage to our end-customer relationships, which would adversely impact our business, financial condition and results of operations.

### **Concentrations of Credit Risk**

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash, cash equivalents, restricted cash, accounts receivable and notes receivable. Our cash, cash equivalents and restricted cash are invested in high quality financial instruments with banks and financial institutions. Such deposits may be in excess of insured limits provided on such deposits.

Our accounts receivable are unsecured and represent amounts due to us based on contractual obligations of our customers. We mitigate credit risk in respect to accounts receivable by performing ongoing credit evaluations of our customers to assess the probability of accounts receivable collection based on a number of factors, including past transaction experience with the customer, evaluation of their credit history, the credit limits extended and review of the invoicing terms of the contract. We generally do not require our customers to provide collateral to support accounts receivable. We have recorded an allowance for doubtful accounts for those receivables that we have determined not to be collectible.

Our notes receivable are secured and represent amounts due to us from a private company. We mitigate credit risk in respect to the notes receivable by performing ongoing credit evaluations of the borrower to assess the probability of collecting all amounts due to us under the existing contractual terms.

We market and sell our products through both our direct sales force and our channel partners, including distributors, value-added resellers, system integrators and original equipment manufacturer ("OEM") partners.

### **Recent Accounting Pronouncements**

In May 2014, the FASB issued ASU No. 2014-09, Revenue From Contracts With Customers ("ASU 2014-09"), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. ASU 2014-09 is effective for fiscal years (and interim reporting periods within those years) beginning after December 15, 2016. Early application is not permitted. ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method. We are currently reviewing the provisions of ASU 2014-09 and have not yet selected a transition method nor have we determined the effect of the standard on our consolidated financial statements.

## 2. Fair Value Measurements

Our assets and liabilities which require fair value measurement consist of cash and cash equivalents, restricted cash, accounts receivable, notes receivable, accounts payable and accrued liabilities. Cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities are stated at carrying amounts as reported in the consolidated financial statements, which approximates fair value due to their short term nature. Notes receivable are stated at fair value, as we have elected to fair value our notes receivable using the fair value option permitted to us.

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

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

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

*Level III* - Unobservable inputs that are supported by little or no market data for the related assets or liabilities and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

Our financial instruments consist of Level I and Level III assets. Level I assets include highly liquid money market funds that are included in cash and cash equivalents. Level III assets that are measured on a recurring basis consist solely of our notes receivable. We classified the notes receivable as Level III, as we used unobservable inputs to the valuation methodology that were significant to the fair value measurement, and the valuation required management judgment due to the absence of quoted market prices. We measure the fair value of the notes receivable based upon the probability-weighted present value of expected future investment returns, considering each of the possible future outcomes available to us. The significant unobservable inputs used in the fair value measurement of the convertible notes are the scenario probabilities and the discount rate estimated at the valuation date. Generally, increases (decreases) in the discount rate would result in a directionally opposite impact to the fair value measurement of the notes. Also, changes in the probability scenarios would have had varying impacts depending on the weighting of each specific scenario. More weighting towards a change in control or an equity financing by the investee would result in an increase in fair value of the notes receivable.

We measure and report our cash equivalents, restricted cash and notes receivable at fair value. The following table sets forth the fair value of our financial assets by level within the fair value hierarchy as noted above (in thousands):

	June 30, 2014			
	Level I	Level II	Level III	Total
<b>Financial Assets</b>				
Money market funds	\$ 244,170	\$ —	\$ —	\$ 244,170
Notes receivable <sup>(2)</sup>	—	—	8,000	8,000
<b>Total financial assets</b>	<b>\$ 244,170</b>	<b>\$ —</b>	<b>\$ 8,000</b>	<b>\$ 252,170</b>
	December 31, 2013			
	Level I	Level II	Level III	Total
<b>Financial Assets</b>				
Money market funds	\$ 47,036	\$ —	\$ —	\$ 47,036
Money market funds – restricted cash <sup>(1)</sup>	4,040	—	—	4,040
Notes receivable <sup>(2)</sup>	—	—	4,000	4,000
<b>Total financial assets</b>	<b>\$ 51,076</b>	<b>\$ —</b>	<b>\$ 4,000</b>	<b>\$ 55,076</b>

<sup>(1)</sup>Included in “Restricted cash” in the accompanying Condensed Consolidated Balance Sheets.

<sup>(2)</sup>Included in “Notes receivable” in the accompanying Condensed Consolidated Balance Sheets. We invested \$5.0 million during 2012 in a private company (See “*Note 4 – Notes Receivable*”), and there were no changes in the fair value of the Level III assets during the year ended December 31, 2013. During the three and six months ended June 30, 2014, we increased the fair value of our Notes receivable by \$4.0 million (See “*Note 4 – Notes Receivable*”). During the six months ended June 30, 2014 and the year ended December 31, 2013, we had no transfers between levels of the fair value hierarchy of its assets measured at fair value. On December 31, 2013, we received a principal payment of \$1.0 million and related accrued interest.

### 3. Balance Sheet Components

#### Accounts Receivable, net

Accounts receivable, net consists of the following (in thousands):

	June 30, 2014	December 31, 2013
Accounts receivable	\$ 70,467	\$ 80,338
Allowance for doubtful accounts	(886)	(810)
Product sales return reserve	(1,635)	(1,529)
Accounts receivable, net	<u>\$ 67,946</u>	<u>\$ 77,999</u>

#### Inventories

Inventories consist of the following (in thousands):

	June 30, 2014	December 31, 2013
Raw materials	\$ 13,078	\$ 18,286
Finished goods	57,990	55,074
Total inventories	<u>\$ 71,068</u>	<u>\$ 73,360</u>

As of June 30, 2014 and December 31, 2013, finished goods inventory included spare parts inventory of \$8.3 million and \$5.5 million, respectively.

#### Property and Equipment, net

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

	June 30, 2014	December 31, 2013
Equipment and machinery	\$ 15,973	\$ 13,733
Computer hardware and software	6,572	3,688
Furniture and fixtures	1,375	1,352
Leasehold improvements	19,212	19,407
Building	35,154	35,154
Construction-in-process	2,192	1,056
Property and equipment, gross	<u>80,478</u>	<u>74,390</u>
Less: accumulated depreciation	(11,679)	(7,186)
Property and equipment, net	<u>\$ 68,799</u>	<u>\$ 67,204</u>

Building consists of capitalized construction costs of our leased building in Santa Clara, California. Based on the terms of the lease agreement and due to our involvement in certain aspects of the construction, such as our financial involvement in structural elements of asset construction, making decisions related to tenant improvement costs and purchasing insurance not

reimbursable by the buyer-lessor (the Landlord), we are deemed the owner of the building (for accounting purposes only) during the construction period. We maintain continued involvement in the property after construction was completed and lack transferability of the risks and rewards of ownership, primarily due to our required maintenance of a \$4.0 million letter of credit. Due to our continuing involvement in the property post construction and lack of transferability of related risks and rewards of ownership to the Landlord after construction is complete, we account for the building as a financing obligation. See “*Note 6-Commitments and Contingencies*” . Accordingly, as of June 30, 2014 and December 31, 2013 , we have recorded assets of \$53.4 million and \$53.3 million , respectively, representing the total costs of the building and improvements incurred, including the costs paid by the Landlord. The building was completed in 2013 .

Depreciation expense was \$2.4 million , \$4.7 million , \$0.8 million and \$1.5 million for the three and six months ended June 30, 2014 and 2013 , respectively.

### Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	June 30, 2014	December 31, 2013
Accrued payroll related costs	\$ 13,276	\$ 9,090
Accrued warranty costs	3,564	5,075
Accrued accounts payable	4,876	5,370
Accrued manufacturing costs	1,577	3,633
Other	4,723	3,741
Total accrued liabilities	<u>\$ 28,016</u>	<u>\$ 26,909</u>

### Warranty Accrual

We offer a one -year warranty on all of our hardware products and a 90 -day warranty against defects in the software embedded in the products. We accrue for potential warranty claims at the time of shipment as a component of cost of revenues based on historical experience and other relevant information. We accrue specifically identified reserves if and when we determine we have a systemic product failure. The accrued warranty liability is recorded in accrued liabilities in the accompanying unaudited condensed consolidated balance sheets.

The following table summarizes the activity related to our accrued liability for estimated future warranty costs (in thousands):

	Six Months Ended June 30,	
	2014	2013
Warranty accrual, beginning of period	\$ 5,075	\$ 5,314
Liabilities accrued for warranties issued during the period	967	2,935
Warranty costs incurred during the period	(1,288)	(1,658)
Adjustments related to change in estimate	(1,190)	—
Warranty accrual, end of period	<u>\$ 3,564</u>	<u>\$ 6,591</u>

During the six months ended June 30, 2013, we identified specific products that were failing in the field prematurely at higher than expected rates due to various component issues. We determined that replacement of certain affected products was required and recorded specific warranty reserves of \$0.3 million during the six months ended June 30, 2013 . There were no specific warranty reserves recorded during the six months ended June 30, 2014 .

## Deferred Revenue

Deferred revenue consists of the following (in thousands):

	June 30, 2014	December 31, 2013
Current portion of deferred revenue	\$ 37,888	\$ 41,306
Long-term portion of deferred revenue	23,795	17,598
Total deferred revenue	<u>\$ 61,683</u>	<u>\$ 58,904</u>

The long-term portion of deferred revenue is included in other long-term liabilities in the accompanying condensed consolidated balance sheets.

## 4. Notes Receivable

In May and July 2012, we made loans in the aggregate of \$1.0 million, under two convertible notes receivable to a private company. The interest rate on the notes receivable was 6.0% per annum. The notes are convertible into the private company's preferred stock or any securities exchangeable for the private company's preferred stock. All unpaid principal and accrued interest on the notes receivable was due and payable on the earlier of December 31, 2013, or upon default. The notes receivable may not be prepaid before the maturity date. The notes receivable were collateralized by the assets of the borrower. On December 31, 2013, we received a principal payment of \$1.0 million and related accrued interest.

On December 31, 2012, we made an additional loan of \$4.0 million to the same borrower. The terms of the notes receivable are the same as the amended May and July notes receivable, except that the maturity date is August 31, 2014.

In the event the borrower closes a Corporate Transaction after December 31, 2012, we will receive two times our outstanding principal balance as well as any unpaid accrued interest. A Corporate Transaction is defined as being a sale or lease of all assets, a consolidation or merger or other transaction in which 50% of the voting power is transferred. In the event the borrower completes a Qualified Financing, the outstanding principal and accrued interest on the notes receivable will automatically convert into shares of the borrower's preferred stock. A Qualified Financing is defined as being a preferred stock financing in which the borrower receives \$6.0 million or more in aggregate proceeds. The minimum number of preferred shares we would receive would be equal to the loan value divided by 80% of the lowest price per share the borrower received in the Qualified Financing. In addition, we were able to exchange the notes receivable at any time on or prior to June 30, 2014, if the borrower issued new debt securities on terms more favorable to other investors for debt securities similar to such new debt securities.

On July 30, 2014, the borrower signed a definitive agreement to close a Corporate Transaction through a merger based on the terms defined above. The transaction is expected to close in the fourth quarter of 2014, and we intend to extend the maturity date on August 31, 2014 of the notes receivable through the close date. As a result, we have increased the value of our convertible notes receivable by \$4.0 million which represents two times our outstanding principal balance in accordance with terms noted above.

In conjunction with the notes receivable, we also entered into an Exclusivity and Supply Agreement ("Supply Agreement") with the borrower. Under the terms of the Supply Agreement, the borrower has agreed to develop and produce certain products for us at mutually agreed on supply terms and with best in class pricing rights to us. In addition, any exclusive features developed between us and the borrower cannot be sold by the borrower to other customers for 24 months following the commercial availability of such production versions. The Supply Agreement does not have a maturity date. We determined that the fair value of the Supply Agreement on its inception was insignificant as the borrower is still in the development stage and there is no certainty that a commercial product will be developed.

We determined that we had a variable interest in the borrower through our notes receivable. However, we determined that we are not the primary beneficiary as we do not have the power to direct the borrower's activities that most significantly affect the borrower's economic performance. We also determined that our investment in the borrower is not an equity-method investment as the notes receivable have different risk and reward characteristics than those of the borrower's common stock. We have elected the fair value option method of accounting for our notes receivable. We believe the fair value of the notes receivable is \$8.0 million and \$4.0 million as of June 30, 2014 and December 31, 2013, respectively, which corresponds to the maximum exposure to loss as a result of our variable interest involvement with the borrower.

## 5. Debt Obligations

Our debt obligations consist of the following (in thousands):

	June 30, 2014	December 31, 2013
Convertible notes payable—related party	\$ —	\$ 25,000
Convertible notes payable	—	75,000
Total	—	100,000
Less: Unamortized discount on notes payable	—	1,207
Less: Current portion	—	98,793
Total long-term portion of debt	\$ —	\$ —

In January 2011, we sold \$55.0 million aggregate principal amount of subordinated convertible promissory notes (“Convertible Notes”) to outside investors and \$25.0 million aggregate principal amount of Convertible Notes to two trusts that are related to two of our co-founders. The Convertible Notes were convertible into shares of our common stock upon a change of control, a qualified IPO, or immediately prior to when the notes are to be voluntarily prepaid. The proceeds received in the financing were used to repay the outstanding principal on the related party notes payable of \$55.6 million and accrued interest of \$25.9 million. The repayment of the related party notes payable and the issuance of the aggregate 25.0 million in Convertible Notes to the two trusts were determined to be a debt modification for accounting purposes; therefore, no gain or loss was recognized in our consolidated statements of income for the year ended December 31, 2011.

In conjunction with the Convertible Notes, we also issued 2.0 million shares of our common stock, which had an aggregate fair value of \$3.0 million upon issuance. The aggregate net carrying value of the Convertible Notes on their issuance was \$77.0 million ( \$80.0 million in Convertible Notes and \$3.0 million in unamortized debt discount). The debt discount was amortized to interest expense over the term of the Convertible Notes under the effective interest method.

In June 2011, we sold an additional \$20.0 million in Convertible Notes and also issued 500,000 shares of our common stock, which had an aggregate fair value of \$1.2 million, to outside investors. The aggregate net carrying value of the Convertible Notes on issuance was \$18.8 million ( \$20.0 million in Convertible Notes and \$1.2 million in unamortized debt discount). The debt discount was amortized to interest expense over the term of the Convertible Notes under the effective interest method.

The interest rate on the Convertible Notes was 6.0% per annum, computed on the basis of the actual number of days elapsed and a year of 365 days. All unpaid principal and accrued interest on the Convertible Notes were due and payable on the earlier of December 31, 2014 or upon the occurrence of an event of default, defined as: (i) failure to pay principal or interest when due; (ii) breaches of covenants; (iii) breaches of representations and warranties; (iv) failure to make other payment obligations resulting in the acceleration of maturity of indebtedness in excess of \$10.0 million; (v) voluntary bankruptcy; (vi) involuntary bankruptcy; or (vii) certain adverse judgments. We could have voluntarily prepaid the Convertible Notes, in whole or in part, before the maturity date by giving each investor 10 days’ prior written notice. We were also required to prepay the Convertible Notes upon a change of control unless the investor elected to convert its Convertible Note immediately prior to the closing of such change of control.

Upon the closing of our IPO all noteholders with the exception of one noteholder converted the principal and accrued interest amount outstanding under their subordinated convertible promissory notes into shares of our common stock at the IPO price of \$43.00 per share. The noteholder, who did not elect to so convert, was paid a total of \$23.6 million which included principal and accrued interest less applicable withholding taxes of \$1.1 million. The remainder of the noteholders converted the remaining debt balance of approximately \$96.5 million including principal and accrued interest into 2.2 million shares of our common stock.

## 6. Commitments and Contingencies

### Operating Leases

We lease various operating spaces in North America, Europe, Asia and Australia under non-cancelable operating lease arrangements that expire on various dates through 2018. These arrangements require us to pay certain operating expenses, such as taxes, repairs, and insurance and contain renewal and escalation clauses. We recognize rent expense under these arrangements on a straight-line basis over the term of the lease.

As of December 31, 2013, the aggregate future minimum payments under non-cancelable operating leases consist of the following (in thousands):

<u>Years Ending December 31,</u>		
2014	\$	825
2015		540
2016		507
2017		411
2018		161
Total minimum future lease payments	\$	<u>2,444</u>

Rent expense for all operating leases amounted to \$0.7 million, \$1.7 million, \$0.9 million and \$1.7 million for the three and six months ended June 30, 2014 and 2013, respectively.

### Financing Obligation—Build-to-Suit Lease

In August 2012, we executed a lease for a building under construction in Santa Clara, California which will serve as our new headquarters. The lease term is 120 months and commenced in August 2013.

Based on the terms of the lease agreement and due to our involvement in certain aspects of the construction such as our financial involvement in structural elements of asset construction, making decisions related to tenant improvement costs and purchasing insurance not reimbursable by the buyer-lessor (the Landlord), we are deemed the owner of the building (for accounting purposes only) during the construction period. We maintained continued involvement in the property after construction was completed and lack transferability of the risks and rewards of ownership, primarily due to our required maintenance of a \$4.0 million letter of credit. Due to our continuing involvement in the property post construction and lack of transferability of related risks and rewards of ownership to the Landlord after construction is complete, we account for the building and related improvements as a lease financing obligation.

Accordingly, as of June 30, 2014 and December 31, 2013, we have recorded assets of \$53.4 million and \$53.3 million, representing the total costs of the building and improvements incurred, including the costs paid by the lessor (the legal owner of the building) and additional improvement costs paid by us, and a corresponding financing obligation of \$44.1 million and \$44.0 million, respectively. As of June 30, 2014, \$1.0 million and \$43.1 million were recorded as short-term and long-term financing obligations, respectively. During the construction period, we continued to increase the asset and financing obligation as additional building and improvement costs were incurred until construction was completed.

As of December 31, 2013, the future minimum payments due under the lease financing obligation were as follows (in thousands):

<u>Years Ending December 31,</u>		
2014	\$	4,991
2015		5,601
2016		5,769
2017		5,948
2018		6,128
Thereafter		31,059
<b>Total payments</b>		<b>59,496</b>
Less: interest and land lease expense		(38,962)
<b>Total payments under facility financing obligations</b>		<b>20,534</b>
Property reverting to landlord		23,436
<b>Present value of obligation</b>		<b>43,970</b>
Less current portion		(818)
<b>Long-term portion of obligation</b>	<b>\$</b>	<b>43,152</b>

Upon completion of construction in the third quarter of 2013, we evaluated the de-recognition of the asset and liability under the sale-leaseback accounting guidance. We concluded that we have forms of continued economic involvement in the facility, and therefore did not meet with the provisions for sale-leaseback accounting. Therefore, the lease is accounted for as a financing obligation and lease payments will be attributed to (1) a reduction of the principal financing obligation; (2) imputed interest expense; and (3) land lease expense (which is considered an operating lease and a component of cost of goods sold and operating expenses) representing an imputed cost to lease the underlying land of the building. In addition, the underlying building asset is depreciated over the building's estimated useful life of 30 years. At the conclusion of the initial lease term, we will de-recognize both the net book values of the asset and the remaining financing obligation.

#### **Purchase Commitments**

Our products are manufactured, assembled and tested by third-party contract manufacturers in Asia who procure components and assemble products on our behalf based on our forecasts. These forecasts are based on estimates of future demand for our products, historical trend analysis provided by our sales and product marketing organizations and adjusted for overall market conditions. In order to reduce manufacturing lead times and plan for adequate component supply, we may issue purchase orders to these third-party contract manufacturers and vendors that may not be cancelable. As of June 30, 2014 and December 31, 2013, our contract manufacturer liability was \$1.6 million and \$1.8 million for non-cancelable purchase commitments issued to our vendors.

We have provided restricted deposits to our third-party contract manufacturers and vendors to secure our obligations to purchase inventory. We had \$2.3 million in restricted deposits as of June 30, 2014 and December 31, 2013. Restricted deposits are classified in deposits and other non-current assets in our accompanying unaudited condensed consolidated balance sheets.

#### **Guarantees**

We have entered into agreements with some of our direct customers and channel partners that contain indemnification provisions relating to potential situations where claims could be alleged that our products infringe the intellectual property rights of a third party. We have at our option and expense the ability to repair any infringement, replace product with a non-infringing equivalent-in-function product or refund our customers the unamortized value of the product based on its estimated useful life. Other guarantees or indemnification agreements include guarantees of product and service performance and standby letters of credit for lease facilities and corporate credit cards. We have not recorded a liability related to these indemnification and guarantee provisions and our guarantee and indemnification arrangements have not had any significant impact on our consolidated financial statements to date.

## Legal Proceedings

### *OptumSoft, Inc. Matters*

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

In its lawsuit, OptumSoft has asked the Court to order us to (i) give OptumSoft copies of certain components of our software for evaluation by OptumSoft, (ii) cease all conduct constituting the alleged confidentiality and use restriction breaches, (iii) secure the return or deletion of OptumSoft's alleged intellectual property provided to third parties, including our customers, (iv) assign ownership to OptumSoft of OptumSoft's alleged intellectual property currently owned by us, and (v) pay OptumSoft's alleged damages, attorney's fees, and costs of the lawsuit. David Cheriton, one of our founders and a former member of our board of directors who resigned from our board of directors on March 1, 2014 and has no continuing role with us, is a founder and, we believe, the largest stockholder and director of OptumSoft. The 2010 David R. Cheriton Irrevocable Trust dtd July 27, 2010, a trust for the benefit of the minor children of Mr. Cheriton, is our largest stockholder.

OptumSoft has identified in confidential documents certain software components it claims to own, which are generally applicable tools and utility subroutines and not networking specific code. We cannot assure which software components OptumSoft may ultimately claim to own in the litigation or whether such claimed components are material.

On April 14, 2014, we filed a cross-complaint against OptumSoft, in which we assert our ownership of the software components at issue and our interpretation of the 2004 agreement. Among other things, we assert that the language of the 2004 agreement and the parties' long course of conduct support our ownership of the disputed software components. We ask the Court to declare our ownership of those software components, all similarly-situated software components developed in the future and all related intellectual property. We also assert that, even if we are found not to own any particular components at issue, such components are licensed to us under the terms of the 2004 agreement. However, there can be no assurance that our assertions will ultimately prevail in litigation.

On the same day, we also filed an answer to OptumSoft's claims, as well as affirmative defenses based in part on OptumSoft's failure to maintain the confidentiality of its claimed trade secrets, its authorization of the disclosures it asserts and its delay in claiming ownership of the software components at issue. We have also taken additional steps to respond to OptumSoft's allegations that we improperly used and/or disclosed OptumSoft confidential information. While we believe we have strong defenses to these allegations, we believe we have (i) revised our software to remove the elements we understand to be the subject of the claims relating to improper use and disclosure of OptumSoft confidential information and made the revised software available to our customers and (ii) removed information from our website that OptumSoft asserted disclosed OptumSoft confidential information.

On August 1, 2014, the Santa Clara Superior Court held a case management conference (CMC). At the CMC, the Court set a trial date for April 2016.

We do not believe a loss is probable; however, it is a reasonable possibility. Due to the early stage of this matter, no estimate of the amount or range of possible amounts can be determined at this time.

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

prohibited from selling products that incorporate OptumSoft intellectual property. Any such adverse ruling could materially adversely affect our business, prospects, results of operations and financial condition. Whether or not we prevail in a lawsuit, we expect that any litigation would be expensive, time-consuming and a distraction to management in operating our business.

#### *Net Navigation LLC Matters*

On April 23, 2014, Net Navigation LLC sued us for alleged infringement of U.S. Patent Nos. 5,901,147; 6,434,145; and 6,625,122 in U.S. District Court for the Eastern District of Texas. On June 30, 2014, we and Net Navigation LLC settled this dispute.

In the ordinary course of business, we are a party to other claims and legal proceedings including matters relating to commercial, employee relations, business practices and intellectual property. We record a provision for contingent losses when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Based on currently available information, management does not believe that the ultimate outcome of these other unresolved matters is probable or estimable and not likely, individually and in the aggregate, to have a material adverse effect on our financial position, results of operations or cash flows. However, litigation is subject to inherent uncertainties and our view of these matters may change in the future. Were an unfavorable outcome to occur, there exists the possibility of a material adverse impact on our financial position, results of operations or cash flows for the period in which the unfavorable outcome occurs, and potentially in future periods.

### **7. Common Stock Reserved for Issuance**

We have reserved shares of common stock, on an as-converted basis, for future issuance as follows (in thousands):

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Conversion of convertible preferred stock outstanding <sup>(1)</sup>	—	24,000
Outstanding stock options and RSAs	14,092	11,245
Outstanding stock purchase rights	2	2
Conversion of convertible debt and related interest expense <sup>(2)</sup>	—	3,949
Shares reserved for future option and RSA grants	12,426	8,941
Shares reserved under Employee Stock Purchase Plan	651	—
<b>Total</b>	<b>27,171</b>	<b>48,137</b>

<sup>(1)</sup> Upon the closing of our IPO, all shares of our convertible preferred stock were converted to 24 million shares of common stock on a one -for-one basis.

<sup>(2)</sup> Upon the closing of our IPO, all noteholders with the exception of one noteholder converted the principal and accrued interest amount outstanding under their subordinated convertible promissory notes into shares of our common stock at the IPO price of \$43.00 per share. The noteholder, who did not elect to so convert, was paid a total of \$23.6 million which included principal and accrued interest less applicable withholding taxes of \$1.1 million. The remainder of the noteholders converted the remaining debt balance of approximately \$96.5 million including principal and accrued interest into 2.2 million shares of our common stock.

### **8. Convertible Preferred Stock**

Upon the closing of our IPO, all outstanding convertible preferred stock was converted into 24 million shares of common stock on a one -to-one basis.

## 9. Stock-Based Compensation

Total stock-based compensation expense related to options, restricted stock awards, employee stock purchases and stock purchase rights granted were allocated as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Cost of revenue	\$ 301	\$ 83	\$ 512	\$ 150
Research and development	3,527	1,134	5,994	2,130
Sales and marketing	1,931	612	3,359	1,094
General and administrative	946	244	1,622	441
Total stock-based compensation	<u>\$ 6,705</u>	<u>\$ 2,073</u>	<u>\$ 11,487</u>	<u>\$ 3,815</u>

Allocations to cost of revenue, research and development, general and administrative and selling and marketing expense are based upon the department to which the associated employee reported.

### 2004 Plan

During the year ended December 31, 2004, we adopted the 2004 Equity Incentive Plan ("the 2004 Plan") for the purpose of granting stock-based awards to employees, directors and consultants. Awards under the 2004 Plan may be in the form of Incentive Stock Options ("ISOs"), Nonstatutory Stock Options ("NSOs") or Restricted Stock Awards ("RSAs"). ISOs could only be granted to employees with an exercise price not less than the fair value of the common stock on the grant date as determined by the board of directors, and NSOs may be granted to employees, directors or consultants at exercise prices not less than 85% of the fair value of the common stock on the grant date as determined by the board of directors. If, on the date of an option grant, the grantee directly or by attribution owns stock possessing more than 10% of the voting power of all classes of our stock, the exercise price must be at least 110% of the fair value of the common stock on the grant date as determined by the board of directors. Options may be granted with vesting terms as determined by the board of directors, and generally vest over an estimated period of 4 years. Options granted are exercisable over a maximum term of 10 years from the date of grant or five years from the date of grant for 10% stockholders. With the establishment of the 2011 Plan (as defined below), the 2004 Plan terminated with respect to the grant of future awards but the 2004 Plan continues to govern awards issued thereunder.

### 2011 Plan

During the year ended December 31, 2011, we adopted the 2011 Equity Incentive Plan (the "2011 Plan") for the purpose of granting stock-based awards to employees, directors, and consultants. Awards granted under the 2011 Plan could have been ISOs, NSOs, RSAs, Stock Appreciation Rights ("SARs") or Restricted Stock Units ("RSUs"). ISOs may be granted to employees and NSOs may be granted to employees, directors or consultants, in all cases, with an exercise price not less than the fair value of the common stock on the grant date as determined by the board of directors. If, on the date if an ISO grant, the optionee directly or by attribution owns stock possessing more than 10% of the voting power of all classes of our stock, the exercise price must be at least 110% of the fair value of the common stock on the grant date as determined by the board of directors. Options may be granted with vesting terms as determined by the board of directors, and generally vest over an estimated period of 4 years. Options granted are exercisable over a maximum term of 10 years from the date of grant or five years from the date of grant for 10% stockholders. With the establishment of the 2014 Plan (as defined below), the 2011 Plan terminated with respect to the grant of future awards but the 2011 Plan continues to govern awards previously issued thereunder.

### 2014 Plan

In April 2014, the board of directors and stockholders approved the 2014 Equity Incentive Plan (the "2014 Plan"), effective on the first day that our common stock was publicly traded. A total of 6,510,000 shares of our common stock were initially reserved for issuance under the 2014 Plan. In addition, the shares reserved for issuance under our 2014 Plan will also include (a) those shares reserved but unissued under the 2011 Plan and 2004 Plan as of the effective date and (b) shares returned to our 2011 Plan and 2004 Plan as the result of expiration or termination of options (provided that the maximum number of shares that may be added to the 2014 Plan pursuant to (a) and (b) is 20,025,189 shares. The number of shares available for grant and issuance under the 2014 Plan will be increased automatically on January 1 of each year commencing with 2016 by the number of shares equal to 3% of our shares outstanding on the immediately preceding December 31, but not to exceed 12,500,000 shares, unless the board of directors, in its discretion, determines to make a smaller increase.

## 2014 Employee Stock Purchase Plan

In April 2014, the board of directors and stockholders approved the 2014 Employee Stock Purchase Plan (the “ESPP”). The ESPP will become effective on the first day that our common stock is publicly traded. A total of 651,000 shares of our common stock are initially reserved for future issuance under the ESPP. The number of shares reserved for issuance under the ESPP will increase automatically on January 1 of each year commencing with 2015 by the number of shares equal to 1% of our shares outstanding immediately preceding December 31, but not to exceed 2,500,000 shares, unless the board of directors, in its discretion, determines to make a smaller increase.

### Determination of Fair Value

#### *Employee Stock Plans*

For the three and six months ended June 30, 2014 and 2013, the fair value of each stock option granted under the 2011 Plan was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions and fair value per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Expected term (in years)	7.0	6.2	7.7	6.4
Risk-free interest rate	2.0%	1.2%	2.3%	1.2%
Expected volatility	48.1%	51.8%	47.8%	51.1%
Dividend rate	—%	—%	—%	—%

#### *ESPP*

There were no stock purchases under the ESPP during the three months ended June 30, 2014. The following table summarizes the assumptions relating to our ESPP:

	Three Months Ended June 30,
	2014
Expected term (in years)	1.4
Risk-free interest rate	0.3%
Expected volatility	36.3%
Dividend rate	—%

As of June 30, 2014, the total unrecognized stock-based compensation expense for unvested ESPP options, net of expected forfeitures, was \$ 5.4 million, which is expected to be recognized over a weighted-average period of 2.1 years.

The following table summarizes the option and RSA activity under the 2004 Plan and 2011 Plan and related information:

	Options and RSAs Outstanding				Aggregate Intrinsic Value of Stock Options Outstanding (in thousands)
	Shares Available for Grant (in thousands)	Number of Shares Underlying Outstanding Options and RSAs (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years) of Stock Options	
Outstanding—December 31, 2013	8,941	11,245	\$ 6.82	8.8	\$ 254,319
Authorized	6,510				
Options granted	(3,331)	3,331	31.40		
Options exercised	—	(186)	9.01		
Options canceled	298	(298)	8.99		
Early exercised shares repurchased	8	—	6.40		
Outstanding—June 30, 2014	12,426	14,092	\$ 12.56	8.6	\$ 702,257
Vested and exercisable—June 30, 2014		3,051	\$ 4.27	7.7	\$ 177,332
Vested and expected to vest—June 30, 2014		12,280	\$ 11.48	8.5	\$ 625,146

The weighted-average grant-date fair value of options granted during the six months ended June 30, 2014 was \$19.73 per share. The aggregate intrinsic value of options exercised for the six months ended June 30, 2014 was \$3.3 million .

As of June 30, 2014 , the total unrecognized stock-based compensation expense for unvested stock options, net of expected forfeitures, was \$88.8 million , which is expected to be recognized over a weighted-average period of 4.0 years . The total fair value of options vested for the six months ended June 30, 2014 was \$4.5 million .

Under the 2004 Plan and 2011 Plan, the options outstanding and vested and exercisable by exercise price at June 30, 2014 are as follows:

Range of Exercise Price	Options Outstanding and Exercisable			Options Vested and Exercisable	
	Number of Shares Underlying Outstanding Options (in thousands)	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price per Share	Number of Shares Underlying Outstanding Options (in thousands)	Weighted-Average Exercise Price per Share
\$0.01 – \$3.33	2,578	7.3	\$ 3.30	1,535	\$ 3.28
\$4.16 – \$4.92	3,723	8.1	4.39	1,219	4.41
\$7.76 – \$10.18	3,945	9.0	9.19	289	8.21
\$22.49	1,084	9.5	22.49	3	22.49
\$30.67	1,673	9.6	30.67	1	30.67
\$34.12 - \$38.00	1,089	9.8	36.88	4	34.64
	14,092	8.6	\$ 12.56	3,051	\$ 4.27

### Restricted Stock Awards

A summary of our RSA activity and related information is as follows:

	Number of RSA's Outstanding (in thousands)	Weighted-Average Grant Date Fair Value
Unvested balance—December 31, 2013	142	\$ 2.42
Vested	(32)	2.50
Unvested balance—June 30, 2014	110	\$ 2.50

There were no RSAs granted during the six months ended June 30, 2014 . As of June 30, 2014 , the total unrecognized expense for outstanding RSAs, net of expected forfeitures, was \$0.3 million , which is expected to be amortized over a weighted-average period of 2.3 years . As of June 30, 2014 , the intrinsic value of the outstanding RSAs based on the estimated fair value of \$62.39 per share was \$6.6 million .

### **Early Exercise of Stock Options**

We typically allow our employees and directors to exercise options granted under the 2011 Plan and the 2004 Plan prior to vesting. Upon an "early exercise" of these options, the unvested shares acquired through the exercise become options subject to our repurchase right that lapse in accordance with the original option vesting schedule. Upon termination of employment prior to our repurchase rights lapsing in full, we have a right to repurchase the unvested shares at the original purchase price (or the then-current fair market value, if lower). The proceeds initially are recorded in other liabilities from the early exercise of stock options and are reclassified to common stock and paid-in capital as our repurchase right lapse. For the six months ended June 30, 2014 , we repurchased 8,282 shares of common stock at the original exercise price due to the termination of the holders of the unvested shares. As of June 30, 2014 , shares held by employees and directors that were subject to repurchase were 2.2 million with an aggregate price of \$6.6 million .

