

**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 January 31, 2018

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: 001-37883

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**NUTANIX, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**27-0989767**

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

**1740 Technology Drive, Suite 150  
San Jose, CA 95110**

(Address of principal executive offices, including zip code)

**(408) 216-8360**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>	If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.	<input type="checkbox"/>

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

As of February 28, 2018, the registrant had 120,114,416 shares of Class A common stock, \$0.000025 par value per share, and 44,194,199 shares of Class B common stock, \$0.000025 par value per share, outstanding.

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## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, which statements involve substantial risks and uncertainties. All statements contained in this Quarterly Report on Form 10-Q other than statements of historical fact, including statements regarding our future results of operations and financial position, our business strategy and plans, and our objectives for future operations, are forward-looking statements. The words “believe,” “may,” “will,” “potentially,” “estimate,” “continue,” “anticipate,” “plan,” “intend,” “could,” “would,” “expect” and similar expressions that convey uncertainty of future events or outcomes are intended to identify forward-looking statements. Forward-looking statements included in this Quarterly Report on Form 10-Q include, but are not limited to, statements regarding:

- our future revenue, cost of revenue, and operating expenses, as well as changes in the cost of product revenue, component costs, product gross margins and support and other services revenue, and changes in research and development, sales and marketing and general and administrative expenses;
- our business plan and our ability to effectively manage our growth;
- anticipated trends, growth rates and challenges in our business and in the markets in which we operate, including the productivity of our sales team;
- our ability to develop new solutions, product features and technology, such as Nutanix Calm and Nutanix Xi Cloud Services, and bring them to market in a timely manner;
- market acceptance of new technology and recently introduced solutions;
- the interoperability and availability of our solutions with and on third-party hardware platforms;
- our beliefs and objectives for future operations, including plans to continue to invest in our global engineering, research and development, and sales and marketing teams, and the impact of such investments on our operations;
- our ability to increase sales of our solutions;
- our ability to attract new end-customers, and retain and grow sales from our existing end-customers;
- our ability to maintain and strengthen our relationships with our channel and OEM partners;
- the effects of seasonal trends on our results of operations;
- our expectations concerning relationships with third parties, including our ability to compress and stabilize sales cycles;
- our ability to maintain, protect and enhance our intellectual property;
- our ability to continue to expand internationally;
- the effects of increased competition in our market and our ability to compete effectively;
- anticipated capital expenditures;
- future acquisitions or investments in complementary companies, products, services or technologies and the ability to successfully integrate acquisitions such as Calm.io Pte. Ltd. and PernixData, Inc. and the planned acquisitions of Minjar Inc. and Netsil Inc.;
- our ability to stay in compliance with laws and regulations that currently apply or become applicable to our business both in the United States and internationally;
- economic and industry trends, projected growth or trend analysis;
- the attraction and retention of qualified employees and key personnel;

- our expectations concerning future shifts in the mix of whether our solutions are sold as an appliance or as software-only, and in the mix of the types of appliances we sell; and
- sufficiency of cash to meet cash needs for at least the next 12 months.

We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in Part II, Item 1A. "Risk Factors" in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for us to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and trends discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, performance, or events and circumstances reflected in the forward-looking statements will be achieved or occur. The forward-looking statements in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update, revise or publicly release the results of any revision to these forward-looking statements to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions or expectations disclosed on our forward-looking statements and you should not place undue reliance on our forward-looking statements.

**PART I. FINANCIAL INFORMATION**  
**Item 1. Financial Statements (Unaudited)**

**NUTANIX, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share and per share data, unaudited)

	As of	
	July 31, 2017 *As Adjusted	January 31, 2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 138,359	\$ 610,446
Short-term investments	210,694	307,809
Accounts receivable—net	178,876	179,241
Deferred commissions—current	23,843	33,508
Prepaid expenses and other current assets	28,362	31,547
Total current assets	580,134	1,162,551
Property and equipment—net	58,072	69,074
Deferred commissions—non-current	49,684	66,120
Intangible assets—net	26,001	23,539
Goodwill	16,672	16,672
Other assets—non-current	7,649	7,240
Total assets	\$ 738,212	\$ 1,345,196
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 73,725	\$ 56,270
Accrued compensation and benefits	57,521	75,310
Accrued expenses and other current liabilities	9,707	11,241
Deferred revenue—current	170,123	231,731
Total current liabilities	311,076	374,552
Deferred revenue—non-current	198,933	246,269
Convertible senior notes—net	—	415,651
Early exercised stock options liability	851	430
Other liabilities—non-current	10,289	7,815
Total liabilities	521,149	1,044,717
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, par value of \$0.000025 per share— 200,000,000 shares authorized as of July 31, 2017 and January 31, 2018; no shares issued and outstanding as of July 31, 2017 and January 31, 2018	—	—
Common stock, par value of \$0.000025 per share—1,200,000,000 (1,000,000,000 Class A, 200,000,000 Class B) shares authorized as of July 31, 2017 and January 31, 2018; 154,636,520 (93,570,171 Class A and 61,066,349 Class B) and 164,065,915 (119,873,498 Class A and 44,192,417 Class B) shares issued and outstanding as of July 31, 2017 and January 31, 2018	4	4
Additional paid-in capital	948,134	1,156,282
Accumulated other comprehensive loss	(106)	(720)
Accumulated deficit	(730,969)	(855,087)
Total stockholders' equity	217,063	300,479
Total liabilities and stockholders' equity	\$ 738,212	\$ 1,345,196

\* See Note 3 for a summary of adjustments related to the adoption of the new revenue recognition standard.

See the accompanying notes to condensed consolidated financial statements.

NUTANIX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except share and per share data, unaudited)

	Three Months Ended January 31,		Six Months Ended January 31,	
	2017 *As Adjusted	2018	2017 *As Adjusted	2018
<b>Revenue:</b>				
Product	\$ 158,213	\$ 223,170	\$ 311,749	\$ 442,222
Support and other services	41,001	63,574	76,026	120,074
Total revenue	199,214	286,744	387,775	562,296
<b>Cost of revenue:</b>				
Product	58,403	83,217	110,613	168,379
Support and other services	18,443	25,311	35,995	48,771
Total cost of revenue	76,846	108,528	146,608	217,150
Gross profit	122,368	178,216	241,167	345,146
<b>Operating expenses:</b>				
Sales and marketing	111,374	151,201	239,999	296,606
Research and development	70,914	70,924	146,195	135,436
General and administrative	15,481	15,948	44,853	32,000
Total operating expenses	197,769	238,073	431,047	464,042
Loss from operations	(75,401)	(59,857)	(189,880)	(118,896)
Other expense—net	(421)	(861)	(26,133)	(1,050)
Loss before provision for income taxes	(75,822)	(60,718)	(216,013)	(119,946)
Provision for income taxes	547	1,913	658	4,172
Net loss	\$ (76,369)	\$ (62,631)	\$ (216,671)	\$ (124,118)
Net loss per share attributable to Class A and Class B common stockholders—basic and diluted	\$ (0.54)	\$ (0.39)	\$ (2.00)	\$ (0.78)
Weighted-average shares used in computing net loss per share attributable to Class A and Class B common stockholders—basic and diluted	141,996,600	161,737,428	108,185,194	159,251,964

\* See Note 3 for a summary of adjustments related to the adoption of the new revenue recognition standard.

See the accompanying notes to condensed consolidated financial statements.

NUTANIX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS  
(In thousands, unaudited)

	Three Months Ended January 31,		Six Months Ended January 31,	
	2017 *As Adjusted	2018	2017 *As Adjusted	2018
Net loss	\$ (76,369)	\$ (62,631)	\$ (216,671)	\$ (124,118)
Other comprehensive loss—net of tax:				
Change in unrealized loss on available-for-sale securities—net of tax	(150)	(484)	(158)	(614)
Total other comprehensive loss—net of tax	(150)	(484)	(158)	(614)
Comprehensive loss	\$ (76,519)	\$ (63,115)	\$ (216,829)	\$ (124,732)

\* See Note 3 for a summary of adjustments related to the adoption of the new revenue recognition standard.

See the accompanying notes to condensed consolidated financial statements.

**NUTANIX, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands, unaudited)

	Six Months Ended January 31,	
	2017 *As Adjusted	2018
<b>Cash flows from operating activities:</b>		
Net loss	\$ (216,671)	\$ (124,118)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	18,172	23,015
Stock-based compensation	143,335	77,526
Loss on debt extinguishment	3,320	—
Change in fair value of convertible preferred stock warrant liability	21,133	—
Change in fair value of contingent consideration	472	(3,955)
Amortization of debt discount and issuance cost	—	738
Other	457	141
Changes in operating assets and liabilities:		
Accounts receivable—net	(39,730)	(490)
Deferred commission	(8,071)	(26,101)
Prepaid expenses and other assets	(2,707)	(2,842)
Accounts payable	11,342	(16,560)
Accrued compensation and benefits	11,811	17,789
Accrued expenses and other liabilities	1,677	2,415
Deferred revenue	79,372	108,944
Net cash provided by operating activities	<u>23,912</u>	<u>56,502</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(24,616)	(31,993)
Purchases of investments	(117,550)	(183,102)
Maturities of investments	41,200	84,927
Sale of investments	32,640	—
Payments for business acquisitions, net of cash acquired	(184)	—
Net cash used in investing activities	<u>(68,510)</u>	<u>(130,168)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of convertible senior notes—net	—	564,219
Proceeds from issuance of warrants	—	87,975
Payments for convertible note hedges	—	(143,175)
Proceeds from sales of shares through employee equity incentive plans—net of repurchases	2,180	36,819
Proceeds from initial public offering—net of underwriting discounts and commissions	254,455	—
Payments of offering costs	(1,609)	(85)
Repayment of senior notes	(75,000)	—
Debt extinguishment costs	(1,580)	—
Payment of debt in conjunction with a business acquisition	(7,124)	—
Other	73	—
Net cash provided by financing activities	<u>171,395</u>	<u>545,753</u>
Net increase in cash and cash equivalents	126,797	472,087
Cash and cash equivalents—beginning of period	99,209	138,359
Cash and cash equivalents—end of period	<u>\$ 226,006</u>	<u>\$ 610,446</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for income taxes	\$ 2,344	\$ 4,077
Cash paid for interest	\$ 1,271	\$ —
<b>Supplemental disclosures of non-cash investing and financing information:</b>		
Purchases of property and equipment included in accounts payable and accrued liabilities	\$ 6,983	\$ 4,673
Convertible senior notes offering costs included in accounts payable and accrued liabilities	\$ —	\$ 707
Vesting of early exercised stock options	\$ 920	\$ 435
Offering costs included in accounts payable	\$ 51	\$ —
Conversion of convertible preferred stock to common stock, net of issuance costs	\$ 310,379	\$ —
Reclassification of convertible preferred stock warrant liability to additional paid-in capital	\$ 30,812	\$ —
Issuance of common stock for business acquisitions	\$ 27,063	\$ —

\* See Note 3 for a summary of adjustments related to the adoption of the new revenue recognition standard.



See the accompanying notes to condensed consolidated financial statements.

**NUTANIX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**Note 1. ORGANIZATION**

**Organization and Description of Business**—Nutanix, Inc. was incorporated in the state of Delaware in September 2009. Nutanix, Inc. is headquartered in San Jose, California, and together with its wholly-owned subsidiaries (collectively, “we” or “our”) has operations throughout North America, Europe, Asia-Pacific, Middle East, Latin America and Africa.

Our enterprise cloud operating system converges traditional silos of server, virtualization, storage and networking into one integrated solution and unifies private and public cloud into a single software fabric. We primarily sell our products and services to end-customers through distributors, resellers and original equipment manufacturers, or OEMs (collectively “Partners”).

**Note 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Principles of Consolidation and Significant Accounting Policies**—The accompanying condensed consolidated financial statements, which include the accounts of Nutanix, Inc. and our wholly-owned subsidiaries, have been prepared in conformity with accounting principles generally accepted in the United States, or U.S. GAAP, and, except for the impact of the adoption of the new accounting guidance related to revenue recognition, consistent in all material respects with those applied in our Annual Report on Form 10-K for the fiscal year ended July 31, 2017, filed with the Securities and Exchange Commission, or SEC, on September 18, 2017. All intercompany accounts and transactions have been eliminated in consolidation. The condensed consolidated financial statements are unaudited, but include all adjustments of a normal recurring nature necessary for a fair presentation of our quarterly results. Certain prior period amounts have been adjusted as a result of our early adoption of new accounting guidance related to revenue recognition. Refer to “Summary of Significant Accounting Policies” and “Recent Accounting Pronouncements” below for more information.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes in our Annual Report on Form 10-K for the fiscal year ended July 31, 2017.

Effective August 1, 2017, we adopted the requirements of Accounting Standards Update, or ASU, No. 2014-09, Revenue from Contracts with Customers, or ASC 606, as discussed in detail in Note 3. All amounts and disclosures set forth in this Quarterly Report on Form 10-Q have been updated to comply with ASC 606, as indicated by the “as adjusted” footnote.

**Use of Estimates**—The preparation of interim condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Such management estimates include, but are not limited to, the best estimate of standalone selling prices for products and related support; determination of fair value of stock-based awards; accounting for income taxes, including the valuation reserve on deferred tax assets and uncertain tax positions; warranty liability; commissions expense; fair value of assets and liabilities acquired in business combinations; fair value of debt and equity components related to our convertible senior notes; and contingencies and litigation. Management evaluates these estimates and assumptions on an ongoing basis using historical experience and other factors and makes adjustments when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could materially differ from those estimates and assumptions.

## Concentration Risk:

*Concentration of revenue and accounts receivable*—We sell our products primarily through Partners and occasionally directly to end-customers. For the three and six months ended January 31, 2017 and 2018, no end-customer accounted for 10% or more of total revenue.

For each significant Partner, revenue as a percentage of total revenue and accounts receivable as a percentage of total accounts receivable, net are as follows:

Customers	Revenue				Accounts Receivable as of	
	Three Months Ended January 31,		Six Months Ended January 31,		July 31, 2017	January 31, 2018
	2017 <b>**As Adjusted</b>	2018	2017 <b>**As Adjusted</b>	2018		
Partner A	*	*	11%	12%	*	*
Partner B	18%	18%	19%	23%	12%	18%
Partner C	15%	16%	14%	17%	14%	*
Partner D	*	10%	11%	10%	20%	19%
Partner E	10%	*	*	*	*	10%
Partner F	14%	14%	12%	14%	18%	*

\* Less than 10%

\*\* Adjusted to include the impact of ASC 606. Refer to Note 3 for more details on the impact of the adoption of this standard.

**Summary of Significant Accounting Policies**—Except for the accounting policies for revenue recognition, deferred revenue, and deferred commissions that were updated as a result of adopting ASC 606 and those related to our 0% Convertible Senior Notes due in 2023, or the Notes, there have been no changes to our significant accounting policies described in the Annual Report on Form 10-K for the fiscal year ended July 31, 2017, filed with the SEC on September 18, 2017, that have had a material impact on our condensed consolidated financial statements and related notes. See Note 3 for the summary of the new accounting policies under ASC 606.

**Recently Adopted Accounting Pronouncement**— In May 2014, the Financial Accounting Standards Board, or FASB, issued ASC 606. The standard is a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. The FASB has issued several amendments to the standard, including clarifications on disclosure of prior-period performance obligations and remaining performance obligations.

The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). The new standard would have been effective for us beginning August 1, 2018, and adoption as of the original effective date of August 1, 2017 was permitted. We elected to early adopt the standard effective August 1, 2017 using the full retrospective method, which required us to recast our historical financial information to be consistent with the new standard. Refer to Note 3 for the details of impacts to previously reported results.

In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting, which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The guidance is effective for annual periods beginning after December 15, 2017, with early adoption permitted, including adoption in any interim period for which financial statements have not yet been issued. We adopted this ASU effective August 1, 2017 and our adoption did not have a material impact on our condensed consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805) to clarify the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The guidance is effective for fiscal years beginning after December 15, 2017 including interim periods within those fiscal years. We adopted this ASU effective August 1, 2017 and as we did not have any business acquisition during the six months ended January 31, 2018, our adoption did not have any impact on our condensed consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This new standard will make eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. The new standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. We adopted this ASU effective November 1, 2017 and our adoption did not have any impact on our condensed consolidated financial statements.

**Recently Issued and Not Yet Adopted Accounting Pronouncements**—In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash or restricted cash equivalents should be included with cash and cash equivalents when reconciling beginning-of-period and end-of-period amounts shown on the statement of cash flows. ASU 2016-18 is effective for us beginning August 1, 2018, with early adoption permitted. We do not believe that adoption of this ASU will have a material impact on our condensed consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. ASU 2016-16 will require us to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. ASU 2016-16 is effective for us beginning August 1, 2018, with early adoption permitted. We are currently evaluating the effect the adoption of this guidance will have on our condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases, which requires recognition of right-to-use lease assets and lease liabilities for all leases (with the exception of short-term leases) on the balance sheet of lessees. ASU 2016-02 is effective for us beginning August 1, 2019, with early adoption permitted. This new standard requires a modified retrospective transition approach and provides certain optional transition relief. We are currently evaluating the effect the adoption of this guidance will have on our condensed consolidated financial statements.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**  
**(Unaudited)**

**Note 3. REVENUE, DEFERRED REVENUE AND DEFERRED COMMISSIONS**

**Revenue Recognition**—Effective August 1, 2017, we adopted ASC 606 using the full retrospective method, which required us to recast our historical financial information to be consistent with the standard. The most significant impact of ASC 606 on our historical financial information relates to the timing of revenue recognition for certain software licenses sold with post contract customer support, or PCS, for which we did not have vendor specific objective evidence, or VSOE, of fair value under the previous revenue recognition guidance. Under ASC 606, the requirement to have VSOE for undelivered elements is eliminated and we now recognize revenue for such software licenses upon transfer of control to our customers. In addition, the adoption of ASC 606 also resulted in differences in the timing of recognition of contract costs, such as sales commissions, as well as the corresponding impacts to provision for income taxes. The adoption of the standard had no significant impact to the provision for income taxes and had no impact to the net cash from or used in operating, investing, or financing activities on our condensed consolidated statements of cash flows. See ASC 606 Adoption Impact to Reported Results below for the impact of adoption of the standard on our condensed consolidated balance sheets and condensed consolidated statements of operations.

**ASC 606 Adoption Impact to Previously Reported Results**

We adjusted our condensed consolidated financial statements from amounts previously reported due to the adoption of ASC 606. Select condensed consolidated balance sheet line items, which reflect the adoption of ASC 606, are as follows:

**Balance Sheet:**

	<b>As of July 31, 2017</b>		
	<b>As Previously Reported</b>	<b>Impact of Adoption</b>	<b>As Adjusted</b>
	(in thousands)		
<b>Assets</b>			
Deferred commissions - current	\$ 27,679	\$ (3,836) (1)	\$ 23,843
Deferred commissions - non-current	33,709	15,975 (1)	49,684
Total deferred commissions	\$ 61,388	\$ 12,139	\$ 73,527
<b>Liabilities</b>			
Deferred revenue - current	\$ 233,498	\$ (63,375) (2)	\$ 170,123
Deferred revenue - non-current	292,573	(93,640) (2)	198,933
Total deferred revenue	\$ 526,071	\$ (157,015)	\$ 369,056
Accrued expenses and other current liabilities	\$ 9,414	\$ 293 (3)	\$ 9,707
<b>Stockholders' equity</b>	<b>\$ 48,202</b>	<b>\$ 168,861</b>	<b>\$ 217,063</b>

(1) Impact of cumulative change in commissions expense

(2) Impact of cumulative change in revenue

(3) Impact of cumulative change in provision for income taxes

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**  
**(Unaudited)**

Select unaudited condensed consolidated statement of operations line items, which reflects the adoption of ASC 606, are as follows:

	<b>Three Months Ended January 31, 2017</b>		
	<b>As Previously Reported</b>	<b>Impact of Adoption</b>	<b>As Adjusted</b>
<b>Revenue</b>	(in thousands, except per share data)		
Product	\$ 138,508	\$ 19,705	\$ 158,213
Support and other services	43,687	(2,686)	41,001
Total revenue	\$ 182,195	\$ 17,019	\$ 199,214
<b>Gross profit</b>	\$ 105,349	\$ 17,019	\$ 122,368
<b>Operating expenses</b>			
Sales and marketing expenses	\$ 111,244	\$ 130	\$ 111,374
<b>Loss from operations</b>	\$ (92,290)	\$ 16,889	\$ (75,401)
<b>Net Loss</b>	\$ (93,212)	\$ 16,843	\$ (76,369)
<b>Basic and diluted net loss per share</b>	\$ (0.66)	\$ 0.12	\$ (0.54)

	<b>Six Months Ended January 31, 2017</b>		
	<b>As Previously Reported</b>	<b>Impact of Adoption</b>	<b>As Adjusted</b>
<b>Revenue</b>	(in thousands, except per share data)		
Product	\$ 268,165	\$ 43,584	\$ 311,749
Support and other services	80,839	(4,813)	76,026
Total revenue	\$ 349,004	\$ 38,771	\$ 387,775
<b>Gross profit</b>	\$ 202,396	\$ 38,771	\$ 241,167
<b>Operating expenses</b>			
Sales and marketing expenses	\$ 240,019	\$ (20)	\$ 239,999
<b>Loss from operations</b>	\$ (228,671)	\$ 38,791	\$ (189,880)
<b>Net Loss</b>	\$ (255,381)	\$ 38,710	\$ (216,671)
<b>Basic and diluted net loss per share</b>	\$ (2.36)	\$ 0.36	\$ (2.00)

Unaudited revenue by geographic location based on bill-to location, which reflects the adoption of ASC 606, are as follows:

	<b>Three Months Ended January 31, 2017</b>		
	<b>As Previously Reported</b>	<b>Impact of Adoption</b>	<b>As Adjusted</b>
	(in thousands)		
U.S.	\$ 102,173	\$ 2,869	\$ 105,042
Europe, the Middle East and Africa	33,272	1,330	34,602
Asia-Pacific	37,382	12,561	49,943
Other Americas	9,368	259	9,627
Total revenue	\$ 182,195	\$ 17,019	\$ 199,214

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**  
**(Unaudited)**

	Six Months Ended January 31, 2017		
	As Previously Reported	Impact of Adoption	As Adjusted
	(in thousands)		
U.S.	\$ 205,044	\$ 6,166	\$ 211,210
Europe, the Middle East and Africa	57,520	2,498	60,018
Asia-Pacific	66,290	29,500	95,790
Other Americas	20,150	607	20,757
Total revenue	<u>\$ 349,004</u>	<u>\$ 38,771</u>	<u>\$ 387,775</u>

The adoption impacted certain line items in the cash flows from operating activities as follows:

	Six Months Ended January 31, 2017		
	As Previously Reported	Impact of Adoption	As Adjusted
	(in thousands)		
<b>Cash flows from operating activities:</b>			
Net loss	\$ (255,381)	\$ 38,710	\$ (216,671)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Deferred commissions	\$ (8,049)	\$ (22)	\$ (8,071)
Accrued expenses and other liabilities	\$ 1,594	\$ 83	\$ 1,677
Deferred revenue	\$ 118,143	\$ (38,771)	\$ 79,372

The core principle of ASC 606 is to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled in exchange for those goods or services. This principle is achieved through applying the following five-step approach:

- *Identification of the contract, or contracts, with a customer* — A contract with a customer exists when (i) we enter into an enforceable contract with a customer that defines each party's rights regarding the goods or services to be transferred and identifies the payment terms related to these goods or services, (ii) the contract has commercial substance and, (iii) we determine that collection of substantially all consideration for goods or services that are transferred is probable based on the customer's intent and ability to pay the promised consideration. We apply judgment in determining the customer's ability and intention to pay, which is based on a variety of factors including the customer's historical payment experience or, in the case of a new customer, published credit and financial information pertaining to the customer.
- *Identification of the performance obligations in the contract* — Performance obligations promised in a contract are identified based on the goods or services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the goods or service either on its own or together with other resources that are readily available from third parties or from us, and are distinct in the context of the contract, whereby the transfer of the goods or services is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised goods or services, we apply judgment to determine whether promised goods or services are capable of being distinct and distinct in the context of the contract. If these criteria are not met the promised goods or services are accounted for as a combined performance obligation.
- *Determination of the transaction price* — The transaction price is determined based on the consideration to which we will be entitled in exchange for transferring goods or services to the customer.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**  
**(Unaudited)**

- *Allocation of the transaction price to the performance obligations in the contract* — If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price, or SSP, basis. We determine standalone selling price based on the price at which the performance obligation is sold separately. If the standalone selling price is not observable through past transactions, we estimate the standalone selling price taking into account available information such as market conditions and internally approved pricing guidelines related to the performance obligations.
- *Recognition of revenue when, or as, we satisfy a performance obligation* — We satisfy performance obligations either over time or at a point in time as discussed in further detail below. Revenue is recognized at the time the related performance obligation is satisfied by transferring a promised good or service to a customer.

**Disaggregation of Revenue**

We generate revenue from the sale of our software solution, which can be delivered on a hardware appliance or on a stand-alone basis, PCS and professional services. A substantial portion of our revenue is generated via channel partners, including distributors and resellers. We also sell our software solution through our OEM partners, such as Dell Technologies and Lenovo Group Ltd. These OEM partners embed our software in their own hardware and we provide limited PCS on these transactions. The following table depicts the disaggregation of revenue according to revenue type and is consistent with how we evaluate our financial performance:

	Three Months Ended January 31,		Six Months Ended January 31,	
	2017	2018	2017	2018
	(in thousands)			
Software revenue	\$ 102,845	\$ 145,171	\$ 207,590	\$ 283,385
Hardware revenue	55,368	77,999	104,159	158,837
Support and other services revenue	41,001	63,574	76,026	120,074
Total revenue	<u>\$ 199,214</u>	<u>\$ 286,744</u>	<u>\$ 387,775</u>	<u>\$ 562,296</u>

*Software revenue* — A substantial majority of our product revenue is generated from the sale of our software, which is either delivered on a hardware appliance that is configured to order, or delivered as stand-alone software, which can be installed on our customers' hardware appliance that is typically purchased separately from an OEM partner or other manufacturers of our compatible hardware, including our contract manufacturers. Software revenue includes our base operating system, which can be delivered through different platforms, and licenses to other additional features which are sold by us. Revenue from our software products is generally recognized upon transfer of control to our customers.

*Hardware revenue* — In transactions where we deliver the hardware appliance, we consider ourselves to be the principal in the transaction and we record revenue and costs of goods sold on a gross basis. We consider the amount allocated to hardware revenue to be equivalent to the cost of the hardware procured. Hardware revenue is generally recognized upon transfer of control to our customers.

*Support and other services revenue* — We generate our support and other services revenue primarily from PCS contracts, and, to a lesser extent, from professional services. The majority of our product sales are sold in conjunction with PCS contracts with terms ranging from one to five years. We recognize revenue from PCS contracts ratably over the contractual service period. The service period typically commences upon transfer of control of the corresponding products to our customer. We recognize revenue related to professional services as they are performed.



**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**  
**(Unaudited)**

*Contracts with multiple performance obligations* — Some of our contracts with customers contain multiple performance obligations. For these contracts, we account for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations on a relative SSP, basis. For deliverables that we routinely sell separately, such as support and maintenance on our core offerings, we determine SSP by evaluating the stand-alone sales over the trailing 12-months. For those that are not sold routinely, we determine SSP based on our overall pricing trends and objectives, taking into consideration market conditions and other factors, including the value of our contracts, the products sold and geographic locations.

*Contract balances*—The timing of revenue recognition may differ from the timing of invoicing to customers. Accounts receivable are recorded at the invoiced amount, net of an allowance for doubtful accounts. A receivable is recognized in the period we deliver goods or provide services or when our right to consideration is unconditional. Payment terms on invoiced amounts are typically 30 days. The balance of accounts receivable, net of allowance for doubtful accounts, as of July 31, 2017 and January 31, 2018 is presented in the accompanying consolidated balance sheets.

*Costs to obtain and fulfill a contract*—We capitalize commissions paid to sales personnel and the related payroll taxes when customer contracts are signed. These costs are recorded as deferred commission expense in the condensed consolidated balance sheets, current and non-current. We determine whether costs should be deferred based on our sales compensation plans, if the commissions are incremental and would not have been incurred absent the execution of the customer contract. Sales commissions for renewals of customer contracts are not commensurate with the commissions paid for the acquisition of the initial contract given the substantive difference in commission rates in proportion to their respective contract values. Commissions paid upon the initial acquisition of a contract are amortized over the estimated period of benefit, which may exceed the term of the initial contract. Accordingly, amortization of deferred costs is recognized on a systematic basis that is consistent with the pattern of revenue recognition allocated to each performance obligation and included in sales and marketing expense in the condensed consolidated statements of operations. We determine the estimated period of benefit by evaluating the expected renewals of our customer contracts, the duration of our relationships with our customers, customer retention data, our technology development lifecycle and other factors. Deferred costs are periodically reviewed for impairment.

*Deferred revenue*— We record deferred revenue when cash payments are received in advance of our performance. The current portion of deferred revenue represents the amounts that are expected to be recognized as revenue within one year of the consolidated balance sheet date.

Significant changes in the balance of deferred revenue (contract liability) total deferred commissions (contract asset) for the periods presented are as follows:

	<u>Deferred Revenue</u>	<u>Deferred Commissions</u>
	(in thousands)	
Balance as of July 31, 2017 *	\$ 369,056	73,527
Additions	96,288	33,807
Revenue/commissions recognized	(56,500)	(25,350)
Balance as of October 31, 2017	408,844	81,984
Additions	132,730	45,782
Revenue/commissions recognized	(63,574)	(28,138)
Balance as of January 31, 2018	<u>\$ 478,000</u>	<u>\$ 99,628</u>

\* See details above for the summary of adjustments to deferred commission and deferred revenue as a result of the adoption of ASC 606.

Of the \$99.6 million total deferred commissions balance as of January 31, 2018, we expect to recognize approximately 34% as commission expense over the next 12 months and the remainder thereafter.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**  
**(Unaudited)**

During the three and six months ended January 31, 2017, we recognized approximately \$36.7 million and approximately \$55.6 million pertaining to amounts deferred as of October 31, 2016 and July 31, 2016, respectively. During the three and six months ended January 31, 2018, we recognized approximately \$55.0 million and approximately \$96.5 million pertaining to amounts deferred as of October 31, 2017 and July 31, 2017, respectively.

The majority of our contracted but not invoiced performance obligations are subject to cancellation terms. Revenue allocated to remaining performance obligations represent contracted revenue that has not yet been recognized ("contracted not recognized"), which includes deferred revenue and non-cancelable amounts that will be invoiced and recognized as revenue in future periods, and excludes performance obligations that are subject to cancellation terms. Contracted not recognized revenue was \$519.9 million as of January 31, 2018, of which we expect to recognize approximately 51% of the revenue over the next 12 months and the remainder thereafter.

**Note 4. FAIR VALUE MEASUREMENTS**

The fair value of our financial assets and liabilities measured on a recurring basis is as follows:

	As of July 31, 2017			
	Level I	Level II	Level III	Total
	(in thousands)			
<b>Financial Assets:</b>				
Cash equivalents:				
Money market funds	\$ 34,784	\$ —	\$ —	\$ 34,784
Commercial paper	—	23,041	—	23,041
Short-term investments:				
Corporate bonds	—	160,634	—	160,634
Commercial paper	—	36,084	—	36,084
U.S. government securities	—	13,976	—	13,976
Total measured at fair value	<u>34,784</u>	<u>233,735</u>	<u>—</u>	<u>268,519</u>
Cash				80,534
Total cash, cash equivalents and short-term investments				<u>\$ 349,053</u>
<b>Financial Liabilities:</b>				
Contingent consideration	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 4,295</u>	<u>\$ 4,295</u>

NUTANIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(Unaudited)

	As of January 31, 2018			
	Level I	Level II	Level III	Total
	(in thousands)			
<b>Financial Assets:</b>				
Cash equivalents:				
Money market funds	\$ 380,039	\$ —	\$ —	\$ 380,039
Commercial paper		63,529		63,529
U.S. government securities	—	25,281	—	25,281
Corporate bonds	—	2,847	—	2,847
Short-term investments:				
Corporate bonds	—	209,425	—	209,425
Commercial paper	—	74,092	—	74,092
U.S. government securities	—	24,292	—	24,292
Total measured at fair value	\$ 380,039	\$ 399,466	\$ —	779,505
Cash				138,750
Total cash, cash equivalents and short-term investments				\$ 918,255
<b>Financial Liabilities:</b>				
Contingent consideration	\$ —	\$ —	\$ 340	\$ 340

**Financial Instruments Not Recorded at Fair Value on a Recurring Basis.**

We report our financial instruments at fair value with the exception of the Notes. Financial instruments that are not reported at fair value are measured at fair value on a quarterly basis for disclosure purposes. The carrying amounts and estimated fair values of financial instruments not recorded at fair value are as follows:

	As of July 31, 2017		As of January 31, 2018	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(in thousands)			
Convertible senior notes, net	—	—	\$ 415,651	\$ 563,011

The carrying amount of the Notes as of January 31, 2018 was net of unamortized debt discount of \$150.9 million and unamortized debt issuance costs of \$8.4 million.

The total estimated fair value of the Notes was determined based on the closing trading price of the Notes as of the last day of trading for the period. We consider the fair value of the Notes to be a Level 2 measurement due to the limited trading activity of the Notes.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**  
**(Unaudited)**

A summary of the changes in the fair value of our contingent consideration, categorized as Level 3 in the fair value hierarchy, is as follows:

	<b>Six Months Ended January 31,</b>	
	<b>2017</b>	<b>2018</b>
	(in thousands)	
Contingent consideration—beginning balance	\$ —	\$ 4,295
Assumed in a business acquisition	2,371	—
Change in fair value*	472	(3,955)
Contingent consideration—ending balance	<u>\$ 2,843</u>	<u>\$ 340</u>

\* Recorded in the condensed consolidated statements of operations within general and administrative expenses

We remeasure the fair value of our Level 3 contingent consideration liability using the Monte Carlo simulation on projected future payments. The fair value is determined by calculating the net present value of the expected payments using significant inputs that are not observable in the market, including the probability of achieving the milestone, estimated bookings and discount rates. The fair value of the contingent consideration will increase or decrease according to the movement of the inputs.

**Note 5. BALANCE SHEET COMPONENTS**

**Short-Term Investments**—The amortized cost of our short-term investments approximate their fair value. As of July 31, 2017 and January 31, 2018, unrealized gains or losses from our short-term investments were immaterial. Unrealized losses related to our short-term investments are due to interest rate fluctuations as opposed to credit quality. In addition, unless we will need cash to support our current operations, we do not intend to sell and it is not likely that we would be required to sell these investments before recovery of their amortized cost basis, which may be at maturity. As a result, there were no other-than-temporary impairments for these investments at July 31, 2017 and January 31, 2018.

The following table summarizes the estimated fair value of our investments in marketable debt securities, by the contractual maturity date:

	<b>As of January 31, 2018</b>
	(in thousands)
Due within 1 year	\$ 222,640
Due after 1 year through 3 years	85,169
Total	<u>\$ 307,809</u>

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**  
**(Unaudited)**

**Property and Equipment—Net**—Property and equipment, net consists of the following:

	Estimated Useful Life (In months)	As of	
		July 31, 2017	January 31, 2018
(in thousands)			
Computer, production, engineering and other equipment	36	\$ 85,280	\$ 104,891
Demonstration units	12	46,387	51,580
Leasehold improvements	*	10,562	15,309
Furniture and fixtures	60	4,744	5,866
Total property and equipment—gross		146,973	177,646
Less accumulated depreciation and amortization		(88,901)	(108,572)
Total property and equipment—net		\$ 58,072	\$ 69,074

\* Leasehold improvements are amortized over the shorter of the estimated useful lives of the improvements or the remaining lease term.

Depreciation and amortization expense related to our property and equipment was \$9.0 million and \$10.3 million for the three months ended January 31, 2017 and 2018, respectively, and was \$17.2 million and 20.6 million for the six months ended January 31, 2017 and 2018, respectively.

**Intangible Assets—Net**—Intangible assets, net consists of the following:

	As of	
	July 31, 2017	January 31, 2018
(in thousands)		
Indefinite-lived intangible asset:		
In-process R&D*	\$ 16,100	\$ —
Finite-lived intangible assets:		
Developed technology*	7,300	23,400
Customer relationships	4,830	4,830
Total finite-lived intangible assets, gross	12,130	28,230
Total intangible assets, gross	28,230	28,230
Less:		
Accumulated amortization of developed technology	(1,314)	(3,375)
Accumulated amortization of customer relationships	(915)	(1,316)
Total accumulated amortization	(2,229)	(4,691)
Intangible assets, net	\$ 26,001	\$ 23,539

\* We started amortizing the in-process R&D during the first quarter of fiscal 2018 because the related technology was completed and released in the first quarter of fiscal 2018. We are amortizing the developed technology using the straight-line method over a useful life of 5 years. Based on the foregoing, the balance of in-process R&D is now presented as part of developed technology under finite-lived intangible assets as of January 31, 2018.

The amortization expense of finite-lived intangible assets is being recognized in the condensed consolidated statement of operations within product cost of revenue for developed technology and sales and marketing expenses for customer relationships.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**  
**(Unaudited)**

Estimated future amortization expense of finite-lived intangible assets is as follows:

<b>Year Ending July 31:</b>	<b>(In thousands)</b>
2018 (remaining six months)	\$ 2,710
2019	5,421
2020	5,421
2021	5,421
2022	4,224
Thereafter	342
<b>Total</b>	<b>\$ 23,539</b>

**Accrued Compensation and Benefits**—Accrued compensation and benefits consists of the following:

	<b>As of</b>	
	<b>July 31, 2017</b>	<b>January 31, 2018</b>
	<b>(in thousands)</b>	
Accrued commissions	\$ 20,388	\$ 24,115
Accrued vacation	6,286	7,438
Contributions to ESPP withheld	14,371	18,036
Accrued bonus	7,342	8,566
Payroll taxes payable	3,434	8,970
Other	5,700	8,185
<b>Total accrued compensation and benefits</b>	<b>\$ 57,521</b>	<b>\$ 75,310</b>

**Accrued Expenses and Other Current Liabilities**—Accrued expenses and other current liabilities consists of the following:

	<b>As of</b>	
	<b>July 31, 2017</b>	<b>January 31, 2018</b>
	<b>(in thousands)</b>	
Accrued professional services	\$ 4,167	\$ 4,273
Income taxes payable*	3,873	4,163
Other	1,667	2,805
<b>Total accrued expenses and other current liabilities</b>	<b>\$ 9,707</b>	<b>\$ 11,241</b>

\* Balance as of July 31, 2017 was adjusted to reflect the impact of the adoption of ASC 606 on income taxes. See Note 3 for a summary of adjustments.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**  
**(Unaudited)**

**Note 6. CONVERTIBLE SENIOR NOTES**

In January 2018, we issued \$575.0 million in aggregate principal amount of 0% Convertible Senior Notes due in 2023, or the Notes, in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. This included \$75.0 million in aggregate principal amount of the Notes that we issued resulting from initial purchasers fully exercising their option to purchase additional notes. There are no required principal payments prior to maturity of the Notes. The estimated total net proceeds from the Notes are as follows:

	<b>Amount</b>
	<b>(in thousands)</b>
Principal amount	\$ 575,000
Less initial purchasers' discount	(10,781)
Less cost of the bond hedges	(143,175)
Add proceeds from the sale of warrants	87,975
Less other issuance costs	(707)
Net proceeds	\$ 508,312

The \$0.7 million other issuance costs remained unpaid as of January 31, 2018. The Notes do not bear any interest and will mature on January 15, 2023, unless earlier converted or repurchased in accordance with their terms. The Notes are unsecured and do not contain any financial covenants or any restrictions on the payment of dividends, or the issuance or repurchase of securities by us.

Each \$1,000 of principal of the Notes will initially be convertible into 20.4705 shares of our Class A common stock, which is equivalent to an initial conversion price of approximately \$48.85 per share, subject to adjustment upon the occurrence of specified events. Holders of these Notes may convert their Notes at their option at any time prior to the close of business day immediately preceding October 15, 2022, only under the following circumstances:

- 1) during any fiscal quarter commencing after the fiscal quarter ending on April 30, 2018 (and only during such fiscal quarter), if the last reported sale price of our Class A common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price on each applicable trading day;
- 2) during the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price per \$1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our Class A common stock and the conversion rate for the notes on each such trading day; or
- 3) upon the occurrence of certain specified corporate events.

On or after October 15, 2022, holders may convert all or any portion of their Notes at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date regardless of the foregoing conditions.

Upon conversion of the Notes, we will pay or deliver, as the case may be, cash, shares of our Class A common stock or a combination of cash and shares of our Class A common stock, at our election. We intend to settle the principal of the Notes in cash.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**  
**(Unaudited)**

The conversion rate will be subject to adjustment in some events but will not be adjusted for any accrued or unpaid interest. A holder who converts their Notes in connection with certain corporate events that constitute a “make-whole fundamental change” per the indenture governing the Notes are, under certain circumstances, entitled to an increase in the conversion rate. In addition, if we undergo a fundamental change prior to the maturity date, holders may require us to repurchase for cash all or a portion of its Notes at a repurchase price equal to 100% of the principal amount of the repurchased Notes, plus accrued and unpaid interest.

We may not redeem the Notes prior to the maturity date, and no sinking fund is provided for the Notes.

In accounting for the issuance of the Notes, we separated the Notes into liability and equity components. The carrying amount of the liability component of approximately \$423.4 million was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The carrying amount of the equity component of approximately \$151.6 million, representing the conversion option, was determined by deducting the fair value of the liability component from the par value of the Notes. The difference between the principal amount of the Notes and the liability component (the “debt discount”) is amortized to interest expense using the effective interest method over the term of the Notes. The equity component of the Notes is included in additional paid-in capital in the consolidated balance sheet and is not remeasured as long as it continues to meet the conditions for equity classification.

We incurred transaction costs related to the issuance of the Notes of approximately \$11.5 million, consisting of initial purchasers' discount of \$10.8 million and other issuance costs of approximately \$0.7 million. In accounting for the transaction costs, we allocated the total amount incurred to the liability and equity components using the same proportions as the proceeds from the Notes. Transaction costs attributable to the liability component were approximately \$8.5 million, were recorded as debt issuance cost (presented as contra debt in the consolidated balance sheet) and are being amortized to interest expense over the term of the Notes. The transaction costs attributable to the equity component were approximately \$3.0 million and were netted with the equity component in stockholders' equity.

The Notes consisted of the following:

	<b>As of</b>
	<b>January 31, 2018</b>
	<b>(in thousands)</b>
Principal amounts:	
Principal	\$ 575,000
Unamortized debt discount <sup>(1)</sup>	(150,929)
Unamortized debt issuance costs <sup>(1)</sup>	(8,420)
Net carrying amount	<u>\$ 415,651</u>
Carrying amount of the equity component <sup>(2)</sup>	<u>\$ 148,598</u>

<sup>(1)</sup> Included in the condensed consolidated balance sheet within “Convertible senior notes—net” and amortized over the remaining life of the Notes using the effective interest rate method. The effective interest rate is 6.62%.

<sup>(2)</sup> Included in the condensed consolidated balance sheet within additional paid-in capital, net of \$3.0 million in equity issuance costs.

As of January 31, 2018, the remaining life of the Notes is approximately 59 months.

Based on the closing price of our Class A common stock of \$32.10 on January 31, 2018, the if-converted value of the Notes was less than the principal amount.



**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**  
**(Unaudited)**

The following table sets forth the total interest expense recognized related to the Notes:

	<b>Three and Six Months Ended January 31, 2018</b>	
	(in thousands)	
Interest expense related to amortization of debt discount	\$	699
Interest expense related to amortization of the debt issuance costs		39
Total interest expense	\$	738

***Note Hedges and Warrants***

Concurrently with the offering of the Notes in January 2018, we entered into convertible note hedge transactions with certain bank counterparties whereby we have the option to purchase initially (subject to adjustment for certain specified events) a total of approximately 11.8 million shares of our Class A common stock at a conversion price of approximately \$48.85 per share. The total cost of the convertible note hedge transactions was approximately \$143.2 million. In addition, we sold warrants to certain bank counterparties whereby the holders of the warrants have the option to purchase initially (subject to adjustment for certain specified events) a total of approximately 11.8 million shares of our Class A common stock at a price of \$73.46 per share. We received approximately \$88.0 million in cash proceeds from the sale of these warrants.

Taken together, the purchase of the convertible note hedges and the sale of warrants are intended to offset any actual dilution from the conversion of the Notes and to effectively increase the overall conversion price from \$48.85 to \$73.46 per share. As these transactions meet certain accounting criteria, the convertible note hedges and warrants are recorded in stockholders' equity and are not accounted for as derivatives. The net cost incurred in connection with the convertible note hedge and warrant transactions of approximately \$55.2 million was recorded as a reduction to additional paid-in capital in the consolidated balance sheet as of January 31, 2018. The fair value of the note hedges and warrants are not remeasured each reporting period. The amounts paid for the note hedges are tax deductible expenses, while the proceeds received from the warrants are not taxable.

***Impact to Earnings per Share***

The Notes will have no impact to diluted earnings per share until the average price of our Class A common stock exceeds the conversion price of \$48.85 per share because we intend to settle the principal amount of the Notes in cash upon conversion. Under the treasury stock method, in periods we report net income, we are required to include the effect of additional shares that may be issued under the Notes when the price of our Class A common stock exceeds the conversion price. Under this method, the cumulative dilutive effect of the Notes would be approximately 3.9 million shares if the average price of our Class A common stock is \$73.46. However, upon conversion, there will be no economic dilution from the Notes, as exercise of the note hedges eliminate any dilution from the Notes that would have otherwise occurred when the price of our Class A common stock exceeds the conversion price. The note hedges are required to be excluded from the calculation of diluted earnings per share, as they would be anti-dilutive under the treasury stock method.

The warrants will have a dilutive effect when the average share price exceeds the warrant's strike price of \$73.46 per share. As the price of our Class A common stock continues to increase above the warrant strike price, additional dilution would occur at a declining rate so that a \$10 increase from the warrant strike price would yield cumulative dilution of approximately 4.9 million diluted shares for EPS purposes. However, upon conversion, the note hedges would neutralize the dilution from the Notes so that there would only be dilution from the warrants, which would result in actual dilution of approximately 1.4 million shares at a common stock price of \$83.46.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**  
**(Unaudited)****Note 7. COMMITMENTS AND CONTINGENCIES**

Except for the items below, there have been no material changes to our commitments compared to the commitments described in Note 7, Commitments and Contingencies, in Notes to Consolidated Financial Statements in Item 8 of Part II of the Form 10-K for the fiscal year ended July 31, 2017.

**Purchase Commitments**—In the normal course of business, we make commitments with our third-party hardware contract manufacturers to manufacture our inventories and non-standard components based on our forecasts. These commitments consist of obligations for on-hand inventories and non-cancelable purchase orders for non-standard components. We record a charge for firm, non-cancelable and unconditional purchase commitments with our third-party hardware contract manufacturers for non-standard components when and if quantities exceed our future demand forecasts through a charge to cost of product sales. As of January 31, 2018, we had approximately \$19.3 million of non-cancelable purchase commitments pertaining to our normal operations, and approximately \$53.0 million of other purchase obligations with our contract manufacturers.

**Note 8. STOCKHOLDERS' EQUITY****Preferred Stock**

Upon the closing of our initial public offering, or IPO, in October 2016, we filed an Amended and Restated Certificate of Incorporation, which authorized the issuance of undesignated preferred stock with rights and preferences, including voting rights, designated from time to time by our Board of Directors, or the Board. As of January 31, 2018, there were 200,000,000 shares of preferred stock authorized with a par value of \$0.000025 and no shares of preferred stock issued or outstanding.

**Common Stock**

We have two classes of authorized common stock, Class A common stock and Class B common stock. As of January 31, 2018, we had 1,000,000,000 shares of Class A common stock authorized with a par value of \$0.000025 per share and 200,000,000 shares of Class B common stock authorized with a par value of \$0.000025 per share. As of January 31, 2018, 119,873,498 shares of Class A common stock were issued and outstanding and 44,192,417 shares of Class B common stock were issued and outstanding.

Holder of Class A common stock are entitled to one vote for each share of Class A common stock held on all matters submitted to a vote of stockholders and holders of Class B common stock are entitled to ten votes for each share of Class B common stock held on all matters submitted to a vote of stockholders. Except with respect to voting, the rights of the holders of Class A and Class B common stock are identical. Shares of Class B common stock are voluntarily convertible into shares of Class A common stock at the option of the holder and generally automatically convert into shares of our Class A common stock upon a transfer. Shares issued in connection with exercises of stock options, vesting of restricted stock units, or shares purchased under the employee stock purchase plan are generally automatically converted into shares of our Class A common stock. Shares issued in connection with an exercise of the common stock warrants are converted into shares of our Class B common stock.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**  
**(Unaudited)**

**Note 9. EQUITY AWARD PLANS**

**Stock Plans**—In June 2010, we adopted the 2010 Stock Plan, or the 2010 Plan, and in December 2011, we adopted the 2011 Stock Plan, or 2011 Plan. In December 2015, the Board adopted the 2016 Equity Incentive Plan, or the 2016 Plan, and together with the 2010 Plan and 2011 Plan, the Stock Plans, which was amended in September 2016. Our stockholders approved the 2016 Plan in March 2016 and it became effective in connection with our IPO in October 2016. As a result, upon the IPO, we ceased granting additional stock awards under the 2010 Plan and 2011 Plan and the 2010 Plan and 2011 Plan terminated. Any outstanding stock awards under the 2010 Plan and 2011 Plan will remain outstanding, subject to the terms of the applicable plan and award agreements, until such shares are issued under those stock awards, by exercise of stock options or settlement of RSUs, or until those stock awards become vested or expired by their terms. Under the 2016 Plan, we may grant incentive stock options, or ISOs, non-statutory stock options, or NSOs, restricted stock, or RS, restricted stock units, or RSUs, and stock appreciation rights, or SARs, to employees, directors and consultants. We have initially reserved 22,400,000 shares of our Class A common stock for issuance under the 2016 Plan. The number of shares of Class A common stock available for issuance under the 2016 Plan also includes an annual increase on the first day of each fiscal year beginning in fiscal year 2018, equal to the lesser of: 18,000,000 shares, 5% of the outstanding shares of classes of common stock as of the last day of our immediately preceding fiscal year, or such other amount as may be determined by the Board. Accordingly, on August 1, 2017, the number of shares of Class A common stock available for issuance under our 2016 Plan increased by 7,731,826 shares pursuant to these provisions. As of January 31, 2018, we had reserved a total of 52,457,925 shares for the issuance of equity awards under the Stock Plans, of which 15,095,482 shares were still available for grant.

**Restricted Stock Units**

*Performance RSUs.* We granted RSUs that contain both service and performance conditions to our executives and employees, which we refer to as Performance RSUs. Vesting of the Performance RSUs is subject to continuous service with us and satisfaction of certain of our liquidity events, including the expiration of a lock-up period established in connection with the IPO, or both certain liquidity events and specified performance targets. While we recognize cumulative stock-based compensation expense for the portion of the awards for which the service condition has been satisfied when it is probable that the performance conditions will be met, vesting and settlement of the Performance RSUs are subject to the performance conditions actually being met. During the three months ended October 31, 2016, we began to recognize Performance RSUs with liquidity event performance conditions as the satisfaction of the performance conditions for vesting became probable.

The summary of RSU activity under the Stock Plans is as follows:

	Number of Shares	Grant Date Fair Value per Share
Outstanding—July 31, 2017	17,376,090	\$ 18.85
Granted	9,214,498	\$ 32.68
Vested	(2,749,519)	\$ 18.01
Canceled/forfeited	(1,230,623)	\$ 22.86
Outstanding—January 31, 2018	<u>22,610,446</u>	<u>\$ 24.37</u>

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**  
**(Unaudited)**

**Stock Options**—We did not grant any stock options during the six months ended January 31, 2018. A total of 5,422,273 stock options were exercised during the six months ended January 31, 2018 for an average exercise price of \$3.58. As of January 31, 2018, 14,717,817 stock options with a weighted-average exercise price \$4.91 per share, weighted-average remaining contractual life of 6.14 years, and aggregate intrinsic value of \$400.2 million remained outstanding.

**Employee Stock Purchase Plan**—In December 2015, the Board adopted the 2016 Employee Stock Purchase Plan, or the 2016 ESPP, which was subsequently amended in January 2016 and September 2016 and was approved by our stockholders in March 2016. The 2016 ESPP became effective in connection with our IPO. A total of 3,800,000 shares of Class A common stock were initially reserved for issuance under the 2016 ESPP. The number of shares of Class A common stock available for sale under the 2016 ESPP also includes an annual increase on the first day of each fiscal year beginning in fiscal 2018, equal to the lesser of: 3,800,000 shares, 1% of the outstanding shares of classes of common stock as of the last day of our immediately preceding fiscal year, or such other amount as may be determined by the Board. Accordingly, on August 1, 2017, the number of shares of Class A common stock available for issuance under 2016 ESPP increased by 1,546,365 shares pursuant to these provisions.

The 2016 ESPP allows eligible employees to purchase shares of our Class A common stock at a discount through payroll deductions of up to 15% of eligible compensation, subject to caps of \$25,000 in any calendar year and 1,000 shares on any purchase date. The 2016 ESPP provides for 12-month offering periods generally beginning March and September of each year, and each offering period consists of two six-month purchase periods.

On each purchase date, participating employees will purchase Class A common stock at a price per share equal to 85% of the lesser of the fair market value of our Class A common stock on (i) the first trading day of the applicable offering period and (2) the last trading day of each purchase period in the applicable offering period. If the stock price of our Class A common stock on any purchase date in an offering period is lower than the stock price on the enrollment date of that offering period, the offering period will immediately reset after the purchase of shares on such purchase date and automatically roll into a new offering period.

For the six months ended January 31, 2018, 1,261,104 shares of common stock were purchased for an aggregate amount of \$17.4 million. As of January 31, 2018, 2,839,207 shares were available for future issuance under the 2016 ESPP.

We use the Black-Scholes option-pricing model to determine the fair value of shares purchased under the 2016 ESPP with the following weighted-average assumptions on the date of grant:

	<b>Six Months Ended January 31,</b>	
	<b>2017</b>	<b>2018</b>
Expected term (in years)	0.75	0.75
Risk-free interest rate	0.6%	1.25%
Volatility	50.6%	50.2%
Dividend yield	—%	—%

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**  
**(Unaudited)**

**Stock-Based Compensation** —Total stock-based compensation expense recognized for stock awards in the consolidated statements of operations is as follows (in thousands):

	Three Months Ended January 31,		Six Months Ended January 31,	
	2017	2018	2017	2018
	(in thousands)		(in thousands)	
Cost of revenue:				
Product	\$ 848	\$ 684	\$ 1,814	\$ 1,254
Support and other services	2,389	2,133	5,739	4,205
Sales and marketing	15,528	15,942	49,419	29,708
Research and development	28,759	17,023	62,785	32,565
General and administrative	5,083	6,229	23,578	9,794
Total stock-based compensation expense	<u>\$ 52,607</u>	<u>\$ 42,011</u>	<u>\$ 143,335</u>	<u>\$ 77,526</u>

Stock-based compensation expense for the six months ended January 31, 2017 included cumulative stock-compensation expense related to stock awards with performance conditions, which vesting was deemed probable in the first quarter of fiscal 2017 upon the successful completion of our IPO. Prior to fiscal 2017, no expense was recognized related to these stock awards with performance conditions as vesting was not deemed probable. The cumulative stock-based compensation expense recorded in the first quarter of fiscal 2017 was for the portion of the awards for which the relevant service condition had been satisfied and we have continued to recognize the remaining expense over the remaining service period. Stock-based compensation expense related to stock awards without performance conditions is recognized on a straight-line basis over the requisite service period.

As of January 31, 2018, unrecognized stock-based compensation expense related to the outstanding stock awards was approximately \$483.8 million and is expected to be recognized over a weighted-average period of approximately 2.7 years.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**  
**(Unaudited)****Note 10. INCOME TAXES**

The income tax provisions of \$0.5 million and \$0.7 million for the three and six months ended January 31, 2017, respectively, primarily consisted of foreign taxes on our international operations and U.S. state income taxes, offset by the partial release of \$1.5 million of the U.S. valuation allowance in connection with a business acquisition completed during the six months ended January 31, 2017 and tax benefit related to the early adoption of ASU 2016-09. The net deferred tax liability recorded in connection with a business acquisition completed during the six months ended January 31, 2017 provided an additional source of taxable income to support the realizability of the pre-existing deferred tax assets and as a result, we released a portion of the U.S. valuation allowance. The income tax provisions of \$1.9 million and \$4.2 million for the three and six months ended January 31, 2018, respectively, primarily consisted of foreign taxes on our international operations. We continue to maintain a valuation allowance for its U.S. Federal and state deferred tax assets.

On December 22, 2017, the Tax Cuts and Jobs Act, or TCJA, was signed into federal law, which among other changes reduces the federal corporate tax rate to 21%. We do not expect the TCJA to have a material impact on our financial statements due to our valuation allowance in the U.S. Based on our analysis, U.S. deferred tax assets have been revalued from 34% to 21% with a corresponding offset to the valuation allowance. This resulted in a significant reduction to our net U.S. deferred tax assets and valuation allowance and an immaterial impact to income tax provision due to the valuation allowance on net US deferred tax assets. Pursuant to SEC Staff Accounting Bulletin 118, which provides guidance on accounting for the tax effects of the TJCA, we will continue to evaluate the impact of various domestic and international provisions of the TCJA as well as the impact of additional guidance that may be provided, to assess the full effects on our financial results, including disclosures for our fiscal year ending July 31, 2018.

We have not yet made a policy election with respect to our treatment of potential global intangible low-taxed income, or GILTI. Companies can either account for taxes on GILTI as incurred or recognize deferred taxes when basis differences exist that are expected to affect the amount of the GILTI inclusion upon reversal. We are still in the process of analyzing the provisions of the Act associated with GILTI and the expected impact of GILTI on us in the future.

In connection with the transition from a global to a territorial U.S. tax system, companies are required to pay a one-time transition tax on deemed repatriated earnings of Non-US subsidiaries. The tax is to be computed using our total foreign post-1986 earnings and profits that were previously deferred from U.S. income taxes. We did not have any deemed repatriation tax liability due to consolidated foreign deficit. The provisional amount may change during the one-year measurement period when we finalize the calculation of post-1986 foreign earnings and profits and the amount of foreign earnings held in cash or other specified assets.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**  
**(Unaudited)**

**Note 11. NET LOSS PER SHARE**

We compute basic net income (loss) per share using the weighted average number of common shares outstanding during the period. We compute diluted net income (loss) per share using the weighted average number of common shares and dilutive potential common shares outstanding during the period. Dilutive potential common shares include shares issuable upon the exercise of stock options, the exercise of common stock warrants, the vesting of RSUs, and each purchase under our 2016 ESPP, under the treasury stock method.

In loss periods, basic net loss per share and diluted net loss per share are the same since the effect of potential common shares is anti-dilutive and therefore excluded.

The rights, including the liquidation and dividend rights, of the holders of our Class A and Class B common stock are identical, except with respect to voting. As the liquidation and dividend rights are identical, our undistributed earnings or losses are allocated on a proportionate basis among the holders of both Class A and Class B common stock. As a result, the net income (loss) per share attributed to common stockholders will, therefore, be the same for both Class A and Class B common stock on an individual or combined basis.

**Net Loss Per Share Attributable to Class A and Class B Common Stockholders**—The computation of basic and diluted net loss per share is as follows (in thousands, except share and per share data):

	Three Months Ended January 31,		Six Months Ended January 31,	
	2017 *As Adjusted	2018	2017 *As Adjusted	2018
<b>Numerator:</b>				
Net loss	\$ (76,369)	\$ (62,631)	\$ (216,671)	\$ (124,118)
<b>Denominator:</b>				
Weighted-average shares—basic and diluted	141,996,600	161,737,428	108,185,194	159,251,964
Net loss per share attributable to common stockholders— basic and diluted	\$ (0.54)	\$ (0.39)	\$ (2.00)	\$ (0.78)

\* See Note 3 for a summary of adjustments related to the adoption of the new revenue recognition standard.

The potential shares of common stock that were excluded from the computation of diluted net loss per share attributable to common stockholders for the periods presented because including them would have been anti-dilutive are as follows:

	Three and Six Months Ended January 31,	
	2017	2018
Outstanding stock options and RSUs	44,813,334	37,328,263
Employee stock purchase plan	2,304,960	2,031,761
Common stock subject to repurchase	551,750	107,631
Common stock warrants	51,270	34,180
<b>Total</b>	<b>47,721,314</b>	<b>39,501,835</b>

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**  
**(Unaudited)**

**Note 12. SEGMENT INFORMATION**

Our chief operating decision maker is a group which is comprised of our Chief Executive Officer and Chief Financial Officer. This group reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. Accordingly, we have a single reportable segment.

The following table sets forth revenue by geographic location based on bill-to location:

	Three Months Ended January 31,		Six Months Ended January 31,	
	2017 *As Adjusted	2018	2017 *As Adjusted	2018
	(in thousands)		(in thousands)	
U.S.	\$ 105,042	\$ 165,775	\$ 211,210	\$ 353,140
Europe, the Middle East and Africa	34,602	51,729	60,018	89,173
Asia-Pacific	49,943	59,293	95,790	104,152
Other Americas	9,627	9,947	20,757	15,831
Total revenue	\$ 199,214	\$ 286,744	\$ 387,775	\$ 562,296

\* See Note 3 for a summary of adjustments related to the adoption of the new revenue recognition standard.

Pursuant to our arrangement with one of our OEMs, prior to the fourth quarter of fiscal 2017, billings to such OEM were entirely attributed to Asia-Pacific. Beginning in the fourth quarter of fiscal 2017, billings to such OEM were attributed to various geographic locations.

As of July 31, 2017 and January 31, 2018, \$63.3 million and \$71.9 million, respectively, of our net long-lived assets were located in the U.S.

**Note 13. RELATED PARTY TRANSACTIONS**

We enter into various transactions with our related parties in the normal course of business. During the three months ended January 31, 2017 and 2018, our purchases of goods or services from related parties totaled \$0.5 million and \$4.6 million, respectively. During the six months ended January 31, 2017 and 2018, our purchases of goods and services from related parties totaled \$0.7 million and \$5.0 million, respectively. We did not have any payables outstanding to related parties as of July 31, 2017 and outstanding payables to related parties as of January 31, 2018 were immaterial. Revenue from related parties for the three months ended January 31, 2017 and 2018 were immaterial. Revenue from related parties for the six months ended January 31, 2017 and 2018 were \$0.1 million and \$0.3 million, respectively. We did not have any receivables outstanding from related parties as of July 31, 2017 and January 31, 2018.

One member of our Board is affiliated with Lightspeed Venture Partners. As of January 31, 2018, entities affiliated with Lightspeed Venture partners owned approximately 7.1% of all our outstanding Class A common stock and Class B common stock combined.



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(Unaudited)**Note 14. SUBSEQUENT EVENTS*****Minjar Inc.***

In February 2018, we executed a definitive agreement pursuant to which we agreed to acquire Minjar Inc., or MI, a privately held Delaware corporation with its principal offices in Bangalore, India. The closing of the acquisition is subject to customary closing conditions. MI is a cloud technology solutions company. The acquisition of MI will complement and enhance our products, allowing us to offer customers new capabilities to better manage their multi-cloud deployments. Pursuant to the terms of the definitive agreement, all outstanding shares of MI capital stock, and all in-the-money options and warrants to purchase MI capital stock will be purchased or canceled in exchange for an aggregate purchase price of approximately \$23.8 million in cash, subject to certain adjustments. Certain portions of the consideration for the acquisition will be placed in escrow to secure the indemnification obligations of certain MI security holders. In addition, a portion of the aggregate consideration payable to certain key MI employees will be subject to employee holdback or deferred payment arrangements, which will be accounted for as compensation because the key employees will need to continue to provide service to receive payments. The definitive agreement contains customary representations, warranties and covenants by us and MI.

***Netsil Inc.***

In March 2018, we executed a definitive agreement pursuant to which we agreed to acquire Netsil Inc., or NI, a privately held Delaware corporation headquartered in San Francisco, California. The closing of the acquisition is subject to customary closing conditions. NI provides application discovery and operations management. The acquisition of NI represents an opportunity for us to accelerate our ability to deliver native multi-cloud operations with the addition of application discovery and operations management. Under the terms of the definitive agreement, between 85% and 100% of the consideration will be payable in shares of our Class A common stock, depending on the accredited investor status of NI's equity holders. As a result, upon consummation of the acquisition, we expect to issue at least 1,210,662 and up to approximately 1,424,308 shares of Class A common stock, subject to certain customary adjustments, in exchange for all of the capital stock, warrants and other vested rights to acquire or receive capital stock of NI, including vested stock options of NI. Certain portions of the consideration for the acquisition (both cash and shares of our Class A common stock) will be held in escrow to secure the indemnification obligations of certain NI security holders. In addition, a portion of the aggregate consideration payable to certain key NI employees will be subject to employee holdback arrangements, which will be accounted for as compensation because the key employees will need to continue to provide service to receive payments. The definitive agreement contains customary representations, warranties and covenants by us and NI.

In June 2016, and prior to our consideration of NI as an acquisition target, Mr. Dheeraj Pandey, our CEO, made a personal investment in NI, which he still holds. As a shareholder of NI, Mr. Pandey will receive approximately 0.59% of the aggregate acquisition consideration, or approximately 8,400 shares of our Class A common stock, as a result of the acquisition, subject to certain customary adjustments. Following the acquisition, Mr. Pandey intends to donate all of the gains on his investment in NI to charity.

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

*The following discussion and analysis of our financial condition, results of operations and cash flows should be read in conjunction with the (1) unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q, and (2) the audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the fiscal year ended July 31, 2017 included in our Annual Report on Form 10-K filed on September 18, 2017. The last day of our fiscal year is July 31. Our fiscal quarters end on October 31, January 31, April 30 and July 31. This discussion contains forward-looking statements based upon current expectations 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", set forth in Part II, Item 1A of this Form 10-Q. See "Special Note Regarding Forward-Looking Statements" above.*

### Overview

We provide a leading next-generation enterprise cloud operating system that converges traditional silos of server, virtualization, storage and networking into one integrated solution and unifies private and public cloud into a single software fabric. Our software delivers the agility, scalability and pay-as-you-grow economics of the public cloud, while addressing enterprise requirements of application mobility, security, data integrity and control. We provide our customers with the flexibility to selectively utilize the public cloud for suitable workloads and specific use cases by enabling increasing levels of application mobility across private and public clouds. We have combined advanced web-scale technologies with elegant consumer-grade design to deliver a powerful enterprise cloud operating system that elevates IT organizations by enabling them to focus on the applications and services that power their businesses. Our invisible infrastructure provides constant availability and low-touch management, enables application mobility across computing environments and reduces inefficiencies in IT planning.

Our solution can be delivered either as an appliance that is configured to order or as software-only. When end-customers purchase our operating system, they typically also purchase one or more years of support and maintenance in order to receive software upgrades, bug fixes and, where applicable, parts replacement. Product revenue is generated primarily from the sales of our solution, and is generally recognized upon transfer of control to the customers. Support and other services revenue is primarily derived from the related support and maintenance contracts, and is recognized ratably over the term of the support contracts. Delivery of our solution through appliance sales have comprised the bulk of our historical product revenue; however, starting in the first quarter of fiscal year 2018, we began the process of transitioning our business to focus primarily on software-only sales, which we expect to complete in a year and a half.

We had a broad and diverse base of over 8,800 end-customers as of January 31, 2018, including over 600 Global 2000 enterprises. We define the number of end-customers as the number of end-customers for which we have received an order by the last day of the period, excluding partners to which we have sold products for their own demonstration purposes. A single organization or customer may represent multiple end-customers for separate divisions, segments or subsidiaries. Since shipping our first product in fiscal 2012, our end-customer base has grown rapidly. The number of end-customers grew from over 5,300 as of January 31, 2017 to over 8,800 as of January 31, 2018. Our operating system is primarily sold through channel partners, including distributors and resellers, and original equipment manufacturers, or OEMs, and delivered directly to our end-customers. A major part of our sales and marketing investment is to educate our end-customers about the benefits of our solution, particularly as we continue to pursue large enterprises and mission critical workloads. Our solutions serve a broad range of workloads, including enterprise applications, databases, virtual desktop infrastructure, or VDI, unified communications and big data analytics and we have recently announced the capability to support both virtualized and non-virtualized applications. We have end-customers across a broad range of industries, such as automotive, consumer goods, education, energy, financial services, healthcare, manufacturing, media, public sector, retail, technology and telecommunications. We also sell to service providers, who utilize our operating system to provide a variety of cloud-based services to their customers.

We continue to invest heavily in the growth of our business, including the development of our solutions and build-out of our global sales force. The number of our full-time employees increased from 2,559 as of January 31, 2017 to 3,233 as of January 31, 2018. We have recruited an engineering team focused on distributed systems and IT infrastructure technologies at our San Jose, California headquarters and at our research and development centers in Bangalore, India, Durham, North Carolina and Seattle, Washington. We have also expanded our international sales and marketing presence by continuing to build out our global teams. We intend to continue to invest in our global engineering team to enhance the functionality of our operating system, introduce new products and features and build upon our technology leadership, as well as continue to expand our global sales and marketing teams.

Our total revenue was \$387.8 million and \$562.3 million for the six months ended January 31, 2017 and 2018, respectively, representing year-over-year growth of 45.0%. Our net losses were \$216.7 million and \$124.1 million for the six months ended January 31, 2017 and 2018, respectively. Net cash generated from operations was \$23.9 million and \$56.5 million for the six months ended January 31, 2017 and January 31, 2018, respectively. Free cash flow was an outflow of \$0.7 million for the six months ended January 31, 2017 and was an inflow of \$24.5 million for the six months ended January 31, 2018. As of January 31, 2018, we had an accumulated deficit of \$855.1 million.

In January 2018, we issued \$575.0 million in aggregate principal amount of 0% Convertible Senior Notes due in 2023, or the Notes. The total net proceeds from this offering, after deducting the initial purchasers' discount of approximately \$10.8 million, were approximately \$564.2 million. Approximately \$55.2 million of the proceeds were used for the cost of the convertible note hedge transactions as partially offset by the proceeds from the warrant transactions. We incurred approximately \$0.7 million of other issuance costs which remained unpaid as of January 31, 2018. The remaining net proceeds from the Notes will be used for general corporate purposes, including working capital, capital expenditures and potential acquisitions.

### New Accounting Standard

We adopted the new accounting standard related to revenue recognition effective August 1, 2017. Prior period information presented here has been adjusted to reflect the adoption of this new standard. See Note 3 of Part I, Item 1 of this Quarterly Report on Form 10-Q for the summary of adjustments.

### Key Financial and Performance Metrics

We monitor the following key financial and performance metrics:

	As of and for the			
	Three Months Ended January 31,		Six Months Ended January 31,	
	2017	2018	2017	2018
	(Dollars in thousands)			
Total revenue	\$ 199,214	\$ 286,744	\$ 387,775	\$ 562,296
Billings	\$ 227,380	\$ 355,900	\$ 467,147	\$ 671,240
Gross profit	\$ 122,368	\$ 178,216	\$ 241,167	\$ 345,146
Adjusted gross profit	\$ 125,965	\$ 182,197	\$ 249,318	\$ 352,664
Gross margin	61%	62%	62%	61%
Adjusted gross margin	63%	64%	64%	63%
Total deferred revenue	\$ 303,863	\$ 478,000	\$ 303,863	\$ 478,000
Net cash provided by operating activities	\$ 19,752	\$ 46,395	\$ 23,912	\$ 56,502
Free cash flow	\$ 7,051	\$ 32,367	\$ (704)	\$ 24,509
Non-GAAP operating expenses	147,865	202,396	293,706	394,999
Total end-customers	5,382	8,870	5,382	8,870

## Non-GAAP Financial Measures and Key Performance Measures

We regularly monitor billings, adjusted gross profit, adjusted gross margin, free cash flow and non-GAAP operating expenses, which are non-GAAP financial measures and key performance measures, to help us evaluate our growth and operational efficiencies, measure our performance and identify trends in our sales activity, and establish our budgets. We evaluate these measures because they:

- are used by our management and board of directors to understand and evaluate our performance and trends as well as provide a useful measure for period-to-period comparisons of our core business;
- are widely used by investors and other parties in understanding and evaluating companies in our industry as a measure of financial performance; and
- are used by management to prepare and approve our annual budget and to develop short-term and long-term operational and compensation plans, as well as to assess the extent of achievement of goals.

Billings is a performance measure which our management believes provides useful information to investors because it represents the amounts under binding purchase orders received by us during a given period that have been billed. Free cash flow is a performance measure that our management believes provides useful information to management and investors about the amount of cash (used in) generated by the business after necessary capital expenditures. Adjusted gross profit, adjusted gross margin and non-GAAP operating expense are performance measures which our management believes provides useful information to investors because they provide meaningful supplemental information regarding our performance and liquidity by excluding certain expenses and expenditures, such as stock-based compensation expense that may not be indicative of our ongoing core business operating results. We use these non-GAAP financial and key performance measures for financial and operational decision-making and as a means to evaluate period-to-period comparisons. Billings, adjusted gross profit, adjusted gross margin, free cash flow and non-GAAP operating expenses have limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our results as reported under GAAP. Billings, adjusted gross profit, adjusted gross margin, free cash flow and non-GAAP operating expenses are not substitutes for total revenue, gross profit, gross margin, cash (used in) provided by operating activities, or GAAP operating expenses, respectively. In addition, other companies, including companies in our industry, may calculate non-GAAP financial measures and key performance measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of our non-GAAP financial measures and key performance measures as tools for comparison. We urge you to review the reconciliation of our non-GAAP financial measures and key performance measures to the most directly comparable GAAP financial measures included below, and not to rely on any single financial measure to evaluate our business.

We calculate our non-GAAP measures as follows:

**Billings**—We calculate billings by adding the change in deferred revenue (net of acquisitions) between the start and end of the period to total revenue recognized in the same period.