## 10. Net Income Per Share Available to Common Stock

The following table sets forth the computation of our basic and diluted net income per share available to common stock (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Numerator:				
Basic:				
Net income	\$ 21,618	\$ 10,251	\$ 33,947	\$ 16,862
Less: undistributed earnings allocated to participating securities	(7,406)	(5,303)	(13,962)	(8,799)
Net income available to common stockholders, basic	<u>\$ 14,212</u>	<u>\$ 4,948</u>	<u>\$ 19,985</u>	<u>\$ 8,063</u>
Diluted:				
Net income attributable to common stockholders, basic	\$ 14,212	\$ 4,948	\$ 19,985	\$ 8,063
Add: undistributed earnings allocated to participating securities	639	211	1,136	309
Net income attributable to common stockholders, diluted	<u>\$ 14,851</u>	<u>\$ 5,159</u>	<u>\$ 21,121</u>	<u>\$ 8,372</u>
Denominator:				
Basic:				
Weighted-average shares used in computing net income per share available to common stockholders, basic	<u>38,491</u>	<u>26,926</u>	<u>33,834</u>	<u>26,607</u>
Diluted:				
Weighted-average shares used in computing net income per share available to common stockholders, basic	38,491	26,926	33,834	26,607
Add weighted-average effect of dilutive securities:				
Stock options and RSAs	5,537	2,320	5,113	2,038
Employee stock purchase plan	29	—	15	—
Stock purchase rights	—	6	—	5
Weighted-average shares used in computing net income per share available to common stockholders, diluted	<u>44,057</u>	<u>29,252</u>	<u>38,962</u>	<u>28,650</u>
Net income per share attributable to common stockholders:				
Basic	<u>\$ 0.37</u>	<u>\$ 0.18</u>	<u>\$ 0.59</u>	<u>\$ 0.30</u>
Diluted	<u>\$ 0.34</u>	<u>\$ 0.18</u>	<u>\$ 0.54</u>	<u>\$ 0.29</u>

The following outstanding shares of common stock equivalents were excluded from the computation of diluted net income per share available to common stockholders for the periods presented because including them would have been anti-dilutive (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Stock options and RSAs to purchase common stock	2,361	1,398	2,160	828

## 11. Income Taxes

Provision for income taxes was approximately \$10.1 million and \$4.2 million for the three months ended June 30, 2014 and 2013 respectively, and \$17.2 million and \$4.5 million for the six months ended June 30, 2014 and 2013 respectively. The change in our provision for income taxes and effective tax rate was primarily due to increase in profit before income tax, the geographical distribution of the earnings, and the expiration of the federal research and development credit as of December 31, 2013.

The effective tax rate as of December 31, 2013 included the impact of the passage of the American Tax Relief Act of 2012 signed into law on January 2, 2013, which reinstated 2012 and 2013 federal research and development credit. The impact of the 2012 federal research and development tax credit benefit was recorded in the three months ended March 31, 2013.

We operate in a number of tax jurisdictions and are subject to taxes in each country or jurisdiction in which we conduct business. Earnings from our non-U.S. activities are subject to local country income tax and may be subject to U.S. income tax. Generally, the U.S. taxes are reduced by a credit for foreign income taxes paid on these earnings which avoids double taxation. Our tax expense to date consists of federal, state and foreign current and deferred income taxes. As we expand internationally, our marginal tax rate may decrease; however, there can be no certainty that our marginal tax rate will decrease, and we may experience changes in tax rates that are not reflective of actual changes in our business or operations.

## 12. Segment Information

We have determined that we operate as one reportable segment. The following table represents revenue based on the customer's location, as determined by the customer's shipping address (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
United States	\$ 102,149	\$ 68,819	\$ 195,142	\$ 116,992
Other Americas	1,009	660	4,216	1,447
Europe, Middle East and Africa	20,628	9,705	32,342	17,411
Asia Pacific	14,161	4,301	23,454	8,983
Total revenue	<u>\$ 137,947</u>	<u>\$ 83,485</u>	<u>\$ 255,154</u>	<u>\$ 144,833</u>

Long lived assets, excluding intercompany receivables, investments in subsidiaries and deferred tax assets, net by location are summarized as follows (in thousands):

	June 30, 2014	December 31, 2013
United States	\$ 65,204	\$ 63,557
International	3,595	3,647
Total	<u>\$ 68,799</u>	<u>\$ 67,204</u>

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

*You should read the following discussion and analysis of our financial condition and results of operations together with the consolidated financial statements and related notes that are included elsewhere in this Quarterly Report on Form 10-Q and our prospectus filed on June 6, 2014 (the "Prospectus"), pursuant to Rule 424(b) under the Securities Act of 1933, as amended ("the Securities Act"), with the U.S. Securities and Exchange Commission (the "SEC"). This discussion contains forward-looking statements based upon current plans, expectations and beliefs that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q.*

### Overview

We are a leading supplier of cloud networking solutions that use software innovations to address the needs of large-scale Internet companies, cloud service providers and next-generation data centers for enterprises, based on market share. Our cloud networking solutions consist of our Extensible Operating System, or EOS, a set of network applications and our 10/40/100 Gigabit Ethernet switches. Our cloud networking solutions deliver industry-leading performance, scalability, availability, programmability, automation and visibility. Since we began shipping our products, we have grown rapidly, and, according to Crehan Research, we have achieved the second largest market share in data center 10/40/100 Gigabit Ethernet switch ports, excluding blade switching, sold in 2013.

At the core of our cloud networking platform is EOS, which was purpose-built to be fully programmable and highly modular. The programmability of EOS has allowed us to create a set of software applications that address the requirements of cloud networking, including workflow automation, network visibility and analytics, and has also allowed us to rapidly integrate with a wide range of third-party applications for virtualization, management, automation, orchestration and network services.

We were founded in 2004 to address the limitations of legacy networking products and to create a cloud networking platform that is open and programmable. From 2004 to 2008, our activities were focused on the development of our software, which resulted in the commercial release of our first product, the 7100 Series switches based on our EOS software, in 2008. Since then, we have continued to introduce new products utilizing EOS, including our 7500 Series switch and our 7050 Series switch in 2010, the second generation of our 7500 Series switch, called the 7500E modular switch, in May 2013 and our 7300 Series switch in November 2013. As of June 30, 2014, we have shipped more than two million switch ports.

We have experienced rapid revenue growth over the last several years, increasing our revenue at a compound annual growth rate of 71.4% from 2010 to 2013. As we have grown the functionality of our EOS software, expanded the range of our switching portfolio and increased the size of our sales force, our revenue has continued to grow rapidly. To support revenue growth, we have increased our international presence to include offices in nine countries as of June 30, 2014, including Canada, China, India, Ireland, Japan, South Korea, Malaysia, Singapore and Taiwan. Our 2013 revenue grew 86.8% when compared to 2012. Our revenue for the three and six months ended June 30, 2014 was \$137.9 million and \$255.2 million, an increase of 65.2% and 76.2%, respectively, when compared to the same period in 2013. We have been profitable and cash flow positive for each year since 2010.

We believe that our cloud networking platform addresses the large and growing cloud networking segment of data center switching, which remains in the early stage of adoption. We expect to continue rapidly growing our organization to meet the needs of new and existing customers as they increasingly realize the performance and cost benefits of our cloud networking solutions and as they expand their cloud networks. We intend to continue to invest in our research and development organization to enhance the functionality of our existing cloud networking platform, introduce new products and features and build upon our technology leadership. We believe one of our greatest strengths lies in our rapid development of new features and applications. By investing in research and development, we believe we will be well positioned to continue our rapid growth and take advantage of our large market opportunity. We also intend to continue to expand our sales and marketing teams and programs, with a particular focus on expanding our network of international channel partners and carrying out associated marketing activities in key geographies. In order to support our strong growth, we have accelerated our investment in infrastructure, such as enterprise resource planning software and other technologies to improve the efficiency of our operations. As a result, we expect our levels of operating profit could decline in the short to medium term. For a description of factors that may impact our future performance, see the disclosure in the section titled "Factors Affecting Our Performance" below.

## **Our Business Model**

We derive revenue from sales of products and services. We generate revenue primarily from sales of our switching products which incorporate our EOS software. We also generate services revenue from post contract support, or PCS, which end customers typically purchase in conjunction with our products.

Since shipping our first products in 2008, our cumulative end-customer base has grown rapidly. Between December 31, 2010 and June 30, 2014, our cumulative end-customer base grew from approximately 570 to approximately 2,700. Our end customers span a range of industries and include large Internet companies, service providers, financial services organizations, government agencies, media and entertainment companies and others.

To continue to grow our revenue, it is important that we both obtain new customers and sell additional products to existing customers. For example during the year ended December 31, 2013, approximately 85.2% of our revenue was received from our existing end customers.

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

We market and sell our products through our direct sales force and in partnership with channel partners, including distributors, value-added resellers, systems integrators, original equipment manufacturer, or OEM, partners and in conjunction with various technology partners, depending on the application. To facilitate channel coordination and increase productivity, we have created a partner program, the Arista Partner Program, to engage partners who provide value-added services and extend our reach into the marketplace. Authorized training partners provide technical training to our channel partners. Our partners commonly receive an order from an end customer prior to placing an order with us, and we confirm the identification of the end customer prior to accepting such orders. Our partners generally do not stock inventory received from us. Our sales organization is supported by systems engineers with deep technical expertise and responsibility for pre-sales technical support and engineering for our end customers. Each sales team is responsible for a geographic territory, has responsibility for a number of major direct end-customer accounts or has assigned accounts in a specific vertical market. During three and six months ended June 30, 2014, 74.8% and 78.1% of our revenue was generated from the Americas, substantially all from the United States, 15.0% and 12.7% from Europe, the Middle East and Africa and 10.2% and 9.2% from the Asia-Pacific region, respectively.

## **Factors Affecting Our Performance**

We believe that our future success will depend on many factors, including our ability to expand sales to our existing customers as well as to add new end customers. While these areas present significant opportunity, they also present risks that we must manage to ensure successful results. See the section titled "Risk Factors." Additionally, we face intense competition especially from larger, well-established companies, and we must continue to expand the capabilities of our cloud networking platform to succeed in our market. If we are unable to address these challenges, our business could be adversely affected.

*Increasing Adoption of Cloud Networks.* Networks are subject to increasing performance requirements due to growing numbers of connected devices as well as new enterprise and consumer applications. Computing architectures are evolving to meet the need for constant connectivity and access to data and applications. We believe that cloud networks will continue to replace legacy network technologies. Our business and results of operations will be significantly affected by the speed with which organizations implement cloud networks.

*Expanding Sales to Existing Customer Base.* We expect that a substantial portion of our future sales will be follow-on sales to existing end customers. As noted above, one of our sales strategies is to target specific projects at our current end customers because they are familiar with the operational and economic benefits of our cloud networking solutions, thereby reducing the sales cycle into these customers. We believe this opportunity with current end customers to be significant given their existing and expected infrastructure spend. Our business and results of operations will depend on our ability to sell additional products to our growing base of customers.

*Adding New End Customers.* We believe that the cloud networking market is still in the early stages of adoption. We intend to target new end customers by continuing to invest in our field sales force and extending our relationships with channel partners. To date, we have primarily targeted end customers with the largest cloud data centers. A typical initial order involves the education of prospective customers about the technical merits and capabilities and potential cost savings of our products as compared to our competitors' products. Our results of operations will depend on our ability to continue to add new customers. We believe that customer references have been, and will continue to be, an important factor in winning new business.

*Selling More Complex and Higher-Performance Configurations .* Our results of operations have been, and we believe will continue to be, affected by our ability to sell more complex and higher-performance configurations of our products. Going forward, we aim to grow our revenue by enabling end customers to transition from previously deployed 1 Gigabit Ethernet switches to 10, 40 and eventually 100 Gigabit Ethernet switches. Our ability to sustain our revenue growth will depend, in part, upon our continued sales of more robust configurations of our products, and quarterly results of operations can be significantly impacted by the mix of products and product configurations sold during the period.

*Leveraging Channel Partners.* We expect to continue to derive a growing portion of our sales through our channel partners as they develop new end customers and expand sales to our existing end customers. We plan to continue to invest in our network of channel partners to empower them to reach new end customers more effectively, increase sales to existing customers and provide services and support effectively. We believe that increasing channel leverage will extend and improve our engagement with a broad set of customers. Our business and results of operations will be materially affected by our success in leveraging our channel partners.

*Investing in Research and Development for Growth.* We believe that the market for cloud networking is still in the early stages of adoption and we intend to continue investing for long-term growth. We expect to continue to invest heavily in software development in order to expand the capabilities of our cloud networking platform, introduce new products including new releases and upgrades to our EOS software and new applications and build upon our technology leadership. We believe one of our greatest strengths lies in the speed of our product development efforts. By investing in research and development, we believe we will be well positioned to continue our rapid growth and take advantage of our large market opportunity. We expect that our results of operations will be impacted by the timing and size of these investments.

*Customer Concentration and Timing of Large Orders .* During the years ended December 31, 2011, 2012 and 2013, sales to our 10 largest end customers accounted for approximately 32.4%, 39.3% and 43.0% of our revenue, respectively. During the years ended December 31, 2011, 2012 and 2013, our largest end customer accounted for 10.4%, 15.3% and 21.9% of our revenue, respectively. We have also experienced and continue to experience customer concentration on a quarterly basis. In addition, we have experienced increases in the size of our orders, including orders from existing customers, which could result in future increased customer concentration, depending on the timing of the fulfillment of those orders. We have also experienced unpredictability in the timing of large orders, especially with respect to our large end customers, due to the complexity of orders, the time it takes end customers to evaluate, test and qualify our products and factors specific to our end customers. Due to these factors, we expect continued variability in our customer concentration and timing of sales on a quarterly and annual basis. In addition, we have provided, and may in the future provide, pricing discounts to large end customers, which may result in lower margins for the period in which such sales occur. Our gross margins may also fluctuate as a result of the timing of such sales to large end customers.

## **Basis of Presentation**

### ***Revenue***

We generate revenue primarily from sales of our switching products which incorporate our EOS software. We also derive a small but growing portion of our revenue from sales of PCS. We generate PCS revenue from sales of technical support services contracts that are typically purchased in conjunction with our products and subsequent renewals of those contracts. We offer PCS services under renewable, fee-based contracts, which include 24-hour technical support, hardware repair and replacement parts, bug fixes, patches and unspecified upgrades on a when-and-if available basis. We expect our revenue may vary from period to period based on, among other things, the timing and size of orders and delivery of products, the impact of significant transactions with unique terms and conditions that may require deferral of revenue and cyclicity of orders being placed by our customers. Additionally, we expect our PCS revenue to increase in absolute dollars as we expand our installed base. Our ability to expand our installed base and increase our revenue is subject to numerous risks and uncertainties. See the section titled "Risk Factors." We report revenue net of sales taxes.

### ***Cost of Revenue***

Cost of revenue primarily consists of amounts paid to our third-party contract manufacturers and merchant silicon vendors, warranty expenses, excess inventory write-offs and personnel and other costs in our manufacturing operations department. Our cost of product revenue also includes product testing costs, allocated costs and shipping costs. We expect our cost of product revenue to

increase as our product revenue increases. Cost of providing PCS services consists of personnel costs for our global customer support organization. We expect our cost of service revenue to increase as our PCS revenue increases.

### ***Gross Margin***

Gross margin, or gross profit as a percentage of revenue, has been and will continue to be affected by a variety of factors, including sales to large end customers who generally receive lower pricing, the average sales price of our offerings, manufacturing costs, merchant silicon costs and the mix of products sold. We expect our gross margins to fluctuate over time, depending on the factors described above and others. See the section titled “Risk Factors.”

### ***Operating Expenses***

Our operating expenses consist of research and development, sales and marketing and general and administrative expenses. The largest component of our operating expenses is personnel costs. Personnel costs consist of wages, benefits, bonuses and, with respect to sales and marketing expenses, sales commissions. Personnel costs also include stock-based compensation and travel expenses. We expect operating expenses to continue to increase in absolute dollars as well as a percentage of revenue in the near term as we continue to invest in the growth of our business.

### ***Research and Development Expenses***

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

### ***Sales and Marketing Expenses***

Sales and marketing expenses consist primarily of personnel costs and also include costs related to marketing and promotional activities, with the remainder being an allocated portion of facility and IT costs and depreciation. We expect our sales and marketing expenses to increase in absolute dollars and may fluctuate as a percentage of revenue from period to period as we expand our sales and marketing efforts worldwide and expand our relationships with current and future channel partners and end customers.

### ***General and Administrative Expenses***

General and administrative expenses consist primarily of personnel costs, professional fees, an allocated portion of facility and IT costs and depreciation. General and administrative personnel costs include those for our executive, finance, IT, human resources and legal functions. Our professional fees consist primarily of accounting, external legal and IT and other consulting costs. We expect our general and administrative expenses to increase in absolute dollars as well as a percentage of revenue to support our growing infrastructure needs and as we assume the reporting requirements and compliance obligations of a public company.

### ***Other Income (Expense), Net***

#### ***Interest Expense***

Interest expense consists of interest expense on our subordinated convertible promissory notes, including our related party subordinated convertible promissory notes.

#### ***Interest and Other Income (Expense)***

Interest and other income (expense) consist of interest expense from our lease financing obligation, gain on our notes receivable, write-off of debt discount on notes payable and foreign currency exchange gains and losses. Our foreign currency exchange gains and losses relate to transactions and asset and liability balances denominated in currencies other than the U.S. dollar. We expect our foreign currency gains and losses to continue to fluctuate in the future due to changes in foreign currency exchange rates.

## Provision for Income Taxes

We operate in a number of tax jurisdictions and are subject to taxes in each country or jurisdiction in which we conduct business. Earnings from our non-U.S. activities are subject to local country income tax and may be subject to U.S. income tax. Generally, the U.S. taxes are reduced by a credit for foreign income taxes paid on these earnings which avoids double taxation. Our tax expense to date consists of federal, state and foreign current and deferred income taxes. As we expand internationally, our marginal tax rate may decrease; however, there can be no certainty that our marginal tax rate will decrease, and we may experience changes in tax rates that are not reflective of actual changes in our business or operations.

## Results of Operations

The following table summarizes historical results of operations for the periods presented and as a percentage of revenue for those periods. We have derived the data for the three and six months ended June 30, 2014 and 2013 from our unaudited condensed consolidated financial statements (in thousands, except for percentage of revenue).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue	\$ 137,947	\$ 83,485	\$ 255,154	\$ 144,833
Cost of revenue <sup>(1)</sup>	44,567	29,584	80,460	48,804
Gross profit	93,380	53,901	174,694	96,029
Operating expenses <sup>(1)</sup> :				
Research and development	34,888	21,086	68,334	40,600
Sales and marketing	20,711	13,045	39,366	23,180
General and administrative	7,126	3,506	14,357	7,242
Total operating expenses	62,725	37,637	122,057	71,022
Income from operations	30,655	16,264	52,637	25,007
Other income (expense), net:				
Interest expense	(1,435)	(1,772)	(3,206)	(3,523)
Interest and other income (expense), net	2,472	(1)	1,708	(100)
Total other income (expense), net	1,037	(1,773)	(1,498)	(3,623)
Income before provision for income taxes	31,692	14,491	51,139	21,384
Provision for income taxes	10,074	4,240	17,192	4,522
Net income	\$ 21,618	\$ 10,251	\$ 33,947	\$ 16,862

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(as a percentage of revenue)			
Revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenue	32.3	35.4	31.5	33.7
Gross margin	67.7	64.6	68.5	66.3
Operating expenses:				
Research and development	25.3	25.3	26.8	28.0
Sales and marketing	15.0	15.6	15.4	16.0
General and administrative	5.2	4.2	5.6	5.0
Total operating expenses	45.5	45.1	47.8	49.0
Income from operations	22.2	19.5	20.7	17.3
Other income (expense), net:				
Interest expense	(1.0)	(2.1)	(1.3)	(2.4)
Interest and other income (expense), net	1.8	—	0.7	(0.1)
Total other income (expense), net	0.8	(2.1)	(0.6)	(2.5)
Income before provision for income taxes	23.0	17.4	20.1	14.8
Provision for income taxes	7.3	5.1	6.7	3.1
Net income	15.7 %	12.3 %	13.4 %	11.7 %

<sup>(1)</sup> Includes stock-based compensation expense as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Cost of revenue	\$ 301	\$ 83	\$ 512	\$ 150
Research and development	3,527	1,134	5,994	2,130
Sales and marketing	1,931	612	3,359	1,094
General and administrative	946	244	1,622	441
Total stock-based compensation	\$ 6,705	\$ 2,073	\$ 11,487	\$ 3,815

### Three and Six Months Ended June 30, 2014 Compared to Three and Six Months Ended June 30, 2013

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2014	2013	Change		2014	2013	Change	
	\$	\$	\$	%	\$	\$	\$	%
Revenue	\$ 137,947	\$ 83,485	\$ 54,462	65.2%	\$ 255,154	\$ 144,833	\$ 110,321	76.2%
Cost of Revenue	44,567	29,584	14,983	50.6	80,460	48,804	31,656	64.9
Gross profit	\$ 93,380	\$ 53,901	\$ 39,479	73.2%	\$ 174,694	\$ 96,029	\$ 78,665	81.9%
Gross margin	67.7%	64.6%			68.5%	66.3%		

## *Revenue*

Revenue increased \$54.5 million, or 65.2% for the three months ended June 30, 2014 compared to the same period in 2013. The increase in revenue predominantly included an increase in sales of switch products and related accessories of \$48.7 million, or 63.2%, primarily to existing customers, and, to a lesser extent, new customers. The increase in product revenue was largely driven by the number of switch ports shipped, which increased by 51.6% during the three months ended June 30, 2014 compared to the same period in 2013, partially offset by a reduction of 4.0% in the average selling price per port shipped. In addition, we had an increase in revenue of \$13.1 million related to changes in deferred product revenue. During the second quarter ended June 30, 2013, we had net product deferrals totaling \$7.6 million, primarily from the deferral of a few large customer orders, while in the second quarter ended June 30, 2014 we recognized \$5.5 million, net of product deferrals, primarily from the recognition of two large customer orders that were previously deferred.

Revenue increased \$110.3 million, or 76.2%, for the six months ended June 30, 2014 compared to the same period in 2013. The increase in revenue predominantly included an increase in sales of switch products and related accessories of \$97.2 million, or 72.4%, primarily to existing customers, and, to a lesser extent, new customers. The increase in product revenue was largely driven by the number of switch ports shipped which increased by 59.2%, partially offset by a reduction of 2.7% in average selling price per port shipped. In addition, we had an increase in revenue of \$22.5 million related to changes in deferred product revenue. During the six months ended June 30, 2013, we had net product deferrals totaling \$8.6 million, primarily from the deferral of a few large customer orders, while in the six months ended June 30, 2014 we recognized \$13.9 million, net of product deferrals, primarily from the recognition of a few large customer orders that were previously deferred.

## *Cost of Revenue*

Cost of revenue increased \$15.0 million, or 50.6%, for the three months ended June 30, 2014 compared to the same period in 2013. The increase in cost of revenue was primarily due to the corresponding increase in revenue as our shipment volume significantly increased during the three months ended June 30, 2014 resulting in an increase in product costs of \$14.3 million in the three months ended June 30, 2014 compared to the same period in 2013.

Cost of revenue increased \$31.7 million, or 64.9%, for the six months ended June 30, 2014 compared to the same period in 2013. The increase in cost of revenue was primarily due to the corresponding increase in revenue as our shipment volume significantly increased during the six months ended June 30, 2014 resulting in an increase in product costs of \$29.7 million in the six months ended June 30, 2014 compared to the same period in 2013.

## *Gross Margin*

Gross margin increased from 64.6% for the three months ended June 30, 2013 to 67.7% for the three months ended June 30, 2014. The increase in gross margins was primarily the result of a decrease in product warranty and inventory obsolescence charges totaling \$3.5 million from significant charges during the second quarter of 2013 from product defect issues and the impairment of obsolete products due to the introduction of new products. This increase was partially offset by a decrease in product margins due to an increase in the size of contracts with large end customers having higher volume discounts.

Gross margin increased from 66.3% for the six months ended June 30, 2013 to 68.5% for the six months ended June 30, 2014. The increase in gross margins was primarily the result of a decrease in product warranty charges of \$5.1 million resulting from improved product quality and from a benefit of \$2.2 million resulting from a cash settlement received from one of our suppliers due to a product defect issue. This increase was partially offset by a decrease in product margins due to an increase in the size of contracts with large end customers having higher volume discounts.

*Operating Expenses (in thousands, except percentages)*

	Three Months Ended June 30,				Six Months Ended June 30,			
	2014	2013	Change		2014	2013	Change in	
	\$	\$	\$	%	\$	\$	\$	%
Operating expenses:								
Research and development	\$ 34,888	\$ 21,086	\$ 13,802	65.5%	\$ 68,334	\$ 40,600	\$ 27,734	68.3%
Sales and marketing	20,711	13,045	7,666	58.8	39,366	23,180	\$ 16,186	69.8
General and administrative	7,126	3,506	3,620	103.3	14,357	7,242	\$ 7,115	98.2
Total operating expenses	<u>\$ 62,725</u>	<u>\$ 37,637</u>	<u>\$ 25,088</u>	66.7%	<u>\$ 122,057</u>	<u>\$ 71,022</u>	<u>\$ 51,035</u>	71.9%

*Research and development*

Research and development expenses increased \$13.8 million, or 65.5%, for the three months ended June 30, 2014 compared to the same period in 2013. The increase was primarily due to an increase in personnel costs of \$9.8 million, resulting from an increase of 226 employees from June 30, 2013 to June 30, 2014, as well as the introduction of our corporate bonus plan in 2014. The increase was also due to a \$1.7 million increase in research and development related facilities and IT infrastructure costs and a \$1.1 million increase in third-party engineering costs as we continued to expand and support our research and development activities.

Research and development expenses increased \$27.7 million, or 68.3%, for the six months ended June 30, 2014 compared to the same period in 2013. The increase was primarily due to an increase in personnel costs of \$18.3 million, resulting from an increase in headcount as discussed above as well as the introduction of our corporate bonus plan in 2014. The increase was also due to a \$4.0 million increase in research and development related facilities and IT infrastructure costs and a \$2.1 million increase in third-party engineering costs as we continued to expand and support our research and development activities.

*Sales and marketing*

Sales and marketing expenses increased \$7.7 million, or 58.8%, for the three months ended June 30, 2014 compared to the same period in 2013. The increase was primarily due to an increase in personnel costs of \$5.9 million, resulting from an increase of 65 employees from June 30, 2013 to June 30, 2014. The increase was also due to higher costs associated with trade show activities, conferences and other marketing activities of \$0.5 million.

Sales and marketing expenses increased \$16.2 million, or 69.8%, for the six months ended June 30, 2014 compared to the same period in 2013. The increase was primarily due to an increase in personnel costs of \$12.7 million, resulting from an increase in headcount as discussed above. The increase was also due to higher costs associated with trade show activities, conferences and other marketing activities of \$0.9 million.

*General and administrative*

General and administrative expenses increased \$3.6 million, or 103.3%, for the three months ended June 30, 2014 compared to the same period in 2013. The increase was primarily due to an increase in personnel costs of \$1.4 million, resulting from an increase of 32 employees from June 30, 2013 to June 30, 2014, as well as the introduction of our corporate bonus plan in 2014. We also incurred higher professional service fees of \$1.1 million related to outside legal, accounting and consulting services to support increased business activity and preparations for becoming a public company as well as an increase of \$0.6 million in provision for bad debt and insurance costs.

General and administrative expenses increased \$7.1 million, or 98.2%, for the six months ended June 30, 2014 compared to the same period in 2013. The increase was primarily due to an increase in personnel costs of \$3.0 million, resulting from an increase in headcount as discussed above as well as the introduction of our corporate bonus plan in 2014. We also incurred higher professional service fees of \$3.0 million related to outside legal, accounting and consulting services to support increased business activity and preparations for becoming a public company.

**Other Income (Expense), Net (in thousands, except percentages)**

	Three Months Ended June 30,				Six Months Ended June 30,			
	2014	2013	Change		2014	2013	Change in	
	\$	\$	\$	%	\$	\$	\$	%
Other income (expense), net:								
Interest expense	\$ (1,435)	\$ (1,772)	\$ 337	(19.0)%	\$ (3,206)	\$ (3,523)	\$ 317	(9.0)%
Interest and other income (expense), net	2,472	(1)	2,473	N/M	1,708	(100)	1,808	N/M
Total other income (expense), net	<u>\$ 1,037</u>	<u>\$ (1,773)</u>	<u>\$ 2,810</u>		<u>\$ (1,498)</u>	<u>\$ (3,623)</u>	<u>\$ 2,125</u>	

**Interest expense**

Interest expense decreased slightly for the three and six months ended June 30, 2014 compared to the same period in 2013 as a result of the repayment and conversion of all our notes payable upon our IPO.

**Interest and other income (expense), net**

Other income (expense), net increased \$2.5 million for the three months ended June 30, 2014, compared to the same period in 2013 largely due to the gain on our notes receivable of \$4.0 million partially offset by \$0.8 million of interest expense primarily related to our lease financing obligation and \$0.7 million of write-off of debt discount on notes payable upon our IPO.

Other income (expense), net increased \$1.8 million for the six months ended June 30, 2014, compared to the same period in 2013 largely due to the gain on our notes receivable of \$4.0 million partially offset by \$1.5 million of interest expense primarily related to our lease financing obligation and \$0.7 million of write-off of debt discount on notes payable upon our IPO.

**Provision for Income Taxes (in thousands, except percentages)**

	Three Months Ended June 30,				Six Months Ended June 30,			
	2014	2013	Change		2014	2013	Change	
	\$	\$	\$	%	\$	\$	\$	%
Provision for income taxes	\$ 10,074	\$ 4,240	\$ 5,834	137.6%	\$ 17,192	\$ 4,522	\$ 12,670	280.2%
Effective tax rate	31.8%	29.3%			33.6%	21.1%		

Provision for income taxes was approximately \$10.1 million and \$4.2 million for the three months ended June 30, 2014 and 2013 respectively, and \$17.2 million and \$4.5 million for the six months ended June 30, 2014 and 2013 respectively. The change in our provision for income taxes and effective tax rate was primarily due to an increase in profit before income tax, the geographical distribution of the earnings, and the expiration of the federal research and development credit as of December 31, 2013.

The effective tax rate as of December 31, 2013 included the impact of the passage of the American Tax Relief Act of 2012 signed into law on January 2, 2013, which reinstated 2012 and 2013 federal research and development credit. The impact of the 2012 federal research and development tax credit benefit was recorded in the three months ended March 31, 2013.

**Liquidity and Capital Resources**

As of June 30, 2014, cash and cash equivalents were \$397.2 million, including \$31.8 million held outside the United States in our foreign subsidiaries. If we were to repatriate cash held outside of the United States, it could be subject to U.S. income taxes less any previously paid foreign income taxes.

Since inception, we have primarily financed our operations and capital expenditures through debt, cash flows from our operations and sales of capital stock. As of December 31, 2013, we had outstanding \$75.0 million aggregate principal amount of subordinated convertible promissory notes and \$25.0 million aggregate principal amount of related party subordinated convertible promissory notes.

On June 6, 2014, we completed our initial public offering (the "IPO") in which we sold 6,037,500 shares of our common stock at a public offering price of \$43.00 per share, which included 787,500 shares of common stock issued pursuant to the exercise in full of the over-allotment option by the underwriters. The IPO resulted in proceeds of \$238.7 million, net of underwriting discounts and commissions of \$15.6 million and other estimated issuance costs of \$5.3 million. In connection with the closing of the IPO, all of our outstanding convertible preferred stock automatically converted into 24,000,000 shares of common stock on a one-to-one basis.

Upon the closing of our IPO, all noteholders with the exception of one noteholder converted the principal and accrued interest amount outstanding under their subordinated convertible promissory notes into shares of our common stock at the IPO price of \$43.00 per share. The noteholder, who did not elect to so convert, was paid a total of \$23.6 million which included principal and accrued interest less applicable withholding taxes of \$1.1 million. The remainder of the noteholders converted the remaining debt balance of approximately \$96.5 million including principal and accrued interest into 2.2 million shares of our common stock.

We plan to continue to invest for long-term growth. One of the principal purposes of the IPO was to obtain additional capital to fund the growth of our business. We believe that our existing cash and cash equivalents balance together with cash proceeds from operations will be sufficient to meet our working capital requirements and our growth strategies for at least the next 12 months. Our future capital requirements will depend on many factors, including our growth rate, the timing and extent of our spending to support research and development activities, the timing and cost of establishing additional sales and marketing capabilities, the introduction of new and enhanced products and services offerings, our costs of outsourcing, our manufacturing and possible acquisitions or investments. We expect to incur a total of \$17.3 million in capital expenditures in 2014 due to investment in our research and development and manufacturing processes. If we are unable to raise additional capital when we need it, our business, results of operations and financial condition would be adversely affected. The sale of additional equity could result in additional dilution to our stockholders. If we raise additional funds by borrowing from third parties, the terms of those financing arrangements may include negative covenants or other restrictions on our business that could impair our operating flexibility and would require us to incur interest expense. We can provide no assurance that additional financing will be available at all or, if available, that we would be able to obtain financing on terms favorable to us. We consider the undistributed earnings of our foreign subsidiaries as of June 30, 2014 and December 31, 2013 to be indefinitely reinvested, and, accordingly, no U.S. income taxes have been provided thereon. As of June 30, 2014 and December 31, 2013, the amount of cash associated with indefinitely reinvested foreign earnings was approximately \$31.8 million and \$33.4 million, respectively. If these funds are needed for our operations in the United States, we would be required to accrue and pay U.S. income taxes to repatriate these funds. However, we have not repatriated nor do we anticipate the need to repatriate funds to the United States to satisfy domestic liquidity needs arising in the ordinary course of business, including liquidity needs associated with our domestic debt service requirements.

### *Cash Flows*

	June 30, 2014	December 31, 2013
Cash and cash equivalents	\$ 397,198	\$ 113,664
	<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
Cash provided by operating activities	\$ 63,946	\$ 8,748
Cash used in investing activities	(4,539)	(12,212)
Cash provided by financing activities	224,064	5,495
Effect of exchange rate changes	63	(54)
Net increase in cash and cash equivalents	\$ 283,534	\$ 1,977

### *Cash Flows from Operating Activities*

Our primary source of cash from operating activities has been from cash collections from our customers. We expect cash inflows from operating activities to be affected by increases in sales and timing of collections. Our primary uses of cash from operating activities have been for personnel costs and investment in sales and marketing and research and development. We expect cash outflows from operating activities to increase as a result of further investment in sales and marketing and increases in personnel costs as we grow our business.