**Adjusted gross profit and adjusted gross margin**—We calculate adjusted gross margin as adjusted gross profit divided by total revenue. We define adjusted gross profit as our gross profit adjusted to exclude stock-based compensation and amortization of acquired intangible assets. Our presentation of adjusted gross profit should not be construed as implying that our future results will not be affected by any recurring expenses or any unusual or non-recurring items that we exclude from our calculation of this non-GAAP financial measure.

**Free cash flow**—We calculate free cash flow as net cash (used in) provided by operating activities less purchases of property and equipment, which measures our ability to generate cash from our business operations after our capital expenditures.

**Non-GAAP operating expenses**—We define non-GAAP operating expenses as total operating expenses adjusted to exclude stock-based compensation and costs associated with business acquisitions (such as amortization of acquired intangible assets, revaluation of contingent consideration and other acquisition-related costs). Our presentation of non-GAAP operating expenses should not be construed as implying that our future results will not be affected by any recurring expenses or any unusual or non-recurring items that we exclude from our calculation of this non-GAAP financial measure.

The following table presents a reconciliation of billings, adjusted gross profit, adjusted gross margin, free cash flow and non-GAAP operating expenses to the most directly comparable GAAP financial measures, for each of the periods indicated:

	Three Months Ended January 31,		Six Months Ended January 31,	
	2017	2018	2017	2018
	(Dollars in thousands)			
Total revenue	\$ 199,214	\$ 286,744	\$ 387,775	\$ 562,296
Change in deferred revenue (net of acquisitions)	28,166	69,156	79,372	108,944
Billings (non-GAAP)	<u>\$ 227,380</u>	<u>\$ 355,900</u>	<u>\$ 467,147</u>	<u>\$ 671,240</u>
Gross profit	\$ 122,368	\$ 178,216	\$ 241,167	\$ 345,146
Stock-based compensation	3,237	2,817	7,553	5,459
Amortization of intangible assets	360	1,164	598	2,059
Adjusted gross profit (non-GAAP)	<u>\$ 125,965</u>	<u>\$ 182,197</u>	<u>\$ 249,318</u>	<u>\$ 352,664</u>
Gross margin	61%	62%	62%	61%
Stock-based compensation	2%	1%	2%	1%
Amortization of intangible assets	—%	1%	—%	1%
Adjusted gross margin (non-GAAP)	<u>63%</u>	<u>64%</u>	<u>64%</u>	<u>63%</u>
Net cash provided by operating activities	\$ 19,752	\$ 46,395	\$ 23,912	\$ 56,502
Purchases of property and equipment	(12,701)	(14,028)	(24,616)	(31,993)
Free cash flow (non-GAAP)	<u>\$ 7,051</u>	<u>\$ 32,367</u>	<u>\$ (704)</u>	<u>\$ 24,509</u>
Operating expenses	\$ 197,769	\$ 238,073	\$ 431,047	\$ 464,042
Stock-based compensation	(49,370)	(39,194)	(135,782)	(72,067)
Change in fair value of contingent consideration	(286)	4,237	(472)	3,955
Amortization of intangible assets	(248)	(192)	(415)	(403)
Business acquisition-related costs	—	(528)	(672)	(528)
Operating expenses (non-GAAP)	<u>\$ 147,865</u>	<u>\$ 202,396</u>	<u>\$ 293,706</u>	<u>\$ 394,999</u>

## **Factors Affecting Our Performance**

We believe that our future success will depend on many factors, including those described below. While these areas present significant opportunity, they also present risks that we must manage to achieve successful results. See the section titled “Risk Factors.” If we are unable to address these challenges, our business and operating results could be adversely affected.

### ***Investment in Growth***

We plan to continue to invest in sales and marketing so that we can capitalize on our market opportunity, and as part of this, we intend to specifically expand our focus on opportunities with major accounts and large deals, which we define as transactions over \$500,000 in committed value. We have significantly increased our sales and marketing personnel, which grew by approximately 30% from January 31, 2017 to January 31, 2018. We estimate, based on past experience, that sales team members typically become fully ramped around the time of the start of their fourth quarter of employment with us, and as our newer employees ramp up, we expect their increased productivity to contribute to our revenue growth. As of January 31, 2018, we considered approximately 65% of our global sales team members to be fully productive, while the remaining approximately 35% of our global sales team members are in the process of ramping up. As we shift the focus of some of our new and existing sales team members to major accounts and large deals, it may take longer for these sales team members to become fully productive, and there may also be an impact to the overall productivity of our sales team. We are focused on actively managing this realignment, and expect continuing improvement over the coming quarters. We intend to continue to grow our global sales and marketing team to acquire new end-customers and to increase sales to existing end-customers.

We also intend to continue to grow our research and development and global engineering team to enhance our solutions, improve integration with new and existing ecosystem partners, and broaden the range of IT infrastructure technologies that we converge into our operating system. We believe that these investments will contribute to our long-term growth, although they may adversely affect our profitability in the near term.

### ***Market Adoption of Our Products***

The public cloud has changed IT buyer expectations about the simplicity, agility, scalability and pay-as-you-grow economics of IT resources, which represent a major architectural shift and business model evolution. A key focus of our sales and marketing efforts is creating market awareness about the benefits of our operating system, both as compared to traditional data center architectures as well as the public cloud, particularly as we continue to pursue large enterprises and mission critical workloads. The broad nature of the technology shift that our operating system represents and the relationships our end-customers have with existing IT vendors sometimes lead to unpredictable sales cycles, which we hope to compress and stabilize as market adoption increases, as we gain leverage with our channel partners and as our sales and marketing efforts expand. Our business and operating results will be significantly affected by the degree to and speed with which organizations adopt our operating system.

### ***Leveraging Channel and OEM Partners***

We plan to continue to strengthen and expand our network of channel and OEM partners to increase sales to both new and existing end-customers. We believe that increasing channel leverage by investing aggressively in sales enablement and co-marketing with our partners will extend and improve our engagement with a broad set of end-customers. Our business and results of operations will be significantly affected by our success in leveraging and expanding our network of channel and OEM partners.

### ***Continued Purchases and Upgrades within Existing Customer Base***

Our end-customers typically deploy our technology for a specific workload initially. After a new end-customer's initial order, which includes the product and associated maintenance, support and services, we focus on expanding our footprint by serving more workloads. We also generate recurring revenue from our support and maintenance renewals. We view continued purchases and upgrades as critical drivers of our success, as the sales cycles are typically shorter compared to new end-customer deployments and selling efforts are typically less. As of January 31, 2018, approximately 70% of our end-customers who have been with us for 18 months or longer have made a repeat purchase, which is defined as any purchase activity, including support and maintenance renewals, subsequent to the initial purchase. Additionally, end-customers who have been with us for 18 months or longer have total lifetime orders (which includes the initial order) to date in an amount that is more than 4.1x greater, on average, than their initial order. This number increases to approximately 8.0x, on average, for Global 2000 end-customers who have been with us for 18 months or longer, and to more than 16.1x, on average, for our top 25 end-customers as of January 31, 2018. The multiples exclude the effect of one end-customer who had a very large and irregular purchase pattern that we believe is not representative of the purchase patterns of all our other end-customers. Our business and operating results will depend on our ability to sell additional products to our current existing and future base of end-customers.

### ***Changes in Product Mix and Associated Accounting Impact***

Shifts in the mix of whether our solutions are sold as an appliance or as software-only could result in fluctuations in our revenue and gross margins. Software-only sales typically reflect higher gross margins and lower revenue in a given period, since the sale does not include the revenue or cost of the hardware components in an appliance. Historically, most of our solutions have been delivered on an appliance and our revenue thus included the revenue associated with the hardware from such appliances. However, starting in the first quarter of fiscal year 2018, we began the process of transitioning our business to focus primarily on software-only sales and thus selling less hardware. As a result, we expect there to be an overall product mix shift towards sales of our solutions as software-only licenses, which we expect will be reflected in corresponding changes to our revenue and gross margins.

Revenue for the solutions, whether sold on an appliance, or as a stand-alone software are generally recognized upon transfer of control to our customers. For additional information on our revenue recognition, see Note 3 of Part I, Item 1 of this Quarterly Report on Form 10-Q.

### ***Revenue from Contracts with Customers***

In May 2014, the Financial Accounting Standards Board, or FASB, issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), or ASC 606. The standard is a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. The FASB issued several amendments to the standard, including clarifications on disclosure of prior-period performance obligations and remaining performance obligations.

The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). The new standard would have been effective for us beginning August 1, 2018, and adoption as of the original effective date of August 1, 2017 was permitted. We elected to early adopt the standard effective August 1, 2017 using the full retrospective method, which required us to recast our historical financial information to be consistent with the new standard. The most significant impact of the standard related to the timing of revenue recognition for certain software licenses sold with post contract support, or PCS, for which we did not have vendor specific objective evidence, or VSOE, under the previous revenue recognition guidance. Under the new standard, the requirement to have VSOE for undelivered elements is eliminated and we will recognize revenue for such software licenses upon transfer of control to our customers. In addition, the adoption of ASC 606 also resulted in differences in the timing of recognition of contract costs, such as sales commissions, as well as the corresponding impacts to provision for income taxes. For additional information on the impacts to previously reported results, see Note 3 of Part I, Item 1 of this Quarterly Report on Form 10-Q.

## Components of Our Results of Operations

Our results of operations for the three and six months ended January 31, 2017 included (i) significant cumulative stock-based compensation expense related to stock awards with performance conditions, referred to as the performance stock awards, due to our initial public offering, or IPO, and (ii) the impact of business acquisitions, which closed during the six months ended January 31, 2017. Beginning in the fiscal year ended July 31, 2014, we began granting performance stock awards with vesting subject to (i) continuous service with us and (ii) satisfaction of one or more performance conditions (a liquidity event or both a liquidity event and certain performance targets). As a result of our IPO, we began to recognize stock-based compensation expense related to these performance stock awards during the three months ended October 31, 2016 as the performance condition, a liquidity event or IPO, was deemed probable of achievement. The cumulative stock-based compensation expense recognized in the first quarter of fiscal 2017 was approximately \$83.0 million and it was for the portion of the awards for which the relevant service condition had been satisfied. We continue to amortize the remaining expense over the remaining service period. Amortization during the three and six months ended January 31, 2018 related to these performance stock awards was approximately \$6.0 million and \$12.3 million, respectively.

### Revenue

We generate revenue from the sale of our software solution, which can be delivered on a hardware appliance or on a stand-alone basis, PCS and professional services. A substantial portion of sales are made via channel partners. We also generate a significant portion of our revenue through OEM relationships, such as with Dell Technologies and Lenovo Group Ltd. These OEMs embed our software in their own hardware and we provide limited PCS on these transactions.

**Product revenue**—A substantial majority of our product revenue is generated from the sale of our software operating system, which can be delivered on a hardware appliance that is configured to order, or sold as stand-alone software, for which our customers separately procure their own hardware appliance. Revenue from our software products delivered on a hardware appliance, or as stand-alone software is generally recognized upon transfer of control to our customers, which is typically upon shipment for sales including a hardware appliance. In our standard distributor or reseller agreements, title and risk of loss pass to customer upon shipment.

**Support and other services revenue**—We generate our support and other services revenue primarily from support and maintenance contracts, and, to a lesser extent, from professional services. The majority of our product sales are sold in conjunction with support and maintenance contracts with terms ranging from one to five years. We recognize revenue from support and maintenance contracts ratably over the contractual service period. The service period typically commences upon transfer of control of the corresponding products to our customer. We recognize revenue related to professional services as they are performed.

### Cost of Revenue

**Cost of product revenue.** Cost of product revenue consists of costs paid to third-party contract manufacturers, which includes hardware costs, personnel costs (consisting of salaries, benefits, bonuses and stock-based compensation) associated with our operations function and allocated costs (which consist of certain facilities, depreciation and amortization, recruiting, and information technology costs allocated based on headcount). We expect our cost of product revenue to decrease as a percentage of revenue as we expect an increasing percentage of our sales to move to software-only model.

**Cost of support and other services revenue.** Cost of support and other services revenue includes personnel and operating costs associated with our global customer support organization as well as allocated costs. We expect our cost of support and other services revenue to increase in absolute dollars as our support and other services revenue increases.



## **Operating Expenses**

Our operating expenses consist of sales and marketing, research and development, 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 expense.

**Sales and marketing.** Sales and marketing expense consists primarily of personnel costs. Sales and marketing expense also includes sales commissions, costs for promotional activities and other marketing costs, travel costs, and costs associated with demonstration units, including depreciation and allocated costs. Commissions are deferred and recognized as we recognize the associated revenue. We expect sales and marketing expense to continue to increase in absolute dollars as we increase the size of our global sales and marketing organizations. Our sales and marketing expense may fluctuate as a percentage of total revenue.

**Research and development.** Research and development expense primarily consists of personnel costs, as well as other direct and allocated costs. We have devoted our product development efforts primarily to enhancing the functionality and expanding the capabilities of our solutions. Research and development costs are expensed as incurred. We expect research and development expense to increase in absolute dollars as we continue to invest in our future products and services, although our research and development expense may fluctuate as a percentage of total revenue.

**General and administrative.** General and administrative expense consists primarily of personnel costs, which include our executive, finance, human resources and legal organizations. General and administrative expense also includes outside professional services, which consists primarily of legal, accounting and other consulting costs, as well as insurance and other costs associated with being a public company and allocated costs. We expect general and administrative expense to increase in absolute dollars particularly due to additional legal, accounting, insurance and other costs associated with our growth, although our general and administrative expense may fluctuate as a percentage of total revenue.

## **Other Income (Expense)—net**

Other income (expense)—net consists primarily of interest income and expense, foreign currency exchange gains or losses and gains or losses on investments. Upon the completion of our IPO during the three months ended October 31, 2016, we reclassified the convertible preferred stock warrants, which, prior to our IPO, were classified as a liability on our consolidated balance sheet and re-measured to fair value at each balance sheet date with the corresponding changes in fair value recorded as other expense, into warrants to purchase Class B common stock. As a result, the convertible preferred stock liability was re-measured to its then fair value, which was based on the closing per share price of our Class A common stock on October 4, 2016, and reclassified to additional paid-in capital. Subsequent to the conversion of our convertible preferred stock warrants in connection with our IPO, we no longer remeasured them at fair value or incurred any charges related to changes in fair value. In addition, during the three months ended October 31, 2016, we fully repaid our outstanding \$75.0 million of senior notes due April 15, 2019, or the 2019 Notes, and incurred a loss on debt extinguishment. During the three months ended January 31, 2018, we recognized \$0.7 million of interest expense related to the amortization of the debt discount and debt issuance costs associated with the Notes.

## **Provision for Income Taxes**

Provision for income taxes consists primarily of income taxes in certain foreign jurisdictions in which we conduct business and state income taxes in the United States. We have recorded a full valuation allowance related to our federal and state net operating losses and other net deferred tax assets due to the uncertainty of the ultimate realization of the future benefits of those assets.

## Results of Operations

The following tables set forth our consolidated results of operations in dollars and as a percentage of total revenue for the periods presented. The period to period comparison of results is not necessarily indicative of results for future periods. We adopted the new accounting standard related to revenue recognition effective August 1, 2017. Prior period information presented here has been adjusted to reflect the adoption of this new standard. See Note 3 of Part I, Item 1 of this Quarterly Report on Form 10-Q for the summary of adjustments.

	Three Months Ended January 31,		Six Months Ended January 31,	
	2017	2018	2017	2018
(In thousands)				
<b>Consolidated Statements of Operations Data:</b>				
Revenue:				
Product	\$ 158,213	\$ 223,170	\$ 311,749	\$ 442,222
Support and other services	41,001	63,574	76,026	120,074
Total revenue	<u>199,214</u>	<u>286,744</u>	<u>387,775</u>	<u>562,296</u>
Cost of revenue:				
Product (1)(2)	58,403	83,217	110,613	168,379
Support and other services (1)	18,443	25,311	35,995	48,771
Total cost of revenue	<u>76,846</u>	<u>108,528</u>	<u>146,608</u>	<u>217,150</u>
Gross profit	<u>122,368</u>	<u>178,216</u>	<u>241,167</u>	<u>345,146</u>
Operating expenses:				
Sales and marketing (1)(2)	111,374	151,201	239,999	296,606
Research and development (1)	70,914	70,924	146,195	135,436
General and administrative (1)	15,481	15,948	44,853	32,000
Total operating expenses	<u>197,769</u>	<u>238,073</u>	<u>431,047</u>	<u>464,042</u>
Loss from operations	<u>(75,401)</u>	<u>(59,857)</u>	<u>(189,880)</u>	<u>(118,896)</u>
Other expense—net	(421)	(861)	(26,133)	(1,050)
Loss before provision for income taxes	<u>(75,822)</u>	<u>(60,718)</u>	<u>(216,013)</u>	<u>(119,946)</u>
Provision for income taxes	547	1,913	658	4,172
Net loss	<u>\$ (76,369)</u>	<u>\$ (62,631)</u>	<u>\$ (216,671)</u>	<u>\$ (124,118)</u>
(1) Includes stock-based compensation expense as follows:				
Product cost of sales	\$ 848	\$ 684	\$ 1,814	\$ 1,254
Support cost of sales	2,389	2,133	5,739	4,205
Sales and marketing	15,528	15,942	49,419	29,708
Research and development	28,759	17,023	62,785	32,565
General and administrative	5,083	6,229	23,578	9,794
Total stock-based compensation	<u>\$ 52,607</u>	<u>\$ 42,011</u>	<u>\$ 143,335</u>	<u>\$ 77,526</u>
(2) Includes amortization of intangible assets as follows:				
Product cost of sales	\$ 360	\$ 1,164	\$ 598	\$ 2,059
Sales and marketing	248	192	415	403
Total amortization of intangible assets	<u>\$ 608</u>	<u>\$ 1,356</u>	<u>\$ 1,013</u>	<u>\$ 2,462</u>

	Three Months Ended January 31,		Six Months Ended January 31,	
	2017	2018	2017	2018
(As a percentage of total revenue)				
<b>Consolidated Statements of Operations Data:</b>				
Revenue:				
Product	79 %	78 %	80 %	79 %
Support and other services	21 %	22 %	20 %	21 %
Total revenue	100 %	100 %	100 %	100 %
Cost of revenue:				
Product	30 %	29 %	29 %	30 %
Support and other services	9 %	9 %	9 %	9 %
Total cost of revenue	39 %	38 %	38 %	39 %
Gross profit	61 %	62 %	62 %	61 %
Operating expenses:				
Sales and marketing	56 %	53 %	62 %	53 %
Research and development	36 %	25 %	38 %	24 %
General and administrative	8 %	6 %	12 %	6 %
Total operating expenses	100 %	84 %	112 %	83 %
Loss from operations	(39)%	(22)%	(50)%	(22)%
Other expense—net	0 %	— %	(7)%	0 %
Loss before provision for income taxes	(39)%	(22)%	(57)%	(22)%
Provision for income taxes	0 %	1 %	0 %	1 %
Net loss	(39)%	(23)%	(57)%	(23)%

#### Comparison of the Three and Six Months Ended January 31, 2017 and 2018

##### Revenue

	Three Months Ended January 31,		Change		Six Months Ended January 31,		Change	
	2017	2018	\$	%	2017	2018	\$	%
(In thousands, except percentages)								
Product	\$ 158,213	\$ 223,170	\$ 64,957	41%	\$ 311,749	\$ 442,222	\$ 130,473	42%
Support and other services	41,001	63,574	22,573	55%	76,026	120,074	44,048	58%
Total revenue	\$ 199,214	\$ 286,744	\$ 87,530	44%	\$ 387,775	\$ 562,296	\$ 174,521	45%
(In thousands, except percentages)								
U.S.	\$ 105,042	\$ 165,775	\$ 60,733	58%	\$ 211,210	\$ 353,140	\$ 141,930	67 %
Europe, the Middle East and Africa	34,602	51,729	17,127	49%	60,018	89,173	29,155	49 %
Asia-Pacific	49,943	59,293	9,350	19%	95,790	104,152	8,362	9 %
Other Americas	9,627	9,947	320	3%	20,757	15,831	(4,926)	(24)%
Total revenue	\$ 199,214	\$ 286,744	\$ 87,530	44%	\$ 387,775	\$ 562,296	\$ 174,521	45 %

The increase in product revenue for the three and six months ended January 31, 2018 reflects increased domestic and international demand for our solutions as we continued to penetrate and expand in global markets through increased sales and marketing activities. Our total end-customer count increased from over 5,300 as of January 31, 2017 to over 8,800 as of January 31, 2018. Our product revenue during the three months ended January 31, 2018 was also impacted by the reduction of hardware revenue from transactions where the hardware was sold directly by our contract manufacturers. We estimate that if we had sold the hardware in these transactions, our product revenue would have been \$14.0 million higher. We continue to focus on software-only sales models and thus anticipate selling less hardware in future periods.

Support and other services revenue increased in the three and six months ended January 31, 2018 compared to the same periods in prior year in conjunction with the growth of our end-customer base and the related support and software maintenance contracts.

### **Cost of Revenue and Gross Margin**

	Three Months Ended January 31,		Change		Six Months Ended January 31,		Change	
	2017	2018	\$	%	2017	2018	\$	%
<b>(In thousands, except percentages)</b>								
Cost of product revenue	\$ 58,403	\$ 83,217	\$ 24,814	42%	\$ 110,613	\$ 168,379	\$ 57,766	52%
<i>Product gross margin</i>	63%	63%			65%	62%		
Cost of support and other services revenue	\$ 18,443	\$ 25,311	\$ 6,868	37%	\$ 35,995	\$ 48,771	\$ 12,776	35%
<i>Support and other services gross margin</i>	55%	60%			53%	59%		
<b>Total gross margin</b>	61%	62%			62%	61%		

#### **Cost of product revenue**

Cost of product revenue increased in the three and six months ended January 31, 2018 due to the corresponding increase in product revenue compared to the corresponding prior year periods. Additionally, during the three and six months ended January 31, 2018, the cost of certain of our hardware components, specifically DRAM and NAND, continued to increase due to supply constraints. The total cost of our DRAM and NAND components, which represented approximately 18% and 28% of the cost of product revenue during the three and six months ended January 31, 2017 and 2018, respectively, increased by approximately 118% and 152% during the three and six months ended January 31, 2018, respectively, compared to the same prior year periods. We expect to see continued pressure on the costs of DRAM as a result of continued supply constraints in the three months ending April 30, 2018 and we expect these costs to continue to increase so long as the DRAM market remains supply constrained.

Product gross margin during the three months ended January 31, 2018 was flat compared to the same period in prior year. The decrease in product gross margin during the six months ended January 31, 2018 was driven primarily by the increase in hardware component costs indicated above, partially offset by the impact of higher revenue from software-only transactions during the six months ended January 31, 2018 compared to the same prior year period.

#### **Cost of support and other services revenue**

Cost of support and other services revenue increased in the three and six months ended January 31, 2018 compared to the same prior year periods due to higher personnel costs of our global customer support organization. The increase in personnel costs was primarily due to an increase in our customer support and other services headcount of 34% from January 31, 2017 to January 31, 2018. This increase was partially offset by lower stock-based compensation expense, as compared to the corresponding prior year period, in which we recognized a cumulative expense related to pre-IPO grants that we started expensing during the three months ended October 31, 2016. Support and other services gross margin increased during the three and six months ended January 31, 2018 compared to the same prior year periods, primarily due to efficiencies gained in our support organization and headcount or personnel related costs growing at a slower rate than support and other services revenue.

## Operating Expenses

### Sales and Marketing

	Three Months Ended January 31,		Change		Six Months Ended January 31,		Change	
	2017	2018	\$	%	2017	2018	\$	%
(In thousands, except percentages)								
Sales and marketing	\$ 111,374	\$ 151,201	\$ 39,827	36%	\$ 239,999	\$ 296,606	\$ 56,607	24%
Percent of total revenue	56%	53%			62%	53%		

Sales and marketing expense increased in the three and six months ended January 31, 2018 compared to the same prior year periods primarily due to higher personnel costs and sales commissions, as our sales and marketing headcount increased by 30% from January 31, 2017 to January 31, 2018. Additionally, as part of our efforts to penetrate and expand in global markets, we have continually increased our marketing activities related to brand awareness, promotions, trade shows and partner programs. This increase in personnel costs and sales commissions was partially offset by lower stock-based compensation expense as compared to the corresponding prior year period, in which we recognized a cumulative expense related to pre-IPO grants that we started expensing during the three months ended October 31, 2016.

### Research and Development

	Three Months Ended January 31,		Change		Six Months Ended January 31,		Change	
	2017	2018	\$	%	2017	2018	\$	%
(In thousands, except percentages)								
Research and development	\$ 70,914	\$ 70,924	\$ 10	—%	\$ 146,195	\$ 135,436	\$ (10,759)	(7)%
Percent of total revenue	36%	25%			38%	24%		

Research and development expense during the three months ended January 31, 2018 was flat compared to the same prior year period. Research and development expense decreased in the six months ended January 31, 2018, primarily due to lower stock-based compensation expense as compared to the corresponding prior year period. In the first quarter of fiscal 2017, we recognized a cumulative stock-based compensation expense related to pre-IPO grants that we started expensing during the three months ended October 31, 2016. The lower stock-based compensation expense was partially offset by higher personnel costs as our research and development headcount increased by 21% from January 31, 2017 to January 31, 2018, as we have continued the expansion of our product development activities.

### General and Administrative

	Three Months Ended January 31,		Change		Six Months Ended January 31,		Change	
	2017	2018	\$	%	2017	2018	\$	%
(In thousands, except percentages)								
General and administrative	\$ 15,481	\$ 15,948	\$ 467	3%	\$ 44,853	\$ 32,000	\$ (12,853)	(29)%
Percent of total revenue	8%	6%			12%	6%		

General and administrative expense during the three months ended January 31, 2018 was relatively flat compared to the same prior year period. General and administrative expense decreased in the six months ended January 31, 2018, primarily due to lower stock-based compensation expense as compared to the corresponding prior year period and a \$4.0 million decrease in the fair value of contingent consideration assumed from a business acquisition. In the first quarter of fiscal 2017, we recognized a cumulative stock-based compensation expense related to pre-IPO grants that we started expensing during the three months ended October 31, 2016. The lower stock-based compensation expense was partially offset by higher personnel costs as our general and administrative headcount increased by 18% from January 31, 2017 to January 31, 2018 to support our growing operations and international footprint.

## Other Expense-net

	Three Months Ended January 31,		Change		Six Months Ended January 31,		Change							
	2017	2018	\$	%	2017	2018	\$	%						
(In thousands, except percentages)														
Other expense-net	\$	(421)	\$	(861)	\$	(440)	105%	\$	(26,133)	\$	(1,050)	\$	25,083	(96)%

Other expense-net for the three and six months ended January 31, 2018 was primarily related to foreign currency losses and interest expense related to the amortization of debt discount and debt issuance costs related to the Notes, partially offset by interest earned on short-term investments. Other expense-net for the three months ended January 31, 2017 was primarily related to foreign currency losses, partially offset by interest earned on short-term investments. Other expense-net for the six months ended January 31, 2017 was primarily related to \$21.1 million change in the fair value of our convertible preferred stock warrant liability and \$3.3 million loss on debt extinguishment resulting from the early extinguishment of our 2019 Notes.

## Provision for Income Taxes

	Three Months Ended January 31,		Change		Six Months Ended January 31,		Change							
	2017	2018	\$	%	2017	2018	\$	%						
(In thousands, except percentages)														
Provision for income taxes	\$	547	\$	1,913	\$	1,366	250%	\$	658	\$	4,172	\$	3,514	534%

The increase in income tax provision during the three and six months ended January 31, 2018, as compared to the three and six months ended January 31, 2017, was primarily due to increase in foreign taxes as we continued our global expansion.

## Impact of U.S. Federal Income Tax Reform

In December 2017, the U.S. Congress passed and the President signed the Tax Cuts and Jobs Act, or the TCJA, which includes a broad range of tax reform proposals affecting businesses, including a federal corporate rate reduction from 35% to 21%; limitations on the deductibility of interest expense and executive compensation; creation of new minimum taxes such as the base erosion anti-abuse tax, or BEAT, Global Intangible Low Taxed Income, or GILTI tax; and a new minimum tax on certain foreign earnings.

Our initial analysis of the impact of the TCJA, resulted in a significant reduction to our net U.S. deferred tax assets and valuation allowance and an immaterial impact to income tax expense due to the valuation allowance on net US deferred tax assets. Certain provisions of the Act are not effective for us until fiscal 2019. We continue to assess the impacts of these provisions, but we do not currently anticipate that the net impact will be material to our fiscal 2019 effective income tax rate.

The income tax provision for the three and six months ended Jan 31, 2018 is based upon an assumption that foreign undistributed earnings are indefinitely reinvested. We continue to evaluate whether or not to continue to assert indefinite reinvestment on a part or all the foreign undistributed earnings. In the event we determine not to continue to assert the permanent reinvestment of part or all of foreign undistributed earnings, such a determination could result in the accrual and payment of additional foreign, state and local taxes.

## Liquidity and Capital Resources

As of January 31, 2018, we had \$610.4 million of cash and cash equivalents and \$307.8 million of short-term investments which were held for general corporate purposes. Our cash, cash equivalents and short-term investments primarily consist of bank deposits, money market accounts and highly rated debt instruments of the U.S. government and its agencies and debt instruments of highly rated corporations.

We believe that our cash and cash equivalents and short-term investments will be sufficient to meet our anticipated cash needs for working capital and capital expenditures 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 spending to support development efforts, the expansion of sales and marketing activities, the introduction of new and enhanced product and service offerings, and the continuing market acceptance of our products. In the event that additional financing is required from outside sources, we may not be able to raise such financing on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, operating results, and financial condition would be adversely affected.

### Cash Flows

The following table summarizes our cash flows for the periods presented:

	Six Months Ended January 31,	
	2017	2018
	(in thousands)	
Net cash provided by operating activities	\$ 23,912	\$ 56,502
Net cash used in investing activities	(68,510)	(130,168)
Net cash provided by financing activities	171,395	545,753
	<u>\$ 126,797</u>	<u>\$ 472,087</u>

#### ***Cash Flows from Operating Activities***

Net cash provided by operating activities was \$56.5 million for the six months ended January 31, 2018, an increase of \$32.6 million compared to \$23.9 million in net cash generated from operating activities for the three months ended January 31, 2017. The increase in cash generated from operating activities for the six months ended January 31, 2018 was primarily due to higher billings and collections, partially offset by higher operating expenses as we continued to invest in the longer-term growth of our business.

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

Net cash used in investing activities of \$130.2 million for the six months ended January 31, 2018 was due to \$183.1 million of short-term investment purchases and \$32.0 million of purchases of property and equipment, partially offset by \$84.9 million of maturities of short-term investments.

Net cash used in investing activities of \$68.5 million for the six months ended January 31, 2017 included \$117.6 million of short-term investment purchases and \$24.6 million of purchases of property and equipment as we continue to invest in the longer-term growth of our business. This was partially offset by \$32.6 million of sales of short-term investments and \$41.2 million of maturities of short-term investments.

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

Net cash provided by financing activities of \$545.8 million for the six months ended January 31, 2018 was primarily related to \$564.2 million of net proceeds from the Notes after deducting the initial purchasers' discount of approximately \$10.8 million, \$88.0 million proceeds from the sale of the warrants in connection with the Notes and \$36.8 million of net proceeds from sales of shares through employee equity incentive plans, partially offset by \$143.2 million cash used to purchase bond hedges in connection with the Notes issued during the three months ended January 31, 2018.

Net cash provided by financing activities of \$171.4 million for the six months ended January 31, 2017 primarily consisted of \$254.5 million of proceeds from our IPO, net of underwriting discounts and commission, and \$2.2 million of net proceeds from sales of shares through employee equity incentive plans, partially offset by \$76.6 million of repayment of the 2019 Notes including debt extinguishment costs, \$7.1 million payment of debt in conjunction with a business acquisition completed during the three months ended October 31, 2016 and \$1.6 million of payments of offering costs for our IPO.

### **Contractual Obligations**

From time to time, we make commitments with our contract manufacturers, which consist of obligations for on-hand inventories and non-cancelable purchase orders for non-standard components. We record a charge to cost of product sales for firm, non-cancelable and unconditional purchase commitments with the contract manufacturers for non-standard components when and if quantities exceed our future demand forecasts. Our historical charges have not been material.

As of January 31, 2018, we had \$53.0 million in purchase commitments with our third-party contract manufacturers, which consist of obligations for on hand inventories and non-cancelable purchase orders for non-standard components, and \$19.3 million of other purchase obligations pertaining to our normal operations.

During the three months ended January 31, 2018, we issued \$575.0 million in aggregate principal amount of the Notes. See Note 6, Convertible Senior Notes, of the Notes to Condensed Consolidated Financial Statements of Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information.

There have been no other significant changes during the three and six months ended January 31, 2018 to the contractual obligations disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations, set forth in Part II, Item 7, of our Annual Report on Form 10-K for the fiscal year ended July 31, 2017.

As of January 31, 2018, we had accrued liabilities related to uncertain tax positions, which are reflected on our consolidated balance sheet. These accrued liabilities are not reflected in the table above since it is unclear when these liabilities will be paid.

### **Off-Balance Sheet Arrangements**

As of January 31, 2018, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

### **Critical Accounting Policies and Estimates**

Our financial statements are prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP. The preparation of these financial statements requires us to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures. We evaluate our estimates, assumptions and judgments on an ongoing basis. Our estimates, assumptions and judgments are based on historical experience and various other factors that we believe to be reasonable under the circumstances. Different assumptions and judgments would change the estimates used in the preparation of our financial statements, which, in turn, could change the results from those reported.

Except for accounting policies related to our early adoption of ASC 606 and those related to the Notes, there have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the fiscal year ended July 31, 2017. See Note 3 of Part I, Item 1 of this Quarterly Report on Form 10-Q for the critical accounting policies resulting from our early adoption of ASC 606.



## **Recent Accounting Pronouncements**

See Note 2 of Part I, Item 1 of this Quarterly Report on Form 10-Q for a full description of recent accounting pronouncements.

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

We have operations both within the United States and internationally, and 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.

### ***Foreign Currency Risk***

Our consolidated results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. Historically, our revenue contracts have been denominated in U.S. dollars. Our expenses are generally denominated in the currencies in which our operations are located. To date, we have not entered into any hedging arrangements with respect to foreign currency risk or other derivative instruments. In the event our foreign sales and expenses increase, our operating results may be more greatly affected by foreign currency exchange rate fluctuations, which can affect our operating income or loss. The effect of a hypothetical 10% change in foreign currency exchange rates on our non-U.S. dollar monetary assets and liabilities would not have had a material impact on our historical consolidated financial statements. Foreign currency transaction gains and losses and exchange rate fluctuations have not been material to our consolidated financial statements.

A hypothetical 10% decrease in the U.S. Dollar against other currencies would result in an increase in operating loss of approximately \$8.8 million and \$13.7 million for the six months ended January 31, 2017 and 2018, respectively. The change in hypothetical increase in operating loss for the six months ended January 31, 2018 compared to the six months ended January 31, 2017 is due to an increase in expenses denominated in foreign currencies because of our continued expansion globally. This analysis disregards the possibilities that rates can move in opposite directions and that losses from one geographic area may be offset by gains from another geographic area.

### ***Interest Rate Risk***

Our investment objective is to conserve capital and maintain liquidity to support our operations; therefore, we generally invest in highly liquid securities, consisting primarily of bank deposits, money market funds, commercial paper, U.S. government securities and corporate bonds. Such fixed and floating interest-earning instruments carry a degree of interest rate risk. Fixed income securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than predicted if interest rates fall. Due to the short-term nature of our investment portfolio, we do not believe an immediate 10% increase or decrease in interest rates would have a material effect on the fair market value of our portfolio. Therefore, we do not expect our operating results or cash flows to be materially affected by a sudden change in interest rates.

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

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

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this report. Based on management's evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective at a reasonable assurance level.

In designing and evaluating our disclosure controls and procedures, management recognizes that any disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

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

Except for the implementation of certain internal controls related to the adoption of ASC 606, there were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the three months ended January 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We implemented certain internal controls to ensure we adequately evaluated our contracts and properly assessed the impact of the new revenue recognition standard on our financial statements to facilitate its adoption effective August 1, 2017. In addition, we have made some changes to certain internal controls to reflect new processes that were implemented as a result of the adoption of ASC 606.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

We are not currently a party to any material legal proceedings that we believe to be material to our business or financial condition. From time to time we may become party to various litigation matters and subject to claims that arise in the ordinary course of business.

## Item 1A. Risk Factors

*You should carefully consider the risks and uncertainties described below, together with all of the other information contained in this Quarterly Report on Form 10-Q, including our consolidated financial statements and related notes, before making a decision to invest in our Class A common stock. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that affect our business. If any of the following risks occur, our business, financial condition, operating results and prospects could be materially harmed. In that event, the price of our Class A common stock could decline, and you could lose part or all of your investment.*

### **Risks Related to Our Business and Industry**

***We have a history of losses and we may not be able to achieve or maintain profitability in the future.***

We have incurred net losses in all periods since our inception, and we expect that we will continue to incur net losses for the foreseeable future. We experienced net losses of \$108.2 million, \$379.6 million and \$124.1 million for fiscal 2016, fiscal 2017 and six months ended January 31, 2018, respectively. As of January 31, 2018, we had an accumulated deficit of \$855.1 million. In addition to the investments we expect to continue to make to grow our business, we have also incurred and expect to continue incurring significant additional legal, accounting and other expenses as a newly public company that we did not incur as a private company. If we fail to increase our revenue and manage our expenses, we may not achieve or sustain profitability in the future.

***The markets in which we compete are rapidly evolving, which make it difficult to forecast end-customer adoption rates and demand for our solutions.***

The markets in which we compete are rapidly evolving. Accordingly, our future financial performance will depend in large part on the allocation of spending in traditional IT markets and on our ability to adapt to new market demands. Currently, sales of our solutions are dependent in large part upon replacement of spending in traditional markets, including x86 servers, storage systems and virtualization software. In addition, as we develop new solutions designed to address new market demands, such as our previously announced Nutanix Xi Cloud Services, sales of our solutions will in part be dependent on capturing new spending in these markets, including hybrid cloud services. If these markets experience a shift in customer demand, or if customers in these markets focus their new spending on, or shift their existing spending to, public cloud solutions more quickly or more extensively than expected, our solutions may not compete as effectively, if at all. It is also difficult to predict end-customer demand or adoption rates for our solutions or the future growth of our market.

***If end-customers do not adopt our solutions, our ability to grow our business and operating results may be adversely affected.***

Traditional IT infrastructure architecture is entrenched in the datacenters of many of our end-customers because of their historical financial investment in existing IT infrastructure architecture and the existing knowledge base and skillsets of IT administrators. As a result, our sales efforts often involve extensive efforts to educate our end-customers as to the benefits and capabilities of our web-scale architecture solutions, particularly as we continue to pursue large organizations as end-customers. If we fail to achieve market acceptance of our solutions, our ability to grow our business and our operating results will be adversely affected.

***A shift in our relationships with our OEM partners could adversely affect our results of operations.***

Our relationships with our original equipment manufacturer, or OEM, partners continue to shift as industry dynamics change, and our OEM partners may be less willing to partner with us as an OEM or otherwise as such shifts occur. For example, Dell Technologies, or Dell, is not just an OEM partner, but also a competitor of ours, and accounted for 13% and 11% of our total billings in fiscal 2016 and fiscal 2017, respectively. In September 2016, EMC Corporation, or EMC, was acquired by Dell. As a result of the acquisition, Dell may be more likely to promote and sell its own solutions, including those from EMC's complementary product portfolio, over our products, or cease selling or promoting our products entirely. Also, Dell holds a majority of outstanding voting power in VMware Inc., or VMware, and could combine the Dell, EMC and VMware product portfolios into unified offerings optimized for their platforms. If Dell decides to sell its own solutions over our products, that could adversely impact our OEM sales and harm our business, operating results and prospects, and our stock price could decline.

Further, since OEM sales, including sales made by Dell, are generally recognized upon delivery under Accounting Standard Update 2014-09, Revenue from Contracts with Customers, or ASC 606, which we adopted as of August 1, 2017, any reduction in OEM sales by any of our OEM partners will have an increased impact on our reported revenue and gross margins in future periods, potentially making it more difficult for us to forecast revenue and gross margins in future quarters. Under ASC 606, revenue from Dell accounted for approximately 12% and 10% of our total revenue in fiscal 2016 and fiscal 2017, respectively.

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

We have experienced significant revenue growth in recent periods with total revenue of \$503.4 million, \$845.9 million, \$387.8 million and \$562.3 million for fiscal 2016, fiscal 2017 and the six months ended January 31, 2017 and 2018, respectively. You should not consider our revenue growth in recent periods as indicative of our future performance. While we have recently experienced significant revenue growth, we may not achieve similar revenue growth in future periods. In addition, we are in the process of transitioning our business to focus on more software-only transactions. Software-only sales typically reflect higher gross margins and lower revenue in a given period, as compared to software sales deployed on off-the-shelf servers, since the sale does not include the revenue or cost of the hardware components in an appliance. As we transition to more software-only transactions, we anticipate that our revenue growth will slow during the transition period, and there is no guarantee that we will be able to successfully increase our software-only sales to the anticipated levels. Accordingly, you should not rely on our revenue growth for any prior periods as an indication of our future revenue or revenue growth.

***We have experienced rapid growth in recent periods and we may not be able to sustain or manage any future growth effectively.***

We have expanded our overall business and operations significantly in recent periods. Our employee headcount increased significantly since our inception, and we may have significant headcount increases in the future. We anticipate that our operating expenses will increase in the foreseeable future as we scale our business, including in developing and improving our solutions, expanding our sales and marketing capabilities and global coverage, and in providing general and administrative resources to support our growth. As we continue to grow our business, we must effectively integrate, develop and motivate a large number of new employees, as well as existing employees who are promoted or moved into new roles, while maintaining the effectiveness of our business execution. In particular, our success depends heavily on our ability to ramp new sales teams in a fast and effective manner. We must also continue to improve and expand our IT and financial infrastructure, management systems and product management and sales processes. We expect that our future growth will continue to place a significant strain on our management, operational and financial resources. We may incur costs associated with future growth prior to realizing the anticipated benefits, and the return on these investments may be lower, or may develop more slowly than we expect. If we are unable to manage our growth effectively, we may not be able to take advantage of market opportunities. We also may fail to satisfy end-customers' requirements, maintain product quality, execute on our business plan or respond to competitive pressures, any of which could adversely affect our business, operating results, financial condition and prospects.

***We compete with traditional storage vendors, IT systems vendors, including providers of public cloud services, and infrastructure software providers, and expect competition to continue to intensify in the future from both established competitors and new market entrants.***

We operate in the intensely competitive enterprise infrastructure market and compete primarily with companies that sell software to build and operate enterprise clouds, integrated systems, and standalone storage and servers, as well as providers of public cloud infrastructure solutions. These markets are characterized by constant change and rapid innovation. Our main competitors fall into the following categories:

- software providers such as VMware and Red Hat, Inc., that offer a broad range of virtualization, infrastructure and management products to build and operate enterprise clouds;
- traditional IT systems vendors such as Hewlett Packard Enterprise Company, or HPE, Cisco Systems, Inc., or Cisco, Lenovo Group Ltd., Dell, Hitachi Data Systems Corporation, or Hitachi, and International Business Machines Corporation, or IBM, that offer integrated systems that include bundles of servers, storage and networking solutions, as well as a broad range of standalone server and storage products;
- traditional storage array vendors such as Dell, NetApp, Inc., or NetApp, and Hitachi, which typically sell centralized storage products; and
- providers of public cloud infrastructure such as Amazon.com, Inc., Google Inc., and Microsoft Corporation.

In addition, we compete against vendors of hyperconverged infrastructure and software-defined storage products such as VMware, Cisco, HPE, Dell and many smaller emerging companies. As our market grows, we expect it will continue to attract new companies as well as existing larger vendors. For example, NetApp recently released its first hyperconverged solution. Some of our competitors may expand their product offerings, acquire competing businesses, sell at lower prices, bundle with other products, provide closed technology platforms or otherwise attempt to gain a competitive advantage. For example, HPE acquired SimpliVity Corporation and Cisco acquired Springpath, Inc., both of which were emerging hyperconverged vendors, in order to bolster their own hyperconverged product lines. Furthermore, as we expand our product offerings, we may expand into new markets and we may encounter additional competitors in such markets. Additionally, as companies increasingly offer competing solutions, they may be less willing to partner with us as an OEM or otherwise.

Many of our existing competitors have, and some of our potential competitors may have, competitive advantages over us, such as longer operating histories, significantly greater financial, technical, marketing or other resources, stronger brand awareness and name recognition, larger intellectual property portfolios and broader global presence and distribution networks. Furthermore, some of our competitors supply a wide variety of products to, and have well-established relationships with, our current and prospective end-customers. Some of these competitors have in the past and may in the future take advantage of their existing relationships with end-customers, distributors or resellers to provide incentives to such current or prospective end-customers that make their products more economically attractive or to interfere with our ability to offer our solutions to our end-customers. Our competitors may also be able to offer products or functionality similar to ours at a more attractive price, such as by integrating or bundling their solutions with their other product offerings or those of technology partners or establishing cooperative relationships with other competitors, technology partners or other third parties. Potential end-customers may prefer to purchase from their existing suppliers rather than a new supplier, especially given the significant investments that they have historically made in their legacy infrastructures. Some of our competitors may also have stronger or broader relationships with technology partners than we do, which could make their products more attractive than ours. As a result, we cannot assure you that our solutions will compete favorably, and any failure to do so could adversely affect our business, operating results and prospects.

***Our relatively limited operating history makes it difficult to evaluate our current business and prospects, and may increase the risk of your investment.***

We began selling our products in October 2011. We have relatively limited historical financial data, and we operate in a rapidly evolving market. Our relatively 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. Furthermore, we are in the process of transitioning our business to focus on more software-only transactions in the near term, and potentially shift to a software as a service and software as a subscription model in the longer-term, which may make it more difficult to project our business growth and margins. In addition, the rapidly evolving nature of the enterprise IT infrastructure market, as well as other factors beyond our control, reduces our ability to accurately forecast quarterly or annual performance. Our solutions may never reach widespread adoption, and changes or advances in technologies could adversely affect the demand for our solutions. A reduction in demand for web-scale architectures caused by lack of customer acceptance, technological challenges, competing technologies and solutions or otherwise would result in lower revenue growth rates or decreased revenue, either of which could negatively impact our business, operating results and prospects. Any predictions about future revenue and expenses may not be as accurate as they would be if we had a longer operating history. We have encountered and will continue to encounter risks and difficulties associated with rapid growth and expansion and a relatively limited operating history. If we do not address these risks successfully, our business and operating results would be adversely affected, and our stock price could decline.

***Developments or improvements in enterprise IT infrastructure technologies may materially and adversely affect the demand for our solutions.***

Significant developments in enterprise IT infrastructure technologies, such as advances in storage, virtualization, containers and management software, may materially and adversely affect our business, operating results and prospects in ways we do not currently anticipate. For example, improvements in existing data storage technologies, such as a significant increase in the speed of traditional interfaces for transferring data between a server and a storage system or the speed of traditional embedded controllers within the storage system, could emerge as a preferred alternative to our solutions, especially if they are sold at lower prices. Any failure by us to develop new or enhanced technologies or processes, to react to changes or advances in existing technologies or to correctly anticipate these changes or advances as we create and invest in our product roadmap could materially delay our development and introduction of new solutions, which could result in the loss of competitiveness of our solutions, decreased revenue and a loss of market share to competitors. In addition, the servers, network, software and other components and systems of a datacenter must comply with established industry standards in order to interoperate and function efficiently together. If larger companies who are more influential in driving industry standards do not support the same standards we use, market acceptance of our solutions could be adversely affected, or we may be required to spend significant time and resources duplicating efforts to adapt to different standards.

Public cloud infrastructure offers alternatives to the on-premise infrastructure deployments that our operating system primarily supports. Various factors could cause the rate of adoption of public cloud infrastructure to increase, including continued or accelerated decreases in the price of public cloud offerings and improvements in the ability of public cloud providers to deliver reliable performance, enhanced security, better application compatibility and more precise infrastructure control. Any of these factors could make our operating system less competitive as compared to the public cloud, and could materially and adversely affect the demand for our solutions.

***If other vendors do not cooperate with us to ensure that our solutions interoperate with their products, including by providing us with early access to their new products or information about their new products, our product development efforts may be delayed or impaired, which could adversely affect our business, operating results and prospects.***

Our solutions provide an operating system on which software applications and hypervisors from different software providers run. As a result, our solutions must interoperate with our end-customers' existing hardware and software infrastructure, specifically their networks, servers, software and operating systems, as well as the applications that they run on this infrastructure, which may be manufactured and provided by a wide variety of vendors and OEMs. In addition to ensuring that our solutions interoperate with these hardware and software products initially, we must occasionally update our software to ensure that our solutions continue to interoperate with new or updated versions of these hardware and software products. Current or future providers of hardware, software applications, hypervisors or data management tools could make changes that would diminish the ability of our solutions to interoperate with them, and significant additional time and effort may be necessary to ensure the continued compatibility of our solutions, which might not be possible at all. Even if our solutions are compatible with those of other providers, if they do not certify or support our solutions for their systems or cooperate with us to coordinate troubleshooting and hand off of support cases, end-customers may be reluctant to buy our solutions, which could decrease demand for our solutions and harm our ability to achieve a return on the investments and resources that we have dedicated to ensuring compatibility. Developing solutions that interoperate properly requires substantial partnering, capital investment and employee resources, as well as the cooperation of the vendors or developers of the software applications and hypervisors both with respect to product development and product support. Vendors may not provide us with early or any access to their technology and products, assist us in these development efforts, certify our solutions, share with or sell to us any APIs, formats, or protocols we may need, or cooperate with us to support end-customers. If they do not provide us with the necessary access, assistance or proprietary technology on a timely basis or at all, we may experience product development delays or be unable to ensure the compatibility of our solutions with such new technology or products. To the extent that vendors develop products that compete with ours, they have in the past, and may again in the future, withhold their cooperation, decline to share access, certify our solutions or sell or make available to us their proprietary APIs, protocols or formats or engage in practices to actively limit the functionality, or compatibility, and certification of our products. If any of the foregoing occurs, our product development efforts may be delayed or impaired, our solutions could become less attractive to end-customers resulting in a decline in sales, and our business, operating results and prospects may be adversely affected.

***Shifts in our product mix more toward selling our solutions as software-only as opposed to as an appliance may cause our revenue to grow more slowly than it has in the past, or to decline, and our gross margins to fluctuate.***

We have started transitioning our business to focus on more software-only transactions. Software-only sales typically reflect higher gross margins and lower revenue in a given period, as compared to software sales deployed on off-the-shelf servers, since the sale does not include the revenue or cost of the hardware components in an appliance. If we are successful in executing this transition, there will be an increase in the delivery of our solutions as software-only licenses on separately procured hardware, and our overall product mix may shift more towards sales of our solutions as software-only licenses. Unless we can replace the hardware revenue with additional software sales, any increase in software-only sales may cause our revenue to grow more slowly than it has in the past, or to decline, and our gross margins to fluctuate, and may adversely impact our operating results. In addition, our success depends heavily on the ability of our sales team to adjust their strategy to focus on software-only sales. Furthermore, our customers may not understand these changes to our product sales, and investors, industry and financial analysts may have difficulty understanding the changes to our business model, resulting in changes in financial estimates or failure to meet investor expectations. As our business changes, the transition may make it more difficult to accurately project our operating results or plan for future growth. It may also take longer than anticipated to implement this new model, and our long-term projections may be negatively impacted. If we are not successful in executing this transition, our business could be adversely affected, and our stock price could decline.

***If we fail to develop or introduce new or enhanced solutions on a timely or cost-effective basis, our ability to attract and retain end-customers could be impaired and our competitive position could be harmed.***

We operate in a dynamic environment characterized by rapidly changing technologies and industry standards and technological obsolescence. We will need to continue to create valuable software solutions and integrate these solutions across hardware platforms. To compete successfully, we must design, develop, market and sell new or enhanced solutions that provide increasingly higher levels of performance, capacity, scalability, security, application mobility, and reliability and meet the cost expectations of our end-customers. The introduction of new products by our competitors, the market acceptance of products based on new or alternative technologies, or the emergence of new industry standards could render our existing or future solutions obsolete or less attractive to end-customers. Any failure to anticipate or develop new or enhanced solutions or technologies in a timely or cost-effective manner in response to technological shifts could result in decreased revenue and harm to our business and prospects. Any new feature or application that we develop or acquire may not be introduced in a timely or cost-effective manner and may not achieve broad market acceptance and investments in research and development or efforts to optimize our engineering cost structure may not be successful. If we fail to introduce new or enhanced solutions that meet the needs of our end-customers or penetrate new markets in a timely fashion, we will lose market share and our business, operating results and prospects will be adversely affected.

***If we are not successful in executing our strategy to increase sales of our solutions to new and existing large organizations, service providers, and government entities, our operating results may suffer.***

Our growth strategy is dependent in large part upon increasing sales of our solutions to new and existing large enterprises, service providers and government entities, particularly when such sales result in large orders for our solutions. Sales to these end-customers involve risks that may not be present (or that are present to a lesser extent) with sales to smaller end-customers, which can act as a disincentive to our sales team to pursue these larger end-customers. These risks include:

- competition from companies that traditionally target larger enterprises, service providers and government entities and that may have pre-existing relationships or purchase commitments from such end-customers;
- increased purchasing power and leverage held by large end-customers in negotiating contractual arrangements with us;
- more stringent requirements in our support service contracts, including demand for quicker support response times and penalties for any failure to meet support requirements; and
- longer sales cycles and the associated risk that substantial time and resources may be spent on a potential end-customer that elects not to purchase our solutions.

Large organizations often undertake a significant evaluation process that results in a lengthy sales cycle. Although we have a channel sales model, our sales representatives typically engage in direct interaction with our prospective end-customers as well as our distributors and resellers. We typically provide evaluation products to these end-customers and may spend substantial time, effort and money in our sales efforts to these prospective end-customers. In addition, product purchases by large organizations are frequently subject to budget constraints, multiple approvals and unanticipated administrative, processing and other delays. Finally, large organizations typically have longer implementation cycles, require greater product functionality and scalability, require a broader range of services, demand that vendors take on a larger share of risks, require acceptance provisions that can lead to a delay in revenue recognition and expect greater payment flexibility. If we fail to realize an expected sale from a large end-customer in a particular quarter or at all, our business and operating results could be adversely affected. All of these factors can add further risk to business conducted with these end-customers.



***Our growth depends on our existing end-customers making additional purchases of software licenses and software upgrades and renewing and upgrading their support and software maintenance agreements, and the failure of our end-customers to do so could harm our business and operating results.***

Our future success depends in part on purchases by our existing end-customers of additional software licenses and appliances as well as renewals and upgrades to their support and software maintenance agreements. If our end-customers do not purchase additional software licenses or appliances or software upgrades, or renew or upgrade their support and software maintenance agreements, our revenue may decline and our operating results may be harmed. In order for us to maintain or improve our operating results, we depend on our existing end-customers renewing support and software maintenance agreements or purchasing additional appliances. End-customers may choose not to renew their support and software maintenance agreements or purchase additional appliances because of several factors, including dissatisfaction with our prices or features relative to competitive offerings, reductions in our end-customers' spending levels or other causes outside of our control. If our existing end-customers do not purchase new solutions, or renew or upgrade their support and software maintenance agreements, our revenue may grow more slowly than expected or may decline, and our business and operating results may be adversely affected.

***We rely on our key personnel, and our Chief Executive Officer in particular, to grow our business, and the loss of one or more such key employees or the inability to attract and retain qualified personnel could harm our business.***

Our success and future growth depends to a significant degree on the skills and continued services of our executive officers and key personnel. In particular, we are highly dependent on the services of Dheeraj Pandey, our Chief Executive Officer and Chairman, who is critical to the development of our technology, future vision and strategic direction. We do not have life insurance policies that cover any of our executive officers or other key employees. The loss of the services of Mr. Pandey or any of our key employees or executive officers could disrupt our business and negatively impact our operating results, prospects and future growth. Our future success also depends on our ability to continue to attract, integrate and retain highly skilled personnel, especially skilled sales and engineering employees. Competition for highly skilled personnel is frequently intense, especially in the San Francisco Bay Area where we are headquartered. Volatility or lack of performance in our stock price may also affect our ability to attract and retain our key employees. We cannot assure you that we will be able to successfully attract or retain qualified personnel. Our inability to attract and retain the necessary personnel could adversely affect our business, operating results and financial condition.

***If we do not effectively expand and train our 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.***

Although we have a channel sales model, our sales representatives typically engage in direct interaction with our prospective end-customers. Therefore, we continue to be substantially dependent on our sales force to obtain new end-customers and sell additional solutions to our existing end-customers. 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 and retaining sufficient numbers of sales personnel to support our growth. New hires require significant training and may take significant time before they achieve full productivity; we estimate based on past experience that sales team members typically do not fully ramp and are not fully productive until around the time of the start of their fourth quarter of employment with us. Our recent hires and planned hires may not become productive as quickly as we expect, and we may be unable to hire or retain sufficient numbers of qualified individuals in the markets where we do business or plan to do business. Furthermore, hiring sales personnel in new countries requires additional set up, upfront and ongoing costs that we may not recover if the sales personnel fail to achieve full productivity. In addition, as a result of our rapid growth, a large percentage of our sales force is new to our company and our solutions and therefore less effective than our more seasoned employees. In addition, as we transition our business to focus on more software-only transactions, we are also re-training our seasoned sales employees, who have historically focused on appliance sales, in order to maintain or increase their productivity. If our new sales employees do not become fully productive on the timelines that we have projected, or if we are not successful in training our more seasoned sales employees as we focus on software-only sales, our revenue will not increase at anticipated levels and our ability to achieve long term projections may be negatively impacted. If we are unable to hire, train and maintain sufficient numbers of effective sales personnel, or our new or existing sales personnel are not successful in obtaining new end-customers or increasing sales to our existing customer base, our business, operating results and prospects will be adversely affected.

***If we do not effectively structure our sales force to focus on the end-customers that will primarily drive our growth strategy, our business will be adversely affected.***

As indicated above, our growth is dependent in large part on increasing our sales to large enterprises, particularly when those sales result in large orders for our solutions. Over the past year, we have started to segment our sales force to focus on these major accounts and large deals. This process, which we anticipate will continue for the foreseeable future, has involved hiring new, and promoting existing members of our sales team into, global account manager roles that will focus exclusively on large sales to major accounts. As discussed above, we anticipate that the sales cycles associated with major accounts will be longer than our traditional sales cycles, which will increase the time it will take our new global account managers to become fully productive. The new sales processes and leadership structures for these global sales teams may also take longer than anticipated to implement, further impacting productivity. In addition, as our organization focuses more heavily on major accounts and large deals, the productivity of our traditional sales teams may be impacted. For example, we experienced what we believe was a short-term decrease in sales productivity of our North American sales teams as well as a reduction in the number of large deals executed during the quarter ended January 31, 2017 due to the continued segmentation of our sales teams. Additionally, we are in the process of transitioning our business to focus primarily on software-only transactions, and we are adjusting our sales strategy and approach away from appliance sales. These potential fluctuations in sales productivity make it more difficult to accurately project our operating results or plan for future growth. If we are unable to effectively manage these changes or implement our new sales structure in a timely manner, or if our decision to segment our sales force is not successful in obtaining large sales of our solutions, our growth and ability to achieve long term projections may be negatively impacted, and our business and operating results will be adversely affected.

***We rely primarily on indirect sales channels for the distribution of our solutions, and disruption within these channels could adversely affect our business, operating results and cash flows.***

We primarily sell our solutions through indirect sales channels, including channel partners such as distributors, our hardware OEM partners, value added resellers and system integrators. Our OEM partners in turn distribute our solutions through their own networks of channel partners with whom we have no direct relationships.

We rely, to a significant degree, on our channel partners to select, screen and maintain relationships with their distribution networks and to distribute our solutions in a manner that is consistent with applicable law, regulatory requirements and our quality standards. If our channel partners or a partner in their distribution network violates applicable law or regulatory requirements or misrepresents the functionality of our solutions, our reputation could be damaged and we could be subject to potential liability. Additionally, if we are unable to establish relationships with strong channel partners in key growth regions, our ability to sell our solutions in these regions may be adversely affected. Our agreements with our channel partners are non-exclusive, meaning our channel partners may offer end-customers the products of several different companies, including products that compete with ours. If our channel partners do not effectively market and sell our solutions, choose to use greater efforts to market and sell their own products or those of our competitors, or fail to meet the needs of our end-customers, our business, operating results and prospects may be adversely affected. Our channel partners may cease marketing our solutions with limited or no notice and with little or no penalty. The loss of a substantial number of our channel partners, together with our inability to replace them, or the failure to recruit additional channel partners or establish an alternative distribution network could materially and adversely affect our business and operating results. For example, sales through Carahsoft Technology Corp. and Promark Technology Inc. to our end-customers represented 11% and 19%, respectively, of our total revenue for the six months ended January 31, 2017, and represented 12% and 23%, respectively, of our total revenue for six months ended January 31, 2018. In addition, if a channel partner offers its own products or services that are competitive to our solutions, is acquired by a competitor or reorganizes or divests its reseller business units, our revenue derived from that partner may be adversely impacted or eliminated altogether.

Recruiting and retaining qualified channel partners and training them in the use of our technologies require significant time and resources. If we fail to devote sufficient resources to support and expand our network of channel partners, our business may be adversely affected. Maintaining strong indirect sales channels for our products and effectively leveraging our channel partners and OEMs is important to our growth strategy, and the failure to effectively manage these relationships may lead to higher costs and reduced revenue. Also, in certain international markets we are in the process of transitioning our distribution model from contracting directly with hundreds of individual resellers to contracting with a smaller number of larger global distributors. Although we believe that this transition will make our sales channels more efficient and broader reaching in the long term in these markets, there is no guarantee that this new distribution model will increase our sales in the short term or allow us to sustain our gross margins. Any potential delays or confusion during the transition process to our new partners may negatively affect our relationship with our existing end-customers and channel partners and may cause us to lose prospective end-customers or additional business from existing end-customers. Upon completion of the transition to the new sales model, we will be more reliant on fewer channel partners, which may reduce our contact with our end-customers making it more difficult for us to establish brand awareness, ensure proper delivery and installation of our software, support ongoing end-customer requirements, estimate end-customer demand, respond to evolving end-customer needs and obtain subscription renewals from end-customers.

All of our sales to government entities have been made indirectly through our channel partners. Government entities may have statutory, contractual or other legal rights to terminate contracts with our channel partners for convenience or due to a default, and, in the future, if the portion of government contracts that are subject to renegotiation or termination at the election of the government are material, any such termination or renegotiation may adversely impact our future operating results. Additionally, we sometimes rely on our channel partners to satisfy certain regulatory obligations that we would otherwise have to satisfy if we sold directly to the government entities, and our channel partners may be unable or unwilling to satisfy these obligations in the future. In the event of such termination or change, it may be difficult for us to arrange for another channel partner to sell our solutions to these government entities in a timely manner, and we could lose sales opportunities during the transition. Governments routinely investigate and audit government contractors' (including subcontractors') administrative processes, and any unfavorable audit could result in the government refusing to continue buying our solutions, our channel partners changing their business models or refusing to continue to sell our solutions under current models, a reduction of revenue or fines, or civil or criminal liability if the audit uncovers improper or illegal activities.

If our indirect distribution channel is disrupted, particularly if we are reliant on a fewer number of channel partners, or if we are required to directly satisfy certain regulatory obligations imposed by government entities as a result of our efforts to expand our sales to government entities, we may be required to devote more time and resources to distribute our solutions directly and support our end-customers, which may not be as effective and could lead to higher costs, reduced revenue and growth that is slower than expected.

***Our operating results may fluctuate significantly, which could make our future results difficult to predict and could cause our operating results to fall below expectations.***

Our operating results may fluctuate due to a variety of factors, many of which are outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful. If our revenue or operating results in any particular period fall below investor expectations, the price of our Class A common stock would likely decline. Factors that are difficult to predict and that could cause our operating results to fluctuate include:

- the timing and magnitude of orders, shipments and acceptance of our solutions in any quarter;
- our ability to attract new and retain existing end-customers;
- disruptions in our sales channels or termination of our relationship with important channel partners and OEMs;
- the timing of revenue recognition for our sales, which has materially changed for the majority of sales of software-only licenses on or after August 1, 2017 as a result of our adoption of ASC 606, which requires us to recognize the revenue from sales of software licenses upon transfer of control to our end-customers, instead of deferring the revenue over the post contract support period; this change will heighten the impact of any fluctuations in the timing and magnitude of software-only sales on our quarterly operating results;
- reductions in end-customers' budgets for information technology purchases;

- delays in end-customers' purchasing cycles or deferments of end-customers' purchases in anticipation of new products or updates from us or our competitors;
- fluctuations in demand and competitive pricing pressures for our solutions;
- the mix of solutions sold, including the mix between appliance and software-only sales and the mix of the types of appliances that we sell, and the mix of revenue between products and support and other services, which will depend in part on whether we are successful in executing our strategy to transition our business to focus on more software-only transactions;
- our ability to develop, introduce and ship in a timely manner new solutions and product enhancements that meet customer requirements;
- the timing of product releases or upgrades or announcements by us or our competitors;
- any change in the competitive dynamics of our markets, including consolidation among our competitors or resellers, new entrants or discounting of prices;
- the amount and timing of expenses to grow our business and the extent to which we are able to take advantage of economies of scale or to leverage our relationships with OEM or channel partners;
- the costs associated with acquiring new businesses and technologies and the follow-on costs of integrating and consolidating the results of acquired businesses;
- the amount and timing of stock-based compensation expenses;
- our ability to control the costs of our solutions and their key components, or to pass along any cost increases to our end-customers;
- general economic, industry and market conditions; and
- future accounting pronouncements and changes in accounting policies, including our ability to implement the new procedures and processes necessary to accurately recognize our revenue under the new ASC 606 revenue recognition standard.

The occurrence of any one of these risks could negatively affect our operating results in any particular quarter, which could cause the price of our Class A common stock to decline.

***Our gross margins are impacted by a variety of factors and may be subject to variation from period to period.***

Our gross margins may be affected by a variety of factors, including shifts in the mix of whether our solutions are sold as an appliance or as software-only, fluctuations in the pricing of our products, including as a result of competitive pricing pressures or increases in component pricing, and the degree to which we are successful in selling the value of incremental feature improvements and upgrades, changes in the cost of components of our hardware appliances, changes in the mix between direct versus indirect sales, changes in the mix of products sold, including whether they are sold as appliances or as software-only, and the timing and amount of recognized and deferred revenue, particularly given that our recognition of revenue from sales of software-only licenses has changed following our adoption of ASC 606. For example, in the last three quarters of fiscal 2017 and the first half of fiscal 2018, the prices of DRAM and NAND components increased due to supply constraints, causing a negative impact on our gross margin. We expect the price increases for DRAM to continue, and for NAND pricing to remain high, for the immediate future, and to continue to impact our gross margin. If we are unable to manage these factors effectively, our gross margins may decline, and fluctuations in gross margin may make it difficult to manage our business and to achieve or maintain profitability, which could adversely affect our business and operating results.

***Our sales cycles can be long and unpredictable and our sales efforts require considerable time and expense. As a result, it can be difficult for us to predict when, if ever, a particular customer will choose to purchase our solutions, which may cause our operating results to fluctuate significantly.***

Our sales efforts involve educating our end-customers about the uses and benefits of our solutions, including their technical capabilities and cost saving potential. End-customers often undertake an evaluation and testing process that can result in a lengthy sales cycle. Increasing competition and the emergence of new hyperconverged infrastructure product offerings often result in customers evaluating multiple vendors at the same time, which can further lengthen the sales cycle. We spend substantial time and resources on our sales efforts without any assurance that our efforts will produce any sales. Platform purchases are frequently subject to budget constraints, multiple approvals and unanticipated administrative, processing and other delays. The broad nature of the technology shift that our solutions represent and the legacy relationships our end-customers have with existing IT vendors sometimes lead to unpredictable sales cycles, which make it difficult for us to predict when end-customers may purchase solutions from us. The unpredictable nature of our sales cycles may be increased in future periods as we focus our sales efforts more heavily on major accounts and large deals. Our business and operating results will be significantly affected by the degree to which and speed with which organizations adopt our solutions.

***Because we depend on contract manufacturers to assemble and test our hardware appliances, we are susceptible to delays and pricing fluctuations that could prevent us from shipping orders on time, if at all, or on a cost-effective basis, which would cause our business to be adversely affected.***

We rely substantially on Super Micro Computer, Inc., or Super Micro, and Flextronics Systems Limited, or Flextronics, to assemble and test our appliances. Our reliance on these contract manufacturers reduces our control over the manufacturing process and exposes us to risks, including reduced control over quality assurance, product costs and product supply and timing. Furthermore, our orders represent a relatively small percentage of the overall orders received by our third-party manufacturers from their customers. Therefore, fulfilling our orders may not be a priority in guiding their business decisions and operational commitments. If we fail to manage our relationships with these contract manufacturers effectively, inaccurately forecast our component requirements, or if either of them experience delays or increased manufacturing lead-times, disruptions, capacity constraints or quality control problems in their operations or are unable to meet our requirements for timely delivery, or we are unable to shift operations from one contract manufacturer to the other, our ability to ship high-quality solutions to our end-customers could be severely impaired, we could incur substantial costs, such as costs relating to the procurement of non-standard components and inventory costs, and our business and operating results, competitive position and reputation could be harmed.

Our agreement with Super Micro expires in May 2018, and automatically renews for successive one-year periods thereafter with the option to terminate upon each annual renewal, and does not contain any minimum long-term commitment to manufacture our solutions. In addition, in November 2017, we entered into a Manufacturing Services Agreement with Flextronics which expires in November 2020 and automatically renews for successive one-year periods thereafter with the option to terminate upon each annual renewal. The Flextronics Manufacturing Services Agreement does not contain any minimum long-term commitment to manufacture our solutions and any orders are fulfilled only after a purchase order has been delivered and accepted. If we are required to change contract manufacturers, we may lose revenue, incur increased costs and damage our channel partner and end-customer relationships. We may also decide to switch or bring on additional contract manufacturers in order to better meet our needs. Switching to or bringing on a new contract manufacturer and commencing production is expensive and time-consuming and may cause delays in order fulfillment at our existing contract manufacturers or cause other disruptions. For example, while we have already transitioned some of our manufacturing operations to Flextronics, we may encounter unexpected issues as we scale our operations with them. Our agreements with Super Micro and Flextronics do not contain any price assurances, and any increases in component costs, without a corresponding increase in the price of our solutions, could harm our gross margins. Furthermore, we may need to increase our component purchases, manufacturing capacity and internal test and quality functions if we experience increased demand. The inability of Super Micro, Flextronics or other contract manufacturers to provide us with adequate supplies of high-quality products could cause a delay in our order fulfillment, and our business, operating results and prospects would be adversely affected.

***We rely on a limited number of suppliers, and in some cases single-source suppliers, for several key components of our hardware appliances, and any disruption in the availability or quality of these components could delay shipments of our appliances and damage our channel partner or end-customer relationships.***

We rely on a limited number of suppliers, and in some cases single-source suppliers, for several key hardware components of our appliances. These components are generally purchased on a purchase order basis through Super Micro or Flextronics and we do not have long-term supply contracts with our suppliers. Our reliance on key suppliers exposes us to risks, including reduced control over product quality, production and component costs, timely delivery and capacity. It also exposes us to the potential inability to obtain an adequate supply of required components because we do not have long-term supply commitments, and replacing some of these components would require a product qualification process that could take months to complete. Furthermore, we extensively test and qualify the components that are used in our appliances to ensure that they meet certain quality and performance specifications. If our supply of certain components is disrupted or delayed, or if we need to replace our existing suppliers, there can be no assurance that additional supplies or components can serve as adequate replacements for the existing components, will be available when required or that supplies will be available on terms that are favorable to us, and we may be required to modify our solutions to interoperate with the replacement components. Any of these developments could extend our lead times, increase the costs of our components or costs of product development and adversely affect our business, operating results and financial condition.

We generally maintain minimal inventory for repairs and a limited number of evaluation and demonstration units, and generally acquire components only as needed. We do not enter into long-term supply contracts for these components. As a result, our ability to respond to channel partner or end-customer orders efficiently may be constrained by the then-current availability, terms and pricing of these components. The technology industry has experienced component shortages and delivery delays in the past, and we may experience shortages or delays of critical components in the future as a result of strong demand in the industry or other factors. If we or our suppliers inaccurately forecast demand for our solutions or we ineffectively manage our enterprise resource planning processes, our suppliers may have inadequate inventory, which could increase the prices we must pay for substitute components or result in our inability to meet demand for our solutions, as well as damage our channel partner or end-customer relationships.

If the suppliers of the components of our hardware appliances increase prices of components, experience delays, disruptions, capacity constraints, quality control problems in their manufacturing operations or adverse changes to their financial condition, our ability to ship appliances to our channel partners or end-customers in a timely manner and at competitive prices could be impaired and our competitive position, reputation, and operating results could be adversely affected. For example, in the last three quarters of fiscal 2017 and the first half of fiscal 2018, the prices of DRAM components increased and the prices of NAND components remained high due to supply constraints. Qualifying a new component is expensive and time-consuming. If we are required to change key suppliers or assume internal manufacturing operations, we may lose revenue and damage our channel partner or end-customer relationships which could adversely impact our revenue and operating results.

***We enter into arrangements with our suppliers that could require us to purchase certain minimum levels of inventory, which could result in us incurring losses with respect to such inventory, and may negatively impact our business and operating results.***

We enter into arrangements with our suppliers whereby the supplier will purchase certain quantities of components and allocate them exclusively for our use in our products. If we are unable to use the inventory within a specified period, we may be required to purchase the inventory, or to pay the supplier the difference between the price at which the supplier purchased the inventory and the price at which the supplier is ultimately able to sell the inventory to a third party. As a result, if we inaccurately or mistakenly forecast our need for any such components, or if the market price of any such components decreases after the components are purchased by a supplier, we may suffer losses with respect to such inventory, and our business and operating results could be adversely affected.