During the six months ended June 30, 2014, cash provided by operating activities was \$63.9 million primarily from net income of \$33.9 million, net non-cash charges of \$14.0 million and a net increase in our operating assets and liabilities of \$16.0 million. The change in our operating assets and liabilities was primarily due to a decrease in our accounts receivable of \$9.7 million.

resulting from an increase in our collection efforts, an increase in our accounts payables of \$4.8 million from the timing of our payments, an increase in our deferred revenue of \$2.8 million resulting from the increase in sales. Inventories also decreased by \$2.3 million as a result of improvements in the management of our consigned and finished goods inventory. These changes were partially offset by an increase in our prepaid expenses and other current assets of \$5.6 million primarily from the prepayments for taxes and renewals of our insurance and licenses and a \$1.0 million net decrease in interest payable attributable to our outstanding subordinated convertible promissory notes, including our related party subordinated convertible promissory notes before their conversion or repayment upon the completion of our IPO.

During the six months ended June 30, 2013, cash provided by operating activities was \$8.7 million primarily from net income of \$16.9 million, net non-cash charges of \$3.9 million and a net decrease in our operating assets and liabilities of \$12.0 million. The change in our operating assets and liabilities was primarily due to an increase in accounts receivable of \$27.5 million due to an increase in sales, an increase in inventories of \$12.7 million for anticipated growth in our business and higher prepaid and other assets of \$1.9 million. These changes were partially offset by higher deferred revenue of \$14.8 million due to increase in sales, an increase in accrued liabilities of \$8.0 million which were primarily related higher warranty liabilities and higher compensation related costs from increased headcount and a \$3.0 million increase in interest payable attributable to our outstanding promissory notes, including our related party subordinated convertible promissory notes. Additionally, our accounts payable and other liabilities also increased by \$4.3 million primarily attributable to the timing of payments.

### ***Cash Flows from Investing Activities***

Our investing activities have consisted primarily of purchases of property and equipment. We expect to continue to make purchases of property and equipment to support continued growth of our business.

During the six months ended June 30, 2014, cash used in investing activities was \$4.5 million, which primarily consisted of purchases of property and equipment of \$8.6 million partially offset by the release of our restricted cash into cash and cash equivalents of \$4.0 million.

During the six months ended June 30, 2013, cash used in investing activities was \$12.2 million, all of which was for purchases of property and equipment.

### ***Cash Flows from Financing Activities***

Our cash flows provided by financing activities primarily consisted of proceeds from the for IPO and exercises of stock options partially offset by repayment of our subordinated convertible promissory notes.

During the six months ended June 30, 2014, cash provided by financing activities was \$224.1 million, consisting primarily of net proceeds raised from our IPO of \$241.9 million and proceeds from the exercise of stock options, net of repurchases of \$2.1 million. These proceeds were partially offset by the repayment of our notes payable of \$20.0 million.

During the six months ended June 30, 2013, cash provided by financing activities was \$5.5 million, consisting primarily of proceeds from the exercise of stock options, net of repurchases, amounting to \$5.3 million and excess tax benefits realized from our equity incentive plans amounting to \$0.2 million.

## ***Debt Obligations***

In January 2011, we sold \$55.0 million aggregate principal amount of subordinated convertible promissory notes, or Convertible Notes, to outside investors and \$25.0 million aggregate principal amount of Convertible Notes to two trusts that are related to two of our co-founders. In June 2011, we sold an additional \$20.0 million aggregate principal amount of Convertible Notes to outside investors. The interest rate on the Convertible Notes was 6.0% per annum, computed on the basis of the actual number of days elapsed and a year of 365 days. All unpaid principal and accrued interest on the Convertible Notes was due and payable on the earlier of December 31, 2014 or upon the occurrence of an event of default, defined as: (i) failure to pay principal or interest when due; (ii) breaches of covenants; (iii) breaches of representations and warranties; (iv) failure to make other payment obligations resulting in the acceleration of maturity of indebtedness in excess of \$10.0 million; (v) voluntary bankruptcy; (vi) involuntary bankruptcy; or (vii) certain adverse judgments. We could voluntarily prepay the Convertible Notes, in whole or in part, before the maturity date by giving each investor 10 days' prior written notice.

Upon the closing of our IPO, all noteholders with the exception of one noteholder converted the principal and accrued interest amount outstanding under their subordinated convertible promissory notes into shares of our common stock at the IPO price of \$43.00 per share. The noteholder, who did not elect to so convert, was paid a total of \$23.6 million which included principal and accrued interest less applicable withholding taxes of \$1.1 million. The remainder of the noteholders converted the remaining debt balance of approximately \$96.5 million including principal and accrued interest into 2.2 million shares of our common stock.

## **Off-Balance Sheet Arrangements**

As of June 30, 2014, we did not have any relationships with any unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

## **Contractual Obligations and Commitments**

There has been no significant changes during the six months ended June 30, 2014 to our contractual obligations disclosed in our "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Prospectus.

## **Critical Accounting Policies and Estimates**

Our unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these unaudited condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Actual results may differ from these estimates. To the extent that there are material differences between these estimates and our actual results, our future financial statements will be affected. We believe the critical accounting policies and estimates discussed in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of our Prospectus that was filed with the SEC on June 6, 2014, reflect our more significant judgments and estimates used in the preparation of the condensed consolidated financial statements. There have been no significant changes to our critical accounting policies and estimates as disclosed in our Prospectus.

## **Recent Accounting Pronouncements**

Refer to "Recent Accounting Pronouncements" in Note 1 to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

## **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to market risk in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in foreign currency exchange rates and interest rates. As of June 30, 2014 and December 31, 2013, we did not hold or issue financial instruments for trading purposes.

## ***Foreign Currency Risk***

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. Substantially all of our revenue is denominated in U.S. dollars. Our expenses are generally denominated in the currencies in which our operations are located, which is primarily in the United States and to a lesser extent in Europe and Asia. Our results of operations and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates and may be adversely affected in the future due to changes in foreign exchange rates. The effect of a hypothetical 10% change in foreign currency exchange rates applicable to our business would not have a material impact on our historical consolidated financial statements.

## ***Interest Rate Sensitivity***

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

As of June 30, 2014, our notes receivable had a carrying value of \$8.0 million. A hypothetical 10% change in market interest rates would not have a material impact on our condensed consolidated financial statements.

Upon the closing of our IPO, all noteholders with the exception of one noteholder converted the principal and accrued interest amount outstanding under their subordinated convertible promissory notes into shares of our common stock at the IPO price of \$43.00 per share. The noteholder, who did not elect to so convert, was paid a total of \$23.6 million which included principal and accrued interest less applicable withholding taxes of \$1.1 million. The remainder of the noteholders converted the remaining debt balance of approximately \$96.5 million including principal and accrued interest into 2.2 million shares of our common stock.

## **Item 4. Controls and Procedures**

### ***Evaluation of Disclosure Controls and Procedures***

Management, with the participation of our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2014. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Based on the evaluation of our disclosure controls and procedures as of June 30, 2014, our CEO and CFO concluded that, as of such date, our disclosure controls and procedures were not effective at a reasonable level of assurance because of the material weaknesses in our internal control over financial reporting discussed below.

A material weakness is a control deficiency, or combination of control deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. In connection with the audit of our consolidated financial statements for 2013, we identified a material weakness in our internal control over financial reporting, which includes certain controls related to our inventory process that were not designed and implemented during the year. As a result, we identified material errors requiring adjustment in order for the financial statements to be presented accurately in accordance with U.S. generally accepted accounting principles. Specifically, in conjunction with changes in our supply chain, we did not appropriately capitalize the cost of freight incurred related to product shipped from our contract manufacturers to the distribution centers and we also did not appropriately capitalize the purchase price variance for inventory. These errors were subsequently corrected and disclosed in our financial statements.

We are currently in the process of remediating the material weakness in our internal control over financial reporting and are implementing a number of measures designed to address the underlying causes of the material weakness. These measures include hiring additional accounting and finance personnel with technical accounting and financial reporting experience, enhancing and segregating duties within our accounting and finance department, and enhancing our internal review procedures during the financial statement close process. We believe that these additional resources and processes and procedures will enable us to broaden the scope

and quality of our controls relating to the oversight and review of financial statements and reconciliations and our application of relevant accounting policies.

### ***Changes in Internal Control over Financial Reporting***

Except for the remediation efforts described above, there were no other changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Securities and Exchange Act of 1934, as amended, that occurred during the three months ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### ***Inherent Limitations of Internal Controls***

Our management, including our CEO and CFO, does not expect that our disclosure controls and procedures or our internal controls over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time we are a party to various litigation matters and subject to claims that arise in the ordinary course of business including, for example, patent infringement lawsuits. In addition, third parties may from time to time assert claims against us in the form of letters and other communications. Except as otherwise set forth below, there is no pending or threatened legal proceeding to which we are a party that, in our opinion, is likely to have a material adverse effect on our future financial results of operations; however, the results of litigation and claims are inherently unpredictable. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

#### *OptumSoft, Inc. Matters*

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

In its lawsuit, OptumSoft has asked the Court to order us to (i) give OptumSoft copies of certain components of our software for evaluation by OptumSoft, (ii) cease all conduct constituting the alleged confidentiality and use restriction breaches, (iii) secure the return or deletion of OptumSoft's alleged intellectual property provided to third parties, including our customers, (iv) assign ownership to OptumSoft of OptumSoft's alleged intellectual property currently owned by us, and (v) pay OptumSoft's alleged damages, attorney's fees, and costs of the lawsuit. David Cheriton, one of our founders and a former member of our board of directors who resigned from our board of directors on March 1, 2014 and has no continuing role with us, is a founder and, we believe, the largest stockholder and director of OptumSoft. The 2010 David R. Cheriton Irrevocable Trust dtd July 27, 2010, a trust for the benefit of the minor children of Mr. Cheriton, is our largest stockholder.

OptumSoft has identified in confidential documents certain software components it claims to own, which are generally applicable tools and utility subroutines and not networking specific code. We cannot assure which software components OptumSoft may ultimately claim to own in the litigation or whether such claimed components are material. OptumSoft's complaint, our answer to the complaint, and our cross-complaint filed in the litigation are attached as exhibits to the registration statement in the prospectus filed with the SEC on June 6, 2014.

On April 14, 2014, we filed a cross-complaint against OptumSoft, in which we assert our ownership of the software components at issue and our interpretation of the 2004 agreement. Among other things, we assert that the language of the 2004 agreement and the parties' long course of conduct support our ownership of the disputed software components. We ask the Court to declare our ownership of those software components, all similarly-situated software components developed in the future and all related intellectual property. We also assert that, even if we are found not to own any particular components at issue, such components are licensed to us under the terms of the 2004 agreement. However, there can be no assurance that our assertions will ultimately prevail in litigation.

On the same day, we also filed an answer to OptumSoft's claims, as well as affirmative defenses based in part on OptumSoft's failure to maintain the confidentiality of its claimed trade secrets, its authorization of the disclosures it asserts and its delay in claiming ownership of the software components at issue. We have also taken additional steps to respond to OptumSoft's allegations that we improperly used and/or disclosed OptumSoft confidential information. While we believe we have strong defenses to these allegations, we believe we have (i) revised our software to remove the elements we understand to be the subject of the claims relating to improper use and disclosure of OptumSoft confidential information and made the revised software available to our customers and (ii) removed information from our website that OptumSoft asserted disclosed OptumSoft confidential information.

On August 1, 2014, the Santa Clara Superior Court held a case management conference (CMC). At the CMC, the Court set a trial date for April 2016.

We intend to vigorously defend against OptumSoft's lawsuit. However, we cannot be certain that, if litigated, any claims by OptumSoft would be resolved in our favor. For example, if it were determined that OptumSoft owned components of our EOS network operating system, we would be required to transfer ownership of those components and any related intellectual property to

OptumSoft. If OptumSoft were the owner of those components, it could make them available to our competitors, such as through a sale or license. In addition, OptumSoft could assert additional or different claims against us, including claims that our license from OptumSoft is invalid. Additionally, the existence of this lawsuit could cause concern among our customers and potential customers and could adversely affect our business and results of operations. An adverse litigation ruling could also result in a significant damages award against us and the injunctive relief described above. In addition, if our license was ruled to have been terminated, and we were not able to negotiate a new license from OptumSoft on reasonable terms, we could be required to pay substantial royalties to OptumSoft or be prohibited from selling products that incorporate OptumSoft intellectual property. Any such adverse ruling could materially adversely affect our business, prospects, results of operation and financial condition. Whether or not we prevail in the lawsuit, we expect that the litigation will be expensive, time-consuming and a distraction to management in operating our business.

#### *Net Navigation LLC Matters*

On April 23, 2014, Net Navigation LLC sued us for alleged infringement of U.S. Patent Nos. 5,901,147; 6,434,145; and 6,625,122 in U.S. District Court for the Eastern District of Texas. On June 30, 2014, we and Net Navigation LLC settled this dispute.

### **Item 1A. Risk Factors**

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

We were founded in 2004 and shipped our first products in 2008. The majority of our revenue growth has occurred since the beginning of 2010. Our limited operating history makes it difficult to evaluate our current business and our future prospects, including our ability to plan for and model future growth. We have encountered and will continue to encounter risks and difficulties frequently experienced by rapidly growing companies in constantly evolving industries, including the risk described elsewhere in this Quarterly Report on Form 10-Q. If we do not address these risks successfully, our business, financial condition, results of operations and prospects will be adversely affected, and the market price of our common stock could decline. Further, we have limited historic financial data, and we operate in a rapidly evolving market. As such, any predictions about our future revenue and expenses may not be as accurate as they would be if we had a longer operating history or operated in a more predictable market.

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

We have experienced rapid growth and increased demand for our products over the last several years, which has placed a strain on our management, administrative, operational and financial infrastructure. Our employee headcount and number of end customers have increased significantly. To handle the increase in end customers, we expect to continue to grow our significantly over the next 12 months. For example, as of December 31, 2010 and June 30, 2014, our cumulative number of end customers increased from approximately 570 to approximately 2,700. As we have grown, we have had to manage an increasingly larger and more complex array of internal systems and processes to scale with all aspects of our business, including our hardware and software development, contract manufacturing and purchasing, logistics and fulfillment and maintenance and support. Our success will depend in part upon our ability to manage our growth effectively. To do so, we must continue to increase the productivity of our existing employees and continue to hire, train and manage new employees as needed. To manage domestic and international growth of our operations and personnel, we will need to continue to improve our operational, financial and management controls and our reporting processes and procedures and implement more extensive and integrated financial and business information systems. We may not be able to successfully implement these or other improvements to our systems and processes in an efficient or timely manner, and we may discover deficiencies in their capabilities or effectiveness. We may experience difficulties in managing improvements to our systems and processes or in connection with third-party technology. In addition, our systems and processes may not prevent or detect all errors, omissions or fraud. Our failure to improve our systems and processes, or their failure to operate effectively and in the intended manner, may result in disruption of our current operations and end-customer relationships, our inability to manage the growth of our business and our inability to accurately forecast our revenue, expenses and earnings and prevent certain losses.

#### **Our results of operations are likely to vary significantly from period to period and be unpredictable, which could cause the market price of our common stock to decline.**

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

- our ability to attract and retain new end customers, including large end customers;

- the budgeting cycles and purchasing practices of end customers, including large end customers;
- the buying patterns of our large end customers in which large bulk purchases may or may not occur in certain quarters;
- changes in end-customer, distributor or reseller requirements or market needs;
- deferral or cancellation of orders from end customers, including in anticipation of new products or product enhancements announced by us or our competitors, or warranty returns;
- changes in the growth rate of the networking market;
- the actual or rumored timing and success of new product and service introductions by us or our competitors or any other change in the competitive landscape of our industry, including consolidation among our competitors or end customers;
- our ability to successfully expand our business domestically and internationally;
- our ability to increase the size of our distribution channel;
- decisions by potential end customers to purchase cloud networking solutions from larger, more established vendors or from their primary network equipment vendors;
- price competition;
- insolvency or credit difficulties confronting our end customers, which could adversely affect their ability to purchase or pay for our products and services, or confronting our key suppliers, including our sole source suppliers, which could disrupt our supply chain;
- any disruption in our sales channel or termination of our relationship with important channel partners;
- our inability to fulfill our end customers' orders due to supply chain delays, access to key commodities or technologies or events that impact our manufacturers or their suppliers;
- the cost and potential outcomes of existing and future litigation;
- seasonality or cyclical fluctuations in our markets;
- future accounting pronouncements or changes in our accounting policies;
- stock-based compensation expense;
- our overall effective tax rate, including impacts caused by any reorganization in our corporate structure, any changes in our valuation allowance for domestic deferred tax assets and any new legislation or regulatory developments;
- increases or decreases in our expenses caused by fluctuations in foreign currency exchange rates, as an increasing portion of our expenses are incurred and paid in currencies other than the U.S. dollar;
- general economic conditions, both domestically and in foreign markets; and
- other risk factors described in this Form 10-Q.

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

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

Historically, large purchases by a relatively limited number of end customers have accounted for significant portion of our revenue. Many of these end customers make large purchases to complete or upgrade specific data center installations. These purchases are short-term in nature and are typically made on a purchase-order basis rather than pursuant to long-term contracts. During 2011, 2012 and 2013, sales to our 10 largest end customers accounted for approximately 32.4%, 39.3% and 43.0% of our revenue, respectively. Revenue from sales to Microsoft, through our channel partner, World Wide Technology, Inc., accounted for 10.4% of our revenue for the year ended December 31, 2011, 15.3% of our revenue for the year ended December 31, 2012, 21.9% of our revenue for the year ended December 31, 2013.

As a consequence of the concentrated nature of our customer base and their purchasing behavior, our quarterly revenue and results of operations may fluctuate from quarter to quarter and are difficult to estimate. For example, any cancellation of orders or any acceleration or delay in anticipated product purchases or the acceptance of shipped products by our larger end customers could materially affect our revenue and results of operations in any quarterly period. We may be unable to sustain or increase our revenue from our large end customers or offset the discontinuation of concentrated purchases by our larger end customers with purchases by new or existing end customers. We expect that such concentrated purchases will continue to contribute materially to our revenue for the foreseeable future and that our results of operations may fluctuate materially as a result of such larger end customers' buying patterns. In addition, we may see consolidation of our customer base, such as among Internet companies and cloud service providers, which could result in loss of end customers. The loss of such end customers, or a significant delay or reduction in their purchases, could materially harm our business, financial condition, results of operations and prospects.

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

Our revenue growth rate in recent periods may not be indicative of our future performance. We experienced annual revenue growth rates of 95.0%, 38.3% and 86.8% in 2011, 2012 and 2013, respectively. We may not achieve similar revenue growth rates in future periods, especially as we enter and expand into the cloud services and application services provider markets. You should not rely on our revenue for any prior quarterly or annual period as any indication of our future revenue or revenue growth. If we are unable to maintain consistent revenue or revenue growth, our business, financial condition, results of operations and prospects could be materially adversely affected.

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

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

We compete with large network equipment and system vendors, including Cisco Systems, Juniper Networks, Brocade Communications Systems, Hewlett-Packard and Dell. We also face competition from other companies and new market entrants, some of which may be our current technology partners and end customers. Many of our existing and potential competitors enjoy substantial competitive advantages, such as:

- greater name recognition and longer operating histories;
- larger sales and marketing budgets and resources;
- broader distribution and established relationships with channel partners and end customers;
- greater access to larger end-customer bases;
- greater end-customer support resources;
- greater manufacturing resources;
- the ability to leverage their sales efforts across a broader portfolio of products;
- the ability to bundle competitive offerings with other products and services;
- the ability to set more aggressive pricing policies;
- lower labor and development costs;
- greater resources to make acquisitions;
- larger intellectual property portfolios; and
- substantially greater financial, technical, research and development or other resources.

Our competitors also may be able to provide end customers with capabilities or benefits different from or greater than those we can provide in areas such as technical qualifications or geographic presence or may be able to provide end customers a broader range of products, services and prices. In addition, large competitors may have more extensive relationships with and within existing and potential end customers that provide them with an advantage in competing for business with those end customers. For example, certain large competitors encourage end customers of their other products and services to adopt their data networking solutions through discounted bundled product packages. Our ability to compete will depend upon our ability to provide a better solution than our competitors at a more competitive price. We may be required to make substantial additional investments in research, development, marketing and sales in order to respond to competition, and we cannot assure you that these investments will achieve any returns for us or that we will be able to compete successfully in the future.

We also expect increased competition if our market continues to expand. Conditions in our market could change rapidly and significantly as a result of technological advancements or other factors. Current or potential competitors may be acquired by third parties that have greater resources available than we do. Our current or potential competitors might take advantage of the greater resources of the larger organization resulting from these acquisitions to compete more vigorously or broadly with us. In addition, continued industry consolidation might adversely affect end customers' perceptions of the viability of smaller and even medium-sized networking companies and, consequently, end customers' willingness to purchase from those companies. Further, certain large end customers have explored developing network switches and cloud service solutions for internal use and/or to broaden their portfolio of products, which could allow these end customers to become new competitors in the market.

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

The cloud networking market can be characterized by rapid technological shifts and increasingly complex end-customer requirements to achieve scalable and more programmable networks that facilitate virtualization, big data, public/private cloud and web scale computing. We must continue to develop new technologies and products that address emerging technological trends and changing end-customer needs. The process of developing new technology is complex and uncertain, and new offerings requires significant upfront investment that may not result in material design improvements to existing products or result in marketable new products or costs savings or revenue for an extended period of time, if at all. The success of new products depends on several factors, including appropriate new product definition, component costs, timely completion and introduction of these products, differentiation of new products from those of our competitors and market acceptance of these products.

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

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

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

On April 4, 2014, OptumSoft filed a lawsuit against us in the Superior Court of California, Santa Clara County titled OptumSoft, Inc. v. Arista Networks, Inc., in which it asserts (i) ownership of certain components of our EOS network operating system pursuant to the terms of a 2004 agreement between the companies and (ii) breaches of certain confidentiality and use restrictions in that agreement. Under the terms of the 2004 agreement, OptumSoft provided us with a non-exclusive, irrevocable, royalty-free license to software delivered by OptumSoft comprising a software tool used to develop certain components of EOS and a runtime library that is incorporated into EOS. The 2004 agreement places certain restrictions on our use and disclosure of the OptumSoft software and gives OptumSoft ownership of improvements, modifications and corrections to, and derivative works of, the OptumSoft software that we develop. In its lawsuit, OptumSoft has asked the Court to order us to (i) give OptumSoft copies of certain components of our software for evaluation by OptumSoft, (ii) cease all conduct constituting the alleged confidentiality and use restriction breaches, (iii) secure the return or deletion of OptumSoft's alleged intellectual property provided to third parties, including our customers, (iv) assign ownership to OptumSoft of OptumSoft's alleged intellectual property currently owned by us, and (v) pay OptumSoft's alleged damages, attorney's fees, and costs of the lawsuit. David Cheriton, one of our founders and a former member of our board of directors who resigned from our board of directors on March 1, 2014 and has no continuing role with us, is a founder and, we believe, the largest stockholder and director of OptumSoft. The 2010 David R. Cheriton Irrevocable Trust dtd July 27, 2010, a trust for the benefit of the minor children of Mr. Cheriton, is our largest stockholder.

OptumSoft has identified in confidential documents certain software components it claims to own, which are generally applicable tools and utility subroutines and not networking specific code. We cannot assure which software components OptumSoft may ultimately claim to own in the litigation or whether such claimed components are material.

On August 1, 2014, the Santa Clara Superior Court held a case management conference (CMC). At the CMC, the Court set a trial date for April 2016.

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

Additionally, the existence of this lawsuit could cause concern among our customers and potential customers and could adversely affect our business and results of operations. An adverse litigation ruling could also result in a significant damages award against us and the injunctive relief described above. In addition, if our license was ruled to have been terminated, and we were not able

to negotiate a new license from OptumSoft on reasonable terms, we could be required to pay substantial royalties to OptumSoft or be prohibited from selling products that incorporate OptumSoft intellectual property. Any such adverse ruling could materially adversely affect our business, prospects, results of operation and financial condition. Whether or not we prevail in the lawsuit, we expect that the litigation will be expensive, time-consuming and a distraction to management in operating our business. See “Legal Proceedings.”

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

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

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

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

The cloud networking market is still in its early stages. The market demand for cloud networking solutions has increased in recent years as end customers have deployed larger networks and have increased the use of virtualization and cloud computing. Our success depends upon our ability to provide cloud networking solutions that address the needs of end customers more effectively and economically than those of other competitors or existing technologies.

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

**We identified a material weakness in our internal controls for the years ended December 31, 2010, 2011, 2012 and 2013 that, if not properly remediated, could result in material misstatements in our financial statements in future periods and impair our ability to comply with the accounting and reporting requirements applicable to public companies.**

Our independent registered public accounting firm has not conducted an audit of our internal control over financial reporting. However, in connection with the audit of our consolidated financial statements for 2010 to 2012 and 2013, we identified a material weakness in our internal control over financial reporting. As defined in the standards established by the Public Company Accounting Oversight Board of the U.S.A., a “material weakness” is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness identified in 2013 includes certain controls related to our inventory process that were not designed and implemented during the year. As a result, we identified material errors requiring adjustment in order for the financial statements to be presented accurately in accordance with U.S. generally accepted accounting principles. Specifically, in conjunction with changes in our supply chain, we did not appropriately capitalize the cost of freight incurred related to product shipped from our contract manufacturers to the distribution centers and we also did not appropriately capitalize the purchase price variance for inventory. These errors were subsequently corrected and disclosed in our financial statements.

Our remediation efforts are still in process and have not yet been completed. Because of this material weakness, there is heightened risk that a material misstatement of our annual or quarterly financial statements will not be prevented or detected. In addition, the remediation steps we have taken, are taking and expect to take may not effectively remediate the material weakness, in which case our internal control over financial reporting would continue to be ineffective. We cannot guarantee that we will be able to complete our remedial actions successfully. Even if we are able to complete these actions successfully, these measures may not adequately address our material weakness. In addition, it is possible that we will discover additional material weaknesses in our internal control over financial reporting.

We will be required to disclose changes made in our internal control and procedures on a quarterly basis. However, our independent registered public accounting firm will not be required to attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 until the later of the year following our first annual report required to be filed with the SEC or the date we are no longer an “emerging growth company” as defined in the JOBS Act, if we take advantage of the exemptions contained in the JOBS Act. At such time, our independent registered public accounting firm may issue a report that is adverse in the event that such firm is not satisfied with the level at which our controls are documented, designed or operating. As a result, we may need to undertake various actions, such as implementing new internal controls and procedures and hiring accounting or internal audit staff. Our remediation efforts may not enable us to avoid a material weakness in the future. Ensuring that we have adequate internal financial and accounting controls and procedures in place to help produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be evaluated frequently.

If we are unable to adequately remediate the foregoing material weakness or comply or continue to comply with the foregoing obligations, it could subject us to a variety of administrative sanctions, including the suspension or delisting of our common stock from the New York Stock Exchange and the inability of registered broker-dealers to make a market in our common stock, which could reduce the market price of our common stock. In addition, in the event that we do not adequately remediate this material weakness, or if we fail to maintain proper and effective internal controls in future periods, our business, results of operations and financial condition and our ability to run our business effectively could be adversely affected and investors could lose confidence in our financial reporting.

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

To increase our revenue, we must add new end customers and large end customers and sell additional products to existing end customers. For example, one of our sales strategies is to target specific projects at our current end customers because they are familiar with the operational and economic benefits of our solutions, thereby reducing the sales cycle into these customers. We believe this opportunity with current end customers to be significant given their existing infrastructure and expected future spend. If we fail to attract new large end customers or sell additional products to our existing end customers, our business, financial condition, results of operations and prospects will be harmed.

**Some of our large end customers require more favorable terms and conditions from their vendors and may request price concessions. As we seek to sell more products to these end customers, we may be required to agree to terms and conditions that may have an adverse effect on our business or ability to recognize revenue.**

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

**Reliance on shipments at the end of the quarter could cause our revenue for the applicable period to fall below expected levels.**

As a result of end-customer buying patterns and the efforts of our sales force and channel partners to meet or exceed their sales objectives, we have historically received and fulfilled a substantial portion of sales orders and generated a substantial portion of revenue during the last few weeks of each quarter. This places significant pressure on order review and processing, supply chain management, manufacturing, inventory and quality control management, shipping and trade compliance to ensure that we have properly forecasted supply purchasing, manufacturing capacity, inventory and quality compliance and logistics. If there is any significant interruption in these critical functions, it could result in delayed order fulfillment, adversely affect our business, financial condition, results of operations and prospects and result in a decline in the market price of our common stock.

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

Our contract manufacturers procure components and build our products based on our forecasts. These forecasts are based on estimates of future demand for our products, which are in turn based on historical trends and analyses from our sales and marketing organizations, adjusted for overall market conditions. To the extent our forecasts are materially inaccurate, we may under- or over-procure inventory, and such inaccuracies in our forecasts could materially adversely affect our business, financial condition and results of operations.

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

Managing the supply of our products and product components is complex, and our inventory management systems and related supply-chain visibility tools may not enable us to forecast accurately and manage effectively the supply of our products and product components. Insufficient supply and inventory may result in lost sales opportunities or delayed revenue, while excess inventory may harm our gross margins. In order to reduce manufacturing lead times and plan for adequate component supply, from time to time we may issue purchase orders for components and products that are non-cancelable and non-returnable. We establish a liability for non-cancelable, non-returnable purchase commitments with our third-party contract manufacturers for quantities in excess of our demand forecasts, or obsolete material charges. As of June 30, 2014 and December 31, 2013, our provision for non-cancelable, non-returnable purchase commitments was \$1.6 million and \$1.8 million, respectively. We did not have provisions for non-cancelable, non-returnable purchase commitments as of December 31, 2011 and 2012.

Supply management remains an increased area of focus as we balance the need to maintain sufficient supply levels to ensure competitive lead times against the risk of obsolescence or the end of life of certain products. If we ultimately determine that we have excess supply, we may have to reduce our prices and write down inventory, which in turn could result in lower gross margins. We record a provision when inventory is determined to be in excess of anticipated demand or obsolete to adjust inventory to its estimated realizable value. For the years ended December 31, 2011, 2012 and 2013, we incurred inventory write-downs of \$1.6 million, \$3.2 million, \$5.3 million, respectively.

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

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

Our products rely on key components, including integrated circuit components and power supplies that our contract manufacturers purchase on our behalf from a limited number of suppliers, including certain sole source providers. We do not have guaranteed supply contracts with any of our component suppliers, and our suppliers could delay shipments or cease manufacturing such products or selling them to us at any time. For example, in the past we have experienced shortages in inventory for dynamic random access memory integrated circuits and delayed releases of the next generation of chipset, which delayed our production and/or the release of our new products. The development of alternate sources for those components is time-consuming, difficult and costly. If we are unable to obtain a sufficient quantity of these components on commercially reasonable terms or in a timely manner, sales of our products could be delayed or halted entirely or we may be required to redesign our products. Any of these events could result in lost sales and damage to our end-customer relationships, which would adversely impact our business, financial condition, results of operations and prospects.

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

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

In the event of a shortage or supply interruption from our component suppliers, we may not be able to develop alternate or second sources in a timely manner. Further, long-term supply and maintenance obligations to end customers increase the duration for which specific components are required, which may increase the risk of component shortages or the cost of carrying inventory. In addition, our component suppliers change their selling prices frequently in response to market trends, including industry-wide increases in demand, and because we do not have contracts with these suppliers, we are susceptible to price fluctuations related to raw materials and components. If we are unable to pass component price increases along to our end customers or maintain stable pricing, our gross margins could be adversely affected and our business, financial condition, results of operations and prospects could suffer.

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

We depend on third-party contract manufacturers, primarily Jabil Circuit and Foxconn, as our sole source manufacturers for our product lines. A significant portion of our cost of revenue consists of payments to these third-party contract manufacturers. Our reliance on these third-party contract manufacturers reduces our control over the manufacturing process, quality assurance, product costs and product supply and timing, which exposes us to risk. Any manufacturing disruption by these third-party manufacturers could severely impair our ability to fulfill orders on time, if at all, or on a cost-effective basis.

Our reliance on contract manufacturers also yields the potential for their infringement of third party intellectual property rights in the manufacturing of our products or misappropriation of our intellectual property rights in the manufacturing of other customers' products. If we are unable to manage our relationships with our third-party contract manufacturers effectively, or if these third-party manufacturers suffer delays or disruptions for any reason, experience increased manufacturing lead times, capacity constraints or quality control problems in their manufacturing operations or fail to meet our future requirements for timely delivery, our ability to ship products to our end customers would be severely impaired, and our business, financial condition, results of operations and prospects would be seriously harmed.

Our contract manufacturers typically fulfill our supply requirements on the basis of individual orders. We do not have long-term contracts with our third-party manufacturers that guarantee capacity, the continuation of particular pricing terms or the extension of credit limits. Accordingly, they are not obligated to continue to fulfill our supply requirements, which could result in supply shortages, and the prices we are charged for manufacturing services could be increased on short notice. For example, a competitor could place large orders with the third-party manufacturer, thereby utilizing all or substantially all of such third-party manufacturer's capacity and leaving the manufacturer little or no capacity to fulfill our individual orders without price increases or delays, or at all. Our contract with one of our contract manufacturers permits it to terminate the agreement for convenience, subject to prior notice requirements. We may not be able to develop alternate or second contract manufacturers in a timely manner. If we are required to change contract manufacturers, our ability to meet our scheduled product deliveries to our end customers could be adversely affected, which could cause the loss of sales to existing or potential end customers, delayed revenue or an increase in our costs which could adversely affect our gross margins. The addition of contract manufacturers or manufacturing locations also would increase the complexity of our supply chain management. Any production interruptions or disruptions for any reason, such as a natural disaster, epidemic, capacity shortages, adverse results from intellectual property litigation or quality problems, at one of our manufacturing partners would adversely affect sales of our product lines manufactured by that manufacturing partner and adversely affect our business, financial condition, results of operations and prospects.

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

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

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

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

We have experienced declines in sales prices for our products, including our 10 Gigabit Ethernet modular and fixed switches. Competition continues to increase in the market segments in which we participate, and we expect competition to further increase in the future, thereby leading to increased pricing pressures. Larger competitors with more diverse product and service offerings may reduce the price of products and services that compete with ours or may bundle them with other products and services. Additionally, although we price our products worldwide in U.S. dollars, currency fluctuations in certain countries and regions may adversely affect actual prices that partners and end customers are willing to pay in those countries and regions. Furthermore, we anticipate that the sales prices and gross profits for our products will decrease over product life cycles. Decreased sales prices for any reason may reduce our gross profits and adversely affect our result of operations.