***We rely upon third parties for the warehousing and delivery of our appliances and replacement parts for support, and we therefore have less control over these functions than we otherwise would.***

We outsource the warehousing and delivery of all of our appliances to a third-party logistics provider for worldwide fulfillment. In addition, some of our support offerings commit us to replace defective parts in our appliances as quickly as four hours after the initial customer support call is received, which we satisfy by storing replacement parts inventory in various third-party supply depots in strategic locations. As a result of relying on third parties, we have reduced control over shipping and logistics, quality control, security and the supply of replacement parts for support. Consequently, we may be subject to shipping disruptions as well as failures to provide adequate support for reasons that are outside of our direct control. If we are unable to have our appliances or replacement products shipped in a timely manner, end-customers may cancel their contracts with us, we may suffer reputational harm and our business, operating results and prospects may be adversely affected.

***Our ability to sell our solutions is dependent in part on ease of use and the quality of our technical support, and any failure to offer high-quality technical support would harm our business, operating results and financial condition.***

Once our solutions are deployed, our end-customers depend on our support organization to resolve any technical issues relating to our solutions. Furthermore, because of the emerging nature of our solutions, our support organization often provides support for and troubleshoots issues for products of other vendors running on our solutions, even if the issue is unrelated to our solutions. There is no assurance that we can solve issues unrelated to our solutions, or that vendors whose products run on our solutions will not challenge our provision of technical assistance to their products. Our ability to provide effective support is largely dependent on our ability to attract, train and retain personnel who are not only qualified to support our solutions, but also well versed in some of the primary applications and hypervisors that our end-customers run on our solutions. Furthermore, 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. Any failure to maintain high-quality installation and technical support, or a market perception that we do not maintain high-quality support, could harm our reputation, adversely affect our ability to sell our solutions to existing and prospective end-customers, and could harm our business, operating results and financial condition.

***Our solutions are highly technical and may contain undetected defects, which could cause data unavailability, loss or corruption that might, in turn, result in liability to our end-customers and harm to our reputation and business.***

Our solutions are highly technical and complex and are often used to store information critical to our end-customers' business operations. Our solutions may contain undetected errors, defects or security vulnerabilities that could result in data unavailability, unauthorized access to, loss, corruption or other harm to our end-customers' data. Some errors or defects in our solutions may only be discovered after they have been installed and used by end-customers. We previously conducted an in-field replacement of equipment manufactured by our previous outsourced manufacturer, and may be required to do so again in the future. In addition, we may make certain commitments to our OEM partners regarding the time frames within which we will correct any security vulnerabilities in our software. If any hardware or software errors, defects or security vulnerabilities are discovered in our solutions after commercial release, a number of negative effects in our business could result, including:

- lost revenue or lost OEM or other channel partners or end-customers;
- increased costs, including warranty expense and costs associated with end-customer support as well as development costs to remedy the errors or defects;
- delays, cancellations, reductions or rescheduling of orders or shipments;
- product returns or discounts; and
- damage to our reputation and brand.

In addition, we could face legal claims for breach of contract, product liability, tort or breach of warranty. While many of our contracts with end-customers contain provisions relating to warranty disclaimers and liability limitations, these provisions might not be upheld or might not provide adequate protection if we face such legal claims. Defending a lawsuit, regardless of its merit, could be costly and may divert management's attention and adversely affect the market's perception of us and our solutions. In addition, our business liability insurance coverage could prove inadequate with respect to a claim and future coverage may be unavailable on acceptable terms or at all. These product-related issues could result in claims against us and our business could be adversely impacted.

***Our business depends, in part, on sales to government organizations, and significant changes in the contracting or fiscal policies of such government organizations could have an adverse effect on our business and operating results.***

We derive a portion of our revenue from contracts with federal, state, local and foreign governments, and we believe that the success and growth of our business will continue to depend on our successful procurement of government contracts. However, demand is often unpredictable from government organizations, and there can be no assurance that we will be able to maintain or grow our revenue from the public sector. Government agencies are subject to budgetary processes and expenditure constraints that could lead to delays or decreased capital expenditures in IT spending, particularly in light of continued uncertainties about government spending levels and recent changes to, or failure to appoint new, government leaders. The budget and approval process for government agencies also experiences a longer sales cycle relative to our other end-customers. If government organizations reduce or shift their capital spending patterns, our business, operating results and prospects may be harmed. Factors that could impede our ability to maintain or increase the amount of revenue derived from government contracts, include:

- public sector budgetary cycles and funding authorizations;
- changes in fiscal or contracting policies;
- decreases in available government funding;
- changes in government programs or applicable requirements;
- the adoption of new laws or regulations or changes to existing laws or regulations;
- potential delays or changes in the government appropriations or other funding authorization processes; and
- higher expenses associated with, or delays caused by, diligence and qualifying or maintaining qualification as a government vendor.

The occurrence of any of the foregoing could cause governments and governmental agencies to delay or refrain from purchasing our solutions in the future or otherwise have an adverse effect on our business, operating results and prospects.

***Third-party claims that we are infringing intellectual property, whether successful or not, could subject us to costly and time-consuming litigation or expensive licenses, and our business could be harmed.***

A number of companies, both within and outside of the enterprise computing infrastructure industry, hold a large number of patents covering aspects of storage, servers and virtualization products. In addition to these patents, participants in this industry typically also protect their technology through copyrights and trade secrets. As a result, there is frequent litigation based on allegations of infringement, misappropriation or other violations of intellectual property rights. We have received, and in the future may receive, inquiries from other intellectual property holders and may become subject to claims that we infringe their intellectual property rights, particularly as we expand our presence in the market and face increasing competition. Based upon our review of these claims, we believe we have meritorious defenses to the allegations, although there can be no assurance that we will be successful in defending against these allegations or reaching a business resolution that is satisfactory to us. In addition, parties may claim that the names and branding of our solution infringe their trademark rights in certain countries or territories. If such a claim were to prevail we may have to change the names and branding of our solution in the affected territories and we could incur other costs.

We currently have a number of agreements in effect pursuant to which we have agreed to defend, indemnify and hold harmless our end-customers, suppliers and channel and other partners from damages and costs which may arise from the infringement by our solutions of third-party patents or other intellectual property rights. The scope of these indemnity obligations varies, but may, in some instances, include indemnification for damages and expenses, including attorneys' fees. Our insurance may not cover all intellectual property infringement claims. A claim that our solutions infringe a third party's intellectual property rights, even if untrue, could harm our relationships with our end-customers and/or channel partners, may deter future end-customers from purchasing our solutions and could expose us to costly litigation and settlement expenses. Even if we are not a party to any litigation between a customer and a third party relating to infringement by our solutions, an adverse outcome in any such litigation could make it more difficult for us to defend our solutions against intellectual property infringement claims in any subsequent litigation in which we are a named party. Any of these results could harm our brand and operating results.



Our defense of intellectual property rights claims brought against us or our end-customers, suppliers and channel partners, with or without merit, could be time-consuming, expensive to litigate or settle, divert management resources and attention and force us to acquire intellectual property rights and licenses, which may involve substantial royalty or other payments. Further, a party making such a claim, if successful, could secure a judgment that requires us to pay substantial damages. An adverse determination also could invalidate our intellectual property rights and prevent us from offering our solutions to our end-customers and may require that we procure or develop substitute solutions that do not infringe, which could require significant effort and expense. We may have to seek a license for the technology, which may not be available on acceptable terms or at all, and as a result may significantly increase our operating expenses or require us to restrict our business activities in one or more respects. Any of these events could adversely affect our business, operating results, financial condition and prospects.

***The success of our business depends in part on our ability to protect and enforce our intellectual property rights.***

We rely on a combination of patent, copyright, service mark, trademark and trade secret laws, as well as confidentiality procedures and contractual restrictions and covenants, to establish and protect our proprietary rights, all of which provide only limited protection. We cannot assure you that any patents will be issued with respect to our currently pending patent applications in a manner that gives us adequate defensive protection or competitive advantages, if at all, or that any patents issued to us will not be challenged, invalidated or circumvented. We have filed for patents in the United States and in certain international jurisdictions, but such protections may not be available in all countries in which we operate or in which we seek to enforce our intellectual property rights, or may be difficult to enforce in practice. Our currently issued patents and any patents that may be issued in the future with respect to pending or future patent applications may not provide sufficiently broad protection or they may not prove to be enforceable in actions against alleged infringers. We cannot be certain that the steps we have taken will prevent unauthorized use of our technology or the reverse engineering of our technology. Moreover, others may independently develop technologies that are competitive to ours or infringe our intellectual property.

Protecting against the unauthorized use of our intellectual property, solutions and other proprietary rights is expensive and difficult, particularly internationally. Litigation may be necessary in the future to enforce or defend our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Any such litigation could result in substantial costs and diversion of management resources, either of which could harm our business, operating results and financial condition. Further, many of our current and potential competitors have the ability to dedicate substantially greater resources to defending intellectual property infringement claims and to enforcing their intellectual property rights than we have. Attempts to enforce our rights against third parties could also provoke these third parties to assert their own intellectual property or other rights against us, or result in a holding that invalidates or narrows the scope of our rights, in whole or in part. Effective patent, trademark, service mark, copyright and trade secret protection may not be available in every country in which our solutions are available. An inability to adequately protect and enforce our intellectual property and other proprietary rights could seriously harm our business, operating results, financial condition and prospects.

***We may become subject to claims that our employees have wrongfully disclosed or we have wrongfully used proprietary information of our employees' former employers. These claims may be costly to defend and if we do not successfully do so, our business could be harmed.***

Many of our employees were previously employed at current or potential competitors. Although we have processes to ensure that our employees do not use the proprietary information or know-how of others in their work for us, we may in the future become subject to claims that these employees have divulged, or we have used, proprietary information of these employees' former employers. Litigation may be necessary to defend against these claims. If we fail in defending such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. A loss of key research personnel or their work product could hamper our ability to develop new solutions and features for existing solutions, which could severely harm our business. Even if we are successful in defending against these claims, litigation efforts are costly, time-consuming and a significant distraction to management.

***If we fail to maintain an effective system of internal controls, our ability to produce timely and accurate financial statements or comply with applicable regulations could be impaired.***

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or Exchange Act, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and the rules and regulations of the NASDAQ Stock Market. We expect that the requirements of these rules and regulations will continue to increase our legal, accounting and financial compliance costs, make some activities more difficult, time-consuming and costly, and place significant strain on our personnel, systems and resources.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are continuing to develop and refine our disclosure controls, internal control over financial reporting and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we will file with the Securities and Exchange Commission, or SEC, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our principal executive and financial officers.

Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business. Further, weaknesses in our internal controls may be discovered in the future. Any failure to develop or maintain effective controls, or any difficulties encountered in their implementation or improvement, could harm our operating results or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements for prior periods. Any failure to implement and maintain effective internal controls also could adversely affect the results of periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting that we are required to include in our periodic reports we will file with the SEC under Section 404 of the Sarbanes-Oxley Act. Ineffective disclosure controls and procedures and internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information, which would likely have a negative effect on the market price of our Class A common stock.

In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, we have expended and anticipate that we will continue to expend significant resources, including accounting-related costs, and provide significant management oversight. Any failure to maintain the adequacy of our internal controls, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and could materially impair our ability to operate our business. In the event that our internal controls are perceived as inadequate or that we are unable to produce timely or accurate financial statements, investors may lose confidence in our operating results and our stock price could decline. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on the NASDAQ Global Select Market.

We are not currently required to comply with the SEC rules that implement Sections 302 and 404 of the Sarbanes-Oxley Act, and are therefore not required to make a formal assessment of the effectiveness of our internal controls over financial reporting for that purpose. We will be required to comply with certain of these rules, which will require management to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of our internal control over financial reporting commencing with our Annual Report on Form 10-K for the fiscal year ending July 31, 2018. To comply with the requirements of being a public company, we will need to undertake various actions, such as implementing new internal controls and procedures and hiring accounting or internal audit staff.

Our independent registered public accounting firm is not required to formally attest to the effectiveness of our internal control over financial reporting until after we are no longer an emerging growth company, which we expect will occur as of the end of our current fiscal year. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating. Any failure to maintain effective disclosure controls and internal control over financial reporting could have a material and adverse effect on our business and operating results and could cause a decline in the price of our Class A common stock.

***Failure to comply with laws and regulations applicable to our business could subject us to fines and penalties and could also cause us to lose end-customers in the public sector or negatively impact our ability to contract with the public sector.***

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, antitrust 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 in the United States. Noncompliance with applicable regulations or requirements could subject us to investigations, sanctions, mandatory product recalls, enforcement actions, disgorgement of profits, fines, damages and civil and criminal penalties or injunctions. If any governmental sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation, our business, operating results and financial condition could be 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 third-party professional fees. Enforcement actions and sanctions could harm our business, operating results and financial condition.

In addition, we must comply with laws and regulations relating to the formation, administration and performance of contracts with the public sector, including U.S. federal, state and local governmental organizations, which affect how we and our channel partners do business with governmental agencies. Selling our solutions to the U.S. government, whether directly or through channel partners, also subjects us to certain regulatory and contractual requirements. Failure to comply with these requirements by either us or our channel partners could subject us to investigations, fines and other penalties, which could have an adverse effect on our business, operating results, financial condition and prospects. As an example, the U.S. Department of Justice, or DOJ, and the General Services Administration, or GSA, have in the past pursued claims against and financial settlements with IT vendors under the False Claims Act and other statutes related to pricing and discount practices and compliance with certain provisions of GSA contracts for sales to the federal government. The DOJ and GSA continue to actively pursue such claims. Violations of certain regulatory and contractual requirements could also result in us being suspended or debarred from future government contracting. Any of these outcomes could have an adverse effect on our revenue, operating results, financial condition and prospects.

These laws and regulations impose added costs on our business, and failure to comply with these or other applicable regulations and requirements, including non-compliance in the past, could lead to claims for damages from our channel partners, penalties, termination of contracts, loss of exclusive rights in our intellectual property, and temporary suspension or permanent debarment from government contracting. Any such damages, penalties, disruptions or limitations in our ability to do business with the public sector could have an adverse effect on our business and operating results.

***We are subject to governmental regulation and other legal obligations, particularly related to privacy, data protection and information security, and our actual or perceived failure to comply with such obligations could adversely affect our business and operating results. Compliance with such laws could also impair our efforts to maintain and expand our customer base, and thereby decrease our revenue.***

Personal privacy, data protection and information security are significant issues in the United States and the other jurisdictions where we offer our solutions. The regulatory framework for privacy and security issues worldwide is rapidly evolving and is likely to remain uncertain for the foreseeable future. Our handling of data is subject to a variety of laws and regulations, including regulation by various government agencies, including the U.S. Federal Trade Commission, or FTC, and various state, local and foreign bodies and agencies.

The U.S. federal and various state and foreign governments have adopted or proposed limitations on the collection, distribution, use and storage of personal information of individuals, including end-customers and employees. In the United States, the FTC and many state attorneys general are applying federal and state consumer protection laws to the online collection, use and dissemination of data. Additionally, many foreign countries and governmental bodies, including in Australia, the European Union, India, Japan and numerous other jurisdictions in which we operate or conduct our business, have laws and regulations concerning the collection and use of personal information obtained from their residents or by businesses operating within their jurisdiction. These laws and regulations often are more restrictive than those in the United States. Such laws and regulations may require companies to implement new privacy and security policies, permit individuals to access, correct and delete personal information stored or maintained by such companies, inform individuals of security breaches that affect their personal information, and, in some cases, obtain individuals' consent to use personal information for certain purposes. In addition, a foreign government could require that any personally identifiable information collected in a country not be disseminated outside of that country, and we are not currently equipped to comply with such a requirement.

We also expect that there will continue to be new proposed laws, regulations and industry standards concerning privacy, data protection and information security in the United States, the European Union and other jurisdictions, and we cannot yet determine the impact such future laws, regulations and standards may have on our business. Additionally, we expect that existing laws, regulations and standards may be interpreted in new manners in the future. There remains significant uncertainty surrounding the regulatory framework for the future of personal data transfers from the European Union to the United States with regulations such as the recently adopted a General Data Protection Regulation, or GDPR, effective in May 2018, that will supersede current EU data protection legislation, impose more stringent EU data protection requirements, provide an enforcement authority, and impose large penalties for noncompliance. Future laws, regulations, standards and other obligations, including the adoption of the GDPR, as well as changes in the interpretation of existing laws, regulations, standards and other obligations could impair our or our customers' ability to collect, use or disclose information relating to individuals, which could decrease demand for our solutions, require us to restrict our business operations, increase our costs and impair our ability to maintain and grow our customer base and increase our revenue.

Although we are working to comply with those federal, state and foreign laws and regulations, industry standards, contractual obligations and other legal obligations that apply to us, those laws, regulations, standards and obligations are evolving and may be modified, interpreted and applied in an inconsistent manner from one jurisdiction to another, and may conflict with one another, other requirements or legal obligations, our practices or the features of our solutions. As such, we cannot assure ongoing compliance with all such laws or regulations, industry standards, contractual obligations and other legal obligations. Any failure or perceived failure by us to comply with federal, state or foreign laws or regulations, industry standards, contractual obligations or other legal obligations, or any actual or suspected security incident, whether or not resulting in unauthorized access to, or acquisition, release or transfer of personal information or other data, may result in governmental enforcement actions and prosecutions, private litigation, fines and penalties or adverse publicity and could cause our customers to lose trust in us, which could have an adverse effect on our reputation and business. Any inability to adequately address privacy and security concerns, even if unfounded, or comply with applicable laws, regulations, policies, industry standards, contractual obligations or other legal obligations could result in additional cost and liability to us, damage our reputation, inhibit sales, and adversely affect our business and operating results.

***Failure to comply with anticorruption and anti-money laundering laws, including the U.S. Foreign Corrupt Practices Act of 1977, as amended, or the FCPA, and similar laws associated with our activities outside of the United States could subject us to penalties and other adverse consequences.***

We are subject to the FCPA, the U.S. domestic bribery statute contained in 18 U.S.C. § 201, the U.S. Travel Act, the USA PATRIOT Act, the United Kingdom Bribery Act of 2010, or the U.K. Bribery Act, and possibly other anti-bribery and anti-money laundering laws in countries in which we conduct activities. We face significant risks if we fail to comply with the FCPA and other anticorruption laws that prohibit companies and their employees and third-party intermediaries from authorizing, offering or providing, directly or indirectly, improper payments or benefits to foreign government officials, political parties and private-sector recipients for the purpose of obtaining or retaining business, directing business to any person or securing any advantage. In many foreign countries, particularly in countries with developing economies, it may be a local custom that businesses engage in practices that are prohibited by the FCPA or other applicable laws and regulations. In addition, we use various third parties to sell our solutions and conduct our business abroad. We or our third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities and we can be held liable for the corrupt or other illegal activities of these third-party intermediaries, our employees, representatives, contractors, partners, and agents, even if we do not explicitly authorize such activities. We continue to update and implement our FCPA/anti-corruption compliance program and no assurance can be given that all of our employees and agents, as well as those companies to which we outsource certain of our business operations, will not take actions in violation of our policies and applicable law, for which we may be ultimately held responsible.

Any violation of the FCPA, other applicable anticorruption laws, and anti-money laundering laws could result in whistleblower complaints, adverse media coverage, investigations, loss of export privileges, severe criminal or civil sanctions and, in the case of the FCPA, suspension or debarment from U.S. government contracts, which could have a material and adverse effect on our reputation, business, operating results and prospects. In addition, responding to any enforcement action may result in a materially significant diversion of management's attention and resources and significant defense costs and other third-party professional fees.

***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 the controls.***

Our solutions are subject to U.S. export controls, including the Export Administration Regulations and economic sanctions administered by the Office of Foreign Assets Control, and we incorporate encryption technology into certain of our solutions. These encryption products and the underlying technology may be exported outside of the United States only with the required export authorizations, including by license, a license exception or other appropriate government authorizations, including the filing of an encryption registration.

Furthermore, our activities are subject to the U.S. economic sanctions laws and regulations that prohibit the shipment of certain products and services without the required export authorizations, including to countries, governments and persons targeted by U.S. embargoes or sanctions. Additionally, the U.S. government has been critical of existing trade agreements and may impose more stringent export and import controls. 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 even if the export license ultimately may be granted. While we take precautions to prevent our solutions from being exported in violation of these laws, including obtaining authorizations for our encryption products, implementing IP address blocking and screenings against U.S. government and international lists of restricted and prohibited persons, we cannot guarantee that the precautions we take will prevent violations of export control and sanctions laws. Violations of U.S. sanctions or export control laws can result in significant fines or penalties and possible incarceration for responsible employees and managers could be imposed for criminal violations of these laws.

We also note that if our channel partners fail to obtain appropriate import, export or re-export licenses or permits, we may also be adversely affected, through reputational harm as well as other negative consequences including government investigations and penalties. We presently incorporate export control compliance requirements into our channel partner agreements; however, no assurance can be given that our channel partners will be able to comply with such requirements.

Also, various countries, in addition to the United States, regulate the import and export of certain encryption and other technology, including import and export licensing requirements, and have enacted laws that could limit our ability to distribute our solutions or could limit our end-customers' ability to implement our solutions in those countries. Changes in our solutions or future changes in export and import regulations may create delays in the introduction of our solutions in international markets, prevent our end-customers with international operations from deploying our solutions globally or, in some cases, prevent the export or import of our solutions to certain countries, governments, or persons altogether. From time to time, various governmental agencies have proposed additional regulation of encryption technology, including the escrow and government recovery of private encryption keys. Any change in export or import regulations, economic sanctions or related legislation, increased export and import controls stemming from U.S. government policies, or change in the countries, governments, persons or technologies targeted by such regulations, could result in decreased use of our solutions by, or in our decreased ability to export or sell our solutions to, existing or potential end-customers with international operations. Any decreased use of our solutions or limitation on our ability to export or sell our solutions would adversely affect our business, operating results and prospects.

***Our international operations expose us to additional risks, and failure to manage those risks could adversely affect our business, operating results and cash flows.***

Increasingly, we derive a significant portion of our revenue from end-customers and channel partners outside the United States. We derived approximately 42%, 44%, 46% and 37% of our total revenue from our international customers based on bill-to-location for fiscal 2016 and fiscal 2017 and the six months ended January 31, 2017 and 2018, respectively. We are continuing to adapt to and develop strategies to address international markets but there is no guarantee that such efforts will have the desired effect. As of January 31, 2018, approximately 42% of our full-time employees were located outside of the United States. We expect that our international activities will continue to grow over the foreseeable future as we continue to pursue opportunities in existing and new international markets, which will require significant management attention and financial resources. We are subject to risks associated with having significant worldwide operations, including:

- business practices may differ from those in the United States and may require us in the future to include terms other than our standard terms in customer, channel partner, employee, consultant and other contracts;
- political, economic and social instability or uncertainty around the world;
- potential changes in trade relations arising from policy initiatives implemented by, or statements made by, the U.S. government, which has been critical of existing and proposed trade agreements;
- greater difficulty in enforcing contracts, judgments and arbitration awards in international courts, and in collecting accounts receivable and longer payment and collection periods;
- greater risk of unexpected changes in regulatory practices, tariffs, and tax laws and treaties;
- risks associated with trade restrictions and foreign legal requirements, including the importation, certification and localization of our solutions required in foreign countries;
- greater risk of a failure of foreign employees, partners, distributors and resellers to comply with both U.S. and foreign laws, including antitrust regulations, the FCPA, the U.K. Bribery Act, U.S. or foreign sanctions regimes and export or import control laws, and any trade regulations ensuring fair trade practices;
- 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;
- requirements to comply with foreign privacy, data protection and information security laws and regulations and the risks and costs of non-compliance;
- reduced or uncertain protection for intellectual property rights in some countries;
- impediments to the flow of foreign exchange capital payments and receipts due to exchange controls instituted by certain foreign governments;
- increased expenses incurred in establishing and maintaining corporate entities, office space, and equipment for our international operations;
- difficulties in managing and staffing international offices and increased travel, infrastructure and legal compliance costs associated with multiple international locations;
- greater difficulty in identifying, attracting and retaining local experienced personnel, and the costs and expenses associated with such activities;
- the challenge of managing a development team in geographically disparate locations;
- management communication and integration problems resulting from cultural and geographic dispersion;
- differing employment practices and labor relations issues;
- fluctuations in exchange rates between the U.S. dollar and foreign currencies in markets where we do business; and

- treatment of revenue from international sources for tax purposes and changes in tax laws, regulations or official interpretations, including being subject to foreign tax laws and being liable for paying withholding, income or other taxes in foreign jurisdictions.

As we expand our business globally, our success will depend, in large part, on our ability to anticipate and effectively manage these risks. These factors and other factors could harm our ability to gain future international revenue and, consequently, materially impact our business, operating results and financial condition. The expansion of our existing international operations and entry into additional international markets will require significant management attention and financial resources. Our failure to successfully manage our international operations and the associated risks effectively could limit the future growth of our business. Additionally, failure to effectively manage this growth may result in reduced international revenue relative to U.S. revenue, and as a result, a higher effective tax rate due to the overall percentage of total revenue from U.S. customers relative to international customers.

***A number of our solutions incorporate software provided under open source licenses which may restrict or impose certain obligations on how we use or distribute our solutions or subject us to various risks and challenges, which could result in increased development expenses, delays or disruptions to the release or distribution of those solutions, inability to protect our intellectual property rights and increased competition.***

Certain significant components of our solutions incorporate or are based upon open source software, and we may incorporate open source software into other solutions in the future. Such open source software is generally licensed under open source licenses, including, for example, the GNU General Public License, the GNU Lesser General Public License, “Apache-style” licenses, “BSD-style” licenses and other open source licenses. The use of open source software subjects us to a number of risks and challenges, including:

- If open source software programmers, most of whom we do not employ, do not continue to develop and enhance open source technologies, our development expenses could be increased and our product release and upgrade schedules could be delayed.
- Open source software is open to further development or modification by anyone. As a result, others may develop such software to be competitive with our operating system, and may make such competitive software available as open source. It is also possible for competitors to develop their own solutions using open source software, potentially reducing the demand for, and putting price pressure on, our solutions.
- The licenses under which we license certain types of open source software may require that, if we modify the open source software we receive, we are required to make such modified software and other related proprietary software of ours publicly available without cost and on the same terms. Accordingly, we monitor our use of open source software in an effort to avoid subjecting our proprietary software to such conditions and others we do not intend. Although we believe that we have complied with our obligations under the various applicable licenses for open source software that we use, our processes used to monitor how open source software is used could be subject to error. In addition, there is little or no legal precedent governing the interpretation of terms in most of these licenses. Therefore, any improper usage of open source could result in unanticipated obligations regarding our solutions and technologies, which could have an adverse impact on our intellectual property rights and our ability to derive revenue from solutions incorporating the open source software.
- If an author or other third party that distributes such open source software were to allege that we had not complied with the conditions of one or more of these licenses, we could be required to incur legal expenses defending against such allegations, or engineering expenses in developing a substitute solution.

If we are unable to successfully address the challenges of integrating offerings based upon open source technology into our business, our business and operating results may be adversely affected and our development costs may increase.

***Our failure to raise additional capital or generate the significant capital necessary to expand our operations and invest in new solutions could reduce our ability to compete and could harm our business.***

We expect that our existing cash and cash equivalents, and short-term investments, together with the net proceeds that we received from our initial public offering, or IPO, and the issuance of the 0% Convertible Senior Notes due 2023, or the Notes, will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next 12 months. We may, however, need to raise additional funds in the future, and we may not be able to obtain those funds on favorable terms, or at all. If we raise additional equity financing or equity linked financing such as the Notes, our stockholders may experience significant dilution of their ownership interests and the per share value of our Class A common stock could decline. Furthermore, if we engage in further debt financing, the holders of debt would have priority over the holders of our Class A and Class B common stock, and we may be required to accept terms that restrict our ability to incur additional indebtedness. We may also be required to take other actions, any of which could harm our business and operating results. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly limited, and our business, operating results, financial condition and prospects could be adversely affected.

***Adverse economic conditions or reduced datacenter spending may adversely impact our revenues and profitability.***

Our operations and performance depend in part on worldwide economic conditions and the impact these conditions have on levels of spending on enterprise computing technology. Our business depends on the overall demand for enterprise computing infrastructure and on the economic health and general willingness of our current and prospective end-customers to purchase our solutions. Weak economic conditions, or a reduction in enterprise computing spending, would likely adversely affect our business, operating results and financial condition in a number of ways, including by reducing sales, lengthening sales cycles and lowering prices for our solutions.

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

Our sales contracts are denominated in U.S. dollars, and therefore, substantially all of our revenue is not subject to foreign currency risk. However, a strengthening of the U.S. dollar could increase the real cost of our solutions to our end-customers outside of the United States, which could adversely affect our financial condition and operating results. In addition, an increasing portion of our operating expenses is incurred outside the United States, is denominated in foreign currencies such as the Euro, the Pound Sterling, the Indian Rupee, the Canadian Dollar and the Australian Dollar, and is subject to fluctuations due to changes in foreign currency exchange rates. If we become more exposed to currency fluctuations and are not able to successfully hedge against the risks associated with currency fluctuations, our operating results could be adversely affected. To date, we have not entered into any hedging arrangements with respect to foreign currency risk or other derivative instruments.

***Taxing authorities may successfully assert that we should have collected or in the future should collect sales and use, value added or similar taxes, and we could be subject to liability with respect to past or future sales, which could adversely affect our operating results.***

We do not collect sales and use, value added or similar taxes in all jurisdictions in which we have sales, and we have been advised that such taxes are not applicable to our products and services in certain jurisdictions. Sales and use, value added and similar tax laws and rates vary greatly by jurisdiction. Certain jurisdictions in which we do not collect such taxes may assert that such taxes are applicable, which could result in tax assessments, penalties and interest, to us or our end-customers for the past amounts, and we may be required to collect such taxes in the future. If we are unsuccessful in collecting such taxes from our end-customers, we could be held liable for such costs, which may adversely affect our operating results.



***Our international operations may subject us to potential adverse tax consequences.***

We are expanding our international operations and staff to better support our growth into the international markets. Our corporate structure and associated transfer pricing policies contemplate the business flows and future growth into the international markets, and consider the functions, risks and assets of the various entities involved in the intercompany transactions. The amount of taxes we pay in different jurisdictions may depend on the application of the tax laws of the various jurisdictions, including the United States, to our international business activities, changes in tax rates, new or revised tax laws or interpretations of existing tax laws and policies and our ability to operate our business in a manner consistent with our corporate structure and intercompany arrangements. The taxing authorities of the jurisdictions in which we operate may challenge our methodologies for pricing intercompany transactions pursuant to the intercompany arrangements or disagree with our determinations as to the income and expenses attributable to specific jurisdictions. If such a challenge or disagreement were to occur, and our position was not sustained, we could be required to pay additional taxes, interest and penalties, which could result in one-time tax charges, higher effective tax rates, reduced cash flows and lower overall profitability of our operations. Our financial statements could fail to reflect adequate reserves to cover such a contingency.

We expect to receive significant tax benefits from sales to our non-U.S. customers. These benefits are contingent upon existing tax laws and regulations in the U.S. and in the countries in which our international operations are located. Future changes in domestic or international tax laws and regulations could adversely affect our ability to continue to realize these tax benefits.

***Changes in global tax laws could increase our worldwide tax rate and could have a material adverse effect on our business, cash flow, results of operations or financial conditions.***

In December 2017, the U.S. Congress passed and the President signed legislation commonly referred to as the Tax Cuts and Jobs Act, or TCJA, which includes a broad range of tax reform proposals affecting businesses, including a federal corporate rate reduction from 35% to 21%; limitations on the deductibility of interest expense and executive compensation; creation of new minimum taxes such as the base erosion anti-abuse tax, or BEAT, Global Intangible Low Taxed Income, or GILTI tax; and a new minimum tax on certain foreign earnings. We are analyzing the TCJA to determine the full impact of the new tax law. In addition, International organizations such as the Organization for Economic Cooperation and Development, or OECD, have published Base Erosion and Profit Shifting, or BEPS, action plans that, if adopted by countries where we do business, could increase our tax obligations in these countries. Due to the large scale of our U.S. and international business activities, many of these enacted and proposed changes to the taxation of our activities could increase our worldwide effective tax rate and have an adverse effect on our operating results, cash flow, or financial condition.

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

A significant natural disaster, such as an earthquake, fire, flood or significant power outage could have an adverse impact on our business and operating results. Despite the implementation of network security measures, our networks also may be vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our solutions. Both our corporate headquarters and our main contract manufacturers are located in the San Francisco Bay Area, a region known for seismic activity. In addition, natural disasters, acts of terrorism or war could cause disruptions in our or our end-customers' or channel partners' businesses, our suppliers' and manufacturers' operations or the economy as a whole. We also rely on IT systems to communicate among our workforce and with third parties. Any disruption to our communications, whether caused by a natural disaster or by manmade problems, such as power disruptions, could adversely affect our business. We do not have a formal disaster recovery plan or policy in place and do not currently require that our manufacturing partners have such plans or policies in place. To the extent that any such disruptions result in delays or cancellations of orders or impede our suppliers' or our manufacturers' ability to timely deliver our solutions and product components, or the deployment of our solutions, our business, operating results and financial condition would be adversely affected. We do maintain what we believe are commercially reasonable levels of business interruption insurance. However, such insurance may not adequately cover our losses in the event of a significant disruption in our business.

***If our networks, computer systems or software solutions are breached or unauthorized access to customer data otherwise occurs, our enterprise and our solutions may be perceived as insecure, we may lose existing end-customers or fail to attract new end-customers, our reputation may be damaged and we may incur significant liabilities.***

We store, transmit and process our end-customers' data. If any unauthorized access to or security breach of our solutions occurs, or is believed to have occurred, such an event or perceived event could result in the loss of data, loss of intellectual property or trade secrets, loss of business, severe reputational or brand damage adversely affecting end-customer or investor confidence, regulatory investigations and orders, litigation, indemnity obligations, damages for contract breach, and penalties for violation of privacy, data protection and other applicable laws, regulations or contractual obligations. We may also be subject to significant costs for remediation that may include liability for stolen assets or information and repair of system damage that may have been caused or incentives offered to end-customers or other business partners in an effort to maintain business relationships after a breach and other liabilities. Additionally, any such event or perceived event could impact our reputation, harm customer confidence, hurt our sales and expansion into new markets or cause us to lose existing end-customers. We could be required to expend significant capital and other resources to alleviate problems caused by such actual or perceived breaches and to remediate our systems, we could be exposed to a risk of loss, litigation or regulatory action and possible liability, and our ability to operate our business may be impaired. Additionally, actual, potential or anticipated attacks may cause us to incur increasing costs, including costs to deploy additional personnel and protection technologies, train employees and engage third-party experts and consultants.

Additionally, we depend upon our employees to appropriately handle confidential data and deploy our IT resources in a safe and secure fashion that does not expose our network systems, or those of our end-customers, to security breaches and the loss of data. Accordingly, if our cybersecurity systems and measures or those of our contractors, partners and vendors fail to protect against unauthorized access, sophisticated cyberattacks and the mishandling of data by our employees, contractors, partners or vendors, our business and prospects could be adversely affected. We could lose or suffer the exposure of sensitive data regarding our business, including intellectual property or other proprietary data, or personally identifiable information of our end-customers, employees and business partners; encounter disruptions in our communications systems that impair our ability to conduct our business operations; and experience degradation in our ability to process customer orders or deliver solutions, affecting our distribution channels and delaying our revenue recognition. Likewise, security vulnerabilities could be exploited or introduced into our solutions, thereby damaging the reputation and perceived reliability and security of our products and services and potentially making the data systems of our end-customers vulnerable to further data loss and cyber incidents.

In addition, if the security measures of our end-customers are compromised, even without any actual compromise of our own systems or of our solutions used by such end-customers, we may face negative publicity or reputational harm if our end-customers or anyone else incorrectly attributes the blame for such security breaches to us or our solutions. If end-customers believe that our solutions do not provide adequate security for the storage of personal or other sensitive or proprietary information or the transmission of such information over the internet, our business will be harmed. End-customers' concerns about security or privacy may deter them from using our solutions for activities that involve personal or other sensitive information, which may significantly affect our business and operating results.

Because the techniques used and vulnerabilities exploited to obtain unauthorized access or to sabotage systems change frequently and generally are not identified until they are launched against a target, we may be unable to anticipate these techniques or vulnerabilities or implement adequate preventative measures. We may also experience security breaches that may remain undetected for an extended period.

***We are dependent on the continued availability of the Internet and third-party computer and communications systems.***

Our ability to provide services and solutions to our end-customers depends on our ability to communicate with our end-customers through the public Internet and electronic networks that are owned and operated by third parties. In addition, in order to provide customer service and sales on-demand and promptly, our computer equipment and network servers must be functional 24 hours per day, which requires access to telecommunications facilities managed by third parties and the availability of electricity, which we do not control. A severe disruption of one or more of these networks, including as a result of utility or third-party system interruptions, could impair our ability to process information, which could impede our ability to provide services to our end-customers, harm our reputation, result in a loss of end-customers and adversely affect our business and operating results.