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

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

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

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

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

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

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

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

One such applicable anticorruption law is the U.S. Foreign Corrupt Practices Act, or FCPA, which generally prohibits U.S. companies and its employees and intermediaries from making corrupt payments to foreign officials for the purpose of obtaining or keeping business, securing an advantage and directing business to another, and requires companies to maintain accurate books and records and a system of internal accounting controls. Under the FCPA, U.S. companies may be held liable for the corrupt actions taken by directors, officers, employees, agents, or other strategic or local partners or representatives. As such, if we or our intermediaries fail to comply with the requirements of the FCPA or similar legislation, governmental authorities in the U.S. and elsewhere could seek to impose civil and/or criminal fines and penalties which could have a material adverse effect on our business, results of operations and financial conditions. We are currently in the early stages of implementing an anticorruption compliance program. Failure to comply with anti-corruption and anti-bribery laws, such as the FCPA and the United Kingdom Bribery Act of 2010, or the United Kingdom Bribery Act, and similar laws associated with our activities outside the United States, could subject us to penalties and other adverse consequences. We intend to increase our international sales and business and, as such, the risk of violating laws such as the FCPA and United Kingdom Bribery Act increases.

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

Additionally, our international sales and operations are subject to a number of risks, including the following:

- greater difficulty in enforcing contracts and accounts receivable collection and longer collection periods;
- increased expenses incurred in establishing and maintaining our international operations;
- fluctuations in exchange rates between the U.S. dollar and foreign currencies where we do business;
- greater difficulty and costs in recruiting local experienced personnel;
- wage inflation in certain growing economies;
- general economic and political conditions in these foreign markets;
- economic uncertainty around the world as a result of sovereign debt issues;
- communication and integration problems resulting from cultural and geographic dispersion;
- limitations on our ability to access cash resources in our international operations;
- ability to establish necessary business relationships and to comply with local business requirements;
- risks associated with trade restrictions and foreign legal requirements, including the importation, certification and localization of our products required in foreign countries;
- greater risk of unexpected changes in regulatory practices, tariffs and tax laws and treaties;
- the uncertainty of protection for intellectual property rights in some countries;
- greater risk of a failure of foreign employees to comply with both U.S. and foreign laws, including antitrust regulations, the FCPA and any trade regulations ensuring fair trade practices; and
- heightened risk of unfair or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements that may impact financial results and result in restatements of, or irregularities in, financial statements.

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

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

Once our products are deployed within our end customers' networks, our end customers depend on our support organization and our channel partners to resolve any issues relating to our products. High-quality support is critical for the successful marketing and sale of our products. If we or our channel partners do not assist our end customers in deploying our products effectively, do not succeed in helping our end customers resolve post-deployment issues quickly or do not provide adequate ongoing support, it could adversely affect our ability to sell our products to existing end customers and could harm our reputation with potential end customers. In addition, as we expand our operations internationally, our support organization will face additional challenges, including those associated with delivering support, training and documentation in languages other than English. Our failure or the failure of our channel partners to maintain high-quality support and services could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

From time to time, we may become involved in various legal proceedings relating to matters incidental to the ordinary course of our business, including patent, commercial, product liability, employment, class action, whistleblower and other litigation and claims, and governmental and other regulatory investigations and proceedings. Such matters can be time-consuming, divert management's attention and resources, cause us to incur significant expenses or liability and/or require us to change our business practices. Because of the potential risks, expenses and uncertainties of litigation, we may, from time to time, settle disputes, even where we have meritorious claims or defenses, by agreeing to settlement agreements. Because litigation is inherently unpredictable,

we cannot assure you that the results of any of these actions will not have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

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

Patent and other intellectual property disputes are common in the network infrastructure industry and have resulted in protracted and expensive litigation for many companies. Many companies in the network infrastructure industry, including our competitors and other third parties, as well as non-practicing entities, own large numbers of patents, copyrights, trademarks and trade secrets, which they may use to assert claims of patent infringement, misappropriation or other violations of intellectual property rights against us. From time to time, they have or may in the future also assert such claims against us, our end customers or channel partners whom we typically indemnify against claims that our products infringe, misappropriate or otherwise violate the intellectual property rights of third parties. As the number of products and competitors in our market increases and overlaps occur, claims of infringement, misappropriation and other violations of intellectual property rights may increase. Any claim of infringement, misappropriation or other violations of intellectual property rights by a third party, even those without merit, could cause us to incur substantial costs defending against the claim, distract our management from our business and require us to cease use of such intellectual property.

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

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

An adverse outcome of a dispute may require us to pay substantial damages including treble damages if we are found to have willfully infringed a third party's patents; cease making, licensing or using solutions that are alleged to infringe or misappropriate the intellectual property of others; expend additional development resources to attempt to redesign our products or services or otherwise to develop non-infringing technology, which may not be successful; enter into potentially unfavorable royalty or license agreements in order to obtain the right to use necessary technologies or intellectual property rights; and indemnify our partners and other third parties. Any damages or royalty obligations we may become subject to as a result of an adverse outcome, and any third-party indemnity we may need to provide, could harm our business, financial condition, results of operations and prospects. Royalty or licensing agreements, if required or desirable, may be unavailable on terms acceptable to us, or at all, and may require significant royalty payments and other expenditures. Further, there is little or no information publicly available concerning market or fair values

for license fees, which can lead to overpayment of license or settlement fees. In addition, some licenses may be non-exclusive, and therefore our competitors may have access to the same technology licensed to us. Suppliers subject to third-party intellectual property claims also may choose or be forced to discontinue or alter their arrangements with us, with little or no advance notice to us. Any of these events could seriously harm our business, financial condition, results of operations and prospects.

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

Under the indemnification provisions of our standard sales contracts, we agree to defend our end customers against third-party claims asserting infringement of certain intellectual property rights, which may include patents, copyrights, trademarks or trade secrets, and to pay judgments entered on such claims. Our exposure under these indemnification provisions is generally limited to the total amount paid by our end customer under the agreement. However, certain agreements include indemnification provisions that could potentially expose us to losses in excess of the amount received under the agreement. Any of these events, including claims for indemnification, could seriously harm our business, financial condition, results of operations and prospects.

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

We depend on our ability to protect our proprietary technology. We rely on trade secret, patent, copyright and trademark laws and confidentiality agreements with employees and third parties, all of which offer only limited protection. We have not registered our trademarks in all geographic markets. Failure to secure those registrations could adversely affect our ability to enforce and defend our trademark rights and result in indemnification claims. Further, any claim of infringement by a third party, even those claims without merit, could cause us to incur substantial costs defending against such claim, could divert management attention from our business and could require us to cease use of such intellectual property in certain geographic markets.

Despite our efforts, the steps we have taken to protect our proprietary rights may not be adequate to preclude misappropriation of our proprietary information or infringement of our intellectual property rights, and our ability to police such misappropriation or infringement is uncertain, particularly in countries outside of the United States. Further, with respect to patent rights, we do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims. To the extent that additional patents are issued from our patent applications, which is not certain, they may be contested, circumvented or invalidated in the future. Moreover, the rights granted under any issued patents may not provide us with proprietary protection or competitive advantages, and, as with any technology, competitors may be able to develop similar or superior technologies to our own now or in the future. In addition, we rely on confidentiality or license agreements with third parties in connection with their use of our products and technology. There is no guarantee that such parties will abide by the terms of such agreements or that we will be able to adequately enforce our rights, in part because we rely on “shrink-wrap” licenses in some instances.

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

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

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

the conduct of our business. Moreover, the inclusion in our products and services of software or other intellectual property licensed from third parties on a nonexclusive basis may limit our ability to differentiate our products from those of our competitors. Any of these events could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

Our products contain software modules licensed to us by third-party authors under “open source” licenses. Use and distribution of open source software may entail greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or other contractual protections regarding infringement claims or the quality of the code. Some open source licenses contain requirements that we make available source code for modifications or derivative works we create based upon the type of open source software that we use. If we combine our software with open source software in a certain manner, we could, under certain open source licenses, be required to release portions of the source code of our software to the public. This would allow our competitors to create similar products with lower development effort and time and ultimately could result in a loss of product sales for us.

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

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

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

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

We expect our gross margins to vary over time and to be affected by numerous factors, including:

- changes in end-customer or product mix, including mix of configurations within each product group;
- introduction of new products, including products with price-performance advantages;
- our ability to reduce production costs;
- entry into new markets or growth in lower margin markets;
- entry in markets with different pricing and cost structures;
- pricing discounts;
- increases in material, labor or other manufacturing-related costs, which could be significant especially during periods of supply constraints;
- excess inventory and inventory holding charges;
- obsolescence charges;
- changes in shipment volume;
- the timing of revenue recognition and revenue deferrals;
- increased cost, loss of cost savings or dilution of savings due to changes in component pricing or charges incurred due to inventory holding periods if parts ordering does not correctly anticipate product demand or if the financial health of either contract manufacturers or suppliers deteriorates;
- lower than expected benefits from value engineering;
- increased price competition;
- changes in distribution channels;
- increased warranty costs; and
- how well we execute our strategy and operating plans.



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

The timing of our sales and revenue recognition is difficult to predict because of the length and unpredictability of our products' sales cycles. A sales cycle is the period between initial contact with a prospective end customer and any sale of our products. End-customer orders often involve the purchase of multiple products. These orders are complex and difficult to complete because prospective end customers generally consider a number of factors over an extended period of time before committing to purchase the products and solutions we sell. End customers, especially in the case of our large end customers, often view the purchase of our products as a significant and strategic decision and require considerable time to evaluate, test and qualify our products prior to making a purchase decision and placing an order. The length of time that end customers devote to their evaluation, contract negotiation and budgeting processes varies significantly. Our products' sales cycles can be lengthy in certain cases, especially with respect to our prospective large end customers. During the sales cycle, we expend significant time and money on sales and marketing activities and make investments in evaluation equipment, all of which lower our operating margins, particularly if no sale occurs. Even if an end customer decides to purchase our products, there are many factors affecting the timing of our recognition of revenue, which makes our revenue difficult to forecast. For example, there may be unexpected delays in an end customer's internal procurement processes, particularly for some of our larger end customers for which our products represent a very small percentage of their total procurement activity. There are many other factors specific to end customers that contribute to the timing of their purchases and the variability of our revenue recognition, including the strategic importance of a particular project to an end customer, budgetary constraints and changes in their personnel.

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

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

We typically sell our products with maintenance and support as part of the initial purchase, and a portion of our annual revenue comes from renewals of maintenance and support contracts. Our end customers have no obligation to renew their maintenance and support contracts after the expiration of the initial period, and they may elect not to renew their maintenance and support contracts, to renew their maintenance and support contracts at lower prices through alternative channel partners or to reduce the product quantity under their maintenance and support contracts, thereby reducing our future revenue from maintenance and support contracts. If our end customers, especially our large end customers, do not renew their maintenance and support contracts or if they renew them on terms that are less favorable to us, our revenue may decline and our business, financial condition, results of operations and prospects will suffer.

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

Most of our competitors have made acquisitions and/or have entered into or extended partnerships or other strategic relationships to offer more comprehensive product lines, including cloud networking solutions. For example, in the last few years alone Dell acquired Force10, IBM acquired Blade Network Technology, Hewlett Packard acquired 3Com, Brocade acquired Foundry Networks, Juniper acquired Contrail and VMware acquired Nicira.

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

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

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

Real or perceived errors, failures or bugs in our products could result in claims by end customers for losses that they sustain. If end customers make these types of claims, we may be required, or may choose, for end-customer relations or other reasons, to expend additional resources in order to address the problem. We may also be required to repair or replace such products or provide a refund for the purchase price for such products. Liability provisions in our standard terms and conditions of sale, and those of our resellers and distributors, may not be enforceable under some circumstances or may not fully or effectively protect us from end-customer claims and related liabilities and costs, including indemnification obligations under our agreements with end customers, resellers and distributors. The sale and support of our products also entail the risk of product liability claims. We maintain insurance to protect against certain types of claims associated with the use of our products, but our insurance coverage may not adequately cover any such claims. In addition, even claims that ultimately are unsuccessful could result in expenditures of funds in connection with litigation and divert management's time and other resources.

For example, in 2012, we and one of our major end customers determined that one model of our switches sold to them during 2011 and 2012 did not fully support a certain protocol feature. We reached an agreement with our end customer that we would replace defective linecards with linecards incorporating next-generation switch chips, which corrected the protocol issue. We recorded an accrued warranty liability in our accompanying balance sheet and cost of revenue in the accompanying consolidated income statement for the years ended December 31, 2011, 2012 and 2013, of \$1.8 million, \$3.3 million, and \$0.4 million, respectively for the estimated costs of these replacement programs. The majority of the replacement effort occurred during 2013. In addition, we accrued \$0.1 million, \$0.1 million, and \$3.9 million, for general accrued warranty liabilities during the year ended December 31, 2011, 2012 and 2013, respectively. For the years ended December 31, 2011, 2012 and 2013, our provisions for warranty expense were \$1.9 million, \$3.4 million, and \$4.3 million, respectively. Further, as a result of reliability issues in particular component batches, certain products have, in the past, failed at higher than expected rates, and no assurances can be given that such failures won't occur in the future. In such cases, we proactively replace the affected products and record a specific warranty reserve.

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

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

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

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

We anticipate increasing our sales efforts to U.S. and foreign, federal, state and local governmental end customers in the future. Sales to government entities are subject to a number of risks. Selling to government entities can be highly competitive, expensive and time consuming, often requiring significant upfront time and expense without any assurance that these efforts will generate a sale. The substantial majority of our sales to date to government entities have been made indirectly through our channel

partners. Government certification requirements for products like ours may change and, in doing so, restrict our ability to sell into the government sector until we have attained revised certifications. Government demand and payment for our products and services may be affected by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our products and services. Government entities may have statutory, contractual or other legal rights to terminate contracts with our distributors and resellers for convenience or due to a default, and any such termination may adversely impact our future business, financial condition, results of operations and prospects. Selling to government entities may also require us to comply with various regulations that are not applicable to sales to non-government entities, including regulations that may relate to pricing, classified material and other matters. Complying with such regulations may also require us to put in place controls and procedures to monitor compliance with the applicable regulations that may be costly or not possible. We are not currently certified to perform work under classified contracts with government entities. Failure to comply with any such regulations could adversely affect our business, prospects, results of operations and financial condition. Governments routinely investigate and audit government contractors' administrative processes, and any unfavorable audit could result in the government ceasing to buy our products and services, a reduction of revenue, fines or civil or criminal liability if the audit uncovers improper or illegal activities, any of which could materially adversely affect our business, financial condition, results of operations and prospects. The U.S. government may require certain products that it purchases to be manufactured in the United States and other relatively high-cost manufacturing locations, and we may not manufacture all products in locations that meet these requirements. Any of these and other circumstances could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

In addition, when new or updated versions of these software operating systems or applications are introduced, we must sometimes develop updated versions of our software so that our products will interoperate properly. We may not accomplish these development efforts quickly, cost-effectively or at all. These development efforts require capital investment and the devotion of engineering resources. If we fail to maintain compatibility with these systems and applications, our end customers may not be able to adequately utilize our products, and we may lose or fail to increase market share and experience a weakening in demand for our products, among other consequences, which would adversely affect our business, financial condition, results of operations and prospects.

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

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

As our company grows we also continue developing procedures and controls to comply with export control and other applicable laws. Historically, we have had some instances where we inadvertently have not fully complied with certain export control laws, but we have disclosed them to, and implemented corrective actions with, the appropriate government agencies. In addition, various countries regulate the import of certain encryption technology, including through import permit and license requirements, and have enacted laws that could limit our ability to distribute our products or could limit our end customers' ability to implement our products in those countries. Any change in export or import regulations, economic sanctions or related legislation, shift

in the enforcement or scope of existing regulations or change in the countries, governments, persons or technologies targeted by such regulations could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential end customers with international operations or create delays in the introduction of our products into international markets. Any decreased use of our products or limitation on our ability to export or sell our products could adversely affect our business, financial condition, results of operations and prospects.

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

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

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

As part of our business strategy, we may make investments in complementary companies, products or technologies. However, we have not made any significant acquisitions to date, and as a result, our ability as an organization to acquire and integrate other companies, products or technologies in a successful manner is unproven. We may not be able to find suitable acquisition candidates, and we may not be able to complete such acquisitions on favorable terms, if at all. If we do complete acquisitions, we may not ultimately strengthen our competitive position or achieve our goals, and any acquisitions we complete could be viewed negatively by our end customers, investors and securities analysts. In addition, if we are unsuccessful at integrating such acquisitions or retaining key talent from those acquisitions, or the technologies associated with such acquisitions, into our company, the business, financial condition, results of operations and prospects of the combined company could be adversely affected. Any integration process may require significant time and resources, and we may not be able to manage the process successfully. We may not successfully evaluate or utilize the acquired technology or personnel or accurately forecast the financial effects of an acquisition transaction, including accounting charges. We may have to pay cash, incur debt or issue equity securities to pay for any such acquisition, each of which could adversely affect our financial condition or the market price of our common stock. The sale of equity or issuance of debt to finance any such acquisitions could result in dilution to our stockholders. The incurrence of indebtedness would result in increased fixed obligations and could also include covenants or other restrictions that would impede our ability to manage our operations.

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

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

- evolve or enhance our products and services;
- continue to expand our sales and marketing and research and development organizations;
- acquire complementary technologies, products or businesses;
- expand operations, in the United States or internationally;
- hire, train and retain employees; or
- respond to competitive pressures or unanticipated working capital requirements.

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

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

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

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

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

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

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

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

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

We are also subject to environmental laws and regulations governing the management and disposal of hazardous materials and wastes. Our failure, or the failure of our partners, including our contract manufacturers, to comply with past, present and future environmental laws could result in fines, penalties, third-party claims, reduced sales of our products, substantial product inventory

write-offs and reputational damage, any of which could harm our business, financial condition, results of operations and prospects. We also expect that our business will be affected by new environmental laws and regulations on an ongoing basis applicable to us and our partners, including our contract manufacturers. To date, our expenditures for environmental compliance have not had a material effect on our results of operations or cash flows. Although we cannot predict the future effect of such laws or regulations, they will likely result in additional costs or require us to change the content or manufacturing of our products, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

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

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

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

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

- sensitive data regarding our business, including intellectual property and other proprietary data, could be stolen;
- our electronic communications systems, including email and other methods, could be disrupted, and our ability to conduct our business operations could be seriously damaged until such systems can be restored;
- our ability to process customer orders and electronically deliver products and services could be degraded, and our distribution channels could be disrupted, resulting in delays in revenue recognition;
- defects and security vulnerabilities could be introduced into our software, thereby damaging the reputation and perceived reliability and security of our products and potentially making the data systems of our customers vulnerable to further data loss and cyberincidents; and
- personally identifiable data of our customers, employees and business partners could be compromised.

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

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

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

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

Developing our products is expensive, and the investment in product development may involve a long payback cycle. In 2011, 2012 and 2013, our research and development expenses were \$26.4 million, or approximately 18.9% of our revenue, \$55.2 million, or approximately 28.5% of our revenue, and \$98.6 million, or approximately 27.3% of our revenue, respectively. We expect to continue to invest heavily in software development in order to expand the capabilities of our cloud networking platform, introduce new products and features and build upon our technology leadership. We believe one of our greatest strengths lies in the speed of our product development efforts. By investing in research and development, we believe we will be well positioned to continue our rapid growth and take advantage of our large market opportunity. We expect that our results of operations will be impacted by the timing and size of these investments. These investments may take several years to generate positive returns, if ever.

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

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

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

Our provision for income taxes is subject to volatility and could be adversely affected by several factors, many of which are outside of our control, including earnings that are lower than anticipated in countries that have lower tax rates and higher than

anticipated in countries that have higher tax rates; our ability to generate and use tax attributes; changes in the valuation of our deferred tax assets and liabilities; expiration of or lapses in the R&D tax credit laws; transfer pricing adjustments, including the effect of acquisitions on our inter-company R&D cost sharing arrangement and legal structure; tax effects of nondeductible compensation, including certain stock-based compensation; tax costs related to inter-company realignments; changes in accounting principles; adverse tax consequences, including imposition of withholding or other taxes on payments by subsidiaries or customers; a change in our decision to indefinitely reinvest foreign earnings or changes in tax laws and regulations, including possible U.S. changes to the taxation of earnings of our foreign subsidiaries, the deductibility of expenses attributable to foreign income or the foreign tax credit rules.

Significant judgment is required to evaluate our tax positions and determine our provision for income taxes. The accounting guidance for uncertainty in income taxes applies to all income tax positions, including the potential recovery of previously paid taxes, which if settled unfavorably could adversely affect our provision for income taxes or additional paid-in capital. In addition, tax laws are dynamic and subject to change as new laws are passed and new interpretations of the law are issued or applied. Recent changes to U.S. tax laws, including limitations on the ability of taxpayers to claim and utilize foreign tax credits and the deferral of certain tax deductions until earnings outside of the United States are repatriated to the United States, as well as changes to U.S. tax laws that may be enacted in the future, could impact the tax treatment of our foreign earnings, as well as cash and cash equivalent balances we currently maintain outside of the United States.

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

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

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

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

As a public company, we will be subject to new requirements under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, that will require us to perform diligence, and disclose and report whether or not our products contain conflict minerals. The implementation of these new requirements could adversely affect the sourcing, availability and pricing of the materials used in the manufacture of components used in our products. In addition, we will incur additional costs to comply with these disclosure requirements, including costs related to conducting diligence procedures and, if applicable, potential changes to products, processes or sources of supply as a consequence of such verification activities. We may also face reputational harm if we determine that certain of our products contain minerals not determined to be conflict-free or if we are unable to alter our products, processes or sources of supply to avoid such materials.

**Risk related to ownership our common stock as the market price of our common stock may be volatile.**

Technology stocks have historically experienced high levels of volatility. The market price of our common stock has fluctuated and may continue to fluctuate substantially. These fluctuations could cause you to lose all or part of your investment in our common stock. Factors that could cause fluctuations in the market price of our common stock include the following:

- actual or anticipated announcements of new products, services or technologies, commercial relationships, acquisitions or other events by us or our competitors;
- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of technology companies in general and of companies in the IT security industry in particular;
- fluctuations in the trading volume of our shares or the size of our public float;
- actual or anticipated changes or fluctuations in our results of operations;
- adverse changes to our relationships with any of our channel partners;
- manufacturing, supply or distribution shortages;
- whether our results of operations meet the expectations of securities analysts or investors;
- actual or anticipated changes in the expectations of investors or securities analysts;
- litigation involving us, our industry, or both;
- regulatory developments in the United States, foreign countries or both;
- general economic conditions and trends;
- major catastrophic events;
- sales of large blocks of our common stock; or
- departures of key personnel.

In addition, if the market for technology stocks or the stock market in general experiences a loss of investor confidence, the market price of our common stock could decline for reasons unrelated to our business, financial condition, results of operations and prospects. The market price of our common stock might also decline in reaction to events that affect other companies in our industry even if these events do not directly affect us. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. If the market price of our common stock is volatile, we may become the target of securities litigation. Securities litigation could result in substantial costs and divert our management's attention and resources from our business and prospects. This could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

Sales of a substantial number of shares of our common stock in the public market, or the perception that such sales could occur, could adversely affect the market price of our common stock and may make it more difficult for you to sell your common stock at a time and price that you deem appropriate. As June 30, 2014, we have 64.4 million shares of common stock outstanding, assuming no exercise of our outstanding options after June 30, 2014.

All of our directors and officers and holders of substantially all of our common stock, or securities exercisable for or convertible into our common stock outstanding immediately prior to our initial public offering, have agreed not to offer, sell or agree to sell, directly or indirectly, any shares of common stock without the permission of each of Morgan Stanley & Co. LLC and Citigroup Global Markets, Inc. on behalf of the underwriters, for a period of 180 days from our initial public offering. When the applicable lock-up period expires, we and our locked-up securityholders will be able to sell our shares in the public market. In addition, the underwriters may, in their sole discretion, release all or some portion of the shares subject to lock-up agreements prior to the expiration of the lock-up period. Sales of a substantial number of such shares upon expiration, or the perception that such sales may occur, or early release of the lock-up, could cause our share price to decline or make it more difficult for you to sell your common stock at a time and price that you deem appropriate.

Based on shares outstanding as of April 30, 2014, holders of up to approximately 28,118,975 shares, or 44.2%, of our common stock will have rights, subject to some conditions, to require us to file registration statements covering the sale of their shares or to include their shares in registration statements that we may file for ourselves or other stockholders. We have registered the offer and sale of all shares of common stock that we may issue under our equity compensation plans.

We may issue our shares of common stock or securities convertible into our common stock from time to time in connection with a financing, acquisition, investments or otherwise. Any such issuance could result in substantial dilution to our existing stockholders and cause the trading price of our common stock to decline.

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

Our directors, executive officers and each of our stockholders who own greater than 5% of our outstanding common stock together with their affiliates, in the aggregate, will beneficially own approximately 59.5% of the outstanding shares of our common stock after this offering, based on shares outstanding as of April 30, 2014 as adjusted for the conversion into shares of common stock of principal and accrued interest through the anticipated completion of this offering of certain of our subordinated convertible promissory notes upon completion of this offering, and after giving effect to the exercise and exercisability of options. As a result, these stockholders, if acting together, will be able to influence or control matters requiring approval by our stockholders, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. They may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. This concentration of ownership may also discourage a potential investor from acquiring our common stock due to the limited voting power of such stock or otherwise may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

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

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

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

As a public company, we are subject to the reporting and corporate governance requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the listing requirements of the New York Stock Exchange and other applicable securities rules and regulations, including the Sarbanes-Oxley Act and the Dodd-Frank Act. Compliance with these rules and regulations will increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly and increase demand on our systems and resources, particularly after we are no longer an "emerging growth company" as defined in the JOBS Act. Among other things, the Exchange Act requires that we file annual, quarterly and current reports with respect to our business and results of operations and maintain effective disclosure controls and procedures and internal control over financial reporting. In order to improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could harm our business, financial condition, results of operations and prospects. Although we have already hired additional employees to help comply with these requirements, we may need to further expand our legal and finance departments in the future, which will increase our costs and expenses.

In addition, changing laws, regulations, and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations, and standards, and this investment may result in increased general and administrative expense and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies, regulatory authorities may initiate legal proceedings against us and our business and prospects may be harmed. As a result of disclosure of information in the filings required of a public company, our business and financial condition will become more visible, which may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business, financial condition, results of operations and prospects could be harmed, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and harm our business, financial condition, results of operations and prospects.

We also expect that being a public company and these new rules and regulations will make it more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified executive officers and members of our board of directors, particularly to serve on our Audit Committee and Compensation Committee.

In addition, as a result of our disclosure obligations as a public company, we will have reduced strategic flexibility and will be under pressure to focus on short-term results, which may adversely affect our ability to achieve long-term profitability.

**We are an “emerging growth company,” and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.**

For so long as we remain an “emerging growth company” as defined in the JOBS Act, we may take advantage of certain exemptions from various requirements that are applicable to public companies that are not “emerging growth companies,” including reduced disclosure obligations regarding executive compensation in our registration statements, periodic reports and proxy statements and exemptions from the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We may take advantage of these exemptions until we are no longer an emerging growth company. We would cease to be an emerging growth company upon the earliest to occur of: (i) the first fiscal year following the fifth anniversary of our initial public offering; (ii) the first fiscal year after our annual gross revenue is \$1 billion or more; (iii) the date on which we have, during the previous three-year period, issued more than \$1 billion in non-convertible debt securities; or (iv) as of the end of any fiscal year in which the market value of our common stock held by non-affiliates exceeded \$700 million as of the end of the second quarter of that fiscal year.

In addition, Section 107 of the JOBS Act also provides that an “emerging growth company” may take advantage of an extended transition period for complying with new or revised accounting standards. However, we have chosen to “opt out” of such extended transition period, and as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

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

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

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

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

- a classified board of directors with three-year staggered terms, which could delay the ability of stockholders to change the membership of a majority of our board of directors;
- the ability of our board of directors to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquirer;
- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of our board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- the requirement that a special meeting of stockholders may be called only by the chairman of our board of directors, our president, our secretary or a majority vote of our board of directors, which could delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors;
- the requirement for the affirmative vote of holders of at least 66 2/3% of the voting power of all of the then outstanding shares of the voting stock, voting together as a single class, to amend the provisions of our amended and restated certificate of incorporation relating to the issuance of preferred stock and management of our business or our amended and restated bylaws, which may inhibit the ability of an acquirer to effect such amendments to facilitate an unsolicited takeover attempt;
- the ability of our board of directors, by majority vote, to amend the bylaws, which may allow our board of directors to take additional actions to prevent an unsolicited takeover and inhibit the ability of an acquirer to amend the bylaws to facilitate an unsolicited takeover attempt; and
- advance notice procedures with which stockholders must comply to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders’ meeting, which may discourage or deter a potential acquirer from

conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of us.

In addition, as a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law. These provisions may prohibit large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us for a certain period of time.

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

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

**We may have contingent liability arising out of possible violations of the Securities Act of 1933 in connection with communications to potential participants in a previously planned directed share program.**

As part of our initial public offering, up to 112,200 shares were reserved for sale at the initial public offering price in connection with a previously planned directed share program which has subsequently been terminated. In March, April and May 2014, certain officers and directors and employees acting at the request of such officers communicated with certain potential participants in the directed share program. The potential directed share program participants consisted of personal friends or family members of officers or directors, customers, suppliers or partners with long-term commercial relationships with us, and three journalists and three industry researchers who had covered us over time. In total, over 150 persons were contacted in person or by telephone, email or text message regarding the planned directed share program. Such communications were intended only to determine their interest in, and ability under their applicable corporate policies to participate in, the planned directed share program and, in some cases, to obtain contact information to provide to the underwriter managing such program. Certain of such communications regarding the directed share program may have constituted a violation of Section 5 of the Securities Act. We could have a contingent liability arising out of the possible violations of the Securities Act in connection with such communications. Any liability would depend upon the number of shares purchased by the recipients of such communications that may have constituted a violation of Section 5 of the Securities Act. If a claim were brought by any such recipients of such communications who purchased shares in the offering and a court were to conclude that these communications constituted a violation of Section 5 of the Securities Act, we could be required to repurchase the shares sold to the potential participants who received such communications at the original purchase price, plus statutory interest from the date of purchase, for claims brought during a period of one year from the date of their purchase of common stock. The SEC could also determine to seek an enforcement action with respect to this matter. We could also incur considerable expense in contesting any such claim.

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

**Unregistered Sales of Equity Securities**

During the three months ended June 30, 2014, we issued an aggregate of 22,103 shares of common stock that were not registered under the Securities Act to our employees pursuant to the exercise of stock options for cash consideration with aggregate exercise proceeds of approximately \$0.1 million. These issuances were undertaken in reliance upon the exemption from registration requirements available under Rule 701 of the Securities Act.

**Use of Proceeds**

We filed a Registration Statement on Form S-1 (File No. 333-194899) for an IPO of common stock, which was declared effective by the Securities and Exchange Commission on June 6, 2014. In that offering, an aggregate shares of 6,037,500 (inclusive of 787,500 shares of common stock from the full exercise of the over-allotment option granted to the underwriters) common stock were sold on our behalf. The public offering price of the shares sold in the IPO was \$43.00 per share. The total gross proceeds from the offering were \$259.6 million. After deducting underwriting discounts and commissions totaling \$15.6 million and other estimated issuance costs of \$5.3 million, the aggregate net proceeds received by us was \$238.7 million. No payments were made to our directors or officers or their associates, holders of 10% or more of any class of our equity securities or any affiliates. There has been no material

change in the planned use of proceeds from our IPO as described in our final prospectus filed with the SEC on June 6, 2014 pursuant to Rule 424(b).

**Item 3. Defaults Upon Senior Securities**

Not applicable

**Item 4. Mine Safety Disclosures**

Not applicable

**Item 5. Other Information**

None

**Item 6. Exhibits**

See the Exhibit Index following the signature page to this Quarterly Report on Form 10-Q for a list of exhibits filed or furnished with this report, which Exhibit Index is incorporated herein by reference.



## EXHIBIT INDEX

Exhibit Number	Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
3.1	Amended and Restated Certificate of Incorporation of Registrant					✓
3.2	Amended and Restated Bylaws of Registrant					✓
10.1	Second Amendment - Irvine Lease					✓
10.2 †	2014 Equity Incentive Plan	S-1/A	333-194899	10.4	5/27/2014	
10.3 †	2014 Employee Stock Purchase Plan	S-1/A	333-194899	10.5	5/2/2014	
10.4 †	Employee Incentive Plan	S-1/A	333-194899	10.21	4/21/2014	
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					✓
31.2	Certification of the Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.					✓
32.1 *	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.					✓
101.INS **	XBRL Instance Document					
101.SCH **	XBRL Taxonomy Extension Schema Document					
101.CAL **	XBRL Taxonomy Extension Calculation Linkbase Document					
101.DEF **	XBRL Taxonomy Extension Definition Linkbase Document					
101.LAB **	XBRL Taxonomy Extension Label Linkbase Document					
101.PRE **	XBRL Taxonomy Extension Presentation Linkbase Document					

† Indicates management contract or compensatory plan or arrangement.

\* The certifications attached as Exhibit 32.1 that accompany this Quarterly Report on Form 10-Q are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Arista Networks, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

\*\* XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and is otherwise not subject to liability under these sections.

**AMENDED AND RESTATED**  
**CERTIFICATE OF INCORPORATION OF**  
**ARISTA NETWORKS, INC.**

Arista Networks, Inc., a corporation organized and existing under the laws of the State of Delaware (the “ **Corporation** ”), certifies that:

A. The name of the Corporation is Arista Networks, Inc.

The Corporation’s original Certificate of Incorporation was filed with the Secretary of State of the State of Delaware on December 2, 2011.

B. This Amended and Restated Certificate of Incorporation was duly adopted in accordance with Sections 242 and 245 of the General Corporation Law of Delaware, and restates, integrates and further amends the provisions of the Corporation’s Certificate of Incorporation.

C. This Amended and Restated Certificate of Incorporation was approved by the holders of the requisite number of shares of the Corporation in accordance with Section 228 of the General Corporation Law of Delaware.

D. The text of the Corporation’s Certificate of Incorporation is amended and restated to read as set forth in EXHIBIT A attached hereto.

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IN WITNESS WHEREOF, Arista Networks, Inc. has caused this Amended and Restated Certificate of Incorporation to be signed by Jayshree Ullal, a duly authorized officer of the Corporation, on June 10, 2014.

/s/ Jayshree Ullal  
Jayshree Ullal, Chief Executive Officer

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## EXHIBIT A

### ARTICLE I

The name of the Corporation is Arista Networks, Inc.

### ARTICLE II

The purpose of this Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware (the “DGCL”).

### ARTICLE III

The address of the Corporation’s registered office in the State of Delaware is 615 South DuPont Highway in the City of Dover, County of Kent, 19901. The name of the registered agent at such address is National Corporate Research, Ltd.

### ARTICLES IV

4.1 Authorized Capital Stock. The total number of shares of all classes of capital stock that the Corporation is authorized to issue is 1,100,000,000 shares, consisting of 1,000,000,000 shares of Common Stock, par value \$0.0001 per share (the “**Common Stock**”), and 100,000,000 shares of Preferred Stock, par value \$0.0001 per share (the “**Preferred Stock**”).