***Our estimates of end-customer cost savings may not be indicative of the actual benefits that end-customers experience in the future.***

We have based our estimates of the cost savings that end-customers may experience on our internal models, which depend on a variety of assumptions, including publicly-available industry data, our estimates of spending on IT and our industry experience. These assumptions may turn out to be incorrect, may not reflect the specific circumstances faced by an end-customer or could change over time due to a variety of factors, including our assumptions regarding the costs of third-party equipment, software licenses, services, support offerings and IT administration may change over time, may not accurately reflect current market trends or may not accurately reflect the actual costs faced by our end-customers; the prices of our solutions may change; technological changes could render the need for some equipment obsolete; and competitors may offer more favorable pricing or bundle some components together with other products, reducing the cost of the infrastructures or solutions against which we have made our comparisons. As a result, end-customers may not experience these estimated cost savings, and the failure of many of them to do so could harm our brand or our future sales, which could harm our business.

***We have expanded and may further expand through acquisitions of, or investments in, other companies, each of which may divert our management's attention, resulting in additional dilution to our stockholders and consumption of resources that are necessary to sustain and grow our business.***

Our business strategy may, from time to time, include acquiring other complementary products, technologies or businesses. For example, in February 2018 we signed a definitive agreement to acquire Minjar Inc., in March 2018 we signed a definitive agreement to acquire Netsil Inc., in August 2016, we acquired Calm.io Pte. Ltd., or Calm, and in September 2016, we acquired PernixData, Inc., or PernixData. We also may enter into relationships with other businesses in order to expand our solutions, which could involve preferred or exclusive licenses, additional channels of distribution or discount pricing or investments in other companies. Negotiating these transactions can be time-consuming, difficult and expensive, and our ability to close these transactions may be subject to third-party approvals, such as government regulatory approvals, which are beyond our control. Consequently, we can make no assurance that these transactions once undertaken and announced, will close.

These kinds of acquisitions or investments may result in unforeseen operating difficulties and expenditures. In particular, we may encounter difficulties assimilating or integrating the businesses, technologies, products, personnel or operations of companies that we may acquire, particularly if the key personnel of the acquired business choose not to work for us. We may have difficulty retaining the customers of any acquired business or the acquired technologies or research and development expectations may prove unsuccessful. Acquisitions may also disrupt our ongoing business, divert our resources and require significant management attention that would otherwise be available for development of our business. We may not successfully evaluate or utilize the acquired technology or personnel, or accurately forecast the financial impact of an acquisition transaction, including accounting charges. Any acquisition or investment could expose us to unknown liabilities. Moreover, we cannot assure you that the anticipated benefits of any acquisition or investment would be realized or that we would not be exposed to unknown liabilities. In connection with these types of transactions, we may issue additional equity securities that would dilute our stockholders, use cash that we may need in the future to operate our business, incur debt on terms unfavorable to us or that we are unable to repay, incur large charges or substantial liabilities, encounter difficulties integrating diverse business cultures, and become subject to adverse tax consequences, substantial depreciation or deferred compensation charges. These challenges related to acquisitions or investments could adversely affect our business, operating results, financial condition and prospects.

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

We are subject to the 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 due diligence, disclose and report whether our solutions contain conflict minerals. The U.S. government has indicated that the Dodd-Frank Act will be under further scrutiny and some of the provisions of the Dodd-Frank Act may be revised, repealed or amended, and, in April 2017, the SEC announced that it was suspending enforcement of portions of the conflict minerals regulations enacted under the Dodd-Frank Act following a ruling by the U.S. Court of Appeals for the District of Columbia Circuit. The implementation of these requirements and any changes effected by the U.S. government's implementation of these requirements could adversely affect the sourcing, availability and pricing of the materials used in the manufacture of components used in our appliances. In addition, we will incur additional costs to comply with the disclosure requirements, including costs related to conducting diligence procedures to determine the sources of conflict minerals that may be used in or necessary to the production of our appliances and, if applicable, potential changes to appliances, processes or sources of supply as a consequence of such verification activities. It is also possible that we may face reputational harm if we determine that certain of our appliances contain minerals not determined to be conflict-free or if we are unable to alter our appliances, processes or sources of supply to avoid use of such materials.

**Risks Related to the Notes**

***We may not have the ability to raise the funds necessary to settle conversions of the Notes in cash or to repurchase the Notes upon a fundamental change, and our future debt may contain limitations on our ability to pay cash upon conversion or repurchase of the Notes.***

Holders of the Notes will have the right to require us to repurchase all or a portion of their Notes upon the occurrence of a fundamental change before the maturity date at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid special interest, if any. In addition, upon conversion of the Notes, unless we elect to deliver solely shares of our Class A common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the Notes being converted. Moreover, we will be required to repay the Notes in cash at their maturity unless earlier converted or repurchased. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of Notes surrendered therefor or pay cash with respect to Notes being converted or at their maturity.

In addition, our ability to repurchase Notes or to pay cash upon conversions of Notes or at their maturity may be limited by law, regulatory authority or agreements governing our future indebtedness. Our failure to repurchase Notes at a time when the repurchase is required by the indenture or to pay cash upon conversions of Notes or at their maturity as required by the indenture would constitute a default under the indenture. A default under the indenture or the fundamental change itself could also lead to a default under agreements governing our future indebtedness. Moreover, the occurrence of a fundamental change under the indenture could constitute an event of default under any such agreement. If the payment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness or to pay cash amounts due upon conversion, upon required repurchase or at maturity of the Notes.

***The conditional conversion feature of the Notes, if triggered, may adversely affect our financial condition and operating results.***

In the event the conditional conversion feature of the Notes is triggered, holders of the Notes will be entitled to convert their Notes at any time during specified periods at their option. If one or more holders elect to convert their Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our Class A common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation in cash, which could adversely affect our liquidity. In addition, even if holders of Notes do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

***The accounting method for convertible debt securities that may be settled in cash, such as the Notes, could have a material effect on our reported financial results.***

Under Accounting Standards Codification 470-20, Debt with Conversion and Other Options, or ASC 470-20, an entity must separately account for the liability and equity components of the convertible debt instruments (such as the Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The effect of ASC 470-20 on the accounting for the Notes is that the equity component is required to be included in the additional paid-in capital section of stockholders' equity on our consolidated balance sheet at the issuance date and the value of the equity component would be treated as debt discount for purposes of accounting for the debt component of the Notes. As a result, we are required to record a non-cash interest expense as a result of the amortization of the discounted carrying value of the Notes to their face amount over the term of the Notes. We will report larger net losses (or lower net income) in our financial results because ASC 470-20 will require interest to include the amortization of the debt discount, which could adversely affect our reported or future financial results or the trading price of our Class A common stock.

In addition, under certain circumstances, convertible debt instruments (such as the Notes) that may be settled entirely or partly in cash may be accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of such Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of such Notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of Class A common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable or otherwise elect not to use the treasury stock method in accounting for the shares issuable upon conversion of the Notes, then our diluted earnings per share could be adversely affected.

***The convertible note hedge and warrant transactions may affect the value of the Notes and our Class A common stock.***

In connection with the pricing of the Notes, we entered into convertible note hedge transactions with one or more of the initial purchasers of the Notes and/or their respective affiliates or other financial institutions, or the option counterparties. We also entered into warrant transactions with the option counterparties pursuant to which we will sell warrants for the purchase of our Class A common stock. The convertible note hedge transactions are expected generally to reduce the potential dilution upon any conversion of Notes and/or offset any cash payments we are required to make in excess of the principal amount upon conversion of any Notes. The warrant transactions could separately have a dilutive effect to the extent that the market price per share of our Class A common stock exceeds the strike price of the warrants.

The option counterparties and/or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our Class A common stock and/or purchasing or selling our Class A common stock in secondary market transactions prior to the maturity of the Notes (and are likely to do so during any observation period related to a conversion of Notes or following any repurchase of Notes by us on any fundamental change repurchase date or otherwise). This activity could also cause or avoid an increase or a decrease in the market price of our Class A common stock. In addition, if any such convertible note hedge and warrant transactions fail to become effective, the option counterparties may unwind their hedge positions with respect to our Class A common stock, which could adversely affect the value of our Class A common stock.

The potential effect, if any, of these transactions and activities on the market price of our Class A common stock will depend in part on market conditions and cannot be ascertained at this time. Any of these activities could adversely affect the value of our Class A common stock.

***We are subject to counterparty risk with respect to the convertible note hedge transactions.***

The option counterparties will be financial institutions or affiliates of financial institutions, and we will be subject to the risk that one or more of such option counterparties may default under the convertible note hedge transactions. Our exposure to the credit risk of the option counterparties will not be secured by any collateral. If any option counterparty becomes subject to bankruptcy or other insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at that time under our transactions with that option counterparty. Our exposure will depend on many factors but, generally, an increase in our exposure will be correlated to an increase in our Class A common stock market price and in the volatility of the market price of our Class A common stock. In addition, upon a default by an option counterparty, we may suffer adverse tax consequences and dilution with respect to our Class A common stock. We can provide no assurance as to the financial stability or viability of any option counterparty.

**Risks Related to Ownership of Our Class A Common Stock**

***The market price of our Class A common stock may be volatile and may decline.***

The market price of our Class A common stock has fluctuated and may continue to fluctuate substantially. The market price of our Class A common stock depends on a number of factors, including those described in this “Risk Factors” section, many of which are beyond our control and may not be related to our operating performance. These fluctuations could cause you to lose all or part of your investment in our Class A common stock. Factors that could cause fluctuations in the market price of our Class A common stock include the following:

- price and volume fluctuations in the overall stock market from time to time;
- volatility in the market prices and trading volumes of high technology stocks;
- changes in operating performance and stock market valuations of other technology companies generally, or those in our industry in particular;
- failure of financial analysts to maintain coverage of us, changes in financial estimates by any analysts who follow our company, including as a result of our recently announced plan to transition our business to focus on more software-only transactions, or our failure to meet these estimates or the expectations of investors;
- the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;
- announcements by us or our competitors of new products or new or terminated significant contracts, commercial relationships or capital commitments;
- public analyst or investor reaction to our press releases, other public announcements and filings with the SEC;
- rumors and market speculation involving us or other companies in our industry;
- actual or anticipated changes or fluctuations in our operating results;
- actual or anticipated developments in our business or our competitors’ businesses or the competitive landscape generally;
- actual or threatened litigation involving us, our industry or both, or investigations by regulators into our operations or those of our competitors;
- developments or disputes concerning our intellectual property or our solutions, or third-party proprietary rights;
- rumored, announced or completed acquisitions of businesses or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidelines, interpretations or principles;
- any major changes in our management or our board of directors;
- general economic conditions and slow or negative growth of our markets; and

- other events or factors, including those resulting from war, incidents of terrorism or responses to these events.

In addition, the stock market in general, and the market for technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry factors may seriously affect the market price of our Class A common stock, regardless of our actual operating performance. In addition, in the past, following periods of volatility in the overall market and the market prices of a particular company's securities, securities class action litigation has often been instituted against that company. Securities litigation, if instituted against us, could result in substantial costs and divert our management's attention and resources from our business. This could have an adverse effect on our business, operating results and financial condition.

***Sales of substantial amounts of our Class A common stock in the public markets, or the perception that they might occur, could reduce the price that our Class A 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 Class A common stock in the public markets, particularly sales by our directors, executive officers and significant stockholders, or the perception that these sales could occur, could adversely affect the market price of our Class A common stock.

We have reserved a substantial number of shares of our Class A common stock for issuance upon vesting or exercise of our equity compensation plans, upon conversion of the Notes and in relation to warrant transactions we entered into in connection with the pricing of the Notes.

In addition, certain holders of our Class B common stock are entitled to rights with respect to registration of these shares under the Securities Act of 1933, as amended, pursuant to our Amended and Restated Investors' Rights Agreement. If such holders exercise their registration rights and sell a large number of shares, they could adversely affect the market price for our Class A common stock. We have also registered the offer and sale of all shares of Class A and Class B common stock that we may issue under our equity compensation plans.

We may also issue our shares of Class A common stock or additional securities convertible into shares of our Class A 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 market price of our Class A common stock to decline.

***The dual class structure of our common stock as contained in our charter documents has the effect of concentrating voting control with a limited number of stockholders that held our stock prior to our IPO, including our directors, executive officers, and employees and their affiliates, and significant stockholders, which will limit your ability to influence corporate matters.***

Our Class B common stock has 10 votes per share, and our Class A common stock has one vote per share. As of January 31, 2018, stockholders who hold shares of Class B common stock, including our investors and our directors, executive officers, and employees, and their affiliates, together hold a significant majority of the voting power of our outstanding capital stock. As a result, for the foreseeable future, such stockholders will have significant influence over the management and affairs of our company and over the outcome of all matters submitted to our stockholders for approval, including the election of directors and significant corporate transactions, such as a merger, consolidation or sale of substantially all of our assets.

In addition, the holders of Class B common stock collectively will continue to control all matters submitted to our stockholders for approval even if their stock holdings represent less than 50% of the outstanding shares of our common stock. Because of the ten-to-one voting ratio between our Class B and Class A common stock, the holders of our Class B common stock collectively will continue to control a majority of the combined voting power of our common stock so long as the shares of Class B common stock represent at least 9.1% of all outstanding shares of our Class A and Class B common stock. This concentrated control will limit your ability to influence corporate matters for the foreseeable future, and, as a result, the market price of our Class A common stock could be adversely affected. These holders of our Class B common stock 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, and, unless earlier converted at the election of the holders of 67% of our outstanding Class B common stock, our amended and restated certificate of incorporation provides for a dual class stock structure for 17 years following the completion of our IPO.

Future transfers, whether or not for value, by holders of Class B common stock will generally result in those shares converting to Class A common stock, subject to limited exceptions, such as certain transfers affected for estate planning purposes. The conversion of shares of our Class B common stock into shares of our Class A common stock will have the effect, over time, of increasing the relative voting power of those holders of Class B common stock who retain their shares in the long term. If one or more significant holders of our Class B common stock decides to convert or sell their shares, it could result in a different group of Class B common stock holders having the power to exert significant influence over our company, which may or may not align with the strategy and direction set by our management. Any such changes could adversely affect the market price of our Class A common stock.

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

For so long as we remain an “emerging growth company” as defined in the in the Jumpstart Our Business Startups Act, or 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, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We may take advantage of these exemptions until we are no longer an emerging growth company, which we expect will occur as of the end of our current fiscal year. 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 IPO; (ii) the first fiscal year after our annual gross revenue is \$1.07 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. We cannot predict if investors will find our Class A common stock less attractive because we may rely on these exemptions. If some investors find our Class A common stock less attractive as a result, there may be a less active trading market for our Class A common stock and our stock price may be more volatile.

***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.***

We are subject to the reporting and corporate governance requirements of the Exchange Act, the listing requirements of the NASDAQ Global Select Market 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 our required public disclosures of information, our business and financial condition are more visible, which may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business, financial condition, results of operations and prospects could be harmed, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and harm our business, financial condition, results of operations and prospects.



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

***If financial or industry analysts do not publish research or reports about our business, if they have a difficulty understanding the changes to our business model, or if they issue inaccurate or unfavorable research regarding our Class A common stock, our stock price and trading volume could decline.***

The trading market for our Class A common stock will be influenced by the research and reports that industry or financial analysts publish about us or our business. We do not control these analysts or the content and opinions included in their reports. As a new public company, we may be slow to attract research coverage and the analysts who publish information about our Class A common stock will have had relatively little experience with our company. In addition, we are in a period of transition intended to focus our business on more software-only transactions, which analysts may not have historically reflected, or may not accurately in the future reflect, in their research. The foregoing factors could affect analysts' ability to accurately forecast our results and make it more likely that we fail to meet their estimates. In the event we obtain industry or financial analyst coverage, if any of the analysts who cover us issue an inaccurate or unfavorable opinion regarding our stock price, our stock price would likely decline. In addition, the stock prices of many companies in the high technology industry have declined significantly after those companies have failed to meet, or often times significantly exceeded, the financial guidance publicly announced by the companies or the expectations of analysts. If our financial results fail to meet (or significantly exceed) our announced guidance or the expectations of analysts or public investors, analysts could downgrade our Class A common stock or publish unfavorable research about us. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

***Certain provisions in our charter documents and under Delaware law could make an acquisition of our company more difficult, limit attempts by our stockholders to replace or remove members of our board of directors or current management and may adversely affect the market price of our Class A common stock.***

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:

- our amended and restated certificate of incorporation provides for a dual class common stock structure for 17 years following the completion of our IPO;
- 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;
- upon the conversion of our Class A common stock and Class B common stock into a single class of common stock, 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;
- upon the conversion of our Class A common stock and Class B common stock into a single class of common stock, 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 lead independent director, 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 our amended and restated 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 our amended and restated 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.

***We believe our long-term value as a company will be greater if we focus on growth, which may negatively impact our profitability in the near term.***

Part of our business strategy is to primarily focus on our long-term growth. As a result, our profitability may be lower in the near term than it would be if our strategy was to maximize short-term profitability. Expenditures on expanding our research and development efforts, sales and market efforts, infrastructure and other such investments may not ultimately grow our business or cause long-term profitability. If we are ultimately unable to achieve profitability at the level anticipated by analysts and our stockholders, our stock price may decline.

***We do not intend to pay dividends in the foreseeable future. As a result, your ability to achieve a return on your investment will depend on appreciation in the price of our Class A common stock.***

We have never declared or paid any cash dividends on our Class A common stock. We currently intend to retain all available funds and any future earnings for use in the operation of our business and do not anticipate paying any dividends on our Class A common stock in the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our board of directors. Accordingly, investors must rely on sales of their Class A common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investments.

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

**a) Unregistered Sales of Equity Securities**

In connection with our issuance of \$575 million in 0% Convertible Senior Notes due in 2023, we sold an aggregate of 11,770,538 warrants to purchase shares of our Class A common stock to certain bank counterparties. Such issuance was conducted in a private placement pursuant to an exemption from registration provided by Rule 4(a)(2) of the Securities Act and were offered only to persons believed to be either (i) "accredited investors" within the meaning of Rule 501 of Regulation D promulgated under the Securities Act or (ii) "qualified institutional buyers" within the meaning of Rule 144A promulgated under the Securities Act. We relied on this exemption from registration based in part on the representations made by the recipients.

**b) Use of Proceeds from Public Offering of Common Stock**

Our IPO of Class A common stock was effected through Registration Statements on Form S-1 (File Nos. 333-208711 and 333-213876), which were declared or became effective on September 29, 2016. There has been no material change in the use of proceeds from our IPO as described in our final prospectus filed with the Securities and Exchange Commission, or SEC, pursuant to Rule 424(b) of the Securities Act of 1933, as amended, and other periodic reports previously filed with the SEC.

**Purchases of Equity Securities by the Issuer**

None

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits**

See the Exhibit Index below for a list of exhibits filed or furnished with this report, which Exhibit Index is incorporated herein by reference.

## EXHIBIT INDEX

Number	Exhibit Title	Incorporated by Reference			Filing Date	Filed Herewith
		Form	File No.	Exhibit		
3.1	Amended and Restated Certificate of Incorporation.	10-Q	001-37883	3.1	12/8/2016	
3.2	Amended and Restated Bylaws.	S-1/A	333-208711	3.4	5/27/2016	
4.1	Indenture, dated as of January 22, 2018, between Nutanix, inc. and U.S. Bank National Association.	8-K	001-37883	4.1	1/23/2018	
4.2	Form of 0% Convertible Senior Note due 2023 (included in Exhibit 4.1)	8-K	001-37883	4.2	1/23/2018	
10.1	Offer Letter, dated as of November 20, 2017, by and between Nutanix, Inc. and Tyler Wall +					X
10.2	Manufacturing Services Agreement, by and between Nutanix, Inc. and Flextronics Telecom Systems Limited, entered into on November 1, 2017, as amended by Amendment #1 to Manufacturing Services Agreement entered into on December 19, 2017†					X
10.3	Original Equipment Manufacturer (OEM) Purchase Agreement, dated as of May 16, 2014, by and between the Registrant and Super Micro Computer Inc., as amended by Amendment One to Original Equipment Manufacturer (OEM) Purchase Agreement, dated as of November 13, 2017†					X
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*					X
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*					X
101.INS	XBRL Instance Document.					X
101.SCH	XBRL Taxonomy Extension Schema Document.					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.	XBRL Taxonomy Extension Definition.					X
101.	XBRL Taxonomy Extension Label Linkbase					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.					X

+ Indicates a management contract or compensatory plan or arrangement.

\* These exhibits are furnished with this Quarterly Report on Form 10-Q and are not deemed filed with the Securities and Exchange Commission and are not incorporated by reference in any filing of Nutanix, 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 hereof and irrespective of any general incorporation language contained in such filings.

† Confidential treatment has been requested for portions of this exhibit. These portions have been omitted and have been filed separately with the Securities and Exchange Commission.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 14, 2018

/s/ Duston M. Williams  
Duston M. Williams  
Chief Financial Officer  
(Principal Financial Officer)

November 20, 2017

Tyler Wall  
[Address]

Dear Tyler:

Nutanix, Inc., a Delaware corporation (the "**Company**"), is pleased to offer you employment with the Company on the terms described below.

- 1) **Position.** You will start in a full-time position as the Company's Chief Legal Officer (your "**Position**") on November 27, 2017 and will report to Dheeraj Pandey, the Company's Chief Executive Officer. In this role, you will be primarily responsible for leading the worldwide Legal team. Moreover, you will render such business and professional services in the performance of your duties, consistent with your Position, as shall reasonably be assigned to you by the Chief Executive Officer. This position is considered an exempt position for purposes of federal and state law, which means that you are not eligible for overtime pay. Additionally, your employment with the Company is contingent upon receipt of proof of your eligibility to work in the United States (as required by law) and completion of satisfactory reference and background checks. By signing this letter agreement, you confirm with the Company that you are under no contractual or other legal obligations that would prohibit you from performing the duties of your Position with the Company.
  
- 2) **Compensation.** Your starting compensation will be a semi-monthly salary of **\$14,583.33**, which is the equivalent of **\$350,000** on an annual basis, payable based on the Company's regular payroll dates, and in accordance with the Company's normal payroll procedures. This salary will be subject to adjustment pursuant to the Company's employee compensation policies in effect and as amended from time to time. In addition, you will be eligible for discretionary annual incentive compensation, with an annual target of **\$150,000** at 100% achievement, under the Company's Executive Bonus Plan. This discretionary annual incentive compensation will be subject to achievement of performance targets, which targets will be set by the Company's Board of Directors (the "**Board**") or its Compensation Committee (the "**Compensation Committee**"), as determined by the Board, promptly after the beginning of each fiscal year. Achievement of the performance targets and payment of your incentive compensation shall be determined, in good faith, by the Board or the Compensation Committee (if so delegated by the Board) in its sole discretion. The annual incentive compensation paid to you under the Executive Bonus Plan for the Company's 2018 fiscal year, if any, will be pro-rated based on your time of service during such fiscal year. Your base salary and your annual incentive compensation opportunity will be reviewed annually by the Board or the Compensation Committee (if so delegated by the Board) based on your performance and/or external compensation consultant recommendations.
  
- 3) **Employee Benefits.** As a regular employee of the Company, you will be eligible to participate in a number of Company-sponsored benefits. In addition, you will be entitled to paid vacation in accordance with the Company's vacation policy. You should note that the Company might modify job titles, salaries, and benefits from time to time, as it deems necessary.

- 4) **Restricted Stock Units.** Subject to the approval of the Board, you will be granted **300,000** restricted stock units (the “**RSUs**”), which represent the right to receive 300,000 shares of Nutanix common stock if specific vesting requirements are satisfied. The RSUs will be subject to the terms and conditions applicable to RSUs granted under the Company’s 2016 Equity Incentive Plan (the “**Plan**”), as described in the Plan, as well as in one or more restricted stock unit agreements (“**RSU Agreements**”) which you will be required to sign. You should consult with your own tax advisor concerning the tax risks associated with accepting RSUs that cover the Company’s common stock. Subject to the approval of the Board and your continuous service with the Company, as described in the applicable RSU Agreements, the shares subject to the RSUs will vest as follows: the “**Vesting Commencement Date**” for the RSUs will be the first March 15<sup>th</sup>, June 15<sup>th</sup>, September 15<sup>th</sup>, or December 15<sup>th</sup>, whichever is closest, following your employment start date; 25% of the RSUs will vest on the one-year anniversary of the Vesting Commencement Date (or, if such date falls on a weekend or a U.S. stock market holiday, the first business day thereafter), and 1/16<sup>th</sup> of the RSUs will vest in quarterly installments thereafter on the 15<sup>th</sup> day of the applicable month (or, if such date falls on a weekend or a U.S. stock market holiday, the first business day thereafter), so as to be 100% vested on the date that is the four-year anniversary of the Vesting Commencement Date (the foregoing schedule, the “**Vesting Schedule**”). In the event that your continuous service ceases prior to each applicable vesting date in the Vesting Schedule, then any unvested portion of the RSUs and your right to acquire any shares subject to such unvested portion of the RSUs will immediately terminate.
- 5) **Change of Control.** Subject to designation by the Compensation Committee of you as an Eligible Employee (as defined in the CoC Policy, defined below) and provided you have executed a Participation Agreement in the form attached hereto as **Exhibit A** (the “**Participation Agreement**”), you will be eligible to participate in the Company’s Change of Control and Severance Policy (“**CoC Policy**”) at the **Tier 2 Level**. A copy of the CoC Policy and the Participation Agreement are attached hereto as **Exhibit A**.
- 6) **Confidential Information and Invention Assignment Agreement.** Like all Company employees, you will be required, as a condition of your employment with the Company, to sign the Company’s enclosed standard Confidential Information and Inventions Assignment Agreement (“**CIIAA**”), which requires, among other provisions, the assignment of patent rights to any invention made during your employment at the Company, and non-disclosure of Company proprietary information. Please note that we must receive your signed CIIAA before your first day of employment. A copy of the CIIAA is attached hereto as **Exhibit B**.
- 7) **At-Will Employment Relationship.** Employment with the Company is for no specific period of time. Your employment with the Company will be “at will,” meaning that either you or the Company may terminate your employment at any time and for any reason, with or without cause. Any contrary representations which may have been made to you are superseded by this offer. This is the full and complete agreement between you and the Company on this term. Although your job duties, title, compensation and benefits, as well as the Company’s personnel policies and procedures, may change from time to time, the “at will” nature of your employment may only be changed in an express written agreement signed by you and the Company’s Chief Executive Officer.
- 8) **Conditions.** As a Company employee, you will be expected to abide by the Company’s rules and standards. Specifically, you acknowledge that you have read and that you understand the Company’s rules of conduct which are included in the Company Handbook.
- 9) **Outside Activities.** While you render services to the Company, you agree that you will not engage in any other employment, consulting or other business activity without the written consent of the

Company. Similarly, you agree not to bring any third party confidential information to the Company, including that of your former employers, and that in performing your duties for the Company you will not in any way utilize any such information of your former employers. In addition, while you render services to the Company, you will not assist any person or entity in competing with the Company, in preparing to compete with the Company or in hiring any employees or consultants of the Company.

- 10) **Withholding Taxes.** All forms of compensation referred to in this letter agreement are subject to applicable withholding and payroll taxes.
- 11) **Governing Law.** This letter agreement will be governed by the laws of the State of California (with the exception of its conflict of laws provisions).
- 12) **Acknowledgment.** You acknowledge that you have had the opportunity to discuss this matter with and obtain advice from your private attorney, you have had sufficient time to, and have carefully read and fully understand all the provisions of this letter agreement, and you are knowingly and voluntarily entering into this letter agreement.
- 13) **Entire Agreement.** This letter agreement, along with the CIIAA, the Plan, the RSU Agreements, the CoC Policy, and the Participation Agreement (if and when executed), set forth the terms of your employment with the Company, and supersede and replace any prior representations, understandings or agreements, whether oral, written or implied, between you and the Company regarding the matters described in this letter agreement. This letter agreement, including, but not limited to, its at-will employment provision, may not be modified or amended except by a written agreement signed by the Chief Executive Officer of the Company and you.

-Signature page follows- If you wish to accept this offer, please sign and date both the enclosed duplicate original of this letter and the enclosed Confidential Information & Inventions Assignment Agreement and return them via DocuSign. This offer, if not accepted, will expire at the close of business on November 20, 2017.

We look forward to having you join us no later than November 27, 2017.

Sincerely,  
Nutanix, Inc.

By /s/ Dheeraj Pandey\_\_\_\_\_  
(Signature)

Name: Dheeraj Pandey  
Title: Co-Founder and CEO



ACCEPTED AND AGREED: I confirm I am Tyler Wall and I intend to electronically sign this document. I intend that my electronic signature shall be binding upon me in the same way as my handwritten signature.

Tyler Wall

/s/ Tyler Wall (Signature)

November 20, 2017 Date

CONFIDENTIAL TREATMENT REQUESTED. CONFIDENTIAL PORTIONS OF THIS DOCUMENT HAVE BEEN REDACTED AND HAVE BEEN SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION

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## MANUFACTURING SERVICES AGREEMENT

This Manufacturing Services Agreement (“Agreement”) is entered into this 1st day of November 2017 (“Effective Date”), by and between Nutanix Inc., and Nutanix Netherlands B.V. (collectively “Nutanix”), and Flextronics Telecom Systems, Ltd and its Affiliates (“Flextronics”). This Agreement replaces in its entirety the Memorandum of Understanding between the Parties with an effective date of December 1<sup>st</sup>, 2016.

Flextronics agrees to manufacture and deliver Products pursuant to Specifications to meet Nutanix purchase orders for the consideration listed herein as follows:

### 1. DEFINITIONS

- 1.1 **Affiliates** means, with respect to a party, any corporation or other business entity Controlled by, Controlling or under common Control with that party, whereby Control means the direct or indirect ownership of more than 50% (fifty percent) of the equity interest in such corporation or business entity, or the ability in fact to control the management decisions of such corporation or business entity. An entity will be deemed an Affiliate only so long as such Control exists.
- 1.2 **Approved Vendor List or AVL** means the list of vendors approved to sell Components to Flextronics for inclusion in Products.
- 1.3 **Arena** means the Nutanix operated system which stores information about the Products including but not limited to the Approved Vendor List and the Specifications. Nutanix shall ensure that Flextronics has adequate access to Arena.
- 1.4 **Bill of Materials or BOM** means the list of Components that make up a particular Product.
- 1.5 **Components** shall mean all Components and other materials included in Products provided by third parties and approved in writing by Nutanix. Components shall be either Standard, Non-Standard or Custom Components. Nutanix and Flextronics shall jointly agree in writing as part of the Quarterly Pricing process, on all Nutanix “Standard”, “Non-Standard or Custom Components product type designations”.
  - 1.5.1 **Standard Components** - shall mean ‘off the shelf,’ generally available Components that meet the standard cancellation terms (i.e. Components that can be rescheduled, cancelled, or returned by Flextronics at any time without notice or liability). Nutanix shall have no component inventory liability for Standard Components.
  - 1.5.2 **Non-Standard Components** means Components that are Nutanix controlled Components or that may not be Nutanix specific items, but for which Flextronics cannot cancel or return without notice or liability. Nutanix shall have component inventory liability for Non-Standard Components per Section 13.
  - 1.5.3 **Custom Components** means Nutanix specific items such as bezels, Nutanix-designed packaging, labels, cables and any other Nutanix specific items. Custom Components also include Components that may not be Nutanix specific items, but for which Flextronics cannot cancel or return without notice or liability. Nutanix shall have component inventory liability for Custom Components per Section 13.
- 1.6 **Component Standard Price** means the price for each Component as agreed to between the parties during the quarterly pricing process as described in Section 6.
- 1.7 **Costed Bill of Materials** means the Bill of Materials or “BOM” that includes the Component Standard Prices for each Component of the Product.

- 1.8 **Counterfeit Component(s)** means an unlawful or unauthorized reproduction, substitution, or alteration of a Component that has been knowingly mismarked, misidentified, or otherwise misrepresented to be an authentic, unmodified electronic part from the original manufacturer. Unlawful or unauthorized substitutions include used electronic parts represented as new, or the false identification of grade, serial number, lot number, date code, or performance characteristics.
- 1.9 **Delivery** means Flextronics’s successful delivery of the Product(s) to the Nutanix carrier at Flextronics’ manufacturing site.
- 1.10 **Demand Forecast** shall mean a projection of Nutanix’s Product mix and volume requirements over a [\*\*\*] period or such other period designated by the parties. The Demand Forecast will be provided frequently, but no less than on a monthly basis.
- 1.11 **End Customer** means Nutanix or Nutanix’s customer that will receive the Products as indicated on an Order.
- 1.12 **Epidemic Failure** means the failure of more than [\*\*\*] of the Products that occur within [\*\*\*] from the date of shipment and where there is a single root cause of the failure which is a result of a breach of the Flextronics warranty attached hereto as Exhibit A.
- 1.13 **Gold Material** means Products or Components utilized solely for test purposes. Flextronics will manage dedicated Gold Material to test the Products in accordance with the terms of Exhibit C and will be held by Flextronics at [\*\*\*]-unit cost. Nutanix shall consign Gold Material and be responsible for the replacement and maintenance of Gold Material. Flextronics is responsible for Risk of Loss of Gold Material.
- 1.14 **Intellectual Property** means all industrial and other intellectual property rights comprising or relating to: (a) Patents; (b) Trademarks; (c) internet domain names, whether or not Trademarked, registered by any authorized private registrar or Governmental Authority, or web addresses, web pages, or website and URLs; (d) works of authorship, expressions, designs and design registrations, whether or not copyrightable, including copyrights and copyrightable works, software and firmware, application programming interfaces, architecture, files, records, schematics, data, data files, databases, and any other specifications and documentation; (e) Trade Secrets; and (f) all industrial and other intellectual property rights, and all rights, interests and protections that are associated with, equivalent or similar to, or required for the exercise of, any of the foregoing, however arising, in each case whether registered or unregistered and including all registrations and applications for, and renewals or extensions of, such rights or forms of protection pursuant to the laws of any jurisdiction throughout any part of the world.
- 1.15 **Lead Time** means the time required for Flextronics to assemble the Products after it has received an Order from Nutanix. For Products in which all the Components are in the supermarket the Lead Time shall be Delivery of the Product within [\*\*\*] of receipt of the Order; and for Orders which will be a new build, the Lead Time for Delivery of the Product to the End Customer shall be [\*\*\*] from receipt of the Order.
- 1.16 **Manufacturing Facility** shall mean Flextronics’s manufacturing facility approved in advance by authorized Nutanix personnel.
- 1.17 **New Product Introduction or “NPI”** means Nutanix’s launch and/or commercialization of a new or newly converted product within a Nutanix product family
- 1.18 **Nutanix Consigned Material** means any raw material, tooling and fixtures, test equipment, or Product provided by Nutanix in connection with the assembly by Flextronics of the Product.

\*\*\* Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

- 1.19 **Order** shall mean any order placed by Nutanix, including a purchase order for Products and/or Services placed by Nutanix.
- 1.20 **PPV or Purchase Price Variance** means the difference between the Component Standard Price and the actual unit price paid by Flextronics for the Component.
- 1.21 **Prices** shall mean the prices for Products and shall equal the Component Standard Prices in the Product(s) plus the Transformation Costs.
- 1.22 **Product(s)** means the Nutanix products or systems that are marketed and sold to End Customers, (an initial list of which is listed in Exhibit F and which shall be updated from time to time by Nutanix). Flextronics agrees to procure Components, assemble, test and package these Products in accordance with the product Specifications provided by Nutanix and the terms of this Agreement.
- 1.23 **QBR** means a Quarterly Business Review held jointly between Nutanix and Flextronics.
- 1.24 **Quality Plan** means the Quality System and Product Quality Requirements provided by Nutanix to Flextronics and in accordance with Exhibit D.
- 1.25 **Quarterly Pricing Process** means a quarterly meeting or series of meetings in which the price for the Product shall be established by looking at the price of the Components individually as further described in Section 6.8 herein.
- 1.26 **Quarterly Settlement Process** means a quarterly meeting or series of meetings between Nutanix and Flextronics in which the parties will resolve any price issues from the previous quarter for the Products or Components and as further described in Section 6.10 herein.
- 1.27 **Rejected Product(s)** shall mean any Products that either (i) failed functional or cosmetic testing during the manufacturing process at Flextronics and are rejected by Nutanix or (ii) returned to Flextronics as field failures by the End Customer pursuant to this Agreement.
- 1.28 **Return Material Authorization or RMA** means the authorization by Nutanix for Flextronics to engage in the return process of a Product(s) as further described in Exhibit B.
- 1.29 **Services** shall mean the Component procurement and system integration services performed by Flextronics for the final assembly, test, and packaging for creation and Delivery of the Products.
- 1.30 **Software** means the object code version of the software provided by Nutanix for integration into a Product.
- 1.31 **Specifications** mean the manufacturing, assembly and testing specifications related to the Products as agreed by the Parties and supplemented by the parties in writing from time to time.
- 1.32 **Supermarket** means test WIP held in a location pending an Order for assembling.
- 1.33 **Top Level Assembly or "TLA"** means: the highest level of component assembly for the Product based on Specifications or through NPI.
- 1.34 **L10:** Ship and debit products that will be purchased as a completely configured, ready to ship product by a designated 3<sup>rd</sup> party supplier.

## 2. SCOPE OF AGREEMENT

- 2.1 This Agreement constitutes the entire integrated agreement between the parties with respect to Products purchased and or Services supplied hereunder and supersedes all prior written or oral understandings or agreements relating to the same including, but not limited to, the Memorandum of Understanding between the parties with an effective date of December 1, 2016. In the event of any conflict between these terms and the terms on the face of any Order, the terms of this Agreement will govern. The parties agree that all pre-printed terms on any Order, Order Acknowledgment or other forms submitted by either party shall be void and of no effect.
- 2.2 No modification of this Agreement will be binding on either party unless set forth in writing and specifically referencing this Agreement and signed by an authorized agent of each party.

## 3. MANUFACTURING SERVICES

- 3.1 **Services.** Flextronics shall perform the Services in accordance with (a) the terms of this Agreement; (b) using personnel of required skill, experience and qualifications; (c) in a timely, workmanlike and professional manner; and (d) in accordance with the industry standards; and (e) to the reasonable satisfaction of Nutanix. In performing the Services, Flextronics shall ensure the Products meet the Specifications. The Parties agree that time is of the essence in performance and completion of the Services.
- 3.2 **Capacity.** Flextronics shall provide sufficient capacity at the applicable Manufacturing Facility to manufacture Products to meet the Demand Forecast. If Flextronics believes that it will not have sufficient capacity at the applicable Manufacturing Facility to satisfy this requirement, Flextronics will immediately notify Nutanix and use commercially reasonable efforts to remedy the issue; provided, however, Flextronics understands and agrees that Flextronics may not manufacture Products at such other Manufacturing Facilities without Nutanix's prior written approval.
- 3.3 **Software Load.** As part of performing the Services, Flextronics shall load the Software onto Products in accordance with the Specifications. Nutanix shall provide to Flextronics the required Software versions, files and other material needed to load the Software onto the Products and Flextronics shall take all reasonable steps to ensure the security of the Software.
- 3.4 **Use of Subcontractors.** Flextronics may perform portions of the Services using subcontractors provided that Nutanix has agreed in writing to the use of such subcontractors. Flextronics shall remain jointly and severally liable for the acts and omissions of its subcontractors and any breach of this Agreement by subcontractors shall be considered a breach of the Agreement by Flextronics.
- 3.5 **Exchange of Electronic Data.** The parties will enable various types of electronic data exchange to facilitate Orders and other communications.
- 3.6 **Nutanix Personnel Access.** Flextronics shall reasonably permit Nutanix personnel access to the Manufacturing Facilities in which the Services are being performed. Flextronics shall permit Nutanix personnel to inspect the manufacturing lines and testing facilities used for the Products. In addition, Flextronics shall provide Nutanix personnel with a work area within the Manufacturing Facility during the visit of such Nutanix personnel. As further described in the applicable section(s), Flextronics will also allow Nutanix reasonable access for the purpose of performing inventory counts.
- 3.7 **Testing.** Flextronics shall perform testing Services on each of the Products it provides to the End Customer ("Test" or "Testing"). The exact Test requirements for Flextronics's performance of the Services are defined in Exhibit C, "Manufacturing Test Requirements Specification" and as may be updated from time to time by Nutanix.

3.8 **Non-Recurring Expenses.** For certain portions of the Services, Nutanix may be required to pay non-recurring expenses (“NRE”) to Flextronics. Such NRE shall be agreed upon by the parties in writing.

#### 4. **NUTANIX DEMAND FORECAST**

4.1 Each calendar month, Nutanix will provide to Flextronics a rolling Demand Forecast for Products for the following [\*\*\*].

4.2 Flextronics shall respond to the Demand Forecast with a commitment to meet the Demand Forecast noting any exceptions to the requested Demand Forecast. Flextronics shall provide a monthly capacity analysis report detailing Manufacturing Facility capacity available for Nutanix with reference to Nutanix’s monthly Demand Forecast and Component availability for the period outlined in such Demand Forecast. Flextronics shall provide for an overall Product Manufacturing capacity upside of [\*\*\*] which may be exercised by Nutanix upon [\*\*\*] days prior notice to Flextronics. This [\*\*\*] upside may be exercised [\*\*\*] by Nutanix, unless more frequently agreed to by Flextronics.

4.3 Should Flextronics procure more Components than are needed to meet the Demand Forecast, Nutanix shall have no liability for the Components that are the subject of such excess procurement, unless such excess purchases were agreed upon in writing (including by email) in order to meet minimum order quantities, risk buys, etc.

4.4 Except to the extent that Flextronics is entitled to procure Components under Section 12 below and for the purposes of Section 13 below, Nutanix will not be bound by the Nutanix Demand Forecast or other sales information it may provide to Flextronics.

#### 5. **ORDERS**

5.1 Nutanix shall submit Orders and Flextronics shall accept such Orders within [\*\*\*] of receipt of the Order and provide an estimated ship date for the Order at the time of such acceptance. For the purpose of clarity, Flextronics does not have the right to reject an Order that is consistent with this Agreement or within Nutanix’s credit limit.

5.2 Orders will include the description and Price per unit of Product; the quantities ordered, delivery information, and any other such information as the parties agree to from time to time. Orders will be issued in writing and delivered by e-mail, facsimile, electronic data exchange means or by other methods that the parties agree to from time to time.

5.3 Flextronics shall fill accepted Orders within the Lead Time. The parties agree that time is of the essence in the performance of the Services. In the event that a Flextronics committed order is delayed by more than [\*\*\*] from the committed shipment date due to reasons solely within Flextronics control, which shall include delays caused by subcontractors and suppliers selected by Flextronics (“Late Delivery”), Nutanix shall be allowed to cancel such order at Nutanix’s sole discretion. Any materials liability for Nutanix that occurred as a result of a Late Delivery of an order which was then cancelled by Nutanix shall be considered a direct damage (with Flextronics being liable to Nutanix for such direct damage) under the Agreement. Repeated and uncured Late Delivery shall be deemed a material breach of the Agreement.

5.4 Orders are cancelable and reschedulable per Section 9.

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## 6. PRICING

- 6.1 Product pricing shall be in U.S. Dollars on the Order, unless otherwise agreed in writing between the parties, and are exclusive of applicable duties, sales or use taxes, but are inclusive of all other charges including charges for labeling, packaging and crating, any inspection fees, and all other taxes.
- 6.2 Flextronics agrees to provide Nutanix with a detailed costed Bill of Materials (“BOM”) with respect to each Product showing a breakdown of the Component Standard Price,
- 6.3 The pricing of the Products will consist of the Component Standard Prices that make up the Costed Bill of Materials for a particular Product that has been ordered plus a Transformation Cost (“TC”). The TC is inclusive of all direct labor, and all indirect overheads such as profit, warranty and SG&A.
- 6.4 **Transformation Cost for Production Units.** The parties have agreed that the TC for production volumes shall be [\*\*\*] and shall be valid until [\*\*\*] based on the forecasted sales by Flextronics to Nutanix beginning on [\*\*\*]. The parties also agree that the TC for production volumes shall be [\*\*\*]. After this period has lapsed, the Transformation Cost shall be agreed to by the parties on an annual basis. Certain exceptional items, including but not limited to expedited freight, will be agreed upon in advance and in writing and will be charged separately by Flextronics and paid by Nutanix.
- 6.4.1 BOM-material mark-up;
- Fully burdened manufacturing assembly costs (to include Ongoing Reliability Testing (ORT) and Out of Box Audit (OBA));
  - Fully burdened test costs;
  - Selling, general and administrative expenses; and
  - Operating margin.
- 6.5 **Transformation Price for Prototypes.** At the time of execution of the Agreement, the parties agree that the TC for NPI activities is [\*\*\*] to convert existing part numbers to new TLAs. This charge does not include Components which will be priced separately. There is no established limit to count of products in NPI.
- 6.6 During NPI activities, if the same physical product is returned to any steps previously completed successfully, such product will be considered to be in a new iteration cycle and the [\*\*\*] of the standard cost of product will apply. This excludes debug related reprocessing. Any hardware changes in the iteration cycles will be charged separately.
- 6.7 **Test Development:** The [\*\*\*] does not include test development requests. Test development requests will be quoted on a case-by-case basis, based on Statement of Work received with the request. Development work will continue after written approval via email.
- 6.8 **RMA:** The Parties agree to [\*\*\*] per unit for refurbishment of a Product. This charge is to receive in, test, inspect and re-pack such Products, as described in section 15.5.1.
- 6.9 **L10 Pricing:** L10 ship and debit process shall be as described in Exhibit G and Nutanix shall pay a [\*\*\*] adder per L10 system.

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## 6.10 Quarterly Pricing Process

- 6.10.1 For the Quarterly Pricing Process, the Parties agree to meet at least once during the Nutanix fiscal quarter (Nutanix's fiscal year is August 1 through July 31) and review prices of the Products and the individual Components and establish Component Standard Prices for the following fiscal quarter. Prices will be adjusted to reflect any; (i) substantial increase or decrease in volume; (ii) change in market conditions or end user sales price of Products; and (iii) pass through of Price adjustments for Components passed on to Flextronics. As part of the Quarterly Pricing Process, the parties will discuss ways to reduce the overall Price of the Bill of Materials.
- 6.10.2 Any Product price increases due to increased Prices on Flextronics controlled Components will not be effective until they have been: (a) reviewed in detail with Nutanix; (b) agreed upon by Nutanix and Flextronics in writing; such agreement shall not be unreasonably delayed or withheld.
- 6.10.3 In the event of an agreed-upon price increase, Flextronics will fill, at the lower purchase price, all Orders placed prior to the effective date of the agreed-upon price increase unless those Orders require Components purchased at the agreed upon price increase. In the case that Component pricing is responsible for the price increase, it is assumed that Component inventory at Flextronics at the lower price (purchased within a reasonable required lead time to meet Nutanix's demand) is such that all Orders placed prior to the effective date of the agreed-upon price increase can be fulfilled. If inventory is not sufficient for Flextronics to fill, at the lower purchase price, all Orders placed prior to the effective date of the agreed-upon price increase (and inventory was in fact purchased within a reasonable required lead time to meet Nutanix's demand), then Flextronics and Nutanix will set a mutually agreed-upon cut-in date for the agreed-upon price increase for the balance.

6.11 **Nutanix Audit Rights.** Nutanix has the right to verify compliance with this Agreement by Flextronics, including but not limited to compliance with this Section 6. Any audit undertaken by Nutanix shall be at Nutanix's expense as follows:

- 6.11.1 Subject at all times to Flextronics confidentiality obligations to its Component suppliers, not more than twice per calendar year, Nutanix may provide Flextronics at least thirty (30) days' notice of its intent to verify Flextronics's compliance with its obligations during the immediately preceding twelve (12) calendar months. Nutanix will engage a mutually agreed independent auditor, such agreement not to be unreasonably withheld, which will be subject to a confidentiality obligation. Verification will take place during normal business hours and in a manner that does not interfere unreasonably with Flextronics's operations. Flextronics must promptly provide the independent auditor with any information necessary to complete the verification, including evidence of Prices for Nutanix controlled Components, as designated at the time of purchase, which Flextronics procured to perform the Services. Nutanix Controlled Components shall be Components for which the pricing is determined directly between Nutanix and the relevant supplier
- 6.11.2 If the verification reveals any prices for Nutanix controlled Components procured by Flextronics were misstated on a Bill of Materials, the parties will promptly settle the misstated amounts, such amounts will be paid to the damaged party within [\*\*\*] of such settlement. By exercising the rights and procedures described above, Nutanix does not waive its rights to enforce this agreement or to protect its intellectual property by any other means permitted by law.

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- 6.12 **Quarterly Settlement Process.** Each Nutanix fiscal quarter, the parties will meet and compare the Component Standard Prices with the actual prices paid by Flextronics for Components. The goal of this process is to settle the differences between the Component Standard Prices and the market Prices for the relevant Component. Further, as part of this Quarterly Settlement Process, the parties may agree to resolve other pricing and expense issues. The parties shall resolve any such issues as described below:
- 6.13 **Component and Product Revaluation Process:** Flextronics and Nutanix shall review all Component and Product price changes (increases or decreases) quarterly. Where the prices of Components have increased (“buy up”) there shall be offset against the value of inventory where the prices of Components have decreased (“buy down”). In the event the buy up value exceeds the buy down value, Flex shall issue a purchase order to Nutanix for the delta difference in values. In the event the buy down value exceeds the buy up value, Nutanix shall issue a purchase order to Flex. The parties will use best efforts to issue an applicable purchase order within [\*\*\*] of the agreed-to reconciliation.
- 6.14 **PPV:** The parties shall review PPV as part of the quarterly Settlement Process. Based on the mutual agreement from the quarterly settlement process, the parties agree to issue credits to each other. PPV may occur as a result of one of the following events:
- (i) Component manufacturer or supplier charges Flextronics a price different, higher than the Component Standard Price for that Component;
  - (ii) regular price changes for Component(s) that traditionally occur on a calendar basis and result in a price difference from the Component Standard Price.
- 6.15 **Freight Expedites.** To fulfill Orders within the Lead Time, Flextronics may need to expedite receipt of inbound Components and/or shipment of Products to End Customers. Flextronics may expedite these shipments only with the prior written approval of Nutanix. Should the reason for any expedite be as a result of an act or omission of Flextronics, Flextronics shall take financial responsibility for such expedite. The parties shall review these expedited freight Prices as part of the Quarterly Settlement Process and determine how these Prices should be allocated.

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## 7. DELIVERY, REJECTION AND ACCEPTANCE

- 7.1 **On-Time Shipment.** Flextronics shall make commercially reasonable efforts to meet the target goal of [\*\*\*] on-time Delivery, defined as the shipment of Product by Flextronics within a maximum window of [\*\*\*] based on the Lead Time. Flextronics shall use its commercial best efforts to Deliver Products in accordance with the Lead Time.
- 7.2 **Title.** All Products delivered to Nutanix shall be [\*\*\*]. Title and risk to all Products shall pass to Nutanix upon Flextronics's tendered delivery to common carrier or Nutanix designee. As part of providing the Services, Flextronics shall load the products on the collecting vehicle and bear the risk of loss for such Products in the course of such loading process at no additional cost to Nutanix.
- 7.3 **Packaging.** Flextronics will handle, pack, mark and ship Products in accordance with written instructions communicated to Flextronics, or if no instructions are provided or such instructions are silent in a particular area, Flextronics will handle and ship in accordance with Flextronics's normal practice provided that such practice is consistent with industry standards.
- 7.4 **Delivery Documentation.** Each Delivery of Products must be accompanied by Flextronics's delivery document, located in a clearly marked ship-to label, in the format described in Arena attached to each appropriate shipping carton. Each delivery document must at a minimum clearly state the following data: (a) Nutanix Order number; (b) End-Customer PO number, (c) Nutanix Product number, (d) serial numbers where appropriate, (e) the quantity shipped
- 7.5 **Delivery Schedules.** In the event that Flextronics has reason to believe that any shipment of Product to the End Customer may not meet Delivery (and without waiver of any rights by either party), Flextronics shall provide advance notification to Nutanix, along with detailed proposed solutions and recovery plans. To the extent such delay is not attributable to Nutanix, Flextronics shall bear any additional expenses including material expediting costs, premium transportation costs or labor overtime, associated with meeting the specified Delivery date or minimize the lateness of such deliveries.
- 7.6 **Rejected Product.** Rejected Product may be returned to Flextronics. The parties will follow Flextronics's Return Material Authorization (RMA) process for the return of Rejected Products.
- 7.7 **Acceptance.** In the absence of earlier notification of rejection, Nutanix will be deemed to have accepted the Products [\*\*\*] after Delivery.

## 8. PAYMENT

- 8.1 Terms of payment are [\*\*\*] from date of invoice. All dollar amounts in the Agreement are in US Dollars. All payments will be made in U.S. Dollars.
- 8.2 As full consideration for the performance of the Services, Nutanix shall pay Flextronics the undisputed amount stated on invoices from Flextronics to Nutanix. Applicable taxes and other charges such as shipping costs, duties, customs, tariffs, imposts, and government-imposed surcharges (where appropriate) shall be stated separately on Flextronics' invoice. Payment shall not constitute acceptance; Acceptance is covered in Section 7.7 above. All duties and taxes assessable upon the Products and Components prior to receipt by Nutanix of the Products shall be borne by Flextronics. Flextronics shall invoice Nutanix for all Products delivered and all Services actually performed. If any [\*\*\*].

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- 8.3 If Nutanix disputes the accuracy of an invoice (a "Billing Dispute"), Nutanix will, not later than [\*\*\*] following the date of such invoice, notify Flextronics in writing of the nature of the Billing Dispute. Nutanix may withhold payment of the disputed amount and such payment will not be considered past due during Flextronics's investigation. Flextronics will make commercially reasonable efforts to completely resolve the Billing Dispute within [\*\*\*] following the date on which Flextronics received Nutanix's initial billing inquiry. This section in no way limits the audit rights for Nutanix which are stated in Section 6.11 above.
- 8.4 Nutanix will be responsible for all taxes with respect to Orders placed by Nutanix (except Flextronics's income taxes), unless Nutanix provides Flextronics with tax exemption documentation required by the applicable taxing authority.

## 9. CANCELLATION AND RE-SCHEDULING

- 9.1 Flextronics agrees the following cancellation terms:
- 9.1.1 Nutanix may cancel or reschedule any Orders in its sole discretion at any time before the actual shipment of the Order at no additional cost to Nutanix. If Nutanix directs Flextronics to disassemble the Product that is the subject of such cancellation such disassembly shall be subject to a flat fee of [\*\*\*]. In case of rework conversions (tested components in the Supermarket that are required to be converted before consumption) of CTO orders, Nutanix shall pay Flextronics a flat fee of [\*\*\*]. Cost for material, if any, will be charged separately.
- 9.1.2 To assist Flextronics with capacity planning, Nutanix will make commercially reasonable efforts to provide adequate, advance notice of cancellations
- 9.1.3 In instances where business conditions mandate Nutanix's cancellation of Product, Flextronics will exercise commercially reasonable efforts to de-book, re-schedule or otherwise dispose of Components on backlog so as to minimize liability passed on to Nutanix.

## 10. ENGINEERING CHANGE ORDER MANAGEMENT

- 10.1 Flextronics or Nutanix may at any time propose changes to the relevant Specification, manufacturing process or any other process described in Exhibit D by a written Engineering Change Notice ("ECN").
- 10.2 The recipient of an ECN will use all reasonable efforts to confirm receipt within [\*\*\*] and to provide a detailed response within [\*\*\*] of receipt.
- 10.3 Flextronics will advise Nutanix of the likely impact of an ECN (including, but not limited to, scheduling and Prices) on the provision of any relevant Order. For significant Product changes, Flextronics shall review the impact on the Demand Forecast and shall replace or rework the Demand Forecast or Product inventory as directed by Nutanix.
- 10.4 Any ECNs relating to personal and product safety will be implemented without delay.
- 10.5 Until an ECN and any associated impact on any relevant Order have been agreed in writing, the parties will continue to perform their obligations under the relevant Order without taking account of that ECN.

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- 10.6 In the event Nutanix initiates an ECN, Flextronics will support up to [\*\*\*] ECOs per month within the current transformation cost noted in sections 3 and 13. The parties agree that for any volume above the [\*\*\*] processing charge would be utilized for each [\*\*\*] in processing these additional ECO's. Any inventory impacts or assembly cost impacts will be priced separately on each ECO.
- 10.7 In the event Flextronics initiates an ECN, Nutanix shall not be liable for such costs unless otherwise agreed in writing, such agreement not to be unreasonably withheld.
- 10.8 Mandatory ECN's shall be applied as specified by Nutanix in each individual ECN instruction. All line and field Rejected Products shall be repaired and upgraded to the latest mandatory ECN level.

## 11. **QUALITY**

- 11.1 Product quality is a material term of this Agreement
- 11.2 **Quality Program.** Flextronics agrees to maintain objective quality programs for all Products and commits to achieve agreed-to quality goals as set forth in Exhibit D.
- 11.3 **Epidemic Failures.** Epidemic failures as defined in Section 1.12 above may be identified by Nutanix, Nutanix's designated service provider, Flextronics's or Nutanix's test procedures, or may appear as End-Customer-reported failures.
  - 11.3.1 Upon occurrence of an Epidemic Failure, Nutanix may invoke a production line shutdown ("Stop Ship") until root cause is determined.
  - 11.3.2 Flextronics shall promptly notify Nutanix and shall provide, if known, a description of the failure, and the suspected lot numbers, serial numbers or other identifiers, and Delivery dates, of the failed Products.
  - 11.3.3 Nutanix shall make available to Flextronics, samples of the failed Products for Testing and analysis. Upon receipt of such failed Product from Nutanix, Flextronics shall promptly provide its preliminary findings regarding the cause of the failure. The parties shall cooperate and work together to determine the root cause. Thereafter, Flextronics shall promptly provide the results of its root cause corrective analysis, its proposed plan for the identification of and the repair and/or replacement of the affected Products, and such other appropriate information. Flextronics shall recommend a corrective action program which identifies the affected Products for repair or replacement and which minimizes disruption to the End Customer. Nutanix and Flextronics shall consider, evaluate and determine the corrective action program.
  - 11.3.4 Should failures of the Product be the result of an Epidemic Failure, the parties shall mutually agree whether Flextronics shall either repair or replace Products subject to such Epidemic Failure. In addition, Flextronics shall credit Nutanix for reasonable direct costs that are incurred by Nutanix as a result of an Epidemic Failure. Such remedies for Epidemic Failure shall be in addition to any other remedies Nutanix may have under this Agreement.

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11.3.5 **Product Hazard.** In the event either Flextronics or Nutanix becomes aware of any information that reasonably supports a conclusion that a defect may exist in any Product covered by this Agreement and the defect may cause death or bodily injury to any person or property damage (a “Hazard”), the Party becoming aware of this information shall immediately notify the other of the Hazard. In all events, notification to the other Party shall precede notice to any governmental agency, unless required by law. Flextronics and Nutanix shall promptly exchange all relevant data and then, as promptly as possible, meet to review and discuss the information, tests and conclusions relating to the Hazard. At this meeting, the Parties shall discuss the basis for any action, including a recall, and the origin or causation of the Hazard. Each Party shall, on request, provide to the other reasonable assistance in (a) determining how best to deal with the Hazard; and (b) preparing for and making any presentation before any governmental agency which may have jurisdiction over Hazards involving Products.

11.4 **Advanced Replacement Components.** Should Flextronics receive a notice that a Component in a Product has failed, Flextronics shall use commercially reasonable efforts to make a replacement Component available as soon as possible but no longer than [\*\*\*] after receiving the original, failed Component and at no additional charge to Nutanix.

## 12. MATERIALS MANAGEMENT

12.1 **Procurement.** Flextronics is authorized to purchase materials using industry standard purchasing practices including, but not limited to, acquisition of material recognizing minimum order quantities, ABC buy policy and long lead time Component management to meet the Demand Forecast and Product Order requirements.

12.2 **AVL.** Flextronics shall procure all Components according to the AVL as may be referred to as “Sourcing” in Arena.

12.3 **Component Lead Time.** The parties shall review Component lead-time no less frequently than quarterly, or more frequently if requested by Nutanix in writing. Updates shall be made to Flextronics’s MRP system no less than weekly for the purposes of avoiding excess or insufficient inventory of Components.

12.4 **Component Suppliers.** Nutanix may designate Component suppliers (“Component Suppliers”) from whom Flextronics is required to procure Components to integrate into the Products. Flextronics agrees that it is responsible for contracting the Component Suppliers and Nutanix is not responsible for any transactions between Flextronics and Component Suppliers.

12.5 **Counterfeit Components.** Flextronics shall establish and maintain an acceptable Counterfeit Component detection and avoidance system.

12.5.1 Any Counterfeit Components discovered in the Products must be immediately replaced at Flextronics’s expense even if such detection occurs after the warranty period described in Section 15; provided that these Components were procured by a supplier solely selected by Flextronics.

12.5.2 Nutanix will have no liability for Counterfeit Components procured by Flextronics unless Nutanix directed Flextronics to procure such Components from a specific supplier. Flextronics shall advise Nutanix at the earliest possible time if Flextronics reasonably suspects a particular Component may be Counterfeit.

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- 12.5.3 In addition to any other remedies Nutanix may have under this Agreement and at law, any Counterfeit Components discovered in the Products shall be treated as an Epidemic Failure in accordance with section 11.3, provided that Flextronics is in breach of its Express Limited Warranty under section 1.1 of Exhibit A.
- 12.6 **Upside.** Except in end-of-life situations, the parties shall use their respective commercially reasonable efforts to secure Components supply coverage to achieve [\*\*\*] of the Demand Forecast. These efforts shall include, but not be limited to, improvements in forecasting accuracy, negotiating and implementation of Vendor Managed Inventory (VMI) programs, implementing manufacturing cycle time reductions through lean programs, and/or reducing supplier lead-times.
- 12.7 Flextronics will review with Nutanix prior to entering into any binding (non-cancelable) contractual agreement for Custom Components beyond those required by the Demand Forecast and notify Nutanix in writing of such non-cancelable contractual agreements and the applicable lead times that vary from the standard lead time listed in Flextronics's MRP system. Unless otherwise agreed (and such agreement not to be unreasonably delayed or withheld) Nutanix shall have no responsibility, financial or otherwise, for excess or obsolete inventory or long lead materials acquired by Flextronics which are in excess of these requirements.
- 12.8 **Component Change Notification** Should Flextronics be notified that a Component may no longer be available from the manufacturer of the Component then Flextronics may discontinue the availability of Components by providing Nutanix with [\*\*\*] prior written notice (an "End of Life Notice") unless otherwise mutually agreed upon in writing. Nutanix may continue to place Orders for Products that utilize the Components for [\*\*\*] after the End of Life Notice is issued under the same terms and conditions available prior to the End of Life Notice being issued. If an End of Life Notice has been issued, Flextronics will seek to reduce Component liability to what is required solely to satisfy pending Orders.
- 12.9 **Shortages or Lead Time changes.** Flextronics will promptly notify Nutanix in writing of any shortage in available supply of Components or if there is a longer lead-time for a specific Component.
- 12.10 **PPV Approval.** Prior written approval shall be required before the purchase of any Components where there is a Purchase Price Variance. Upon receipt of an approval request for PPV, Nutanix will endeavor to provide such approval within [\*\*\*] so as not to disrupt the supply chain of Components. Flextronics will provide Nutanix with a PPV report on a weekly basis and all supporting documents will be presented to Nutanix as part of the Quarterly Settlement Process.
- 12.11 **FIFO.** Flextronics shall maintain a "first-in, first-out" inventory system, and shall ensure that all new Product and repaired Product (except in instances where it is not commercially or technically practicable) is shipped at the latest Product revision
- 12.12 **Consigned Material.** Flextronics shall act in a commercially reasonable and prudent manner in its handling and storage of Nutanix Consigned Material so as to minimize any loss or damage. Flextronics shall segregate Nutanix Consigned Material from other materials in Flextronics possession to ensure that at all times the Nutanix Consigned Material is clearly marked as being the property of Nutanix. Flextronics shall provide counts of the Nutanix Consigned Material as part of the quarterly review process or more frequently as mutually agreed by both parties. Flextronics assumes full liability for any losses of Nutanix Consigned Material in Flextronics's possession

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- 12.13 In the event that Nutanix (or a third party on behalf of Nutanix) purchases Components from Flextronics, the Parties shall from time to time agree on the appropriate adder to the Component Standard Price for such purchases as a compensation for Flextronic's handling costs. While the adder percentage is in negotiation, material shall not be held from shipment.
- 12.14 **Inventory inspection.** On or around the first day of each Nutanix fiscal quarter, Nutanix shall be allowed to perform an on-site physical inventory inspection. Any discrepancy that is discovered during such inspection shall be discussed as part of the QBR.

### 13. COMPONENT LIABILITY

- 13.1 Both Parties desire to effectively manage all Components, demand, and material inventory such that the inventory will be completely consumed by the end-of-support of the Products and Nutanix will consequently have limited material liability for unused Components.
- 13.2 Nutanix shall have no liability for Components except for Non-Standard or Custom Components except as noted above.
- 13.3 The Non-Standard and Custom Components for which Nutanix has liability under this Agreement shall be reviewed no less frequently than on a quarterly basis and both parties shall work together with the aim of converting as many Components as reasonably practical from Non-Standard and Custom Components to Standard Components
- 13.4 Inventory liability for Products on the Exhibit F Product list shall be as follows:
- 13.4.1 For finished Products, the current Price for the Product at issue; Nutanix agrees to purchase any Products (finished goods) and unique Nutanix work in process.
- 13.4.2 Nutanix will incur Inventory liability for ("WIP"), including supermarket inventory, that has been held by Flextronics for more than [\*\*\*] or Nutanix may choose to pay Flextronics to tear down such WIP and restock Components at an agreed charge per unit as set forth in Section 9.1.1.
- 13.4.3 Flextronics shall exercise commercially reasonable mitigation efforts to reduce Nutanix's Inventory Liability for finished Products and WIP.
- 13.5 If, after employing commercially reasonable practices in accordance with the demand signal per the Nutanix provided Demand Forecast, Components are in excess, the Inventory liability for Non-Standard and Custom Components that are excess or obsolete shall be as follows:
- 13.5.1 **Excess Inventory.** For Non-Standard or Custom Components that have been held by Flextronics for more than [\*\*\*] for the carrying of such Non-Standard or Custom Components. For any Non-Standard or Custom Components that have been held by Flextronics [\*\*\*]. Nutanix will purchase any Non-Standard or Custom Components held by Flextronics for more than [\*\*\*]. Once a month, Nutanix and Flextronics will review the inventory report and determine inventory aging. Flextronics shall obtain Nutanix's written approval prior to purchasing any Non-Standard or Custom Components that exceed the applicable monthly forecasts.

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13.5.2 **Obsolete Inventory:** Any Non-Standard or Custom Components are obsolete (“Obsolete Inventory”) when they are no longer forecasted, or have a disposition of ‘scrap’ within an ECN. With regard to Obsolete Components, Flextronics shall:

- (a) Provide to Nutanix within [\*\*\*] following the date the Component is determined to be obsolete (the “Obsolesce Date”), a notice of the potential Price (by part number); and
- (b) For a period of [\*\*\*] from the Obsolesce Date, upon review by Nutanix, use commercially reasonable efforts to:
  - (i) Cancel outstanding orders for such Non-Standard and/or Custom Components
  - (ii) Return, return for credit, or sell such Non-Standard and/or Custom Components back to the original supplier or to a third party;
  - (iii) Use Obsolete Components for the manufacture of other products for other Flextronics customers; or
  - (iv) Rework for alternate configuration of Products.
- (c) After such a [\*\*\*] period for any remaining Obsolete Inventory:
  - (i) Flextronics will, at Nutanix’s option, deliver to Nutanix (or if Nutanix so requests, otherwise dispose of) all Obsolete Inventory then held by Flextronics; and
  - (ii) Flextronics shall be entitled to invoice Nutanix for the current standard Prices of the Obsolete Inventory.

13.6 Flextronics shall measure Excess Inventory or Obsolete Inventory monthly, but the parties shall resolve any Excess or Obsolete Inventory issues as part of the Quarterly Settlement Process.

13.7 Flextronics will undertake reasonable efforts to reduce Excess Inventory and Obsolete Inventory through open order cancellations, return for credit programs, reworks or allocation to alternative programs (if available and appropriate).

13.8 Both parties shall meet quarterly regarding Excess Inventory and Obsolete Inventory to determine the best method to mitigate Nutanix’s potential inventory liability. Inventory liability for Non-Standard and Custom Components will be evaluated monthly or as mutually agreed by the parties.

#### 14. SOFTWARE AT SCALE

14.1 Should the parties intend to engage in future transactions to effect the sale of Software at Scale products, such transactions shall be mutually agreed upon in an executed document which may replace Exhibit E attached hereto.

#### 15. WARRANTIES

15.1 Flextronics EXPRESS LIMITED WARRANTY is incorporated herein and attached hereto as Exhibit A

15.2 Repaired Products returned to Nutanix shall be covered under the remaining portion of the original warranty period, provided however, that the specific repair shall be subject to a ninety (90) day workmanship warranty even if the original workmanship warranty period expires sooner.

15.3 Flextronics warrants that Nutanix will acquire good and marketable title to the Products upon Delivery to Nutanix.

15.4 Omitted.

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15.5 No Representations or Other Warranties. EXCEPT AS OTHERWISE EXPRESSLY STATED OR INCORPORATED BY REFERENCE IN THIS SECTION 15, FLEXTRONICS MAKES NO OTHER REPRESENTATIONS OR WARRANTIES ON THE PERFORMANCE OF THE SERVICES, OR THE PRODUCTS, EXPRESS, IMPLIED, STATUTORY, OR IN ANY OTHER PROVISION OF THIS AGREEMENT OR COMMUNICATION WITH NUTANIX, AND FLEXTRONICS SPECIFICALLY DISCLAIMS ANY IMPLIED WARRANTY OR CONDITION OF MERCHANTABILITY, TITLE OR FITNESS FOR A PARTICULAR PURPOSE OR NON-INFRINGEMENT.

#### 15.6 **Field Returns**

15.6.1 For Products failing in the field, Nutanix may ship Rejected Product directly to Flextronics in accordance with Flextronics standard Return Material Authorization ("RMA") process. The Parties agree to [\*\*\*] for refurbishment of a Product that is outside of the warranty period. This charge is to receive in, test, inspect, and re-pack these Products. For any replacement parts required to complete a field return, but not under warranty, additional labor and/or packaging is not included in the [\*\*\*] price and will be priced separately and agreed upon by the parties.

15.6.2 Flextronics will analyze any such RMA Product and, if a breach of warranty is found ("Defect"), then Flextronics will repair or replace at no cost to Nutanix the RMA Product within [\*\*\*] of receipt by Flextronics of the RMA Product and all required associated documentation.

15.6.3 Flextronics may repair Field Rejected Product, no more than [\*\*\*] and return such Products to Nutanix.

15.6.4 Flextronics is responsible for all freight and insurance charges (for transfer between The End Customer and Flextronics premises) associated with verified defects on in-warranty Product. Nutanix will be responsible for all such freight and insurance charges associated with No Trouble Found ("NTF") returns or defects not covered by the Express Limited Warranty.

#### 15.7 **Out of Warranty Repairs**

15.7.1 Flextronics will make available an out-of-warranty repair service to Nutanix and to End-Customer's for at least [\*\*\*] after Delivery of the last unit of Product from a volume production run at a mutually agreeable commercially reasonable price using the rates described in Section 6.7 herein. This obligation is conditioned on the required Components being commercially available.

15.7.2 At the end of the Product life cycle, Nutanix and Flextronics shall mutually collaborate on a periodic forecast of requirements for service parts for such Products based upon agreed-to lead times for the service parts. If a Component vendor cannot support the Product for [\*\*\*], Flextronics shall notify Nutanix of opportunities to procure these parts on behalf of Nutanix and inventory such parts at Nutanix's expense or Nutanix shall purchase the parts directly from the Component vendor based on Nutanix's buy requirements.

## 16. **ADMINISTRATION AND DISPUTES**

16.1 For each Product shipment to the End-Customer, Flextronics will provide a copy of the applicable shipping documentation to Nutanix including reference to the relevant Order, quantity shipped, and shipping documentation. This may be done via e-mail, facsimile, or electronic data interchange.

\*\*\* Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

- 16.2 Flextronics will (at a minimum) on a weekly basis provide to Nutanix; (i) an open Order status report which includes the status of all open Orders; (ii) an in-transit Order status report which includes the status of all Orders in transit detailing quantity, ship date, carrier and air waybill number; (iii) a projected ship plan for the following [\*\*\*]; (iv) an inventory of Products at each Flextronics manufacturing location where Nutanix Products are manufactured; and (v) Purchase Price Variance (PPV) report.
- 16.3 Nutanix's designated Flextronics Business Manager will conduct Quarterly Business Reviews (QBRs with the Flextronics-Nutanix account management team. Nutanix and Flextronics will determine the location and times for these meetings. The Parties will ensure appropriate participants from functional areas capable of addressing the items on the QBR agenda will be in attendance. Typical agenda items will include:
- Review Flextronics's performance over the past quarter, including KPIs such as on time ship, lead time and product quality
  - Review Price reduction plans and opportunities
  - Review action items and resolution
  - Identify opportunities and areas of improvement
  - Agree on commitments, set target dates, and define responsible persons to follow through
  - Review appropriate Flextronics reports
  - Review Flextronics quality and reliability improvement plans
  - Review the accuracy of Nutanix's forecasting process
  - Resolve any outstanding payment issues
- 16.4 In the event of any dispute arising from or regarding the subject matter of this Agreement, the Parties agree to negotiate in good faith to find an equitable resolution to the disputed matter. To this end, the Party seeking to initiate a lawsuit or arbitration proceeding must formally request in writing that the other Party designate a senior executive employee with authority to bind that Party to meet to resolve the dispute within [\*\*\*] in the offices of the other Party or other location agreed to by the Parties. During these discussions, each Party shall honor the other's reasonable requests for non-privileged and relevant information. The Parties may agree to include an independent mediator in the discussions. If the dispute is not resolved within [\*\*\*] from the end of the period set forth above, then either Flextronics or Nutanix may commence legal, equitable or other action. The requirements set forth above are a condition precedent to initiating a legal, equitable or other action. This provision is not applicable to joinder of parties or cross claims either Party may make in any proceeding, lawsuit, litigation or controversy that was not initiated by such Party.