4.2 Increase or Decrease in Authorized Capital Stock. The number of authorized shares of Preferred Stock or Common Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the voting power of the outstanding shares entitled to vote, irrespective of the provisions of Section 242(b)(2) of the DGCL (or any successor provision thereto), voting together as a single class, without a separate vote of the holders of the class or classes the number of authorized shares of which are being increased or decreased, unless a vote by any holders of one or more series of Preferred Stock is required by the express terms of any series of Preferred Stock as provided for or fixed pursuant to the provisions of Section 4.4 of this Article IV (or any certificate of designation with respect thereto).

4.3 Common Stock.

(a) The holders of shares of Common Stock shall be entitled to one vote for each such share on each matter properly submitted to the stockholders on which the holders of shares of Common Stock are entitled to vote. Except as otherwise required by law or this certificate of incorporation (this “**Certificate of Incorporation**” which term, as used herein, shall mean the certificate of incorporation of the Corporation, as amended from time to time, including the terms of any certificate of designations of any series of Preferred Stock), and subject to the rights of the holders of Preferred Stock, at any annual or special meeting of the stockholders the holders of shares of Common Stock shall have the right to vote for the election of directors and on all other matters properly submitted to a vote of the stockholders; provided, however, that, except as otherwise required by law, holders of Common Stock shall not be entitled to vote on any amendment to this Certificate of Incorporation that relates solely to the terms, number of shares, powers, designations, preferences, or relative participating, optional or other special rights (including, without limitation, voting rights), or to qualifications, limitations or restrictions thereon, of one or more outstanding series of Preferred Stock if the holders of such affected series are entitled, either separately or together with the holders of one or more other such series, to vote thereon pursuant to this Certificate of Incorporation (including, without limitation, by any certificates of designation relating to any series of Preferred Stock) or pursuant to the DGCL.

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(b) Subject to the rights of the holders of Preferred Stock, the holders of shares of Common Stock shall be entitled to receive such dividends and other distributions (payable in cash, property or capital stock of the Corporation) when, as and if declared thereon by the Board of Directors from time to time out of any assets or funds of the Corporation legally available therefor and shall share equally on a per share basis in such dividends and distributions.

(c) In the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Corporation, after payment or provision for payment of the debts and other liabilities of the Corporation, and subject to the rights of the holders of Preferred Stock in respect thereof, the holders of shares of Common Stock shall be entitled to receive all the remaining assets of the Corporation available for distribution to its stockholders, ratably in proportion to the number of shares of Common Stock held by them.

#### 4.4 Preferred Stock .

(a) The Preferred Stock may be issued from time to time in one or more series pursuant to a resolution or resolutions providing for such issue duly adopted by the Board of Directors (authority to do so being hereby expressly vested in the Board of Directors). The Board of Directors is further authorized, subject to limitations prescribed by law, to fix by resolution or resolutions and to set forth in one or more certificates of designation filed pursuant to the DGCL the powers, designations, preferences and relative, participation, optional or other rights, if any, and the qualifications, limitations or restrictions thereof, if any, of any wholly unissued series of Preferred Stock, including, without limitation, authority to fix by resolution or resolutions the dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), redemption price or prices, and liquidation preferences of any such series, and the number of shares constituting any such series and the designation thereof, or any of the foregoing.

(b) The Board of Directors is further authorized to increase (but not above the total number of authorized shares of the class) or decrease (but not below the number of shares of any such series then outstanding) the number of shares of any series, the number of which was fixed by it, subsequent to the issuance of shares of such series then outstanding, subject to the powers, preferences and rights, and the qualifications, limitations and restrictions thereof stated in the Certificate of Incorporation or the resolution of the Board of Directors originally fixing the number of shares of such series. If the number of shares of any series is so decreased, then the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

### ARTICLE V

5.1 General Powers . The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors.

#### 5.2 Number of Directors; Election; Term .

a. Subject to the rights of holders of any series of Preferred Stock with respect to the election of directors, the number of directors that constitutes the entire Board of Directors of the Corporation shall be fixed solely by resolution of the majority of the Whole Board. For purposes of this Certificate of Incorporation, the term “ **Whole Board** ” will mean the total number of authorized directors whether or not there exist any vacancies in previously authorized directorships.

b. Subject to the rights of holders of any series of Preferred Stock with respect to the election of directors, effective upon the closing date (the “ **Effective Date** ”) of the initial sale of shares of common stock in the Corporation’s initial public offering pursuant to an effective registration statement filed under the Securities Act of 1933, as amended, the directors of the Corporation shall be divided into three classes as nearly equal in size as is practicable, hereby designated Class I, Class II and Class III. The initial assignment of members of the Board of Directors to each such class shall be made by the Board of Directors. The term of office of the initial Class I directors

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shall expire at the first regularly-scheduled annual meeting of the stockholders following the Effective Date, the term of office of the initial Class II directors shall expire at the second annual meeting of the stockholders following the Effective Date and the term of office of the initial Class III directors shall expire at the third annual meeting of the stockholders following the Effective Date. At each annual meeting of stockholders, commencing with the first regularly-scheduled annual meeting of stockholders following the Effective Date, each of the successors elected to replace the directors of a Class whose term shall have expired at such annual meeting shall be elected to hold office until the third annual meeting next succeeding his or her election and until his or her respective successor shall have been duly elected and qualified. Subject to the rights of holders of any series of Preferred Stock with respect to the election of directors, if the number of directors that constitutes the Board of Directors is changed, any newly created directorships or decrease in directorships shall be so apportioned by the Board of Directors among the classes as to make all classes as nearly equal in number as is practicable, provided that no decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

c. Notwithstanding the foregoing provisions of this Section 5.2, and subject to the rights of holders of any series of Preferred Stock with respect to the election of directors, each director shall serve until his or her successor is duly elected and qualified or until his or her earlier death, resignation, or removal.

d. Elections of directors need not be by written ballot unless the Bylaws of the Corporation shall so provide.

5.3 Removal. Subject to the rights of holders of any series of Preferred Stock with respect to the election of directors, a director may be removed from office by the stockholders of the Corporation only for cause and only by the affirmative vote of the holders of at least 66<sup>2</sup>/<sub>3</sub>% in voting power of the stock of the Corporation entitled to vote thereon.

5.4 Vacancies and Newly Created Directorships. Subject to the rights of holders of any series of Preferred Stock with respect to the election of directors, and except as otherwise provided in the DGCL, vacancies occurring on the Board of Directors for any reason and newly created directorships resulting from an increase in the authorized number of directors may be filled only by vote of a majority of the remaining members of the Board of Directors, although less than a quorum, or by a sole remaining director, at any meeting of the Board of Directors, and not by stockholders. A person so elected by the Board of Directors to fill a vacancy or newly created directorship shall hold office until the next election of the class for which such director shall have been assigned by the Board of Directors and until his or her successor shall be duly elected and qualified.

## ARTICLE VI

In furtherance and not in limitation of the powers conferred by statute, the Board of Directors of the Corporation is expressly authorized to adopt, amend or repeal the Bylaws of the Corporation by the affirmative vote of a majority of the Whole Board. Notwithstanding any other provision of this Certificate of Incorporation or any provision of law that might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any series of Preferred Stock required by law, by this Certificate of Incorporation or by any Preferred Stock certificate of designation, the Bylaws may also be amended, altered or repealed and new Bylaws may be adopted by the affirmative vote of the holders of at least 66 <sup>2</sup>/<sub>3</sub>% in voting power of the stock of the Corporation entitled to vote thereon.

## ARTICLE VII

7.1 No Action by Written Consent of Stockholders. Except as otherwise expressly provided by the terms of any series of Preferred Stock permitting the holders of such series of Preferred Stock to act by written consent, any action required or permitted to be taken by stockholders of the Corporation must be effected at a duly called annual or special meeting of the stockholders and may not be effected by written consent in lieu of a meeting.

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7.2 Special Meetings. Except as otherwise expressly provided by the terms of any series of Preferred Stock permitting the holders of such series of Preferred Stock to call a special meeting of the holders of such series, special meetings of stockholders of the Corporation may be called only by the affirmative vote of a majority of the Whole Board, the chairperson of the Board of Directors, the chief executive officer or the president (in the absence of a chief executive officer), and the ability of the stockholders to call a special meeting is hereby specifically denied. The Board of Directors, by the affirmative vote of a majority of the Whole Board, may cancel, postpone or reschedule any previously scheduled special meeting at any time, before or after the notice for such meeting has been sent to the stockholders.

7.3 No Cumulative Voting. No stockholder will be permitted to cumulate votes at any election of directors.

7.4 Advance Notice. Advance notice of stockholder nominations for the election of directors and of business to be brought by stockholders before any meeting of the stockholders of the Corporation shall be given in the manner provided in the Bylaws of the Corporation.

## ARTICLE VIII

8.1. Limitation of Personal Liability. To the fullest extent permitted by the DGCL, as it presently exists or may hereafter be amended from time to time, a director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. If the DGCL is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the DGCL, as so amended.

### 8.2. Indemnification.

The Corporation shall indemnify, to the fullest extent permitted by applicable law, any director or officer of the Corporation who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (a “**Proceeding**”) by reason of the fact that he or she is or was a director, officer, employee or agent of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another Corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, against expenses (including attorneys’ fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with any such Proceeding. The Corporation shall be required to indemnify a person in connection with a Proceeding (or part thereof) initiated by such person only if the Proceeding (or part thereof) was authorized by the Board.

The Corporation shall have the power to indemnify, to the extent permitted by the DGCL, as it presently exists or may hereafter be amended from time to time, any employee or agent of the Corporation who was or is a party or is threatened to be made a party to any Proceeding by reason of the fact that he or she is or was a director, officer, employee or agent of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, against expenses (including attorneys’ fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with any such Proceeding.

Any repeal or amendment of this Article VIII by changes in law, or the adoption of any other provision of this Certificate of Incorporation inconsistent with this Article VIII will, unless otherwise required by law, be prospective only (except to the extent such amendment or change in law permits the Corporation to further limit or eliminate the liability of directors) and shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or amendment or adoption of such inconsistent provision with respect to acts or omissions occurring prior to such repeal or amendment or adoption of such inconsistent provision.

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## ARTICLE IX

If any provision or provisions of this Certificate of Incorporation shall be held to be invalid, illegal or unenforceable as applied to any circumstance for any reason whatsoever: (i) the validity, legality and enforceability of such provisions in any other circumstance and of the remaining provisions of this Certificate of Incorporation (including, without limitation, each portion of any paragraph of this Certificate of Incorporation containing any such provision held to be invalid, illegal or unenforceable that is not itself held to be invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby and (ii) to the fullest extent possible, the provisions of this Certificate of Incorporation (including, without limitation, each such portion of any paragraph of this Certificate of Incorporation containing any such provision held to be invalid, illegal or unenforceable) shall be construed so as to permit the Corporation to protect its directors, officers, employees and agents from personal liability in respect of their good faith service or for the benefit of the Corporation to the fullest extent permitted by law.

The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation (including any rights, preferences or other designations of Preferred Stock), in the manner now or hereafter prescribed by this Certificate of Incorporation and the DGCL; and all rights, preferences and privileges herein conferred upon stockholders by and pursuant to this Certificate of Incorporation in its present form or as hereafter amended are granted subject to the right reserved in this Article IX. Notwithstanding any other provision of this Certificate of Incorporation, and in addition to any other vote that may be required by law or the terms of any series of Preferred Stock, the affirmative vote of the holders of at least 66⅔% of the voting power of all then outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to amend, alter or repeal, or adopt any provision as part of this Certificate of Incorporation inconsistent with the purpose and intent of, Article V, Article VI, Article VII or this Article IX (including, without limitation, any such Article as renumbered as a result of any amendment, alteration, change, repeal or adoption of any other Article).

**AMENDED AND RESTATED BYLAWS OF  
ARISTA NETWORKS, INC.**

Adopted May 20, 2014

Effective on June 11, 2014

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# BYLAWS

## ARTICLE I - CORPORATE OFFICES

### 1.1 REGISTERED OFFICE

The registered office of Arista Networks, Inc. shall be fixed in the corporation's certificate of incorporation. References in these bylaws to the certificate of incorporation shall mean the certificate of incorporation of the corporation, as amended from time to time, including the terms of any certificate of designations of any series of Preferred Stock.

### 1.2 OTHER OFFICES

The corporation's board of directors may at any time establish other offices at any place or places where the corporation is qualified to do business.

## ARTICLE II - MEETINGS OF STOCKHOLDERS

### 2.1 PLACE OF MEETINGS

Meetings of stockholders shall be held at any place, within or outside the State of Delaware, designated by the board of directors. The board of directors may, in its sole discretion, determine that a meeting of stockholders shall not be held at any place, but may instead be held solely by means of remote communication as authorized by Section 211(a)(2) of the General Corporation Law of the State of Delaware (the " **DGCL** "). In the absence of any such designation or determination, stockholders' meetings shall be held at the corporation's then-principal executive office.

### 2.2 ANNUAL MEETING

The annual meeting of stockholders shall be held on such date, at such time, and at such place (if any) within or without the State of Delaware, as the board of directors shall designate from time to time and stated in the corporation's notice of the meeting. At the annual meeting, directors shall be elected and any other proper business, brought in accordance with Section 2.4 of these bylaws, may be transacted.

### 2.3 SPECIAL MEETING

(i) A special meeting of the stockholders, other than those required by statute, may be called at any time only by (A) the affirmative vote of a majority of the Whole Board, (B) the chairperson of the board of directors, (C) the chief executive officer, or (D) the president (in the absence of a chief executive officer). A special meeting of the stockholders may not be called by any other person or persons. The board of directors, by the affirmative vote of a majority of the Whole Board, may cancel, postpone or reschedule any previously scheduled special meeting at any time, before or after the notice for such meeting has been sent to the stockholders. For purposes of these Bylaws, the term " **Whole Board** " will mean the total number of authorized directors whether or not there exist any vacancies in previously authorized directorships.

(ii) The notice of a special meeting shall include the purpose for which the meeting is called. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting by or at the direction of the board of directors acting by the affirmative vote of a majority of the Whole Board, the chairperson of the board of directors, the chief executive officer or the president (in the absence of a chief executive officer). Nothing contained in this Section 2.3(ii) shall be construed as limiting, fixing or affecting the time when a meeting of stockholders called by action of the board of directors may be held.

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## 2.4 ADVANCE NOTICE PROCEDURES

(i) *Advance Notice of Stockholder Business at Annual Meeting.* At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be brought: (A) pursuant to the corporation's proxy materials with respect to such meeting, (B) by or at the direction of the board of directors, or (C) by a stockholder who (1) is a stockholder of record at the time of the giving of the notice required by this Section 2.4(i) and on the record date for the determination of stockholders entitled to vote at the annual meeting and (2) has timely complied in proper written form with the notice procedures set forth in this Section 2.4(i). In addition, for business to be properly brought by a stockholder before an annual meeting, such business must be a proper matter for stockholder action pursuant to these bylaws and applicable law. Except for proposals properly made in accordance with Rule 14a-8 under the Securities and Exchange Act of 1934, and the rules and regulations thereunder (as so amended and inclusive of such rules and regulations), clause (C) above shall be the exclusive means for a stockholder to bring business before an annual meeting of stockholders.

(a) To comply with clause (C) of Section 2.4(i), above, a stockholder's notice must set forth all information required under this Section 2.4(i) and must be timely received by the secretary of the corporation. To be timely, a stockholder's notice must be received by the secretary at the principal executive offices of the corporation not later than the 45th day nor earlier than the 75th day before the one-year anniversary of the date on which the corporation first mailed its proxy materials or a notice of availability of proxy materials (whichever is earlier) for the preceding year's annual meeting; *provided*, *however*, that in the event that no annual meeting was held in the previous year or if the date of the annual meeting is advanced by more than 30 days prior to or delayed by more than 30 days after the one-year anniversary of the date of the previous year's annual meeting, then, for notice by the stockholder to be timely, it must be so received by the secretary not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of (i) the 90th day prior to such annual meeting, or (ii) the tenth day following the day on which Public Announcement (as defined below) of the date of such annual meeting is first made. In no event shall any adjournment or postponement of an annual meeting or the announcement thereof commence a new time period for the giving of a stockholder's notice as described in this Section 2.4(i)(a). “ **Public Announcement** ” shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or a comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Securities Exchange Act of 1934, as amended, or any successor thereto (the “ **1934 Act** ”).

(b) To be in proper written form, a stockholder's notice to the secretary must set forth as to each matter of business the stockholder intends to bring before the annual meeting: (1) a brief description of the business intended to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (2) the name and address, as they appear on the corporation's books, of the stockholder proposing such business and any Stockholder Associated Person (as defined below), (3) the class and number of shares of the corporation that are held of record or are beneficially owned by the stockholder or any Stockholder Associated Person and any derivative positions held or beneficially held by the stockholder or any Stockholder Associated Person as of the date of delivery of such notice, (4) whether and the extent to which any hedging or other transaction or series of transactions has been entered into by or on behalf of such stockholder or any Stockholder Associated Person with respect to any securities of the corporation, and a description of any other agreement, arrangement or understanding (including any short position or any borrowing or lending of shares), the effect or intent of which is to mitigate loss to, or to manage the risk or benefit from share price changes for, or to increase or decrease the voting power of, such stockholder or any Stockholder Associated Person with respect to any securities of the corporation, (5) any material interest of the stockholder or a Stockholder Associated Person in such business, and (6) a statement whether either such stockholder or any Stockholder Associated Person will deliver a proxy statement and form of proxy to holders of at least the percentage of the voting power of the corporation's voting shares required under applicable law to carry the proposal (such information provided and statements made as required by clauses (1) through (6), a “ **Business Solicitation Statement** ”). In addition, to be in proper written form, a stockholder's notice to the secretary must be supplemented not later than ten days following the record date for notice of the meeting to disclose the information contained in clauses (3) and (4) above as of the record date for notice of the meeting. For purposes of this Section 2.4, a “ **Stockholder Associated Person** ” of any stockholder shall mean (i) any person controlling, directly or indirectly,

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or acting in concert with, such stockholder, (ii) any beneficial owner of shares of stock of the corporation owned of record or beneficially by such stockholder and on whose behalf the proposal or nomination, as the case may be, is being made, or (iii) any person controlling, controlled by or under common control with such person referred to in the preceding clauses (i) and (ii).

(c) Without exception, no business shall be conducted at any annual meeting except in accordance with the provisions set forth in this Section 2.4(i) and, if applicable, Section 2.4(ii). In addition, business proposed to be brought by a stockholder may not be brought before the annual meeting if such stockholder or a Stockholder Associated Person, as applicable, takes action contrary to the representations made in the Business Solicitation Statement applicable to such business or if the Business Solicitation Statement applicable to such business contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein not misleading. The chairperson of the annual meeting shall, if the facts warrant, determine and declare at the annual meeting that business was not properly brought before the annual meeting and in accordance with the provisions of this Section 2.4(i), and, if the chairperson should so determine, he or she shall so declare at the annual meeting that any such business not properly brought before the annual meeting shall not be conducted.

(ii) *Advance Notice of Director Nominations at Annual Meetings.* Notwithstanding anything in these bylaws to the contrary, only persons who are nominated in accordance with the procedures set forth in this Section 2.4(ii) shall be eligible for election or re-election as directors at an annual meeting of stockholders. Nominations of persons for election or re-election to the board of directors of the corporation shall be made at an annual meeting of stockholders only (A) by or at the direction of the board of directors or (B) by a stockholder who (1) was a stockholder of record at the time of the giving of the notice required by this Section 2.4(ii) and on the record date for the determination of stockholders entitled to vote at the annual meeting and (2) has complied with the notice procedures set forth in this Section 2.4(ii). In addition to any other applicable requirements, for a nomination to be made by a stockholder, the stockholder must have given timely notice thereof in proper written form to the secretary of the corporation.

(a) To comply with clause (B) of Section 2.4(ii) above, a nomination to be made by a stockholder must set forth all information required under this Section 2.4(ii) and must be received by the secretary at the then-principal executive offices of the corporation at the time set forth in, and in accordance with, the final three sentences of Section 2.4(i)(a), above; provided additionally, however, that in the event that the number of directors to be elected to the board of directors is increased and there is no Public Announcement naming all of the nominees for director or specifying the size of the increased board made by the corporation at least ten (10) days before the last day a stockholder may deliver a notice of nomination pursuant to the foregoing provisions, a stockholder's notice required by this Section 2.4(ii) shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be received by the secretary at the principal executive offices of the corporation not later than the close of business on the tenth day following the day on which such Public Announcement is first made by the corporation.

(b) To be in proper written form, such stockholder's notice to the secretary must set forth:

(1) as to each person whom the stockholder proposes to nominate for election or re-election as a director (a "**nominee**"): (A) the name, age, business address and residence address of the nominee, (B) the principal occupation or employment of the nominee, (C) the class and number of shares of the corporation that are held of record or are beneficially owned by the nominee and any derivative positions held or beneficially held by the nominee, (D) whether and the extent to which any hedging or other transaction or series of transactions has been entered into by or on behalf of the nominee with respect to any securities of the corporation, and a description of any other agreement, arrangement or understanding (including any short position or any borrowing or lending of shares), the effect or intent of which is to mitigate loss to, or to manage the risk or benefit of share price changes for, or to increase or decrease the voting power of the nominee, (E) a description of all arrangements or understandings between or among the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nominations are to be made by the stockholder or concerning the nominee's potential service on the board of directors, (F) a written statement executed by the nominee acknowledging that as a director of the corporation, the nominee will owe fiduciary duties under Delaware law with respect to the corporation and its stockholders, and (G) any other information relating to the nominee that would be required to be disclosed about such nominee if proxies were

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being solicited for the election or re-election of the nominee as a director, or that is otherwise required, in each case pursuant to Regulation 14A under the 1934 Act (including without limitation the nominee's written consent to being named in the proxy statement, if any, as a nominee and to serving as a director if elected or re-elected, as the case may be); and

(2) as to such stockholder giving notice, (A) the information required to be provided pursuant to clauses (2) through (5) of Section 2.4(i)(b), above, and the supplement referenced in the second sentence of Section 2.4(i)(b) above (except that the references to "business" in such clauses shall instead refer to nominations of directors for purposes of this paragraph), and (B) a statement whether either such stockholder or Stockholder Associated Person will deliver a proxy statement and form of proxy to holders of at least the percentage of the voting power of the corporation's voting shares reasonably believed by such stockholder or Stockholder Associated Person to be necessary to elect or re-elect such nominee(s) (such information provided and statements made as required by clauses (A) and (B) above, a "**Nominee Solicitation Statement**").

(c) At the request of the board of directors, any person nominated by a stockholder for election or re-election as a director must furnish to the secretary (1) that information required to be set forth in the stockholder's notice of nomination of such person as a director as of a date subsequent to the date on which the notice of such person's nomination was given and (2) such other information as may reasonably be required by the corporation to determine the eligibility of such proposed nominee to serve as an independent director or audit committee financial expert of the corporation under applicable law, securities exchange rule or regulation, or any publicly disclosed corporate governance guideline or committee charter of the corporation and (3) such other information that could be material to a reasonable stockholder's understanding of the independence, or lack thereof, of such nominee; in the absence of the furnishing of any such information of the kind specified in this Section 2.4(ii)(c) if requested, such stockholder's nomination shall not be considered in proper form pursuant to this Section 2.4(ii).

(d) Without exception, no person shall be eligible for election or re-election as a director of the corporation at an annual meeting of stockholders unless nominated in accordance with the provisions set forth in this Section 2.4(ii). In addition, a nominee shall not be eligible for election or re-election if a stockholder or Stockholder Associated Person, as applicable, takes action contrary to the representations made in the Nominee Solicitation Statement applicable to such nominee or if the Nominee Solicitation Statement applicable to such nominee contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein not misleading. The chairperson of the annual meeting shall, if the facts warrant, determine and declare at the annual meeting that a nomination was not made in accordance with the provisions prescribed by these bylaws, and if the chairperson should so determine, he or she shall so declare at the annual meeting, and the defective nomination shall be disregarded.

(iii) *Advance Notice of Director Nominations for Special Meetings.*

(a) For a special meeting of stockholders at which directors are to be elected or re-elected, nominations of persons for election or re-election to the board of directors shall be made only (1) by or at the direction of the board of directors or (2) by any stockholder who (A) is a stockholder of record at the time of the giving of the notice required by this Section 2.4(iii) and on the record date for the determination of stockholders entitled to vote at the special meeting and (B) delivers a timely written notice of the nomination to the secretary that includes the information set forth in Sections 2.4(ii)(b) and (ii)(c) above. To be timely, such notice must be received by the secretary at the then-principal executive offices of the corporation not later than the close of business on the later of the 90th day prior to such special meeting or the tenth day following the day on which Public Announcement is first made of the date of the special meeting and of the nominees proposed by the board of directors to be elected or re-elected at such meeting. A person shall not be eligible for election or re-election as a director at a special meeting unless the person is nominated (i) by or at the direction of the board of directors or (ii) by a stockholder in accordance with the notice procedures set forth in this Section 2.4(iii). In addition, a nominee shall not be eligible for election or re-election if a stockholder or Stockholder Associated Person, as applicable, takes action contrary to the representations made in the Nominee Solicitation Statement applicable to such nominee or if the Nominee Solicitation Statement applicable to such nominee contains an untrue statement of a material fact or omits to state a material fact necessary to make the

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statements therein not misleading. Any person nominated in accordance with this Section 2.4(iii) is subject to, and must comply with, the provisions of Section 2.4(ii)(c).

(b) The chairperson of the special meeting shall, if the facts warrant, determine and declare at the meeting that a nomination or business was not made in accordance with the procedures prescribed by these bylaws, and if the chairperson should so determine, he or she shall so declare at the meeting, and the defective nomination or business shall be disregarded.

(iv) *Other Requirements and Rights.* In addition to the foregoing provisions of this Section 2.4, a stockholder must also comply with all applicable requirements of state law and of the 1934 Act and the rules and regulations thereunder with respect to the matters set forth in this Section 2.4. Nothing in this Section 2.4 shall be deemed to affect any rights of:

(a) a stockholder to request inclusion of proposals in the corporation's proxy statement pursuant to Rule 14a-8 (or any successor provision) under the 1934 Act; or

(b) the corporation to omit a proposal from the corporation's proxy statement pursuant to Rule 14a-8 (or any successor provision) under the 1934 Act.

## 2.5 NOTICE OF STOCKHOLDERS' MEETINGS

Whenever stockholders are required or permitted to take any action at a meeting, a written notice of the meeting shall be given which shall state the place, if any, date and hour of the meeting, the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting, the record date for determining the stockholders entitled to vote at the meeting, if such date is different from the record date for determining stockholders entitled to notice of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Except as otherwise provided in the DGCL, the certificate of incorporation or these bylaws, the written notice of any meeting of stockholders shall be given not less than 10 nor more than 60 days before the date of the meeting to each stockholder entitled to vote at such meeting as of the record date for determining the stockholders entitled to notice of the meeting.

## 2.6 QUORUM

The holders of a majority of the voting power of the stock issued, outstanding and entitled to vote, and present in person or represented by proxy, shall constitute a quorum for the transaction of business at all meetings of the stockholders, unless otherwise required by law, the certificate of incorporation, these bylaws or the rules of any applicable stock exchange. Where a separate vote by a class or series or classes or series is required, a majority of the voting power of the then-issued and outstanding shares of such class or series or classes or series, present in person or represented by proxy, shall constitute a quorum entitled to take action with respect to that vote on that matter, except as otherwise required by law, the certificate of incorporation, these bylaws or the rules of any applicable stock exchange.

If a quorum is not present or represented at any meeting of the stockholders, then either (i) the chairperson of the meeting, or (ii) the stockholders entitled to vote at the meeting, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present or represented. The chairperson of the meeting shall have the authority to adjourn a meeting of the stockholders in all other events. At such adjourned meeting at which a quorum is present or represented, any business may be transacted that might have been transacted at the original meeting.

## 2.7 ADJOURNED MEETING; NOTICE

When a meeting is adjourned to another time or place, unless these bylaws otherwise require, notice need not be given of the adjourned meeting if the time, place, if any, thereof, and the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such adjourned meeting, are announced at the meeting at which the adjournment is taken. At the adjourned meeting, the corporation may transact

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any business which might have been transacted at the original meeting. If the adjournment is for more than 30 days, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. If, after the adjournment, a new record date for stockholders entitled to vote is fixed for the adjourned meeting, the board of directors shall fix a new record date for notice of such adjourned meeting in accordance with Section 213(a) of the DGCL and Section 2.11 of these bylaws, and shall give notice of the adjourned meeting to each stockholder of record entitled to vote at such adjourned meeting as of the record date fixed for notice of such adjourned meeting.

## 2.8 CONDUCT OF BUSINESS

The chairperson of any meeting of stockholders shall determine the order of business and the procedure at the meeting, including such regulation of the manner of voting and the conduct of business. The chairperson of any meeting of stockholders shall be designated by the board of directors; in the absence of such designation, the chairperson of the board, if any, the chief executive officer (in the absence of the chairperson) or the president (in the absence of the chairperson of the board and the chief executive officer), or in their absence any other executive officer of the corporation, shall serve as chairperson of the stockholder meeting.

## 2.9 VOTING

The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 2.11 of these bylaws, subject to Section 217 (relating to voting rights of fiduciaries, pledgors and joint owners of stock) and Section 218 (relating to voting trusts and other voting agreements) of the DGCL.

Except as may be otherwise provided in the certificate of incorporation, each stockholder shall be entitled to one vote for each share of capital stock held by such stockholder.

Except as otherwise required by law, the certificate of incorporation, these bylaws or the rules of any applicable stock exchange, in all matters other than the election of directors, the affirmative vote of a majority of the voting power of the shares present in person or represented by proxy at the meeting and entitled to vote on the subject matter shall be the act of the stockholders. Except as otherwise required by law, the certificate of incorporation, these bylaws or the rules of any applicable stock exchange, directors shall be elected by a plurality of the voting power of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors. Where a separate vote by a class or series or classes or series is required, in all matters other than the election of directors, the affirmative vote of the majority of the voting power of shares of such class or series or classes or series present in person or represented by proxy at the meeting shall be the act of such class or series or classes or series, except as otherwise provided by law, the certificate of incorporation, these bylaws or the rules of any applicable stock exchange.

## 2.10 STOCKHOLDER ACTION BY WRITTEN CONSENT WITHOUT A MEETING

Subject to the rights of the holders of the shares of any series of Preferred Stock or any other class of stock or series thereof that have been expressly granted the right to take action by written consent, any action required or permitted to be taken by the stockholders of the corporation must be effected at a duly called annual or special meeting of stockholders of the corporation and may not be effected by any consent in writing by such stockholders.

## 2.11 RECORD DATES

In order that the corporation may determine the stockholders entitled to notice of any meeting of stockholders or any adjournment thereof, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors and which record date shall not be more than 60 nor less than 10 days before the date of such meeting. If the board of directors so fixes a date, such date shall also be the record date for determining the stockholders entitled to vote at such meeting unless the board of directors determines, at the time it fixes such record date, that a later date on or before the date of the meeting shall be the date for making such determination.

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If no record date is fixed by the board of directors, the record date for determining stockholders entitled to notice of and to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; *provided, however*, that the board of directors may fix a new record date for determination of stockholders entitled to vote at the adjourned meeting, and in such case shall also fix as the record date for stockholders entitled to notice of such adjourned meeting the same or an earlier date as that fixed for determination of stockholders entitled to vote in accordance with the provisions of Section 213 of the DGCL and this Section 2.11 at the adjourned meeting.

In order that the corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than 60 days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto.

## 2.12 PROXIES

Each stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for such stockholder by proxy authorized by an instrument in writing or by a transmission permitted by law filed in accordance with the procedure established for the meeting, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Section 212 of the DGCL. A written proxy may be in the form of a telegram, cablegram, or other means of electronic transmission which sets forth or is submitted with information from which it can be determined that the telegram, cablegram, or other means of electronic transmission was authorized by the stockholder.

## 2.13 LIST OF STOCKHOLDERS ENTITLED TO VOTE

The officer who has charge of the stock ledger of the corporation shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting; *provided, however*, if the record date for determining the stockholders entitled to vote is less than ten (10) days before the meeting date, the list shall reflect the stockholders entitled to vote as of the tenth day before the meeting date. The stockholder list shall be arranged in alphabetical order and show the address of each stockholder and the number of shares registered in the name of each stockholder. The corporation shall not be required to include electronic mail addresses or other electronic contact information on such list. Such list shall be open to the examination of any stockholder for any purpose germane to the meeting for a period of at least ten (10) days prior to the meeting (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or (ii) during ordinary business hours, at the corporation's then-principal place of business. In the event that the corporation determines to make the list available on an electronic network, the corporation may take reasonable steps to ensure that such information is available only to stockholders of the corporation. If the meeting is to be held at a place (as opposed to solely by means of remote communication), then the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be examined by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting. Such list shall presumptively determine the identity of the stockholders entitled to vote at the meeting and the number of shares held by each of them.

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## 2.14 INSPECTORS OF ELECTION

Before any meeting of stockholders, the board of directors shall appoint an inspector or inspectors of election to act at the meeting or its adjournment. The number of inspectors shall be either one (1) or three (3). If any person appointed as inspector fails to appear or fails or refuses to act, then the chairperson of the meeting shall appoint a person to fill that vacancy.

Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath to execute faithfully the duties of inspector with strict impartiality and according to the best of his or her ability. The inspector or inspectors so appointed and designated shall (i) ascertain the number of shares of capital stock of the corporation outstanding and the voting power of each share, (ii) determine the shares of capital stock of the corporation represented at the meeting and the validity of proxies and ballots, (iii) count all votes and ballots, (iv) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors, (v) certify their determination of the number of shares of capital stock of the corporation represented at the meeting and such inspector or inspectors' count of all votes and ballots, (vi) determine the result; and (vii) do any other acts that may be proper to conduct the election or vote with fairness to all stockholders.

In determining the validity and counting of proxies and ballots cast at any meeting of stockholders of the corporation, the inspector or inspectors may consider such information as is permitted by applicable law. If there are three (3) inspectors of election, the decision, act or certificate of a majority is effective in all respects as the decision, act or certificate of all. Any report or certificate made by the inspectors of election is prima facie evidence of the facts stated therein.

## ARTICLE III - DIRECTORS

### 3.1 POWERS

The business and affairs of the corporation shall be managed by or under the direction of the board of directors, except as may be otherwise provided in the DGCL or the certificate of incorporation.

### 3.2 NUMBER OF DIRECTORS

The board of directors shall consist of one or more members, each of whom shall be a natural person. Unless the certificate of incorporation fixes the number of directors, the number of directors shall be determined from time to time solely by resolution of the board of directors. No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires.

### 3.3 ELECTION, QUALIFICATION AND TERM OF OFFICE OF DIRECTORS

Except as provided in Section 3.4 of these bylaws, each director, including a director elected to fill a vacancy, shall hold office until the expiration of the term for which elected and until such director's successor is elected and qualified or until such director's earlier death, resignation or removal. Directors need not be stockholders unless so required by the certificate of incorporation or these bylaws. The certificate of incorporation or these bylaws may prescribe other qualifications for directors. If so provided in the certificate of incorporation, the directors of the corporation shall be divided into classes.

### 3.4 RESIGNATION AND VACANCIES

Any director may resign at any time upon notice given in writing or by electronic transmission to the corporation; *provided, however*, that if such notice is given by electronic transmission, such electronic transmission must either set forth or be submitted with information from which it can be determined that the electronic transmission was authorized by the director. A resignation is effective when the resignation is delivered unless the resignation specifies a later effective date or an effective date determined upon the happening of an event or events. Acceptance of such resignation

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shall not be necessary to make it effective. A resignation which is conditioned upon the director failing to receive a specified vote for reelection as a director may provide that it is irrevocable. Unless otherwise provided in the certificate of incorporation or these bylaws, when one or more directors resign from the board of directors, effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective.

Unless otherwise provided in the certificate of incorporation or these bylaws, vacancies and newly created directorships resulting from any increase in the authorized number of directors elected by all of the stockholders having the right to vote as a single class shall be filled only by a majority of the directors then-in office, although less than a quorum, or by a sole remaining director. If the directors are divided into classes, a person so elected by the directors then in office to fill a vacancy or newly created directorship shall hold office until the next election of the class for which such director shall have been chosen and until his or her successor shall have been duly elected and qualified.

If, at the time of filling any vacancy or any newly created directorship, the directors then-in office constitute less than a majority of the whole board of directors (as constituted immediately prior to any such increase), the Court of Chancery may, upon application of any stockholder or stockholders holding at least 10% of the voting stock at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly created directorships, or to replace the directors chosen by the directors then in office as aforesaid, which election shall be governed by the provisions of Section 211 of the DGCL as far as applicable.

### 3.5 PLACE OF MEETINGS; MEETINGS BY TELEPHONE

The board of directors may hold meetings, both regular and special, either within or outside the State of Delaware.

Unless otherwise restricted by the certificate of incorporation or these bylaws, members of the board of directors, or any committee designated by the board of directors, may participate in a meeting of the board of directors, or any committee, by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

### 3.6 REGULAR MEETINGS

Regular meetings of the board of directors may be held without notice at such time and at such place as shall from time to time be determined by the board of directors.

### 3.7 SPECIAL MEETINGS; NOTICE

Special meetings of the board of directors for any purpose or purposes may be called at any time by the chairperson of the board of directors, the chief executive officer, the president, the secretary or a majority of the authorized number of directors, at such times and places as he or she or they shall designate.

Notice of the time and place of special meetings shall be:

- (i) delivered personally by hand, by courier or by telephone;
- (ii) sent by United States first-class mail, postage prepaid;
- (iii) sent by facsimile; or
- (iv) sent by electronic mail,

directed to each director at that director's address, telephone number, facsimile number or electronic mail address, as the case may be, as shown on the corporation's records.

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If the notice is (i) delivered personally by hand, by courier or by telephone, (ii) sent by facsimile or (iii) sent by electronic mail, it shall be delivered or sent at least 24 hours before the time of the holding of the meeting. If the notice is sent by United States mail, it shall be deposited in the United States mail at least four days before the time of the holding of the meeting. Any oral notice may be communicated to the director. The notice need not specify the place of the meeting (if the meeting is to be held at the corporation's principal executive office) nor the purpose of the meeting.

### 3.8 QUORUM; VOTING

At all meetings of the board of directors, a majority of the total authorized number of directors shall constitute a quorum for the transaction of business. If a quorum is not present at any meeting of the board of directors, then the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present.

The vote of a majority of the directors present at any meeting at which a quorum is present shall be the act of the board of directors, except as may be otherwise specifically provided by statute, the certificate of incorporation or these bylaws.

If the certificate of incorporation provides that one or more directors shall have more or less than one vote per director on any matter, every reference in these bylaws to a majority or other proportion of the directors shall refer to a majority or other proportion of the votes of such directors.

### 3.9 BOARD ACTION BY WRITTEN CONSENT WITHOUT A MEETING

Unless otherwise restricted by the certificate of incorporation, these bylaws or statute, any action required or permitted to be taken at any meeting of the board of directors, or of any committee thereof, may be taken without a meeting if all members of the board of directors or committee, as the case may be, consent thereto in writing or by electronic transmission and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the board of directors or committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

### 3.10 FEES AND COMPENSATION OF DIRECTORS

Unless otherwise restricted by the certificate of incorporation, these bylaws or statute, the board of directors shall have the authority to fix the compensation of directors.

### 3.11 REMOVAL OF DIRECTORS

A director may be removed from office by the stockholders of the corporation only for cause.

No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of such director's term of office.

## ARTICLE IV - COMMITTEES

### 4.1 COMMITTEES OF DIRECTORS

The board of directors may designate one or more committees, each committee to consist of one or more of the directors of the corporation. The board of directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in the place of any such absent or disqualified member.

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Any such committee, to the extent provided in the resolution of the board of directors or in these bylaws, shall have and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers that may require it; but no such committee shall have the power or authority to (i) approve or adopt, or recommend to the stockholders, any action or matter (other than the election or removal of directors) expressly required by the DGCL to be submitted to stockholders for approval, or (ii) adopt, amend or repeal any bylaw of the corporation.

#### 4.2 COMMITTEE MINUTES

Each committee shall keep regular minutes of its meetings and report the same to the board of directors when required.

#### 4.3 MEETINGS AND ACTION OF COMMITTEES

Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of:

- (i) Section 3.5 (place of meetings and meetings by telephone);
- (ii) Section 3.6 (regular meetings);
- (iii) Section 3.7 (special meetings; notice);
- (iv) Section 3.8 (quorum; voting);
- (v) Section 3.9 (action without a meeting); and
- (vi) Section 7.5 (waiver of notice)

with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the board of directors and its members. *However* :

- (i) the time of regular meetings of committees may be determined by resolution of the committee;
- (ii) special meetings of committees may also be called by resolution of the committee; and
- (iii) notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The board of directors or a committee may adopt rules for the government of any committee not inconsistent with the provisions of these bylaws.

Any provision in the certificate of incorporation providing that one or more directors shall have more or less than one vote per director on any matter shall apply to voting in any committee or subcommittee, unless otherwise provided in the certificate of incorporation or these bylaws.

#### 4.4 SUBCOMMITTEES

Unless otherwise provided in the certificate of incorporation, these bylaws or the resolutions of the board of directors designating the committee, a committee may create one or more subcommittees, each subcommittee to consist of one or more members of the committee, and delegate to a subcommittee any or all of the powers and authority of the committee.

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## ARTICLES V - OFFICERS

### 5.1 OFFICERS

The officers of the corporation shall be a president and a secretary. The corporation may also have, at the discretion of the board of directors, a chairperson of the board of directors, a vice chairperson of the board of directors, a chief executive officer, a chief financial officer or treasurer, one or more vice presidents, one or more assistant vice presidents, one or more assistant treasurers, one or more assistant secretaries, and any such other officers as may be appointed in accordance with the provisions of these bylaws. Any number of offices may be held by the same person.

### 5.2 APPOINTMENT OF OFFICERS

The board of directors shall appoint the officers of the corporation, except such officers as may be appointed in accordance with the provisions of Section 5.3 of these bylaws, subject to the rights, if any, of an officer under any contract of employment. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in this Section 5 for the regular election to such office.

### 5.3 SUBORDINATE OFFICERS

The board of directors may appoint, or empower the chief executive officer or, in the absence of a chief executive officer, the president, to appoint, such other officers and agents as the business of the corporation may require. Each of such officers and agents shall hold office for such period, have such authority, and perform such duties as are provided in these bylaws or as the board of directors may from time to time determine.

### 5.4 REMOVAL AND RESIGNATION OF OFFICERS

Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by an affirmative vote of the majority of the board of directors at any regular or special meeting of the board of directors. Any such officer, except in the case of an officer chosen by the board of directors, may also be removed by an officer upon whom such power of removal may be conferred by the board of directors.

Any officer may resign at any time by giving written or electronic notice to the corporation; *provided, however*, that if such notice is given by electronic transmission, such electronic transmission must either set forth or be submitted with information from which it can be determined that the electronic transmission was authorized by the officer. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice. Unless otherwise specified in the notice of resignation, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

### 5.5 VACANCIES IN OFFICES

Any vacancy occurring in any office of the corporation shall be filled by the board of directors or as provided in Section 5.3.

### 5.6 REPRESENTATION OF SHARES OR INTERESTS OF OTHER CORPORATIONS OR ENTITIES

The chairperson of the board of directors, the president, any vice president, the treasurer, the secretary or assistant secretary of this corporation, or any other person authorized by the board of directors or the president or a vice president, is authorized to vote, represent, and exercise on behalf of this corporation all rights incident to any and all shares or equity interests of any other corporation or corporations or entity or entities standing in the name of this corporation. The authority granted herein may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

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## 5.7 AUTHORITY AND DUTIES OF OFFICERS

All officers of the corporation shall respectively have such authority and perform such duties in the management of the business of the corporation as may be designated from time to time by the board of directors and, to the extent not so provided, as generally pertain to their respective offices, subject to the control of the board of directors.

## 5.8 THE CHAIRPERSON OF THE BOARD

The chairperson of the board shall have the powers and duties customarily and usually associated with the office of the chairperson of the board. The chairperson of the board shall preside at meetings of the board of directors.

## 5.9 THE VICE CHAIRPERSON OF THE BOARD

The vice chairperson of the board shall have the powers and duties customarily and usually associated with the office of the vice chairperson of the board. In the case of absence or disability of the chairperson of the board, the vice chairperson of the board shall perform the duties and exercise the powers of the chairperson of the board.

## 5.10 THE CHIEF EXECUTIVE OFFICER

The chief executive officer shall have, subject to the supervision, direction and control of the board of directors, ultimate authority for decisions relating to the supervision, direction and management of the affairs and the business of the corporation customarily and usually associated with the position of chief executive officer, including, without limitation, all powers necessary to direct and control the organizational and reporting relationships within the corporation. If at any time the office of the chairperson and vice chairperson of the board shall not be filled, or in the event of the temporary absence or disability of the chairperson of the board and the vice chairperson of the board, the chief executive officer shall perform the duties and exercise the powers of the chairperson of the board unless otherwise determined by the board of directors.

## 5.11 THE PRESIDENT

The president shall have, subject to the supervision, direction and control of the board of directors, the general powers and duties of supervision, direction and management of the affairs and business of the corporation customarily and usually associated with the position of president. The president shall have such powers and perform such duties as may from time to time be assigned to him or her by the board of directors, the chairperson of the board or the chief executive officer. In the event of the absence or disability of the chief executive officer, the president shall perform the duties and exercise the powers of the chief executive officer unless otherwise determined by the board of directors.

## 5.12 THE VICE PRESIDENTS AND ASSISTANT VICE PRESIDENTS

Each vice president and assistant vice president shall have such powers and perform such duties as may from time to time be assigned to him or her by the board of directors, the chairperson of the board, the chief executive officer or the president.

## 5.13 THE SECRETARY AND ASSISTANT SECRETARIES

(i) The secretary shall attend meetings of the board of directors and meetings of the stockholders and record all votes and minutes of all such proceedings in a book or books kept for such purpose. The secretary shall have all such further powers and duties as are customarily and usually associated with the position of secretary or as may from time to time be assigned to him or her by the board of directors, the chairperson of the board, the chief executive officer or the president.

(ii) Each assistant secretary shall have such powers and perform such duties as may from time to time be assigned to him or her by the board of directors, the chairperson of the board, the chief executive officer, the president or the secretary. In the event of the absence, inability or refusal to act of the secretary, the assistant secretary

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(or if there shall be more than one, the assistant secretaries in the order determined by the board of directors) shall perform the duties and exercise the powers of the secretary.

#### 5.14 THE CHIEF FINANCIAL OFFICER AND ASSISTANT TREASURERS

(i) The chief financial officer shall be the treasurer of the corporation. The chief financial officer shall have custody of the corporation's funds and securities, shall be responsible for maintaining the corporation's accounting records and statements, shall keep full and accurate accounts of receipts and disbursements in books belonging to the corporation, and shall deposit or cause to be deposited moneys or other valuable effects in the name and to the credit of the corporation in such depositories as may be designated by the board of directors. The chief financial officer shall also maintain adequate records of all assets, liabilities and transactions of the corporation and shall assure that adequate audits thereof are currently and regularly made. The chief financial officer shall have all such further powers and duties as are customarily and usually associated with the position of chief financial officer, or as may from time to time be assigned to him or her by the board of directors, the chairperson, the chief executive officer or the president.

(ii) Each assistant treasurer shall have such powers and perform such duties as may from time to time be assigned to him or her by the board of directors, the chief executive officer, the president or the chief financial officer. In the event of the absence, inability or refusal to act of the chief financial officer, the assistant treasurer (or if there shall be more than one, the assistant treasurers in the order determined by the board of directors) shall perform the duties and exercise the powers of the chief financial officer.

### ARTICLE VI - STOCK

#### 6.1 STOCK CERTIFICATES; PARTLY PAID SHARES

The shares of the corporation shall be represented by certificates, provided that the board of directors may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the corporation. Every holder of stock represented by certificates shall be entitled to have a certificate signed by, or in the name of the corporation by the chairperson of the board of directors or vice-chairperson of the board of directors, or the president or a vice-president, and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue. The corporation shall not have power to issue a certificate in bearer form.

The corporation may issue the whole or any part of its shares as partly paid and subject to call for the remainder of the consideration to be paid therefor. Upon the face or back of each stock certificate issued to represent any such partly-paid shares, or upon the books and records of the corporation in the case of uncertificated partly-paid shares, the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated. Upon the declaration of any dividend on fully-paid shares, the corporation shall declare a dividend upon partly-paid shares of the same class, but only upon the basis of the percentage of the consideration actually paid thereon.

#### 6.2 SPECIAL DESIGNATION ON CERTIFICATES

If the corporation is authorized to issue more than one class of stock or more than one series of any class, then the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate that the corporation shall issue to represent such class or series of stock; *provided, however*, that, except as otherwise provided in Section 202 of the DGCL, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate that the corporation shall issue

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to represent such class or series of stock, a statement that the corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Within a reasonable time after the issuance or transfer of uncertificated stock, the corporation shall send to the registered owner thereof a written notice containing the information required to be set forth or stated on certificates pursuant to this section 6.2 or Sections 151, 156, 202(a) or 218(a) of the DGCL or with respect to this section 6.2 a statement that the corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Except as otherwise expressly provided by law, the rights and obligations of the holders of uncertificated stock and the rights and obligations of the holders of certificates representing stock of the same class and series shall be identical.

### 6.3 LOST, STOLEN OR DESTROYED CERTIFICATES

Except as provided in this Section 6.3, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the corporation and cancelled at the same time. The corporation may issue a new certificate of stock or uncertificated shares in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the corporation may require the owner of the lost, stolen or destroyed certificate, or such owner's legal representative, to give the corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate or uncertificated shares.

### 6.4 DIVIDENDS

The board of directors, subject to any restrictions contained in the certificate of incorporation or applicable law, may declare and pay dividends upon the shares of the corporation's capital stock. Dividends may be paid in cash, in property, or in shares of the corporation's capital stock, subject to the provisions of the certificate of incorporation.

The board of directors may set apart out of any of the funds of the corporation available for dividends a reserve or reserves for any proper purpose and may abolish any such reserve. Such purposes shall include but not be limited to equalizing dividends, repairing or maintaining any property of the corporation, and meeting contingencies.

### 6.5 TRANSFER OF STOCK

Transfers of record of shares of stock of the corporation shall be made only upon its books by the holders thereof, in person or by an attorney duly authorized, and, if such stock is certificated, upon the surrender of a certificate or certificates for a like number of shares, properly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer; *provided, however*, that such succession, assignment or authority to transfer is not prohibited by the certificate of incorporation, these bylaws, applicable law or contract.

### 6.6 STOCK TRANSFER AGREEMENTS

The corporation shall have power to enter into and perform any agreement with any number of stockholders of any one or more classes of stock of the corporation to restrict the transfer of shares of stock of the corporation of any one or more classes owned by such stockholders in any manner not prohibited by the DGCL.

### 6.7 REGISTERED STOCKHOLDERS

The corporation:

(i) shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends and to vote as such owner;

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(ii) shall be entitled (to the fullest extent permitted by applicable law) to hold liable for calls and assessments the person registered on its books as the owner of shares; and

(iii) shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of another person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

## ARTICLE VII - MANNER OF GIVING NOTICE AND WAIVER

### 7.1 NOTICE OF STOCKHOLDERS' MEETINGS

Notice of any meeting of stockholders, if mailed, is given when deposited in the United States mail, postage prepaid, directed to the stockholder at such stockholder's address as it appears on the corporation's records. An affidavit of the secretary or an assistant secretary or of the transfer agent or other agent of the corporation that the notice has been given shall, in the absence of fraud, be *prima facie* evidence of the facts stated therein.

### 7.2 NOTICE BY ELECTRONIC TRANSMISSION

Without limiting the manner by which notice otherwise may be given effectively to stockholders pursuant to the DGCL, the certificate of incorporation or these bylaws, any notice to stockholders given by the corporation under any provision of the DGCL, the certificate of incorporation or these bylaws shall be effective if given by a form of electronic transmission consented to by the stockholder to whom the notice is given. Any such consent shall be revocable by the stockholder by written notice to the corporation. Any such consent shall be deemed revoked if:

(i) the corporation is unable to deliver by electronic transmission two consecutive notices given by the corporation in accordance with such consent; and

(ii) such inability becomes known to the secretary or an assistant secretary or to the transfer agent, or other person responsible for the giving of notice.

However, the inadvertent failure to treat such inability as a revocation shall not invalidate any meeting or other action.

Any notice given pursuant to the preceding paragraph shall be deemed given:

- (i) if by facsimile telecommunication, when directed to a number at which the stockholder has consented to receive notice;
- (ii) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice;
- (iii) if by a posting on an electronic network together with separate notice to the stockholder of such specific posting, upon the later of (A) such posting and (B) the giving of such separate notice; and
- (iv) if by any other form of electronic transmission, when directed to the stockholder.

An affidavit of the secretary or an assistant secretary or of the transfer agent or other agent of the corporation that the notice has been given by a form of electronic transmission shall, in the absence of fraud, be *prima facie* evidence of the facts stated therein.

An “ **electronic transmission** ” means any form of communication, not directly involving the physical transmission of paper, that creates a record that may be retained, retrieved, and reviewed by a recipient thereof, and that may be directly reproduced in paper form by such a recipient through an automated process.

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### 7.3 NOTICE TO STOCKHOLDERS SHARING AN ADDRESS

Except as otherwise prohibited under the DGCL, without limiting the manner by which notice otherwise may be given effectively to stockholders, any notice to stockholders given by the corporation under the provisions of the DGCL, the certificate of incorporation or these bylaws shall be effective if given by a single written notice to stockholders who share an address if consented to by the stockholders at that address to whom such notice is given. Any such consent shall be revocable by the stockholder by written notice to the corporation. Any stockholder who fails to object in writing to the corporation, within 60 days of having been given written notice by the corporation of its intention to send the single notice, shall be deemed to have consented to receiving such single written notice.

### 7.4 NOTICE TO PERSON WITH WHOM COMMUNICATION IS UNLAWFUL

Whenever notice is required to be given, under the DGCL, the certificate of incorporation or these bylaws, to any person with whom communication is unlawful, the giving of such notice to such person shall not be required and there shall be no duty to apply to any governmental authority or agency for a license or permit to give such notice to such person. Any action or meeting which shall be taken or held without notice to any such person with whom communication is unlawful shall have the same force and effect as if such notice had been duly given. In the event that the action taken by the corporation is such as to require the filing of a certificate under the DGCL, the certificate shall state, if such is the fact and if notice is required, that notice was given to all persons entitled to receive notice except such persons with whom communication is unlawful.

### 7.5 WAIVER OF NOTICE

Whenever notice is required to be given to stockholders, directors or other persons under any provision of the DGCL, the certificate of incorporation or these bylaws, a written waiver, signed by the person entitled to notice, or a waiver by electronic transmission by the person entitled to notice, whether before or after the time of the event for which notice is to be given, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders or the board of directors, as the case may be, need be specified in any written waiver of notice or any waiver by electronic transmission unless so required by the certificate of incorporation or these bylaws.

## ARTICLE VIII - INDEMNIFICATION

### 8.1 INDEMNIFICATION OF DIRECTORS AND OFFICERS IN THIRD PARTY PROCEEDINGS

Subject to the other provisions of this Article VIII, the corporation shall indemnify, to the fullest extent permitted by the DGCL, as now or hereinafter in effect, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (a “**Proceeding**”) (other than an action by or in the right of the corporation) by reason of the fact that such person is or was a director of the corporation or an officer of the corporation, or while a director of the corporation or officer of the corporation is or was serving at the request of the corporation as a director, officer, employee or agent of a subsidiary or another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys’ fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such Proceeding if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe such person’s conduct was unlawful. The termination of any Proceeding by judgment, order, settlement, conviction, or upon a plea of *nolo contendere* or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that such person’s conduct was unlawful.

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## 8.2 INDEMNIFICATION OF DIRECTORS AND OFFICERS IN ACTIONS BY OR IN THE RIGHT OF THE CORPORATION

Subject to the other provisions of this Article VIII, the corporation shall indemnify, to the fullest extent permitted by the DGCL, as now or hereinafter in effect, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person is or was a director or officer of the corporation, or while a director or officer of the corporation is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation; except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

## 8.3 SUCCESSFUL DEFENSE

To the extent that a present or former director or officer of the corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding described in Section 8.1 or Section 8.2, or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith.

## 8.4 INDEMNIFICATION OF OTHERS; ADVANCE PAYMENT TO OTHERS

Subject to the other provisions of this Article VIII, the corporation shall have power to advance expenses to and indemnify its employees and its agents to the extent not prohibited by the DGCL or other applicable law. The board of directors shall have the power to delegate the determination of whether employees or agents shall be indemnified or receive an advancement of expenses to such person or persons as the board of determines.

## 8.5 ADVANCE PAYMENT OF EXPENSES

Expenses (including attorneys' fees) incurred by an officer or director of the corporation in defending any Proceeding shall be paid by the corporation in advance of the final disposition of such Proceeding upon receipt of a written request therefor (together with documentation reasonably evidencing such expenses) and an undertaking by or on behalf of the person to repay such amounts if it shall ultimately be determined that the person is not entitled to be indemnified under this Article VIII or the DGCL. Such expenses (including attorneys' fees) incurred by former directors and officers or other employees and agents may be so paid upon such terms and conditions, if any, as the corporation deems reasonably appropriate and shall be subject to the corporation's expense guidelines.

## 8.6 LIMITATION OF INDEMNIFICATION

Subject to the requirements in Section 8.3 and the DGCL, the corporation shall not be obligated to indemnify any person pursuant to this Article VIII in connection with any Proceeding (or any part of any Proceeding):

- a. for which payment has actually been made to or on behalf of such person under any statute, insurance policy, indemnity provision, vote or otherwise, except with respect to any excess beyond the amount paid;
  - b. for an accounting or disgorgement of profits pursuant to Section 16(b) of the 1934 Act, or similar provisions of federal, state or local statutory law or common law, if such person is held liable therefor (including pursuant to any settlement arrangements);
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c. for any reimbursement of the corporation by such person of any bonus or other incentive-based or equity-based compensation or of any profits realized by such person from the sale of securities of the corporation, as required in each case under the 1934 Act (including any such reimbursements that arise from an accounting restatement of the corporation pursuant to Section 304 of the Sarbanes-Oxley Act of 2002 (the “ **Sarbanes-Oxley Act** ”), or the payment to the corporation of profits arising from the purchase and sale by such person of securities in violation of Section 306 of the Sarbanes-Oxley Act), if such person is held liable therefor (including pursuant to any settlement arrangements);

d. initiated by such person against the corporation or its directors, officers, employees, agents or other indemnitees, unless (a) the board of directors authorized the Proceeding (or the relevant part of the Proceeding) prior to its initiation, (b) the corporation provides the indemnification, in its sole discretion, pursuant to the powers vested in the corporation under applicable law, (c) otherwise required to be made under Section 8.7 or (d) otherwise required by applicable law; or

e. if prohibited by applicable law; *provided, however*, that if any provision or provisions of this Article VIII shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (1) the validity, legality and enforceability of the remaining provisions of this Article VIII (including, without limitation, each portion of any paragraph or clause containing any such provision held to be invalid, illegal or unenforceable, that is not itself held to be invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (2) to the fullest extent possible, the provisions of this Article VIII (including, without limitation, each such portion of any paragraph or clause containing any such provision held to be invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

#### 8.7 DETERMINATION; CLAIM

If a claim for indemnification or advancement of expenses under this Article VIII is not paid in full within 90 days after receipt by the corporation of the written request therefor, the claimant shall be entitled to an adjudication by a court of competent jurisdiction of his or her entitlement to such indemnification or advancement of expenses. The corporation shall indemnify such person against any and all expenses that are incurred by such person in connection with any action for indemnification or advancement of expenses from the corporation under this Article VIII, to the extent such person is successful in such action, and to the extent not prohibited by law. In any such suit, the corporation shall, to the fullest extent not prohibited by law, have the burden of proving that the claimant is not entitled to the requested indemnification or advancement of expenses.

#### 8.8 NON-EXCLUSIVITY OF RIGHTS

The indemnification and advancement of expenses provided by, or granted pursuant to, this Article VIII shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under the certificate of incorporation or any statute, bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in such person’s official capacity and as to action in another capacity while holding such office. The corporation is specifically authorized to enter into individual contracts with any or all of its directors, officers, employees or agents respecting indemnification and advancement of expenses, to the fullest extent not prohibited by the DGCL or other applicable law.

#### 8.9 INSURANCE

The corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person’s status as such, whether or not the corporation would have the power to indemnify such person against such liability under the provisions of the DGCL.

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## 8.10 SURVIVAL

The rights to indemnification and advancement of expenses conferred by this Article VIII shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

## 8.11 EFFECT OF REPEAL OR MODIFICATION

Any amendment, alteration or repeal of this Article VIII shall not adversely affect any right or protection hereunder of any person in respect of any act or omission occurring prior to such amendment, alteration or repeal.

## 8.12 CERTAIN DEFINITIONS

For purposes of this Article VIII, references to the “ **corporation** ” shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Article VIII with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued. For purposes of this Article VIII, references to “ **other enterprises** ” shall include employee benefit plans; references to “ **finances** ” shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to “ **servicing at the request of the corporation** ” shall include any service as a director, officer, employee or agent of the corporation which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner “ **not opposed to the best interests of the corporation** ” as referred to in this Article VIII.

# ARTICLE IX - GENERAL MATTERS

## 9.1 EXECUTION OF CORPORATE CONTRACTS AND INSTRUMENTS

Except as otherwise provided by law, the certificate of incorporation or these bylaws, the board of directors may authorize any officer or officers, or agent or agents, to enter into any contract or execute any document or instrument in the name of and on behalf of the corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by the board of directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

## 9.2 FISCAL YEAR

The fiscal year of the corporation shall be fixed by resolution of the board of directors and may be changed by the board of directors.

## 9.3 SEAL

The corporation may adopt a corporate seal, which shall be adopted and which may be altered by the board of directors. The corporation may use the corporate seal by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

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#### 9.4 CONSTRUCTION; DEFINITIONS

Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the DGCL shall govern the construction of these bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term “ **person** ” includes both an entity and a natural person.

#### ARTICLE X - AMENDMENTS

These bylaws may be adopted, amended or repealed by the affirmative vote of the holders of at least 66 2/3% of the total voting power of outstanding voting securities, voting together as a single class. The board of directors, acting by the affirmative vote of a majority of the Whole Board, shall also have the power to adopt, amend or repeal bylaws; *provided, however*, that a bylaw amendment adopted by stockholders which specifies the votes that shall be necessary for the election of directors shall not be further amended or repealed by the board of directors.

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**ARISTA NETWORKS, INC.**

**CERTIFICATE OF AMENDMENT OF BYLAWS**

The undersigned hereby certifies that he is the duly elected, qualified, and acting Secretary of Arista Networks, Inc., a Delaware corporation and that the foregoing bylaws, comprising 24 pages, were amended and restated effective on June 11, 2014 by the corporation's board of directors.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand this 11<sup>th</sup> day of June, 2014.

Secretary

/s/ Marc Taxay

## SECOND AMENDMENT TO LEASE

### I. PARTIES AND DATE.

This Second Amendment to Lease (the “**Amendment**”) dated July 30, 2014, is by and between THE IRVINE COMPANY LLC, a Delaware limited liability company, (“**Landlord**”), and ARISTA NETWORKS, INC., a Delaware corporation (formerly, Arista Networks, Inc., a Nevada Corporation) (“**Tenant**”).

### II. RECITALS.

On August 10, 2012, Landlord and Tenant entered into a lease for premises (as therein defined, the “**5453 Great America Premises**”) in a building located at 5453 Great America Parkway, Santa Clara, California (the “**5453 Great America Building**”), which lease was amended by a First Amendment to Lease dated February 28, 2013. The foregoing lease, as so amended, is hereinafter referred to as the “**Lease**”.

On the terms and conditions provided in this Amendment, Landlord and Tenant each desire to modify the Lease to add approximately 60,517 rentable square feet of space in a building located at 5451 Great America Parkway, Santa Clara, California, (the “**5451 Great America Building**”), which space consists of: (i) approximately 30,238 rentable square feet on the 5<sup>th</sup> floor of the 5451 Great America Building as shown on **Exhibit A** attached to this Amendment (the “**5<sup>th</sup> Floor Premises**”), and (ii) approximately 30,279 rentable square feet on the 4<sup>th</sup> floor of the 5451 Great America Building as shown on **Exhibit A** attached to this Amendment (the “**4<sup>th</sup> Floor Premises**”). Collectively, the 5<sup>th</sup> Floor Premises and the 4<sup>th</sup> Floor Premises are referred to as the “**5451 Great America Premises**”; and collectively, the 5453 Great America Building and the 5451 Great America Building are referred to as the “**Buildings**”.

### III. MODIFICATIONS.

A. Premises/Building. From and after the “Commencement Date for the 5<sup>th</sup> Floor Premises” and from and after the “Commencement Date for the 4<sup>th</sup> Floor Premises (as hereinafter defined), the Lease (including without limitation, Section 2.1 of the Lease) is hereby amended to provide that the 5<sup>th</sup> Floor Premises and the 4<sup>th</sup> Floor Premises, respectively, together with the 5453 Great America Premises shall collectively constitute the “Premises” under the Lease, and all references to the “Building” in the Lease shall be amended to refer to the 5451 Great America Building and the 5453 Great America Building, either collectively or individually as the context may reasonably require. Tenant’s lease of the 5<sup>th</sup> Floor Premises and the 4<sup>th</sup> Floor Premises includes the non-exclusive right to access the fiber conduits connecting such two floors of the 5451 Great America Building, and the non-exclusive right to access any and all available fiber conduits connecting such two floors directly or indirectly with the 5453 Great America Building.

B. Basic Lease Provisions. The Basic Lease Provisions are hereby amended as follows:

1. Effective as of the Commencement Date for the 5451 Great America Premises, Item 2 shall be deleted in its entirety and substituted therefor shall be the following:

“1. Premises: The Premises are more particularly described in Section 2.1.

Address of Buildings: 5451 Great America Parkway, Suites 401 and 501,                      and 5453 Great America Parkway, Santa Clara, CA

Project Description: Santa Clara Gateway”

2. Item 4 is hereby amended by adding the following:

“ **Commencement Date for the 5th Floor Premises:** Subject to the provisions of the Work Letter attached hereto as **Exhibit X**, January 1, 2015

**Commencement Date for the 4th Floor Premises:** January 1, 2016

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Provided that no Default has occurred under any provision of this Lease, Landlord shall not occupy (except for purposes of construction of the Tenant Improvements) and shall not lease the 5<sup>th</sup> Floor Premises and/or the 4<sup>th</sup> Floor Premises to, or otherwise permit the occupancy thereof by, any third party tenant prior to the Commencement Date for the 5<sup>th</sup> Floor Premises or the Commencement Date for the 4<sup>th</sup> Floor Premises, respectively. Tenant shall not have possession of the 5th Floor Premises until the occurrence of the Commencement Date for the 5th Floor Premises; and Tenant shall not have possession of the 4th Floor Premises until the occurrence of the Commencement Date for the 4th Floor Premises.”

3. Item 5 is hereby amended by adding the following:

“Lease Term as to the 5451 Great America Premises: The Term of the Lease as to the 5451 Great America Premises shall expire concurrently with the Expiration Date of the Lease, that is at midnight on September 30, 2023”

4. Item 6 is hereby amended by adding the following:

“Basic Rent for the 5<sup>th</sup> Floor Premises:

<b>Months of Term or Period</b>	<b>Monthly Rate Per Rentable Square Foot of the 5<sup>th</sup> Floor Premises</b>	<b>Monthly Basic Rent for the 5<sup>th</sup> Floor Premises (rounded to the nearest dollar)</b>
Commencement Date for the 5 <sup>th</sup> Floor Premises to December 31, 2015	\$3.20	\$96,762.00
January 1, 2016 to December 31, 2016	\$3.30	\$99,785.00
January 1, 2017 to December 31, 2017	\$3.39	\$102,507.00
January 1, 2018 to December 31, 2018	\$3.50	\$105,833.00
January 1, 2019 to December 31, 2019	\$3.60	\$108,857.00
January 1, 2020 to December 31, 2020	\$3.71	\$112,183.00
January 1, 2021 to December 31, 2021	\$3.82	\$115,509.00
January 1, 2022 to December 31, 2022	\$3.94	\$119,138.00
January 1, 2023 to Expiration Date	\$4.05	\$122,464.00

Basic Rent for the 4<sup>th</sup> Floor Premises:

<b>Months of Term or Period</b>	<b>Monthly Rate Per Rentable Square Foot of the 4<sup>th</sup> Floor Premises</b>	<b>Monthly Basic Rent for the 4<sup>th</sup> Floor Premises (rounded to the nearest dollar)</b>
Commencement Date for the 4 <sup>th</sup> Floor Premises to December 31, 2016	\$3.30	\$99,921.00
January 1, 2017 to December 31, 2017	\$3.39	\$102,646.00
January 1, 2018 to December 31, 2018	\$3.50	\$105,997.00
January 1, 2019 to December 31, 2019	\$3.60	\$109,004.00
January 1, 2020 to December 31, 2020	\$3.71	\$112,335.00
January 1, 2021 to December 31, 2021	\$3.82	\$115,666.00
January 1, 2022 to December 31, 2022	\$3.94	\$119,299.00
January 1, 2023 to Expiration Date	\$4.05	\$122,630.00

5. Effective as of the Commencement Date for the 5<sup>th</sup> Floor Premises, Item 8 shall be deleted in its entirety and substituted therefor shall be the following:

“8. Floor Area of Premises: Approximately 179,846 rentable square feet, comprised of the following:

5<sup>th</sup> Floor Premises - approximately 30,238 rentable square feet; and

5453 Great America Premises - approximately 149,608 rentable square feet.

Floor Area of the 5451 Great America Building - approximately 145,059 rentable square feet; and

Floor Area of the 5453 Great America Building - approximately 149,608 rentable square feet.”

6. Effective as of the Commencement Date for the 4<sup>th</sup> Floor Premises, Item 8 shall be deleted in its entirety and substituted therefor shall be the following:

“8. Floor Area of Premises: Approximately 210,125 rentable square feet, comprised of the following:

5<sup>th</sup> Floor Premises - approximately 30,238 rentable square feet;  
and

4<sup>th</sup> Floor Premises - approximately 30,279 rentable square feet;  
and

5453 Great America Premises - approximately 149,608 rentable square feet.

Floor Area of the 5451 Great America Building - approximately 145,059 rentable square feet; and

Floor Area of the 5453 Great America Building - approximately 149,608 rentable square feet.”

7. Effective as of the Commencement Date for the 5<sup>th</sup> Floor Premises, Item 11 shall be deleted in its entirety and substituted therefor shall be the following:

“11. Vehicle Parking Passes: 744 in accordance with the provisions set forth in **Exhibit F** to the Lease. In addition to the ten(10) “Visitor” spaces designated for the 5453 Great America Building pursuant to **Exhibit F** and **Exhibit F-1** attached to the Lease, Landlord shall designate five (5) parking spaces as “Arista Visitor” in a mutually-agreed upon location in the “main” parking area of the Project to serve Tenant’s main lobby entrance in the 5453 Great America Building.”

B. First Month’s Rent. Notwithstanding anything to the contrary contained in Section 4.1 of the Lease, the parties confirm and agree that the first month’s Basic Rent for the 5<sup>th</sup> Floor Premises and the 4<sup>th</sup> Floor Premises shall not be due and payable upon the execution of this Amendment, but shall instead be due and payable upon the Commencement Date for the 5<sup>th</sup> Floor Premises and Commencement Date for the 4<sup>h</sup> Floor Premises, respectively.

C. Signs. Section 5.2 of the Lease entitled “Signs”, is hereby deleted in its entirety, and substituted therefor shall be the following:

**“5.2. SIGNS.** Provided Tenant continues to lease the entire 5453 Great America Premises, Tenant shall have the exclusive right to two (2) exterior “building top” signs (one on the southwest corner of the West facade of the 5453 Great America Building and one on the northeast corner of the North facade of the 5453 Great America Building) and one (1) “eye brow” sign on the northwest corner of the West facade of the 5453 Great America Building, the non-exclusive right to its pro-rata share of any monument signage dedicated for the 5453 Great America Building (with only Tenant being listed on such monument signage as long as Tenant continues to lease the entire 5453 Great America Premises) and the non-exclusive right to the second position on the pylon sign facing the 237 Expressway (provided that Tenant, at its sole cost and expense, may move to the first position on such pylon sign if the Dell Marketing lease in the Project terminates and such position thereupon become available); and provided Tenant continues to lease the entire 5451 Great America Premises, Tenant shall have the exclusive right to two (2) exterior “building top” signs (one on the southwest corner of the South facade of the 5451 Great America Building and one on the northwest corner of the North facade of the 5451 Great America Building), and the non-exclusive right to its pro-rata share of any monument signage dedicated for the 5451 Great America Building (with Tenant being listed first on such monument signage so long as Tenant continues to lease the entire 5451 Great America Premises). All exterior signage shall be solely for Tenant’s name and graphics. Landlord, at its sole cost and expense, shall fabricate and install each of the four (4) “building top” signs with the dimensions and as otherwise shown on **Exhibit M** attached hereto. Landlord shall use commercially reasonable efforts to complete such installation of the Building top signage within 16 weeks following the full execution and delivery of this Amendment. Except as provided in the foregoing, Tenant shall have no right to maintain signs in any location in, on or about the Project and shall not place or erect any signs that are visible from the exterior of either of the Buildings. The size, design, graphics, material, style, color and other physical aspects of any permitted sign to be installed by Tenant shall be subject to Landlord’s written determination, as determined solely by Landlord, prior to such installation by Tenant, that such signage is at the maximum wattage allowable and otherwise in compliance with the requirements of the master sign program of the City, and any covenants, conditions or restrictions encumbering the Premises and Landlord’s signage program for the Project, as in effect from time to time (“**Signage Criteria**”). Prior to placing or erecting any such signs, Tenant shall obtain and deliver to Landlord a copy of any applicable municipal or other governmental permits and approvals. Except as otherwise expressly provided in this Section 5.2, Tenant shall be responsible for all costs of any permitted sign, including, without limitation, the fabrication, installation, maintenance and removal thereof and the cost of any permits therefor. If Tenant fails to maintain its sign in good condition, or if Tenant fails to remove same upon termination of this Lease and repair and restore any damage caused by the sign or its removal, Landlord may do so at Tenant’s expense. Landlord shall have the right to temporarily remove any signs in connection with any repairs or maintenance in or upon the Buildings. The term “**sign**” as used in this Section shall include all signs, designs, monuments, displays, advertising materials, logos, banners, projected images, pennants, decals, pictures, notices, lettering, numerals or graphics. Subject to the provisions for an “Objectionable Name” as hereinafter provided, the parties agree that Tenant’s signage rights shall be assignable to any permitted assignee under this Lease. Tenant’s signage shall not have a name which relates to an entity which is of a character or reputation, or is associated with a political faction or orientation, which is inconsistent with the quality of the Project, or which would otherwise reasonably offend a landlord of comparable

institutionally owned office building located near the Buildings (an " **Objectionable Name** "). The parties hereby agree that the name "Arista Networks, Inc." or any reasonable derivation thereof, shall not be deemed an Objectionable Name."

D. Tenant's Insurance. Section 10.1 of the Lease is hereby amended to provide that evidence of Tenant's insurance required by the provisions of **Exhibit D** to the Lease shall be delivered to Landlord: (i) on or before the Commencement Date for the 5<sup>th</sup> Floor Premises for the 5<sup>th</sup> Floor Premises, and (ii) on or before the Commencement Date for the 4<sup>th</sup> Floor Premises for the 4<sup>th</sup> Floor Premises.

E. Joint Indemnity. Subsections 10.3(a) and 10.3 (b) of the Lease are each amended to provide that: (i) Tenant's obligation to defend, indemnify and hold Landlord and the Ground Lessor harmless, as therein specifically provided, from Tenant's use or occupancy of the 5<sup>th</sup> Floor Premises shall be amended to apply to all claims, liabilities, costs or expenses arising either before or after the Commencement Date for the 5<sup>th</sup> Floor Premises, (ii) Tenant's obligation to defend, indemnify and hold Landlord and the Ground Lessor harmless, as therein specifically provided, from Tenant's use or occupancy of the 4<sup>th</sup> Floor Premises shall be amended to apply to all claims, liabilities, costs or expenses arising either before or after the Commencement date for the 4<sup>th</sup> Floor Premises, and (iii) Tenant's obligation to defend, indemnify and hold Landlord, the Ground Lessor and the other identified indemnified parties under Subsection 10.3(a) harmless, as therein provided, shall not apply, or be binding on Tenant, in connection with any activity, work or thing done, permitted or suffered by the "General Contractor" under contract to Landlord (as defined in the Work Letter attached hereto as **Exhibit X** ).

F. Damage and Destruction. Article 11 of this Lease entitled "Damage and Destruction" is hereby deleted in its entirety and substituted therefor shall be the following:

## **"ARTICLE 11. DAMAGE OR DESTRUCTION**

### **11.1. RESTORATION .**

(a) If either of the Buildings of which the Premises are a part is damaged as the result of an event of casualty, then subject to the provisions below, Landlord shall repair that damage as soon as reasonably possible unless Landlord reasonably determines that: (i) the Premises have been materially damaged and there is less than 1 year of the Term remaining on the date of the casualty or (ii) proceeds necessary to pay the full cost of the repair are not available from Landlord's Property Policy and/or from its other property insurance policies (if any), insurance, including without limitation earthquake insurance plus any additional amounts Tenant elects, at its option, to contribute, excluding, however, the deductible (for which Tenant shall be responsible to reimburse Landlord as a "Project Cost", subject to the terms and limitations of Section (g) of **Exhibit B** attached to this Lease). Should Landlord elect not to repair the damage for one of the preceding reasons, Landlord shall so notify Tenant in the "Casualty Notice" (as defined below), and this Lease shall terminate as of the date of delivery of that notice; provided, however, that in the event that only one and not both of the Buildings is materially damaged as described in this Subsection 11.1(a), then the Lease shall terminate as to the damaged Building only and shall remain in effect as to the other non-damaged Building (with an appropriate reduction in the Basic Rent and Tenant's Share of Operating Expenses to account for any reduction in the Floor Area of the Premises, effective as of the date of such Casualty Notice.

(b) As soon as reasonably practicable following the casualty event but not later than 60 days thereafter, Landlord shall notify Tenant in writing (" **Casualty Notice** ") of Landlord's election, if applicable, to terminate this Lease as provided in Subsection 11.1(a) above. If this Lease is not so terminated, the Casualty Notice shall set forth the anticipated period for repairing the casualty damage. If the anticipated repair period exceeds 270 days, then either party may elect to terminate this Lease by written notice to the other within 10 business days following delivery of the Casualty Notice. In addition, Tenant may terminate this Lease within 10 business days following receipt of such Casualty Notice if the casualty has occurred within the final twelve (12) months of the Term and such material damage has a materially adverse impact on Tenant's continued use of the Premises. If termination is elected pursuant to this Section 11.1(b), then the Lease shall terminate as to the damaged Building only and shall remain in effect as to the other non-damaged Building (with an appropriate reduction in the Basic Rent and Tenant's Share of Operating Expenses to account for any reduction in the Floor Area of the Premises, effective as of the date of such Casualty Notice.

(c) In the event that neither Landlord nor Tenant terminates this Lease pursuant to Section 11.1(b), Landlord shall, at Landlord's sole cost and expense, repair all material damage to the Premises or the Building as soon as reasonably possible and this Lease shall continue in effect for the remainder of the Term. Upon notice from Landlord, Tenant shall assign or endorse over to Landlord (or to any party designated by Landlord) all property insurance proceeds payable to Tenant under Tenant's insurance with respect to any Tenant Installations; and Landlord shall restore any such Tenant Installations. In the absence of any such notice from Landlord, restoration of the Tenant Installations shall be Tenant's responsibility at its sole cost and expense.

(d) From and after the casualty event, the rental to be paid under this Lease shall be abated in the same proportion that the Floor Area of the Premises that is rendered unusable by the damage from time to time bears to the total Floor Area of the Premises.

(e) Notwithstanding, anything to the contrary contained in this Section 11.1, if for any reasons other than delays caused by Tenant, or other matters beyond Landlord's reasonable control (not to exceed thirty (30) days in the aggregate), the Premises has not been substantially repaired within the time period specified in the Casualty Notice, then Tenant may, by written notice to Landlord given at any time thereafter but prior to the actual date of the substantial completion of the repair of the Premises or the Building, elect to terminate this Lease; provided, however, that in the event that only one and not both of the Buildings is materially damaged as described in Subsection 11.1(a) above, then the Lease shall terminate as to the damaged Building only and shall remain in effect as to the other non-damaged Building (with an appropriate reduction in the Basic Rent and Tenant's Share of Operating Expenses to account for any reduction in the Floor Area of the Premises, effective as of the date of such Casualty Notice. Notwithstanding the foregoing, if at any time during the construction period, Landlord reasonably determines that the substantial completion of said repairs will be delayed beyond the time period specified in the Casualty Notice (for reasons other than Tenant-caused delays and/or force majeure delays not exceeding 30 days in the aggregate), then Landlord may notify Tenant in writing of such determination and of a new outside date for completion of such repairs, and Tenant must elect within ten (10) days of receipt of such notice to either terminate this Lease or waive its right to terminate this Lease (as provided in this Subsection 11.1(e)) provided such repairs are substantially completed prior to the new outside date established by Landlord in such notice to Tenant. Tenant's failure to elect to terminate this Lease within such ten (10) day period shall be deemed Tenant's waiver of its right to terminate this Lease as provided in this Subsection 11.1(e) as to the previous outside date, but not as to the new outside date established by said notice.

**11.2. LEASE GOVERNS** . Tenant agrees that the provisions of this Lease, including without limitation Section 11.1, shall govern any damage or destruction and shall accordingly supersede any contrary statute or rule of law."

G. Eminent Domain. Article 12 of this Lease entitled "Eminent Domain" is hereby deleted in its entirety and substituted therefor shall be the following:

**"ARTICLE 12. EMINENT DOMAIN**

Either party may terminate this Lease if any material part of the Premises is taken or condemned for any public or quasi-public use under Law, by eminent domain or private purchase in lieu thereof (a "**Taking**"); provided, however, that in the event that only one and not both of the Buildings is subject to the Taking described in this Section 12, then the Lease shall terminate as to the Premises in the Building subject to such Taking only and shall remain in effect as to the other Building (with an appropriate reduction in the Basic Rent and Tenant's Share of Operating Expenses to account for any reduction in the Floor Area of the Premises, effective as of the date of such Taking). Landlord shall also have the right to terminate this Lease if there is a Taking of any portion of either of the Buildings or Project which would have a material adverse effect on Landlord's ability to profitably operate the remainder of the Project. The terminating party shall provide written notice of termination to the other party within 45 days after it first receives notice of the Taking. The termination shall be effective as of the effective date of any order granting possession to, or vesting legal title in, the condemning authority. If this Lease is not terminated, Basic Rent and Tenant's Share of Operating Expenses shall be appropriately adjusted to account for any reduction in the square footage of the Building or Premises. All compensation awarded for a Taking shall be the property of Landlord and the right to receive compensation or proceeds in connection with a Taking are expressly waived by Tenant; provided, however, Tenant may file a claim for Tenant's personal property and fixtures and Tenant's relocation expenses, and business interruption expenses recoverable from the taking authority. If only a part of the Premises is subject to a Taking and this Lease is not terminated, Landlord, with reasonable diligence, will restore the remaining portion of the Premises as nearly as practicable to the condition immediately prior to the Taking. Tenant agrees that the provisions of this Lease shall govern any Taking and shall accordingly supersede any contrary statute or rule of law."

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H. Operating Expenses. The definition of the term “Tenant’s Share” in Section (a) of **Exhibit B** attached to the Lease is hereby amended and restated as follows:

“The term “ **Tenant’s Share** ” means (a) 100% of the Operating Expenses reasonably determined by Landlord to benefit or relate substantially to the 5453 Great America Building, plus (b) effective as of the Commencement Date for the 5<sup>th</sup> Floor Premises, that portion of any Operating Expenses reasonably determined by Landlord to benefit or relate substantially to the 5451 Great America Building multiplied by a fraction, the numerator of which is the Floor Area of the 5<sup>th</sup> Floor Premises and the denominator of which is the Floor Area of the 5451 Great America Building, plus (c) effective as of the Commencement Date for the 4<sup>th</sup> Floor Premises, that portion of any Operating Expenses reasonably determined by Landlord to benefit or relate substantially to the 5451 Great America Building multiplied by a fraction, the numerator of which is the Floor Area of the 4<sup>th</sup> Floor Premises and the denominator of which is the Floor Area of the 5451 Great America Building. In addition to the foregoing, “Tenant Share” shall also include that portion of Operating Expenses reasonably determined by Landlord to benefit or relate substantially to all of the buildings of the Project, or to some of the buildings of the Project (including the 5451 and 5453 Great America Buildings), multiplied by a fraction, the numerator of which is the Floor Area of the Premises then leased by Tenant and the denominator of which is the rentable square footage of such buildings.”

I. Right to Extend the Lease. The provisions of Section 1 of **Exhibit G** to the Lease entitled “Right to Extend this Lease” shall remain in full force and effect and exercisable by Tenant during the Term of the Lease as extended by this Amendment.”

J. Right of First Offer. Section 2 of **Exhibit G** to the Lease entitled “Right of First Offer” is hereby amended and restated as follows:

“ **2. RIGHT OF FIRST OFFER**. Provided that no Default has occurred under any provision of this Lease, either at the time of the delivery of “Landlord’s Notice” or at the time of the delivery of “Tenant’s Notice” (as hereinafter defined), Landlord hereby grants Tenant a continuing right (“ **First Right** ”) to lease space in each of the buildings in “Phase 1” and/or in “Phase 2” of the Project, which buildings are shown on **Exhibit A-1** attached hereto (the “ **First Right Space** ”), in accordance with and subject to the provisions of this Section; provided that this First Right shall cease to be effective during the final 12 months of the Term unless and until Tenant exercises its extension option set forth in Section 1 of this **Exhibit G** . Except as otherwise provided below, prior to leasing the First Right Space, or any portion thereof, to any other party during the period that this First Right is in effect, Landlord shall give Tenant written notice (the “ **Landlord’s Notice** ”) of the basic economic terms including but not limited to the Basic Rent, term, operating expense base, security deposit, and tenant improvement allowance (collectively, the “ **Economic Terms** ”), upon which Landlord is willing to lease such particular First Right Space to Tenant or to a third party; provided that the Economic Terms shall exclude brokerage commissions and other Landlord payments that do not directly inure to the tenant’s benefit. It is understood that should Landlord intend to lease other office space in addition to the First Right Space as part of a single transaction, then Landlord’s Notice shall so provide and all such space shall collectively be subject to the following provisions. Within 5 business days after delivery of Landlord’s Notice, Tenant must give Landlord written notice (the “ **Tenant’s Notice** ”) pursuant to which Tenant shall elect to (i) lease all, but not less than all, of that portion of the First Right Space specified in Landlord’s notice (the “ **Designated Space** ”) upon such Economic Terms and the same non-Economic Terms as set forth in this Lease; (ii) refuse to lease the Designated Space, specifying that such refusal is not based upon the Economic Terms, but upon Tenant’s lack of need for the Designated Space, in which event Landlord may lease the Designated Space upon any terms it deems appropriate; or (iii) refuse to lease the Designated Space, specifying that such refusal is based upon said Economic Terms, in which event Tenant shall also specify revised Economic Terms upon which Tenant shall be willing to lease the Designated Space. In the event that Tenant does not so respond in writing to Landlord’s Notice within said period, Tenant shall be deemed to have elected clause (ii) above. In the event Tenant’s Notice elects clause (iii) above, Landlord may elect to either (x) lease the Designated Space to Tenant upon such revised Economic Terms and the same other non-Economic Terms as set forth in this Lease, or (y) lease the Designated Space to any third party upon Economic Terms which are not materially more favorable to such party than those Economic Terms proposed by Tenant. Should Landlord so elect to lease the Designated Space to Tenant, then Landlord shall promptly prepare and deliver to Tenant an amendment to this Lease consistent with the foregoing, and Tenant shall execute and return same to Landlord within 10 days. Tenant’s failure to timely return the amendment shall entitle Landlord to specifically enforce Tenant’s commitment to lease the Designated Space, to lease such space to a third party, and/or to pursue any other available legal remedy. In the event that Landlord leases the First Right Space, or any portion thereof, to a third party in accordance with the provisions of this Section, and during the effective period of this First Right the First Right Space, or any portion thereof, shall again become available for reletting, then prior to Landlord entering into any such new lease with a third party for the First Right Space, Landlord shall repeat the procedures specified above in this Section. Notwithstanding the foregoing, it is understood and agreed that Tenant’s First Right shall be subject and subordinate to: (i) the right and interest of Dell Marketing L.P. or any affiliate thereof and their successors and assigns, and (ii) any extension rights which may hereafter be granted by Landlord to any third party tenant hereafter occupying the First Right Space or any portion thereof, it being understood and agreed that Landlord shall

in no event be obligated to initiate this First Right prior to leasing any portion of the First Right Space to the then-current occupant thereof. Tenant's rights under this Section shall belong solely to Arista Networks, Inc., a Delaware corporation, and any attempted assignment or transfer of such rights (except in connection with a Permitted Transfer) shall be void and of no force and effect."

K. Good Working Order Warranty as to the 5451 Great America Premises. The following warranty provisions (and not the provisions of Section 3 of **Exhibit G** to the Lease) shall be applicable as to the 5451 Great America Premises:

**“ GOOD WORKING ORDER WARRANTY AS TO 5451 GREAT AMERICA PREMISES.**

(a) Landlord warrants to Tenant as follows: (i) that the roof, plumbing, fire sprinkler system, lighting, heating, ventilation and air conditioning systems and electrical systems serving the 5<sup>th</sup> Floor Premises and the 4<sup>th</sup> Floor Premises shall be in good operating condition on the Commencement Date for the 5<sup>th</sup> Floor Premises and on the Commencement Date for the 4<sup>th</sup> Floor Premises, respectively, and (ii) that the 5<sup>th</sup> Floor Premises and the 4<sup>th</sup> Floor Premises shall be delivered to Tenant on the Commencement Date for the 5<sup>th</sup> Floor Premises and on Commencement Date for the 4<sup>th</sup> Floor Premises, respectively, in a vacant and “broom clean” condition. Provided that Tenant shall notify Landlord of any non-compliance with the foregoing warranties contained in subsections (i) and/or (ii) above not later than sixty (60) days following the Commencement Date for the 5<sup>th</sup> Floor Premises and the Commencement Date for the 4<sup>th</sup> Floor Premises, respectively, then Landlord shall, except as otherwise provided in this Lease, promptly after receipt of written notice from Tenant setting forth the nature and extent of such non-compliance, rectify same at Landlord's sole cost and expense and not as a Project Cost.

(b) Notwithstanding the provisions of Section 7.2 of the Lease, during the initial 120-month Term of the Lease (as same may be extended by Tenant pursuant to Section 1 of **Exhibit G** attached to the Lease), Landlord agrees to repair and/or replace, at its sole cost and expense and not as a “Project Cost”, all structural walls, foundations, structural elements of the roof of the 5451 Great America Building, and underground utility pipes and/or facilities serving the 5451 Great America Building (the “ **Structural Elements** ”). Notwithstanding the foregoing, Landlord's obligation contained in this Section to bear such costs and expenses shall not apply: (i) to the costs and expenses of periodic maintenance of the Structural Elements, nor (ii) to the extent of the negligence or willful misconduct by Tenant, its employees, agents, contractors, licensees or invitees (in which case Tenant shall be responsible for the reasonable costs of such repairs and/or replacements). Tenant shall give Landlord prompt notice when Tenant becomes aware of any repairs or replacements required of Landlord pursuant to this Section, and such repairs shall be made promptly following notice from Tenant.

(c) Landlord shall correct, repair and/or replace any non-compliance of the 5451 Great America Building and/or the Common Areas of the Project with all applicable building permits and codes in effect as of the Commencement Date for the 5<sup>th</sup> Floor Premises, including without limitation, the provisions of Title III of the Americans With Disabilities Act (“ **ADA** ”). Said costs of compliance shall be Landlord's sole cost and shall not be part of Project Costs. Landlord shall correct, repair or replace any non-compliance of the 5451 Great America Building and/or the Common Areas with any further revisions or amendments to applicable building codes (including, without limitation, the ADA) becoming effective after the Commencement Date for the 5<sup>th</sup> Floor Premises, provided that, subject to the initial two sentences of this Section, the amortized cost of such repairs or replacements (amortized over the useful life thereof in accordance with generally accepted accounting principles, consistently applied, and using a market cost of funds reasonably determined by Landlord) shall be included as Project Costs payable by Tenant. All other ADA compliance issues which pertain to the 5451 Great America Premises, including without limitation, in connection with Tenant's construction of any Alterations or other improvements in the 5451 Great America Premises (and any resulting ADA compliance requirements in the Common Areas if Landlord shall consent to same as more particularly provided in Section 7.3 of this Lease) and the operation of Tenant's business and employment practices in the 5451 Great America Premises, shall be the responsibility of Tenant at its sole cost and expense. The repairs, corrections or replacements required of Landlord or of Tenant under the foregoing provisions of this Section shall be made promptly following notice of non-compliance from any applicable governmental agency.”

L. Broker's Commission. Article XVIII of the Lease is amended to provide that the parties recognize Irvine Realty Company and CBRE, Inc. (collectively, “ **Landlord's Broker** ”) as the broker representing Landlord in connection with the negotiation of this Amendment, and that no broker has represented Tenant in connection with the negotiation of this Amendment. Landlord shall be responsible for the payment of a brokerage commission to Landlord's Broker. The warranty and indemnity provisions of Article XVIII of the Lease, as amended hereby, shall be binding and enforceable in connection with the negotiation of this Amendment.

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M. Tenant Improvements for the 5451 Great America Premises. Landlord hereby agrees to complete the “Tenant Improvements” for the 5451 Great America Premises in accordance with the provisions of **Exhibit X**, Work Letter, attached hereto (the “**Work Letter**”).

N. Trash Enclosure. For so long as Tenant continues to lease the entire 5453 Great America Premises, Landlord hereby consents to Tenant’s proposal to use the trash closure shown on **Exhibit B** attached hereto for the (inside) storage of its personal property from time to time, on the following terms and conditions: (i) such storage shall not impair the use of the enclosure for trash disposal, (ii) Tenant, at its sole cost and expense, may secure such enclosure (including re-locking same) and shall obtain any permits for such use required by the City or any other governmental authority, and (iii) Tenant assumes all liability for loss and/or damage to its property as result of such storage, and agrees to release Landlord from any and all such losses and/or damages.

O. Nondisturbance Agreement. Landlord represents and warrants to Tenant that there are no Mortgages encumbering the 5451 Great America Building or the Project as of the execution of this Amendment, except for the Ground Lease. Landlord shall obtain, prior to the Commencement Date for the 5<sup>th</sup> Floor Premises, the Nondisturbance Agreement substantially in form and content of **Exhibit C** attached to this Amendment from the Ground Lessor for the benefit of Tenant.

P. Other References. References in the following provisions of the Lease to “Commencement Date” shall, as to the 5<sup>th</sup> Floor Premises and the 4<sup>th</sup> Floor Premises, mean the Commencement Date for the Fifth Floor Premises and the Commencement Date for the Fourth Floor Premises, respectively: Sections 7.1 and 15.2 and subpart (g) of Exhibit B. In addition, the representations in Sections 5.3(h) and 13.1 of the Lease shall be deemed made as to the 5451 Great America Premises as of the date of this Amendment.

Q. Communications Equipment. Landlord hereby grants to Tenant a non-exclusive license (the “**License**”) to install, maintain and operate on the roof of the 5451 and 5453 Great America Buildings antennae and/or satellite dishes (collectively, the “**Antenna**”) during the Term and any extensions thereof, and in accordance with and subject to the terms and conditions set forth below. The number and locations of such Antennas shall be reasonably acceptable to Landlord (“**Licensed Area**”). The Licensed Area shall be considered to be a part of the Premises for all purposes under the Lease, and except as otherwise expressly provided in this Section all provisions applicable to the use of the Premises under the Lease shall apply to the Licensed Area and its use by Tenant.

(1) The Term of the License shall be coterminous with this Lease;

(2) Tenant shall not be obligated to pay any license fee for the use of the Licensed Area pursuant to this Section during the Term of this Lease;

(3) Tenant shall use the Licensed Area only for the installation, operation, repair, replacement and maintenance of the Antenna and the necessary mechanical and electrical equipment to service said Antenna and for no other use or purpose. The installation of the Antenna and all equipment and facilities related thereto, including any required screening for the Antenna and any required conduit from the Premises to the Antenna, shall be deemed to constitute an Alteration subject to the provisions of Section 7.3 of the Lease, provided that Landlord shall not unreasonably withhold, condition or delay its approval of the same. Landlord may require reasonable, appropriate screening for the Antenna as a condition of Landlord’s approval of the installation of the Antenna. Tenant may have access to the Licensed Area for such uses during normal business hours and at times upon reasonable prior notice to Landlord;

(4) The Antenna shall be used only for transmitting and/or receiving data, audio and/or video signals to and from Tenant’s facilities within the Premises for Tenant’s use, and shall not be used or permitted to be used by Tenant for purposes of broadcasting signals to the public or to provide telecommunications or other communications transmitting or receiving services to any third parties;

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(5) In the event any communications system or broadcast or receiving facilities are operating in the Project, Tenant shall at all times during the term of the License conduct its operations so as to ensure that such system or facilities shall not be subjected to harmful interference as a result of such operations by Tenant. Upon notification from Landlord of any such interference, Tenant agrees to immediately take the necessary steps to correct such situation, and Landlord will reasonably cooperate with Tenant's efforts to correct or eliminate any interference with the Project's systems or facilities, which cooperation would include using reasonable efforts (subject to reasonable aesthetic concerns customary for similar buildings in the area) to assist Tenant in relocating the Antenna if necessary; provided, however, that any such cooperation shall be at the sole cost and expense of Tenant.

(6) During the term of the License, Tenant shall comply with any standards promulgated by applicable governmental authorities or otherwise reasonably established by Landlord regarding the generation of electromagnetic fields. Any claim or liability resulting from the use of the Antenna or the Licensed Area shall be subject to the indemnification provisions of this Lease applicable to Tenant's use of the Premises (and subject to Section 10.5 of the Lease);

(7) During the term of the License, Tenant shall pay all taxes attributable to the Antenna and other equipment owned and installed by Tenant, and Tenant shall assure and provide Landlord with evidence that the Licensed Area and Tenant's use thereof are subject to the insurance coverages otherwise required to be maintained by Tenant as to the Premises pursuant to **Exhibit D** to this Lease; and

(8) Upon the expiration or sooner termination of the Lease, Tenant shall remove the Antenna and all related equipment and facilities, including any conduit from the Premises to the Antenna, from the Licensed Area and any other portions of the Buildings within or upon which the same may be installed, and shall restore the Licensed Area and all other areas affected by such removal to their original condition, reasonable wear and tear and casualty damage excepted, all at its sole cost and expense.

R. Security Cameras. Subject to Landlord's approval thereof in its sole and absolute discretion, Tenant has the right to place up to seven (7) cameras on the roof of the 5453 Great America Building. Such cameras and related equipment thereto shall be "Required Removables" for purposes of Section 7.3 of the Lease.

S. Cost Segregation Study. Landlord shall provide information reasonably requested by Tenant in connection with Tenant's cost segregation study relating to personal property tax related to the Tenant Improvements.

T. Elevators. Landlord will reasonably cooperate with Tenant, at Tenant's expense, to arrange for Tenant's card readers to operate in the elevators of the 5451 Great America Building.

#### IV. GENERAL.

A. Effect of Amendments. The Lease shall remain in full force and effect except to the extent that it is modified by this Amendment.

B. Entire Agreement. This Amendment embodies the entire understanding between Landlord and Tenant with respect to the modifications set forth in "III. MODIFICATIONS" above and can be changed only by a writing signed by Landlord and Tenant.

C. Defined Terms. All words commencing with initial capital letters in this Amendment and defined in the Lease shall have the same meaning in this Amendment as in the Lease, unless they are otherwise defined in this Amendment.

D. Corporate and Partnership Authority. If Tenant is a corporation or partnership, or is comprised of either or both of them, each individual executing this Amendment for the corporation or partnership represents that he or she is duly authorized to execute and deliver this Amendment on behalf of the corporation or partnership and that this Amendment is binding upon the corporation or partnership in accordance with its terms.

E. Counterparts; Digital Signatures. If this Amendment is executed in counterparts, each is hereby declared to be an original; all, however, shall constitute but one and the same amendment. In any action or proceeding, any photographic, photostatic, or other copy of this Amendment may be introduced into evidence without foundation. The parties agree to accept a digital image (including but not limited to an image in the form of a PDF, JPEG, GIF file, or other e-signature) of this Amendment, if applicable, reflecting the execution of one or both of the parties, as a true and correct original.

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F. Certified Access Specialist. As of the date of this Amendment, there has been no inspection of the Building and Project by a Certified Access Specialist as referenced in Section 1938 of the California Civil Code.

**V. EXECUTION.**

Landlord and Tenant executed this Amendment on the date as set forth in "I. PARTIES AND DATE." above.

LANDLORD:

TENANT:

THE IRVINE COMPANY LLC  
a Delaware limited liability company

ARISTA NETWORKS, INC.  
a Delaware corporation

By /s/ Douglas G. Holte  
Douglas G. Holte, President,  
Office Properties

By /s/ Jayshree Ullal  
Name Jayshree Ullal  
Title President & CEO

By /s/ Ray Wirta  
Ray Wirta, President,  
Investment Properties Group

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EXHIBIT A-1

FIRST RIGHT SPACE

# SANTA CLARA GATEWAY



**CBRE**

For location information, contact CBRE  
Mark Schmitt | tel: 9072820 | mark.schmitt@cbre.com  
Christopher Madsen | tel: 9092714 | christopher.madsen@cbre.com  
Phone: 408.433.7600 | Fax: 408.433.3270  
321 W. Santa Clara Street, 31st Floor | San Jose, CA 95114

OWNED AND MANAGED BY:

 **IRVINE COMPANY**  
OFFICE PROPERTIES

IRVINECOMPANYOFFICE.COM

**Exhibit B**

**Site Map**



**Detailed Photographs**



Entryway to Enclosure



Storage Area #1 (Left hand side facing the entrance to the enclosure)



Storage Area #2 (Right hand side facing the entrance to the enclosure)





Storage Area Gates





**EXHIBIT C**

**NONDISTURBANCE AGREEMENT**

THIS NONDISTURBANCE AGREEMENT ("Agreement") is made as of \_\_\_\_\_, 20\_\_ ("Effective Date"), by and between the CITY OF SANTA CLARA ("City"), and \_\_\_\_\_, a \_\_\_\_\_ ("Sublessee").

**RECITALS**

A. City is the owner of that certain improved real property located in the County of Santa Clara, State of California ("Property"), and more particularly described in Exhibit A attached hereto and incorporated by reference herein.

B. The Property is subject to that certain Ground Lease, dated as of \_\_\_\_\_, 20\_\_ ("Ground Lease"), between the Redevelopment Agency of the City of Santa Clara (the "Redevelopment Agency"), as ground lessor, and The Irvine Company LLC, a Delaware limited liability company ("Sublessor"), as successor-in-interest to The Irvine Company, a Delaware corporation, as ground lessee, a memorandum of which was recorded in the Official Records of the County of Santa Clara on February 16, 2001 as Instrument No. 15563490. The Redevelopment Agency conveyed the Property to the City on March 8, 2011, pursuant to that Grant Deed recorded in the Official Records of the County of Santa Clara on June 23, 2011 as Instrument No. 21216112. As successor owner of the Property, the City has assumed the Redevelopment Agency's former role of ground lessor under the Ground Lease.

C. Sublessor and Sublessee entered into a sublease of a portion of the Property ("Demised Premises") pursuant to that certain Lease ("Sublease"), dated as of \_\_\_\_\_, 20\_\_.

D. Sublessee and City desire to confirm their understanding with respect to the Sublease,

**AGREEMENT**

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, City and Sublessee hereby agree as follows:

1. Nondisturbance. So long as Sublessee is not in default (beyond any period given Sublessee to cure such default in the Sublease) in the payment of rent or additional rent or in the performance of any of the terms, covenants or conditions of the Sublease on Sublessee's part to be performed, (i) Sublessee's possession, occupancy, use and quiet enjoyment of the Demised Premises under the Sublease, or any extensions or renewals thereof or acquisition of, expansion into and/or any other rights with respect to additional space, which may be effected in accordance with any option therefor in the Sublease, shall not be terminated or interfered with by City in the exercise of any of its rights under the Ground Lease, or as may otherwise be provided for at law or in equity, (ii) City will not join Sublessee as a party defendant in any action or proceeding for the purpose of terminating Sublessee's interest and estate under the Sublease because of any default under the Ground Lease or for any other reason other than a default by Sublessor following the expiration of applicable notice and cure periods under the Sublease, and (iii) in the event the Ground Lease is terminated prior to the end of the term thereof, City shall at Sublessee's written request enter into a new lease with Sublessee on the same terms, covenants and conditions as the Sublease, and City shall assume and, as applicable, perform, all of Sublessor's rights and obligations under the Sublease.

2. Attornment. If the Ground Lease is terminated or surrendered to City for any reason, and no leasehold interest intervenes between the Ground Lease and the Sublease, City shall immediately notify Sublessee of such termination or surrender and confirm that City has assumed and, as applicable, shall perform, all of Sublessor's rights and obligations under the Sublease, Sublessee shall attorn and be bound to City upon any such succession in interest and shall recognize City as the sublessor under the Sublease. Such attornment shall be effective and self-operative without the execution of any further instrument on the part of any of the parties hereto. Sublessee agrees, however, to execute and deliver at any time and from time to time, upon the request of City, any instrument or certificate which may be necessary or appropriate to evidence such attornment.

3. Rights and Responsibilities. if City shall succeed to the interest of the Sublessor for any reason, including a termination or surrender of the Ground Lease, City shall have the same remedies by entry, action or otherwise in the event of any default by Sublessee (beyond any period given Sublessee to cure such default) in the payment of rent or additional rent by Sublessee or in the performance of any of the terms, covenants and conditions of the Sublease on Sublessee's part to be performed that the Sublessor under the Sublease had or would have had if City had not succeeded to the interest of Sublessor. City shall be bound to Sublessee under all or the terms, covenants, and conditions of the Sublease, and Sublessee shall, from and after the succession

to the interest of Sublessor under the Sublease by City, have the same remedies against City for the breach of any agreement contained in the Sublease that Sublessee might have had under the Sublease against the Sublessor if City had not succeeded to the interest of Sublessor; provided further, however, that City shall not be liable to Sublessee as follows:

(a) for any default of any prior sublessor (including Sublessor) (except for any unexpended tenant improvement allowance or any other obligation to construct improvements); or

(b) for any offsets or defenses which Sublessee might have against any sublessor (including Sublessor) except as expressly set forth in the Sublease and only if Sublessee has provided to City any notices required to be delivered to Sublessor under the Sublease and City has been given the same opportunity (and time period) as Sublessor has under the Sublease to cure Sublessor's defaults; or

(c) for or by any rent or additional rent which Sublessee has paid for more than the current month to any prior sublessor (including Sublessor) (except for any prepaid rent or additional rent actually received by City from the prior sublessor).

4. Representations of City. City hereby represents and warrants to Sublessee that (i) the Ground Lease is currently in full force and effect and no defaults by either party have occurred or are existing and no condition exists that, with the giving of notice or the passage of time, would result in a default under the Ground Lease; and (ii) City has not assigned, encumbered or otherwise transferred any interest in the Ground Lease.

5. Binding on Successors. The covenants and agreements contained herein shall be binding upon and inure to the benefit of the respective heirs, administrators, executors, legal representatives, successors, and assigns of the parties hereto.

6. Attorneys' Fees. If either party fails to perform any of its obligations under this Agreement, or in the event a dispute arises concerning the meaning or interpretation of any provision of this Agreement, the prevailing party in such dispute shall pay any and all costs and expenses incurred by the other party in enforcing or establishing its rights hereunder, including, without limitation, court costs and reasonable attorneys' fees.

7. Amendment. This Agreement shall not be modified or amended except by a written instrument executed by the parties hereto.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the Effective Date.

“CITY”

CITY OF SANTA CLARA

By: \_\_\_\_\_

“SUBLESSEE

ARISTA NETWORKS, INC.,  
a Delaware corporation

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

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## **EXHIBITS**

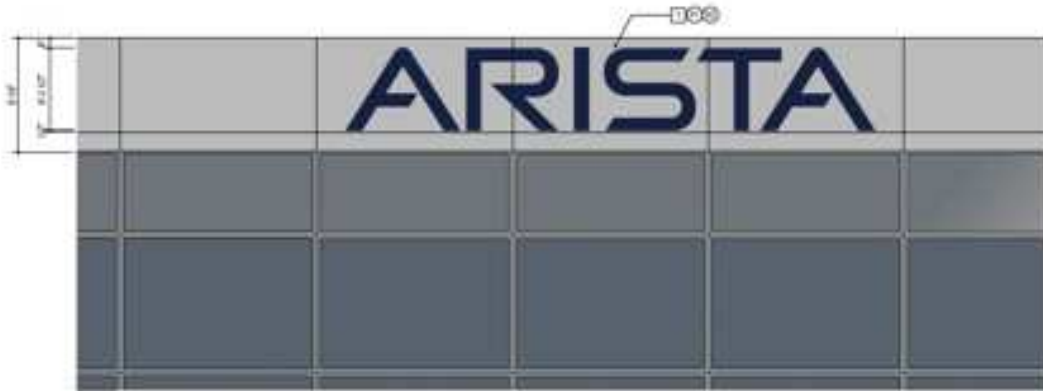
Exhibit A - Property Description

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Exhibit M

(Dimensions of "Building Top" signage)

NOTES	
1	IF THE SIGN IS TO BE PLACED ON A BUILDING, THE SIGN SHALL BE PLACED ON THE BUILDING IN ACCORDANCE WITH THE CITY OF SANTA CLARA COUNTY SIGNAGE REGULATIONS. THE SIGN SHALL BE PLACED ON THE BUILDING IN ACCORDANCE WITH THE CITY OF SANTA CLARA COUNTY SIGNAGE REGULATIONS. THE SIGN SHALL BE PLACED ON THE BUILDING IN ACCORDANCE WITH THE CITY OF SANTA CLARA COUNTY SIGNAGE REGULATIONS.
COLORS	
1	ALL LETTERS AND GRAPHIC ELEMENTS SHALL BE IN THE COLOR OF THE CITY OF SANTA CLARA COUNTY SIGNAGE REGULATIONS.
2	ALL LETTERS AND GRAPHIC ELEMENTS SHALL BE IN THE COLOR OF THE CITY OF SANTA CLARA COUNTY SIGNAGE REGULATIONS.



ARISTA (EXISTING - PARTIAL WEST ELEVATION OF BUILDING) - (DIMENSIONS OF COMMON - 4' 0" LETTER HEIGHT - PARAPET SIGNAGE 5' 0" x 6' 0")  
 1 Signage 10' x 1' 0"



**Santa Clara County**

11000 California Street  
 Santa Clara, California 95050  
 (408) 299-8000  
 www.sccache.org

The County of Santa Clara  
 is hereby certifying that the  
 information contained herein  
 is true and correct to the best  
 of our knowledge and belief.

**Santa Clara  
 Gateway**

Signage and Graphics Program  
 Santa Clara, California  
 Project No. 1100

Arista Company  
 Office Properties

Drawn by:

01/11/11

Sign No.'s  
**61 & 62**

Drawn and sealed

**G2**

## EXHIBIT X

### WORK LETTER

#### SECTION 1

#### TENANT IMPROVEMENTS

The tenant improvement work to be contracted for by Landlord hereunder (“**Tenant Improvement Work**”) shall consist of the design and construction of all tenant improvements (“**Tenant Improvements**”), including work in place as of the date hereof, required for the 5451 Great America Premises pursuant to the approved final Working Drawings and Specifications (as hereinafter defined). All of the Tenant Improvement Work shall be performed by (a) Novo Construction, (b) S.C. Builders, or (c) Skyline and shall be subject to the approval of Tenant and Landlord (the “**General Contractor**”) under contract to Landlord, and in accordance with the procedures and requirements set forth below. All initially capitalized words not separately defined herein shall have the meaning given to such words in the Lease.

#### SECTION 2

#### ARCHITECTURAL AND CONSTRUCTION PROCEDURES

2.1 Tenant and Landlord agree to work in good faith with each other to approve working drawings and specifications for the Tenant Improvements (the “**Working Drawings and Specifications**”) prepared by Gensler Inc. (“**Landlord’s Architect**”) and Landlord’s engineers, including all specifications and programming information requested of Tenant by Landlord’s Architect, and a cost estimate based on the Working Drawings and Specifications prepared by the General Contractor (the “**Cost Estimate**”), which Cost Estimate will include a reasonably detailed description of rates and a proposed construction schedule, not later than August 8, 2014 (the “**Plan Approval Date**”). To the extent applicable, the Working Drawings and Specifications shall include Landlord’s building standard tenant improvements, materials and specifications for the Project as set forth in the “Outline Specifications- Tenant Improvements” set forth in the attached Schedule 1 (“**Building Standard Improvements**”), except for changes and additions specifically requested by Tenant and reasonably approved by Landlord in writing (any such addition or variation from the Standard Improvements shall be referred to herein as a (“**Non-Standard Improvement**”). All Tenant requests for Non-Standard Improvements must be in writing and shall provide sufficient specifications and details for Landlord to reasonably evaluate impacts upon the Working Drawings and Specifications and Cost Estimate. Tenant shall approve or provide suggested revisions to the Working Drawings and Specifications and Cost Estimate by signing copies of each or specifying in reasonable detail any suggested revisions thereto as hereinabove provided. Landlord shall in good faith modify Working Drawings and Specifications and Cost Estimate to incorporate Tenant’s suggested revisions in a mutually satisfactory manner prior to the Plan Approval Date.

2.2 In the event that Tenant subsequently requests in writing a revision to the Working Drawings and Specifications approved by the parties pursuant to Section 2.1 above (“**Change**”), and Landlord so approves such Change as provided in the Section next below, Landlord shall advise Tenant by written order (a “**Change Order**”) as soon as is practical of any net cost increase in the Completion Cost above the Final Cost Estimate (taking into account any cost savings attributable to such Change Order together with previous Change Orders). Tenant shall approve or disapprove such Change Order, if any, in writing within 3 business days following Tenant’s receipt of such Change Order. If Tenant disapproves any such Change Order, Tenant shall nonetheless be responsible for the reasonable architectural and/or planning fees incurred in preparing such Change Order. Landlord shall have no obligation to interrupt or modify the Tenant Improvement Work pending Tenant’s approval of a Change Order, but if Tenant fails to timely approve a change order, Landlord may (but shall not be required to) suspend the applicable Tenant Improvement Work. Except for revisions required by code or other applicable laws which do not materially and adversely affect Tenant’s permitted use of the 5451 Great America Premises or materially increase Tenant’s Contribution, in no event shall Landlord have the right to make any revisions to the Working Drawings and Specifications without Tenant’s prior written consent, which consent shall not be unreasonably withheld or delayed.

2.3 Landlord agrees that it shall not unreasonably withhold its consent to Tenant’s requested Changes, provided that such consent may be withheld in any event if the requested Change: (i) materially adversely affects the structure of the 5451 Great America Building, (ii) materially adversely affects the electrical, mechanical, plumbing, life safety, sprinkler, HVAC or other systems of the 5451 Great America Building, (iii) affects the exterior appearance of the 5451 Great America Building or the exterior areas of the Project, (iv) does not comply with all applicable laws, (v) adversely affects the configuration of tenant spaces or the core spaces throughout the 5451 Great America Building in the following respects: non-continuous ceiling grid, inconsistency of lighting fixtures, walls penetrating the ceiling grid, significantly non-rectangular or odd-sized offices (provided that minor variations in shape or size shall not be considered a Design Problem), or (vi) results in inconsistency of the quality, materials or

finishes within the 5451 Great America Building as to equivalently improved portions of the 5451 Great America Premises (collectively, a “**Design Problem**”).

2.4 Landlord’s General Contractor shall construct the Tenant Improvements under contract to Landlord. Promptly following the approval of the Working Drawings and Specifications by the parties pursuant to Section 2.1 above, Landlord shall cause its General Contractor to submit the major subtrade work (including, without limitation, mechanical, electrical and plumbing) to a competitive bidding process involving at least 3 licensed and reputable subcontractors; and Landlord shall provide copies of the bid responses to Tenant. Such subcontractors are subject to Tenant’s approval.

2.5 All of the Tenant Improvements shall become the property of Landlord and shall be surrendered with the 5451 Great America Premises at the expiration or sooner termination of this Lease. Notwithstanding the foregoing, Landlord shall have the right, by notice to Tenant given at the time of Landlord’s approval of the Working Drawings and Specifications and any Change, to require Tenant to remove all or any of the Tenant Improvements approved in the Working Drawings and Specifications or by way of such Change, to repair any damage to the 5451 Great America Premises arising from such removal, and to replace any Non-Standard Improvements so approved with the applicable Building Standard Improvement, provided that such right may only be exercised by Landlord with respect to Tenant Improvements (i) that constitute a Design Problem, or (ii) that constitute the substitution of Non-Standard Improvements for Building Standard Improvements. Any such removals, repairs and replacements by Tenant shall be completed by the Expiration Date or sooner termination of this Lease.

2.6 Subject to coordination with Landlord and Landlord’s General Contractor, Landlord shall permit Tenant and its agents to enter the 5<sup>th</sup> Floor Premises and the 4<sup>th</sup> Floor Premises at a time frame agreed to by the Landlord, the General Contractor, and the Tenant, which is expected by be within 40 days prior to the Commencement Date for the 5<sup>th</sup> Floor Premises in order that Tenant may install its cabling and related communication equipment and other personal property through Tenant’s own contractors. Any such work shall be subject to Landlord’s prior written approval, and shall be performed in a manner and upon terms and conditions and at times satisfactory to Landlord’s representative. The foregoing license to enter the 5451 Great America Premises is, however, conditioned upon Tenant’s contractors and their subcontractors and employees working in harmony and not interfering with the work being performed by Landlord. If at any time Landlord determines that such entry shall cause disharmony or interfere with the work being performed by Landlord, this license may be withdrawn by Landlord upon 24-hours written notice to Tenant. That license is further conditioned upon the compliance by Tenant’s contractors with all requirements imposed by Landlord on third party contractors, including without limitation the maintenance by Tenant and its contractors and subcontractors of workers’ compensation and public liability and property damage insurance in amounts and with companies and on forms satisfactory to Landlord, with certificates of such insurance being furnished to Landlord prior to proceeding with any such entry. The entry shall be deemed to be under all of the provisions of the Lease except as to the covenants to pay rent. Landlord shall not be liable in any way for any injury, loss or damage which may occur to any such work being performed by Tenant, the same being solely at Tenant’s risk.

2.7 Tenant hereby designates Dan Dei Rossi (“**Tenant’s Construction Representative**”), Telephone No. (408) 547-8136, email: deirossi@arista.com, as its representative, agent and attorney-in-fact for all matters related to the Tenant Improvement Work, including but not by way of limitation, for purposes of receiving notices, approving submittals and issuing requests for Changes, and Landlord shall be entitled to rely upon authorizations and directives of such person(s) as if given directly by Tenant. The foregoing authorization is intended to provide assurance to Landlord that it may rely upon the directives and decision making of the Tenant’s Construction Representative with respect to the Tenant Improvement Work and is not intended to limit or reduce Landlord’s right to reasonably rely upon any decisions or directives given by other officers or representatives of Tenant. Any notices or submittals to, or requests of, Tenant related to this Work Letter and/or the Tenant Improvement Work may be sent to Tenant’s Construction Representative at the email address above provided. Tenant may amend the designation of its Tenant’s Construction Representative(s) at any time upon delivery of written notice to Landlord.

2.8 Notwithstanding anything to the contrary in the Lease or this Work Letter, Tenant’s acceptance of the 5<sup>th</sup> Floor Premises and the 4<sup>th</sup> Floor Premises shall not be deemed a waiver of Tenant’s right to require Landlord to cause its contractor to correct any defects in the Tenant Improvements identified by Tenant, in writing, within twelve (12) months after the Commencement Date for the 5<sup>th</sup> Floor Premises and within twelve (12) months following the Commencement Date for the 4<sup>th</sup> Floor Premises, respectively. Landlord shall promptly repair or cause the General Contractor to repair all such defects, at no cost to Tenant.

2.9 Notwithstanding anything to the contrary in the Lease or this Work Letter, it is understood and agreed that completion of the Tenant Improvement Work is not a condition of, nor shall extend or otherwise affect, the Commencement Date for the 5<sup>th</sup> Floor Premises or the Commencement Date for the 4<sup>th</sup> Floor Premises; provided, however, that the Commencement Date for the 5<sup>th</sup> Floor Premises shall be delayed, on a day-for-day basis, for each day of “Landlord Delay” (as hereinafter defined) in the “Substantial Completion” (as hereinafter defined) of the Tenant Improvement Work for the 5<sup>th</sup> Floor Premises. As used herein, “**Landlord Delay**” shall mean any delay in the substantial completion of construction of the Tenant Improvements beyond 14

weeks following obtaining a permit(s) therefor from the City of Santa Clara, except to the extent of any delays caused by Tenant, including without limitation, delays in the construction of the Tenant Improvements caused by Changes requested by Tenant. As used herein, “**Substantial Completion**” shall mean the substantial completion of the Tenant Improvements in the 5<sup>th</sup> Floor Premises (as provided in Section 3.1 below), but for minor punch list matters, and the obtaining of a temporary or final certificate of occupancy for the 5<sup>th</sup> Floor Premises.

### SECTION 3

#### COST OF TENANT IMPROVEMENTS

3.1 Landlord shall complete, or cause to be completed, the Tenant Improvements, in accordance with final Working Drawings and Specifications approved by both Landlord and Tenant. The Tenant Improvements shall be constructed by Landlord in accordance with all rules, regulations, codes, ordinances, statutes, and laws of any governmental or quasi-governmental authority in effect as of the date of the issuance of the applicable building permit(s) therefor, and in a good and workman-like manner using material and equipment of new and otherwise of good quality. Landlord shall obtain standard warranties on the elements of the Tenant Improvements that Tenant is responsible for maintaining under the Lease and shall assign to Tenant, or otherwise cooperate to make available to Tenant the benefit of, all such warranties.

3.2 Landlord shall pay up to \$3,328,435.00, based on \$55.00 per rentable square foot of the 5451 Great America Premises (“**Landlord's Maximum Contribution**”), of the final “Completion Cost” (as defined below). Tenant acknowledges that the Landlord's Maximum Contribution is intended only as the maximum amount Landlord will pay toward any of the Tenant Improvements described in the approved Working Drawings and Specifications (as same may be modified pursuant to a Change Order or as otherwise provided in Section 2.2 above), including but not limited to, any specialized pipe installations, but excluding alterations not included in the Working Drawings or Specifications (as same may be modified pursuant to a Change Order or as otherwise provided in Section 2.2 above). In the event the sum of the cost of the “Completion Cost” of the Tenant Improvement Work is less than the Landlord's Maximum Contribution, Landlord's actual contribution toward the Completion Cost (“**Landlord's Contribution**”) shall equal such lesser amount, and Tenant shall have no right to receive any credit, refund or allowance of any kind for any unused portion of the Landlord's Maximum Contribution nor shall Tenant be allowed to make revisions to an approved Working Drawings and Specifications or request a Change in an effort to apply any unused portion of Landlord's Maximum Contribution.

3.3 Tenant shall pay the difference between the Landlord's Maximum Contribution, as specified in this Work Letter and the “Completion Cost” of the Tenant Improvement Work (as hereinafter defined). The amounts to be paid by Tenant for the Tenant Improvements pursuant to this Section 3.3 are sometimes cumulatively referred to herein as the “**Tenant's Contribution**”.

3.4 The “**Completion Cost**” shall mean all costs of Landlord in completing the Tenant Improvements in accordance with the approved Working Drawings and Specifications and with any approved Changes thereto, including but not limited to the following costs: (i) payments made to architects, engineers, contractors, subcontractors and other third party consultants in the performance of the work, (ii) salaries and fringe benefits of persons, if any, in the direct employ of Landlord performing any part of the construction work, (iii) permit fees and other sums paid to governmental agencies, (iv) permit fees and other sums paid to governmental agencies, and (v) costs of all materials incorporated into the work or used in connection with the work. The Completion Cost shall also include an administrative/supervision fee to be paid to Landlord or to Landlord's management agent in the amount of two percent (2%) of the Landlord's Contribution funded towards the Completion Cost of the Tenant Improvement Work, and reasonable “peer review” fees payable to Landlord's MEP engineers. Unless expressly authorized in writing by Landlord, the Completion Cost shall not include (and no portion of the Landlord's Contribution shall be paid for) (i) any costs incurred by Tenant, including without limitation, any costs for space planners, managers, advisors or consultants retained by Tenant in connection with the Tenant Improvements (which shall be the sole responsibility of Tenant), or (ii) the following costs (which shall be the sole responsibility of Landlord): (a) costs for improvements which are not shown on or described in the Working Drawings and Specifications (as same may be modified pursuant to a Change Order or as otherwise provided in Section 2.2 above), unless otherwise approved by Tenant, which approval shall not be unreasonably withheld; (b) costs incurred due to the presence of Hazardous Materials in the Project or the surrounding area; (c) attorneys' fees incurred in connection with negotiation of construction contracts, and attorneys' fees, experts' fees and other costs in connection with disputes with third parties; (d) interest and other costs of financing construction costs; (e) costs to bring the 5451 Great America Premises, the 5451 Great America Building or the Common Areas into compliance with applicable laws and restrictions in the event of Landlord's failure to construct either the 5451 Great America Building or the Tenant Improvements in accordance with same; or (f) construction management, profit and overhead charges payable to Landlord, except for the administrative/supervision fee provided in Section 3.4 above.

3.5 Following issuance by the City of Santa Clara of a permit relating to the Tenant Improvements, but prior to start of construction of the Tenant Improvements, Tenant shall pay 25% of the Tenant's Contribution set forth in the Cost Estimate,

with the remainder of the Tenant's Contribution payable to Landlord in installments of 25% each following the completion of each of the initial three (3) months of construction of the Tenant Improvements. Funds either due and payable from Tenant, or any refund due and payable to Tenant, based on the actual Completion Cost of the Tenant Improvements, shall be made within 30 days following the Substantial Completion of the Tenant Improvement Work. If Tenant defaults beyond applicable notice and cure periods in the payment of any sums due under this Work Letter, Landlord shall (in addition to all other remedies) have the same rights as in the case of Tenant's failure to pay rent under the Lease, including, without limitation, the right to terminate this Lease and recover damages from Tenant and/or to charge a late payment fee and to collect interest on delinquent payments, and Landlord may (but shall not be required to) suspend the Tenant Improvement Work following such default, in which event any delays because of such suspension shall constitute Tenant Delays hereunder.

3.6 Landlord shall promptly (and not later than 15 days following Tenant's reasonable request therefor made not more frequently than monthly) provide any invoices Landlord has received relating to the Tenant Improvements described in this **Exhibit X**.

## **SECTION 4**

### **DISPUTE RESOLUTION**

4.1 All claims or disputes between Landlord and Tenant arising out of, or relating to, this Work Letter shall be decided by the JAMS/ENDISPUTE (" **JAMS** "), or its successor, with such arbitration to be held in Santa Clara County, California, unless the parties mutually agree otherwise. Within 10 business days following submission to JAMS, JAMS shall designate three arbitrators and each party may, within 5 business days thereafter, veto one of the three persons so designated. If two different designated arbitrators have been vetoed, the third arbitrator shall hear and decide the matter. If less than 2 arbitrators are timely vetoed, JAMS shall select a single arbitrator from the non-vetoed arbitrators originally designated by JAMS, who shall hear and decide the matter. Any arbitration pursuant to this section shall be decided within 30 days of submission to JAMS. The decision of the arbitrator shall be final and binding on the parties. In no event shall the arbitrator be empowered or authorized to award consequential or punitive damages (including any award for lost profit or opportunity costs or loss or interruption of business or income). All costs associated with the arbitration shall be awarded to the prevailing party as determined by the arbitrator.

4.2 Notice of the demand for arbitration by either party to the Work Letter shall be filed in writing with the other party to the Work Letter and with JAMS and shall be made within a reasonable time after the dispute has arisen. The award rendered by the arbitrator shall be final, and judgment may be entered upon it in accordance with applicable law in any court having jurisdiction thereof. Except by written consent of the person or entity sought to be joined, no arbitration arising out of or relating to this Work Letter shall include, by consolidation, joinder or in any other manner, any person or entity not a party to the Work Letter unless (1) such person or entity is substantially involved in a common question of fact or law, (2) the presence of such person or entity is required if complete relief is to be accorded in the arbitration, or (3) the interest or responsibility of such person or entity in the matter is not insubstantial.

4.3 The agreement herein among the parties to arbitrate shall be specifically enforceable under prevailing law. The agreement to arbitrate hereunder shall apply only to disputes arising out of, or relating to, this Work Letter, and shall not apply to other matters of dispute under the Lease except as may be expressly provided in the Lease.

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**Schedule I**  
**Tenant Improvement / Interior Construction Outline Specifications**  
(By Tenant/Tenant Allowance)

**Note** During preliminary walk throughs, construction management is to confirm re-use of existing building components and provide direction to: 1) match existing , or 2) provide new building standard at all remodel conditions; or 3) provide upgrade to building standard based on project team input. Each suite to be reviewed on a case-by-case basis.

**TENANT STANDARD**

**GENERAL OFFICE:**

**CARPET**

Direct glue broadloom carpet.

**VINYL COMPOSITION TILE (VCT)**

12" x 12" VCT Armstrong Standard Excelon.

**WALLS**

Standard Walls : 5/8" gypsum drywall on 2-1/2" x 25 ga. metal studs 16" o.c., floor to ceiling construction. No walls shall penetrate the grid unless required by code. All walls shall be straight, and parallel to building exterior walls. All offices and rooms shall be constructed of a standard size and tangent to a building shell or core wall.

Exterior Walls (First Generation Only) 5/8" gypsum drywall furring on 25 ga. metal studs, with R-13 insulation.

**PAINT**

Paint finish, one standard color to be Benjamin Moore AC-40, Glacier White, flat finish. Dark colors subject to Landlord approval.

**BASE**

2-1/2" Burke rubber base; straight at cut pile carpet, coved at resilient flooring and loop carpet.

**RUBBER TRANSITION STRIP**

Transition strip between carpet and resilient flooring to be Burke #150, color: to match adjacent V.C.T.

**PLASTIC LAMINATE**

Plastic laminate color at millwork: Nevamar "Smoky White", Textured #S-7-27T.

**CEILING**

2x4 USG Radar Illusions #2842 scored ceiling tile, installed in building standard 9/16" or 15/16" T-bar grid. Continuous grid throughout.

**LIGHTING**

All spaces are to be illuminated with building standard 2 x 4 direct/indirect fixtures, approved by the Landlord.

**DOORS**

1-3/4" solid core, 3'-0" x 8'-10" plain sliced white oak, Western Integrated clear anodized aluminum frames Schlage "D" series "Sparta" latchset hardware, dull chrome finish.

**OFFICE SIDELITES**

All interior offices to have sidelite glazing adjacent to office entry door, 4' wide x door height, Western Integrated clear anodized aluminum frame integral to door frame with clear tempered glass.

**WINDOW COVERINGS**

Vertical blinds: Mariak Industries PVC blinds at building perimeter windows, Model M-3000, Color: Light Grey.



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**Tenant Improvement / Interior Construction Outline Specifications**  
(Continued)

**TENANT STANDARD**

**MECHANICAL:**

**HVAC**

General : Exterior corner spaces with more than one exposure shall be provided with a separate zone. Conference Room (or Training Room) 20' x 13' or larger shall be provided with a separate zone. Exterior zone shall be limited to a single exposure and a maximum of 750 to 1000 square feet.

Campus Office Building : Interior and Exterior zone VAV boxes shall be connected to the main supply air loop. Exterior zone VAV boxes shall be provided with two-row hot water reheat coil. Interior zone shall be limited to a maximum of 2000 square feet.

Air distribution downstream of VAV boxes shall be provided complete with ductwork, 2'x2' perforated face ceiling diffusers, 2'x2' perforated return air grilles and air balance. All ductwork shall be sheet metal constructed per SMACNA standards and insulated per the latest Title 24 requirements.

Pneumatic thermostats with blank white cover shall be provided for each zone. Thermostats shall be located adjacent to light switch at 48" above finished floor. When the building utilizes DDC zone control, DDC system shall be Andover and installed by AAS. DDC system shall be interfaced to the existing Irvine Company network.

Mid-Tech/Manufacturing Building : Air distribution downstream of packaged rooftop units and/or split system fan coil units shall be provided complete with ductwork, 2'x2' perforated face ceiling diffusers, 2'x2' perforated return air grilles and air balance. All ductwork shall be sheet metal constructed per SMACNA standards and insulated per the latest Title 24 requirements. Interior zone shall be limited to a maximum of 2500 square feet.

Packaged rooftop units and/or split system units shall be connected to existing Irvine Company Energy Management System. Thermostats shall be located adjacent to light switch at 48" above finished floor. EMS shall be Andover and installed by AAS.

New packaged rooftop units larger than 5-ton shall be provided with seismic isolation curb with minimum 1-inch spring deflection. New packaged rooftop units larger than 6.25 ton shall be provided with economizer with barometric relief damper.

**FIRE PROTECTION**

Pendant satin chrome plated, recessed heads, adjustable canopies, minimum K factor to be 5.62, located at center of 2' x 2' section of scored ceiling tile. Ceiling drops from shell supply loop.

**TENANT STANDARD**

**ELECTRICAL**

**ELECTRICAL SYSTEM**

A 277/480 volt, three phase, four wire tenant metered distribution section will be added to main service at Main Electrical Room.

Tenant Electrical Room, located within the lease space, as directed by the Landlord, to include 270/480 volt and 120/208 volt panels, transformer, lighting control panel, as required.

Standard tenant electrical capacity will be provided in the following capacity:

- Lighting 277V: Minimum of 1.2 watt watts per s.f.
- General 277V Power: As required to accommodate tenant loads.
- HVAC Power 277/480V: As required to accommodate the HVAC equipment.
- General 120/208V Power: Minimum of 8.0 watts per s.f.



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**Tenant Improvement / Interior Construction Outline Specifications**  
(Continued)

**TENANT STANDARD**

**ELECTRICAL (CONTINUED):**

**LIGHTING**

All spaces are to be illuminated with building standard 2' x 4', direct/indirect fixtures based on one (1) fixture per 96 square feet.

All lighting shall be controlled by occupancy sensors and ½ switched per Title 24. Provide wall mounted dual relay occupancy sensors in small spaces and ceiling mounted paired with two switches in double gang box, Leviton "Decora" style switches with a white plastic coverplate, 48" AFF to switch centerline.

Exit signs: Internally illuminated, white sign face with green text.

**OUTLETS**

Power: Leviton "Decora" style 15 / 20 amp 125-volt specification grade white duplex receptacle mounted vertically, 18" AFF to centerline, with a white plastic coverplate.

All furniture systems will be assumed to be a four (4) circuit / eight (8) wire configuration. All furniture system workstations are assumed to have personal computers only and will be connected at a ratio of eight (8) workstations per four (4) circuit / eight (8) wire homerun.

All wall mounted furniture system communication feeds will be provided with (2) 1 ½" conduit (non-fire rated / non-insulated walls) OR (2) 1 ¼" conduit (fire rated / insulated walls); a 4S/DP box and a double-gang mud ring in the wall. One (1) furniture system communication feeds will be assumed to be capable of providing enough cabling capacity for eight (8) work stations.

Power and Telecom Feeds to systems furniture by Tenant to be via walls, furred columns or ceiling J- box.

All wall mounted general communication outlets in non-fire rated / non-insulated walls will be provided a 2-gang mud ring and a pull string in the wall. All wall mounted communication outlets in fire-rated and insulated walls will be provided with ¾" conduit (voice and / or data only) OR a 1" conduit (combination voice / data), stubbed into the accessible ceiling space, 4S/DP box and a single gang mud ring in the wall. Cover plate, jacks and cables by tenant.

A single tenant telecom room will be provided with a single 4' x 8' backboard. An empty 2" conduit will be routed from this backboard to the building's main telephone backboard. An empty 4" conduit sleeve will be stubbed into the accessible ceiling space.

**TENANT STANDARD**

**WAREHOUSE/SHIPPING AND  
RECEIVING (IF APPLICABLE):**

**FLOORS**

Sealed concrete.

**WALLS**

5/8" gypsum wallboard standard partition, height and construction subject to Landlord approval. At furred walls, paint to match Benjamin Moore AC-40 Glacier White. Provide rated partition at occupancy separation, as required by code.

**CEILING**

Exposed structure, non-painted.

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**Tenant Improvement / Interior Construction Outline Specifications**  
(Continued)

**TENANT STANDARD**

**WAREHOUSE/SHIPPING AND**      **WINDOWS**

**RECEIVING (IF APPLICABLE):**      None

**TENANT STANDARD**

**ACCESS**

7'-6" H x 7'-6" W glazed service doors. Glazing is bronze reflective glass.

**HVAC**

None

**PLUMBING**

Single accommodation restroom, if required.

Sheet vinyl flooring to be Armstrong Classic Corlon "Seagate" #86526 Oyster, with Smooth White FRP panel wainscot to 48" high. Painted walls and ceiling to be Benjamin Moore AC-40 Glacier White, semi-gloss finish.

**LIGHTING**

T5 High Bay, 2 x 4 fixtures.

**OTHER ELECTRICAL**

Convenience outlets; surface mounted at exposed concrete walls.

**SECURITY**

Lockable doors.

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

I, Jayshree Ullal, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Arista Networks, Inc. for the quarter ended June 30, 2014 ;
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 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)) 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) 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
  - (c) 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 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: August 7, 2014

/s/ JAYSHREE ULLAL

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Jayshree Ullal  
Chief Executive Officer, President, and Director  
(Principal Executive Officer)

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

I, Kelyn Brannon, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Arista Networks, Inc. for the quarter ended June 30, 2014;
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 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)) 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) 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
  - (c) 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 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: August 7, 2014

/s/ KELYN BRANNON

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Kelyn Brannon  
Chief Financial Officer  
(Principal Accounting and Financial Officer)