\*\*\* Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

16.5 Neither Party may assign this Agreement in whole or in part without the express written consent of the other Party except to each party's respective affiliates. Such consent shall not be unreasonably withheld. Any permitted assignment of this Agreement shall be binding upon and enforceable by and against such party's successors and assigns, provided that any unauthorized assignment shall be null and void and constitute a breach of this Agreement. This Agreement shall be governed by and interpreted in accordance with the laws of the state of California. Any dispute, claim or controversy arising from or related in any way to this Agreement or the interpretation, application, breach, termination or validity thereof, will be submitted for resolution by binding arbitration in accordance with the Comprehensive Arbitration Rules & Procedures of JAMS. The arbitration will be held in Santa Clara County, California and it shall be conducted in the English language. Judgment on any award in arbitration may be entered in any court of competent jurisdiction. Notwithstanding the above, each Party shall have the right to file in the Santa Clara, California state court or the federal courts in and for the Northern District of California an application for temporary or preliminary injunctive relief, writ of attachments, writ of possession, temporary protective order, and/or appointment of a receiver on the grounds that the arbitration award to which the applicant may be entitled may be rendered ineffectual in the absence of such relief. IN THE EVENT OF ANY DISPUTE BETWEEN THE PARTIES, THE PARTIES HEREBY KNOWINGLY AND VOLUNTARILY AGREE THAT ANY AND ALL MATTERS SHALL BE DECIDED BY A JUDGE OR ARBITRATOR WITHOUT A JURY TO THE FULLEST EXTENT PERMISSIBLE UNDER APPLICABLE LAW.

## 17. INTELLECTUAL PROPERTY

17.1 All existing Intellectual Property owned by or licensed to Nutanix (including, but not limited to, Product designs, manufacturing, and/or test processes) will continue to be owned by, or exclusively licensed to Nutanix ("Nutanix Intellectual Property"). Nutanix hereby grants to Flextronics under Nutanix's Intellectual Property rights, a limited, nonexclusive, worldwide, non-transferable, non-royalty bearing license to use the Nutanix Intellectual Property, including the Software, solely in conjunction with the performance of the Services. All other rights to the Nutanix Intellectual Property, including but not limited to the Software, are reserved to Nutanix. All existing Intellectual Property owned by or licensed to Flextronics will continue to be owned by, or exclusively licensed to, Flextronics and accordingly Nutanix is licensed to use such of it as may be necessary for Nutanix to meet its obligations and exercise its rights pursuant to this Agreement.

17.2 With respect to Intellectual Property created through the performance of the Agreement, Nutanix shall own all Intellectual Property relating to; (i) the design and specifications of the Products; (ii) any Testing requirements, processes, or policies created or supplied by Nutanix for the purposes of facilitating the Services or assembly of the Product; or (iii) any manufacturing procedures, processes, or policies created or supplied by Nutanix for the purposes of facilitating the Services or assembly of the Product. Flextronics shall own all Intellectual Property relating to the manufacturing process.

17.3 Except as provided above in this Section 17 nothing in this Agreement grants or can be capable of granting to a party (whether directly or by implication, estoppel or otherwise) any rights to any Intellectual Property owned by or licensed to the other party or any affiliate of that other party.

\*\*\* Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

17.4 Nutanix Trademarks. Nutanix grants to Flextronics a limited, non-exclusive, non-assignable, non-transferable, royalty free license to affix and apply the Nutanix Trademarks to the Products as directed by Nutanix for the sole purpose of performing the Services. Flextronics shall not use Nutanix Trademarks for any other purpose and only in such manner as to preserve all rights of Nutanix. Flextronics acquires no right to Nutanix Trademarks by its use and all uses by Flextronics of the Nutanix Trademarks will inure to Nutanix's sole benefit. As used herein, "Nutanix Trademarks" means those trademarks, trade names, service marks, slogans, designs, distinctive advertising, labels, logos, and other trade-identifying symbols as are or have been developed and used by Nutanix or any of its subsidiaries or affiliate companies and which Nutanix owns or has the right to use.

## 18. **LIMITATION OF LIABILITY.**

18.1 EXCEPT FOR; (A) NUTANIX'S PAYMENT OBLIGATIONS FOR PRODUCT AND COMPONENTS HEREUNDER; (B) FLEXTRONICS WARRANTY OBLIGATIONS UNDER SECTION 1.1c OF EXHIBIT A; OR (C) EITHER PARTY'S INDEMNIFICATION OBLIGATIONS UNDER SECTION 19 OR BREACH OF ITS RESPECTIVE CONFIDENTIALITY OBLIGATIONS HEREUNDER, IN NO EVENT SHALL EITHER PARTY'S LIABILITY FOR ALL CLAIMS ARISING OUT OF OR RELATING TO THIS AGREEMENT EXCEED [\*\*\*].

18.2 FOR PURPOSES OF THIS AGREEMENT, NEITHER PARTY SHALL BE LIABLE TO THE OTHER PARTY FOR ANY INDIRECT, CONSEQUENTIAL, OR PUNITIVE DAMAGES INCLUDING, BUT NOT LIMITED TO, LOST PROFITS, LOSS OF DATA, OR LOSS OF REVENUE ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE SALE OF PRODUCTS HEREUNDER, WHETHER SUCH LIABILITY IS ASSERTED ON THE BASIS OF CONTRACT, TORT (INCLUDING THE POSSIBILITY OF NEGLIGENCE OR STRICT LIABILITY), OR OTHERWISE, EVEN IF THE PARTY HAS BEEN WARNED OF THE POSSIBILITY OF ANY SUCH LOSS OR DAMAGE.

## 19. **INDEMNIFICATION**

19.1 Indemnity by Nutanix. Nutanix shall fully defend Flextronics and its Affiliates, officers, directors, employees and agents ("Flextronics Indemnitees") from and against any third party claims, actions, suits, legal proceedings and demands arising out of or related to; (a) infringement by the Products, including but not limited to Specifications or Software of any Intellectual Property Rights of a third party; (b) damage to any tangible property, personal injury, or death, resulting or claimed to have resulted from any alleged defect in the Products, including but not limited to Specifications or Software; and shall indemnify and hold harmless the Flextronics Indemnitees for all liabilities, damages, losses, judgments, settlements, costs and pay expenses as incurred in defense of such claims, including without limitation, attorney fees.

19.2 Notwithstanding the terms above, Nutanix shall have no liability for any claims of any kind to the extent that they result from: (a) modifications to the Nutanix Specifications or Software made by Flextronics without Nutanix's written agreement, if a claim would not have occurred but for such modifications; or (b) the combination, operation or use of the Software by Flextronics with equipment, devices, software or data not approved by Nutanix, if a claim would not have occurred but for such combination, operation or use.

\*\*\* Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

- 19.3 Indemnity by Flextronics. Flextronics shall fully defend Nutanix and its Affiliates, officers, directors, employees and agents (“Nutanix Indemnitees”) from and against any third party claims, actions, suits, legal proceedings and demands arising out of or related to; (a) infringement based on any aspect of performing the Services that is not specifically required in writing by Nutanix in its specified designs, processes or other instructions or any deviations from such requirements by Flextronics or its agents of any Intellectual Property rights of a third party; (b) damage to any tangible property, personal injury, or death, resulting or claimed to have resulted by a breach of Flextronics of this Agreement; and shall indemnify and hold harmless the Nutanix Indemnitees for all liabilities, damages, losses, judgments, settlements, Prices and pay expenses as incurred in defense of such claims, including without limitation, attorney fees.
- 19.4 If either Party becomes aware of a claim under which it could seek indemnification (“Indemnification Claim”), the Party seeking indemnification (the “Indemnitee”) shall; (a) promptly notify the Party from which indemnification is sought (the “Indemnitor”) of such claim; (b) provide commercially reasonable assistance and cooperate with the Indemnitor in the defense thereof; and (c) grant the Indemnitor sole control of the defense and settlement of the claim, including but not limited to the selection of outside counsel. The Indemnitee may participate in the defense of the claim and employ counsel at its own expense. The Indemnitor shall not settle a claim without the Indemnitees’ consent if such settlement imposes a payment or other obligation on the Indemnitee or seeks to impose any limitation on Indemnitee’s business, other than to discontinue using the infringing or allegedly infringing item, or requires the Indemnitee to admit fault or liability.
- 19.5 If the Indemnitee is unable to lawfully exercise the rights and licenses granted to it under this Agreement as a result of a claim, the Indemnitor shall, at its own expense, procure for Indemnitee the right to exercise the rights and licenses granted to it under this Agreement or modify the subject of the Indemnification Claim such that it is no longer infringing; provided that if indemnifying party is unable to accomplish either of the foregoing despite its reasonable commercial efforts, then either Party may terminate this Agreement.

THIS SECTION SETS FORTH EACH PARTY’S SOLE AND EXCLUSIVE REMEDY WITH RESPECT TO INDEMNIFICATION CLAIMS AS DEFINED IN THIS SECTION 19.

## 20. CONFIDENTIAL INFORMATION

- 20.1 The parties will comply with the provisions of the Non-Disclosure Agreement entered into by and between Flextronics and Nutanix on August 31, 2016 attached hereto as Exhibit G.

## 21. TERM AND TERMINATION

- 21.1 The term of this Agreement shall commence on the Effective Date and continue for a period of three (3) years (“Initial Term”) and shall thereafter be automatically renewed for additional one (1) year periods unless either party gives written Notice of termination at least one-hundred and eighty (180) days before the anniversary of the Initial Term or any renewal term, as applicable.
- 21.2 **Effect of Termination or Expiration.** In the event of a termination or expiration of this Agreement, the provisions of this Agreement will continue to apply to all Orders placed by Nutanix prior to the effective date of such termination or expiration except for any Order, or portion thereof, canceled pursuant to “Termination for Cause”. Termination or expiration of this Agreement will not, however, relieve or release either party from making payments or any other obligations which it may have to the other party under the terms of this Agreement.
- 21.3 **Termination for Cause.** Either party may terminate this Agreement immediately for cause by giving written notice to the other party in the event the other party:

- 21.3.1 becomes insolvent or unable to meet its obligations as they become due or files or has filed against a petition under the bankruptcy laws;
- 21.3.2 ceases to function as a going concern or to conduct its operations in the normal course of business;
- 21.3.3 except in the instances of a merger or acquisition, assigns or transfers, either voluntarily or by operation of law, any rights or obligations under this Agreement without consent of the party seeking to terminate; or
- 21.3.4 materially breaches an obligation under this Agreement and such breach is not remedied within thirty (30) days of written notice of such breach.

## 22. GENERAL

- 22.1 **Costs.** Except as specifically provided herein, each party will be solely responsible for its costs and expenses related to this Agreement and the activities contemplated by this Agreement, including but not limited to engineering work.
- 22.2 **Interpretation.** Unless otherwise indicated, all references to “in writing” or “written approval” shall include written communications via electronic mail. Unless otherwise indicated, the words “include”, “includes” and “including” shall be deemed in each case to be followed by the words “without limitation.”
- 22.3 **Freedom of Action.** This Agreement shall in no way preclude either Party from independently developing, having developed, or acquiring, marketing, offering to sell or selling any products or services, nor shall it in any way preclude either Party from entering into any similar agreement with any third party.
- 22.4 **Obligations.** There is no obligation for either party to purchase Products or Services under this Agreement unless a valid Order is issued.
- 22.5 **Force Majeure.** Neither party will be in default or liable for any delay or failure to comply with material aspects of this Agreement due to forces beyond their reasonable control, including but not limited to acts of god, provided such party immediately notifies the other and implements a reasonable mitigation plan and takes reasonable mitigating actions in response thereto.
- 22.6 **Governing Law.** This Agreement shall be governed by and interpreted in accordance with the laws of the state of California. Except for any dispute, claim, or controversy related to the intellectual property rights of a party, any dispute, claim or controversy arising from or related in any way to this Agreement or the interpretation, application, breach, termination or validity thereof, will be submitted for resolution by binding arbitration in accordance with the Comprehensive Arbitration Rules & Procedures of JAMS. The arbitration will be held in Santa Clara County, California and it shall be conducted in the English language. Judgment on any award in arbitration may be entered in any court of competent jurisdiction. Notwithstanding the above, each Party shall have the right to file in the Santa Clara, California state court or the federal courts in and for the Northern District of California an application for temporary or preliminary injunctive relief, writ of attachment, writ of possession, temporary protective order, and/or appointment of a receiver on the grounds that the arbitration award to which the applicant may be entitled may be rendered ineffectual in the absence of such relief. The Parties exclude application of the 1980 United Nations Convention on Contracts for the International Sale of Goods, if applicable.

- 22.7 EXCEPT AS OTHERWISE DESCRIBED HEREIN, IN THE EVENT OF ANY DISPUTE BETWEEN THE PARTIES, THE PARTIES HEREBY KNOWINGLY AND VOLUNTARILY AGREE THAT ANY AND ALL MATTERS SHALL BE DECIDED BY A JUDGE OR ARBITRATOR WITHOUT A JURY TO THE FULLEST EXTENT PERMISSIBLE UNDER APPLICABLE LAW.
- 22.8 **Regulatory Approvals.** Nutanix is responsible for the Product's compliance with all applicable UL, CSA, FCC, and other approvals, standards and regulations. Nutanix will designate Flextronics's appropriate manufacturing location as the manufacturing location for the purposes of such approvals. Flextronics will cooperate with public and private regulatory organizations to allow periodic factory inspections at mutually agreeable times to maintain such approvals. Should the Products fail to meet the applicable approvals, standards or regulations due to a failure in Flextronics's manufacturing process to comply with such approvals, standards or regulations, (a) Flextronics may cease production, (b) Flextronics will follow Nutanix's reasonable direction to institute the required changes and (c) Flextronics may require a delay in manufacturing, without being in breach of this Agreement, until applicable qualifications are met.
- 22.9 **Import/Export Regulations:** Each party shall comply with all applicable import, export and re-export control laws and regulations, including the U.S. Export Administration Regulations, the International Traffic in Arms Regulations, and the sanctions maintained by the Treasury Department's Office of Foreign Assets Control. Each party represents and warrants that items will not be exported, re-exported, or transferred directly or indirectly to any location, entity, government or person prohibited by the applicable laws or regulations of any jurisdiction, without prior authorization from the relevant government authorities. As necessary and reasonably requested, each party will provide export information such as the Export Classification Control Number (ECCN), Harmonized Tariff Regulations (HTS) codes, Country of Origin, or Commodity Classification Automated Tracking System (CCATS) for hardware components
- 22.10 **Data Privacy.** Each Party will comply with all applicable data privacy laws and otherwise protect personal data and will not use, disclose, or transfer across borders personal data except as necessary to perform under this Agreement.
- 22.11 **Relationship of the parties.** Each Party is an independent contractor and neither Party is an agent, servant, representative, partner, joint venture, or employee of the other or has any authority to assume or create any obligation or liability of any kind on behalf of the other.
- 22.12 **Publicity.** Except as otherwise set forth herein, neither Party shall publicize the existence of this Agreement nor refer to the other Party in connection with any promotion or publication without the prior written approval of such Party. Further, neither Party shall disclose the terms and conditions of this Agreement to any third party, including but not limited to any financial terms, except as required by law or with the prior written consent of the non-disclosing party.



22.13 **Notices.** Any and all written notices, communications, and deliveries between Nutanix and Flextronics with reference to this Agreement shall be effective as of and deemed made on the date of mailing if sent by registered or certified mail, or by overnight courier, to the address of the other party as follows:

IN THE CASE OF Flextronics:

6201 America Center Drive, San Jose, CA 95002

WITH A COPY TO: [Omitted]

IN THE CASE OF NUTANIX:

1740 Technology Drive, Suite 150

San Jose, CA 95110

Attention: Nutanix Legal

WITH A COPY TO: [Omitted]

22.14 **Severability.** Should any provision herein be held by a court of competent jurisdiction to be illegal, invalid, or unenforceable, such provision shall be modified to reflect the intentions of the parties. All other terms and conditions shall remain in full force and effect.

22.15 **Waiver.** No amendment, modification, or waiver of any provision of this Agreement shall be effective unless set forth in a writing executed by an authorized representative of each party. No failure or delay by either party in exercising any right, power, or remedy will operate as a waiver of any such right, power, or remedy. No waiver of any provision of this Agreement shall constitute a continuing waiver or a waiver of any similar provision unless expressly set forth in a writing signed by an authorized representative of each party.

22.16 **Amendment:** This Agreement may be amended by the parties in an executed document and on a mutually agreeable basis.

22.17 **Days:** Whenever a reference is made herein to "days", the reference means business days, not calendar days, unless the reference is specifically to "calendar days". Business days shall mean a day that the relevant Flextronics manufacturing site normally operates

22.18 **FCPA.** Each party acknowledges that it is familiar with the Foreign Corrupt Practices Act ("FCPA") of the United States, the UK Bribery Act 2010 and all applicable local laws relating to anti-corruption or anti-bribery (the "Anti-corruption Laws"). Each party agrees not to violate the Anti-Corruption Laws with respect to the subject of this Agreement.

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

**NUTANIX, INC.FLEXTRONICS TELECOM SYSTEMS, LTD.**

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

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

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

Date:\_\_\_\_\_Date:\_\_\_\_\_

**NUTANIX NETHERLANDS, B.V.**

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

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

Title: Managing Director A

Date:\_\_\_\_\_

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

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

Title: Managing Director B

Date:\_\_\_\_\_

## EXHIBIT A: FLEXTRONICS WARRANTY

### 1. WARRANTY

1.1 **Express Limited Warranty.** As the sole and exclusive warranty and Nutanix's sole and exclusive remedy with respect to a breach by Flextronics of such warranty, the following shall apply: In the case of a conflict between this Express Limited Warranty and any term of the Agreement, the Express Limited Warranty shall control.

(a) Flextronics warrants that the Products shall have been manufactured in accordance with the applicable Specifications and shall be free from defects in workmanship for a period of [\*\*\*] from the date of shipment. Flextronics will pass through to Nutanix any transferable Component warranties, indemnities and remedies provided to Flextronics by the manufacturers of the Components, including any warranties and indemnities for intellectual property infringement. As used herein, "Specifications" means the written manufacturing/assembly specifications and instructions for the Products provided by Nutanix to Flextronics.

(b) The above warranty does not apply to, and Flextronics makes no representations or warranties whatsoever with respect to any of the following: (i); any, (a) Components (excluding "Production Materials" defined below) , (b); or services provided by vendors on the Nutanix approved vendor list; (ii) defects resulting from adherence to the Specifications, or any instructions provided by or on behalf of Nutanix; (iii) the design of the Products; (iv) Product that has been abused, damaged, altered or misused or mishandled (including improper storage or installation or improper handling in accordance with static sensitive electronic device handling requirements) by any person or entity after title passes to Nutanix; (v) first articles, prototypes, pre-production units, test units or other similar units; (vi) defects resulting from tooling, designs or instructions produced or supplied by Nutanix, including any defective test equipment or test software provided by Nutanix; or (vii) the compliance of Components (excluding Production Materials) or Products with any safety or Environmental Regulations or other laws. "Production Materials" means the glue, solder and other materials used to integrate the Components into the Products.

(c) Upon any failure of a Product to comply with this express limited warranty, Flextronics's sole obligation, and Nutanix's sole remedy, is for Flextronics, at Flextronics's option or upon mutual agreement, for Flextronics to either promptly repair or replace such unit and return it to Nutanix, freight prepaid. In the event that such Product cannot be repaired or replaced using commercially reasonable efforts, Flextronics shall credit the price paid by the Nutanix to Flextronics for such unit.

(d) Flextronics warrants environmental compliance of all Production Materials used to create the Products. Flextronics does not warrant Components, but will pass through environmental warranties from its suppliers to the degree allowed in its supplier agreements. In addition, Flextronics will review certificates of conformity from vendors of Components, excluding Customer Controlled Components and Customer Consigned Components; provided that Flextronics's sole obligation with respect to such Components is to review the applicable certificate of conformity. Flextronics will maintain appropriate records to allow traceability of all Products and/or Components. Flextronics will undertake to immediately inform Nutanix of any material changes that come to its attention affecting environmental compliance. For the purpose of this Agreement, "Customer Controlled Components" means Components provided to Flextronics by Nutanix or by vendors with whom Nutanix has a direct commercial relationship with in connection to that Component. In addition, "Customer Consigned Components" means Components that are provided to Flextronics by Nutanix and which Flextronics stores on behalf of Nutanix as further described in the Agreement.

(e) **Epidemic Failure.** Notwithstanding the above, should failures of the Product be the result of an Epidemic Failure, the parties shall mutually agree whether Flextronics shall either repair or replace Products subject to such Epidemic Failure. In addition, Flextronics shall credit Nutanix for reasonable direct costs that are incurred by Nutanix as a result of an Epidemic Failure. Such remedies for Epidemic Failure shall be in addition to any other remedies Nutanix may have under this Agreement. An "Epidemic Failure" is defined as failure of more than [\*\*\*] of the Products that occur within [\*\*\*] from the date of shipment and where there is a single root cause of the failure which is a result of a breach of Flextronics's warranty under Section 1.1 of this Exhibit A.

1.2 **No Representations or Other Warranties.** EXCEPT AS MAY OTHERWISE BE EXPLICITLY STATED IN THIS EXHIBIT A OR THE AGREEMENT, FLEXTRONICS MAKES NO OTHER REPRESENTATIONS OR WARRANTIES ON THE PERFORMANCE OF THE SERVICES, OR THE PRODUCTS, EXPRESS, IMPLIED, STATUTORY, OR IN ANY OTHER PROVISION OF THIS AGREEMENT OR COMMUNICATION WITH NUTANIX, AND FLEXTRONICS SPECIFICALLY DISCLAIMS ANY IMPLIED WARRANTY OR CONDITION OF MERCHANTABILITY, TITLE OR FITNESS FOR A PARTICULAR PURPOSE OR NON-INFRINGEMENT.

\*\*\* Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

**EXHIBIT B - RETURN MATERIALS AUTHORIZATION (“RMA”) PROCESS**

[OMITTED]

## **EXHIBIT C - Manufacturing Test Requirements**

The purpose of this Exhibit C is to specify the standards and requirements that Flextronics must meet for general manufacturing test and process for the Products. The following Nutanix documents maintained and updated in Arena will be used and followed for Manufacturing Test requirements for products tested in Flex.

[OMITTED]

[OMITTED]

**EXHIBIT E - Software at Scale Program**

[RESERVED]











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\*\*\* Certain information in this exhibit has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.



## **EXHIBIT G - L10/Ship and Debit Process**

Based on the diagram Nutanix diagram below, Flextronics will treat L10 platforms as ship and debit products that will be purchased as a completely configured, ready to ship product by a designated 3<sup>rd</sup> party supplier. Flextronics will place orders for specific platform configurations that Nutanix signals via EDI. Flextronics will place the order to designated L10 supplier once an EDI signal is received. Designated L10 supplier will ship a complete turnkey platform configuration, at lead-time, to Flextronics. The purpose of this process is to allow products manufactured by Flex and a designated 3<sup>rd</sup> party supplier to be shipped together.

[\*\*\*]





[OMITTED]

## AMENDMENT #1 TO MANUFACTURING SERVICES AGREEMENT

This Amendment # 1 (“Amendment #1”) to the Manufacturing Services Agreement (“Agreement”) by and between Flextronics Telecom Systems, Ltd and its Affiliates (“Flextronics”) and Nutanix Inc., and Nutanix Netherlands, B.V. (collectively “Nutanix”) is entered into as of December 19, 2017 (“Amendment #1 Effective Date”). Collectively, Flextronics and Nutanix are referred to as the “Parties”.

### RECITALS

A. The Parties entered into the Agreement as of November 11, 2017.

B. The parties now desire to amend the Agreement to add terms and conditions around the “Software at Scale” program (further defined below).

NOW THEREFORE, in consideration of the foregoing, and for good and valuable consideration, the sufficiency of which is hereby acknowledged, the Parties agree as follows:

1. The definition of “Software” in Section 1.30 is deleted and replaced with the following:

**Software** means the object version of the software provided by Nutanix for integration into a Product or a Software at Scale Product. For the purpose of clarity, any firmware or BIOS technology provided by Nutanix shall be considered Software.

2. The definition of “Specifications” in Section 1.31 is deleted and replaced with the following:

**Specifications** mean the manufacturing, assembly and testing specifications related to the Products and the Software at Scale Products as agreed by the Parties and supplemented by the Parties in writing from time to time.

3. A new Section 5.5 is added to the Agreement as follows:

In addition to the purchase of Product(s) by Nutanix, Exhibit E, “Software at Scale” describes the process and the terms under which Flextronics may manufacture and sell Software at Scale Hardware (as defined in Exhibit E). Except as specifically stated herein, the term “Product(s)” shall not include Software at Scale Products. Notwithstanding the above, Section 18 (Limitation of Liability) of this Agreement shall apply in relation to Software at Scale Products and Software at Scale Hardware. A new Section 5.6 is added to the Agreement as follows:

**5.6 LICENSE.** Nutanix hereby grants Flextronics and its Affiliates a non-exclusive, world-wide, royalty free and fully paid up, non-sublicensable and non-transferable license for the term of this Agreement or until such license is revoked by Nutanix in writing with 60 days prior written notice, under all of Nutanix’s Intellectual Property Rights to copy, make, sell offer for sale, distribute and import, Software at Scale Hardware (as defined in Exhibit E) solely in connection with fulfilling purchase orders for Software at Scale Hardware [\*\*\*] as further outlined in Exhibit E.

\*\*\* Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

4. A new Section 5.7 is added to the Agreement as follows:

**5.7 APPOINTMENT AS [\*\*\*].** Flextronics [\*\*\*] and [\*\*\*] such appointment, as a [\*\*\*] for Flextronics with [\*\*\*] and the [\*\*\*]. The services performed as [\*\*\*] include the following:

5.7.1 Order [\*\*\*]. As further described in Exhibit E, Nutanix will, [\*\*\*] Flextronics, [\*\*\*] to and orders [\*\*\*] for [\*\*\*] and [\*\*\*] information to Flextronics.

5.7.2 [\*\*\*]. Flextronics shall use commercially reasonable efforts to [\*\*\*].

5.7.3 [\*\*\*]. Nutanix [\*\*\*] of Software at Scale Hardware as part of performing [\*\*\*] be solely [\*\*\*] Software at Scale Hardware (as defined in Exhibit E). Nutanix [\*\*\*] the Software at Scale Hardware and [\*\*\*] Software at Scale Hardware related to [\*\*\*]. However, Nutanix [\*\*\*] the Software at Scale Hardware utilizing a [\*\*\*]

5. Section 14 is deleted in its entirety and replaced with the following:

#### **14. Software at Scale**

The Parties intend to pursue transactions related to the Software at Scale Program. The details of the Software at Scale Program are outlined in Exhibit E to this Agreement.

6. An additional section is added to the end of Section 19.1 as follows:

With regard to the Software at Scale Products, Nutanix shall fully defend the Flextronics Indemnitees from and against any third party claims, actions, suits, legal proceedings and demands arising out of or related to; (a) infringement by the Software and/or the Specifications of any Intellectual Property Rights of a third party; (b) damage to any tangible property, personal injury, or death, resulting or claimed to have resulted from any alleged defect in the Specifications or Software; and shall indemnify and hold harmless the Flextronics Indemnitees for all liabilities, damages, losses, judgments, settlements, costs and pay expenses as incurred in defense of such claims, including without limitation, attorney fees. For the purpose of clarity, with respect to Software at Scale Products only, Nutanix shall have no indemnity obligation under this Section 19.1 for any third party claims, actions, suits, legal proceedings and demands arising out of (i) an infringement by the Components or the Software at Scale Hardware or (ii) damage to any tangible property, personal injury, or death, resulting or claimed to have resulted from a defect in the Components or the Software at Scale Hardware.

7. An additional sentence is added to the end of Section 19.2 as follows:

In addition, Nutanix shall have no liability for the combination of Software at Scale Products with equipment, devices, software or data not provided by Nutanix, if a claim would not have occurred but for such combination, operation or use.

\*\*\* Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

8. An additional sentence is added to the end of Section 19.3

Flextronics indemnity obligations under this Section 19.3 shall not apply in relation to Software at Scale Products.

9. Exhibit E is deleted in its entirety and replaced with the following Exhibit E as attached to this Amendment #1.
10. The Parties previously entered into an Amendment dated November 11, 2017 regarding the subject matter of this Amendment #1. This Amendment #1 supersedes in its entirety the Amendment and the Amendment shall be of no further force and effect.
11. No other changes are made to the Agreement, and following the Amendment Effective Date, all references to the "Agreement" shall mean the Agreement as amended by this Amendment #1.

*[SIGNATURES FOLLOW ON NEXT PAGE]*

IN WITNESS WHEREOF, the Parties have executed this Amendment as of the Amendment Effective Date.

CONFIDENTIAL

**NUTANIX, INC.**                      **FLEXTRONICS TELECOM SYSTEMS, LTD.**

By: /s/ Kenneth Long                      By: /s/ Manny Marimuthu

Name: Kenneth Long                      Name: Manny Marimuthu

Title: VP VAO and Corporate Controller                      Title: Director

Date: December 20, 2017                      Date: 21/12/2017

**NUTANIX NETHERLANDS, B.V.**

By: /s/ Kenneth Walter Long III

Name: Kenneth Walter Long III

Title: Managing Director A

Date: December 20, 2017

By: /s/ Servais Willie Ngabo

Name: Servais Willie Ngabo

Title: Managing Director B

Date: December 20, 2017

## EXHIBIT E- SOFTWARE AT SCALE

### 1. INTRODUCTION

This Exhibit E shall enable Flextronics to sell Software at Scale Hardware [\*\*\*] (defined below) and Nutanix to license software [\*\*\*], to allow [\*\*\*]. Such program shall be referred to as “Software at Scale”. To facilitate such sales of Software at Scale Products, [\*\*\*] in accordance with the terms of Section 4 of this Amendment #1.

The goal of the Software at Scale program is that the Software at Scale Customer (as defined below) [\*\*\*] purchasing the Software at Scale Products [\*\*\*]. The Software at Scale Program includes the following characteristics:

- [\*\*\*] for Software at Scale Hardware will be [\*\*\*].
- The Parties shall enable the Software at Scale Customer to experience a [\*\*\*] with Products contemplated under the Agreement.
- Flextronics shall directly sell Software at Scale Hardware to [\*\*\*] and Nutanix shall provide the software license [\*\*\*] to the End Customer.
- Flextronics may impose any qualifications to do business [\*\*\*] and may choose [\*\*\*] or to reject specific [\*\*\*] from any [\*\*\*].
- Provided that the End Customer purchases after sales support from Nutanix, Nutanix shall support the hardware and software in [\*\*\*] as set forth in Section 6 of this Exhibit E.
- Nutanix has no involvement or responsibility for any [\*\*\*] other than in the performance of [\*\*\*].

2. **DEFINITIONS.** Capitalized terms in this Exhibit E shall have the meanings set forth below.

- a. [\*\*\*] means another entity in the sales channel [\*\*\*].
- b. “**Software at Scale Customer**” or “**End Customer**” means the last entity who purchases the Software at Scale Products for their own use and not for resale to another entity.
- c. “**Software at Scale [\*\*\*]**” means [\*\*\*] for Software at Scale Hardware which [\*\*\*] as described in section [\*\*\*] of the Agreement and [\*\*\*] below.
- d. “**Software at Scale Hardware**” means the [\*\*\*] of certain Products that have been designated by Nutanix to be part of the Software at Scale Program.
- e. “**Software at Scale Products**” means [\*\*\*] sold by Flextronics [\*\*\*]. These Software at Scale Products shall be designated with the suffix [\*\*\*].
- f. “**Territory**” means the world.

### 3. INVENTORY LIABILITY FOR SOFTWARE AT SCALE PRODUCTS

Nutanix shall only provide Demand Forecasts for Products [\*\*\*]. For the purpose of clarity, this Exhibit E does not modify either Party’s obligations with regard to inventory liability as described in the Agreement, [\*\*\*] of the Agreement. As Software at Scale Orders [\*\*\*] are accepted by Flextronics, [\*\*\*]. If a Software at Scale Order is cancelled after being accepted by Flextronics, [\*\*\*].

### 4. APPOINTMENT AS [\*\*\*]

- a. Non-Exclusive Appointment. Flextronics hereby [\*\*\*], and [\*\*\*] such appointment, to [\*\*\*] during the term of the Agreement solely in accordance with the terms and conditions of this Agreement.
- b. Nutanix Marketing Obligations as [\*\*\*]. Nutanix shall, at its own expense, market the Software at Scale program including, advertising, promoting, and soliciting the sale of the Software at Scale Products [\*\*\*] consistent with good business practice.

\*\*\* Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

- c. Nutanix Obligations to Provide Quotes [\*\*\*]. For expediency purposes, [\*\*\*] for Software at Scale Orders [\*\*\*]. For the purpose of clarity, the Parties agree that the sales quotes [\*\*\*] are not binding. [\*\*\*].
- d. Once Nutanix has received a confirmation on a Software at Scale Order [\*\*\*]. In the event that Flextronics decides to reject a [\*\*\*].

## 5. FLEXTRONICS OBLIGATIONS

- a. Flextronics shall be responsible for 1) its own [\*\*\*] with regard to any Software at Scale Hardware [\*\*\*] and, 2) the fulfillment of any Software at Scale Order that it thereby agrees to as part of the processes outlined in this Exhibit E.
- b. Flextronics shall provide Software at Scale Customers (through the sales channel) with a [\*\*\*] Software at Scale Hardware portion of the [\*\*\*] consistent with the [\*\*\*] of the Agreement.
- c. As part of fulfilling any Software at Scale Orders, Flextronics shall also meet the following requirements in a timely fashion. At a minimum, Flextronics shall:
  - i. [\*\*\*] Software at Scale Hardware;
  - ii. Maintain a [\*\*\*] on time ship rate for all Software at Scale Hardware shipped based on a seven [\*\*\*] lead time; and
  - iii. [\*\*\*] Software at Scale Hardware.

## 6. END CUSTOMER SUPPORT

Nutanix separately sells product support for Product(s) and Software at Scale Products shipped to Software at Scale Customers and End Customers. Provided that the End Customer has purchased Nutanix support from Nutanix, either directly or indirectly, Nutanix shall provide such support to the [\*\*\*]. To facilitate such support, upon shipment of the Software at Scale Hardware, Flextronics shall provide Nutanix with all serial number information so that Nutanix can provide such support.

\*\*\* Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

CONFIDENTIAL

CONFIDENTIAL TREATMENT REQUESTED

CONFIDENTIAL PORTIONS OF THIS DOCUMENT HAVE BEEN REDACTED AND HAVE BEEN SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION

Original Equipment Manufacturer (OEM) Purchase Agreement

Agreement No. \_\_\_\_\_

This Original Equipment Manufacturer (OEM) Purchase Agreement (“Agreement”) is made and entered into by and between SUPER MICRO COMPUTER INC. (“Supplier”), a Delaware corporation having its principal place of business at 980 Rock Avenue, San Jose, CA 95131 and NUTANIX, INC. (“OEM”), a Delaware corporation and an original equipment manufacturer having its principal place of business at 1740 Technology Drive, Suite 150, San Jose, California, 95110, United States.

TERMS AND CONDITIONS

1. TERM OF AGREEMENT

This Agreement is effective as of May 16, 2014 (“Effective Date”) and will continue thereafter until terminated in accordance with this Agreement.

2. PRODUCTS

Under the terms of this Agreement OEM may purchase servers and computer components listed on Exhibit A as updated in writing by the parties hereto on a quarterly basis (“Product(s)”) as an original equipment manufacturer. Additional Products may be ordered by mutual agreement.

3. PRICE

The current prices (“Prices”) for Product purchased hereunder are listed on Exhibit A and will be updated in writing by the parties hereto on a quarterly basis (“Price List”). Prices include drop shipment handling fee; there shall be no additional drop shipment handling fee. Both parties shall proactively plan and implement cost reduction plan on quarterly basis. Supplier agrees to make reasonable commercial efforts to reduce cost on a continuing basis to make the price more competitive in the market.

4. PURCHASE ORDERS

4.1 OEM may order Products by submitting written purchase orders or orders via XML to Supplier (each an “Order”). Purchase orders will contain, at a minimum; (i) Product part number,

(ii) Product quantity, (iii) requested delivery dates, (iv) Product Price, and (v) delivery address. OEM’s tax exemption certificate number to be provided as a blanket for all production items, if applicable. Orders containing the information listed in this Section 4.1 will be accepted by Supplier [\*\*\*].

4.2 All Orders will be exclusively governed by the terms and conditions of this Agreement, notwithstanding any contrary terms and conditions contained on any OEM purchase order or Supplier acknowledgment thereof.

\*\*\* Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.



5. LIMITED USE

In order to control the quality of Products and any after sales service, OEM may use the Products solely for integration into systems or subsystems designed by OEM and or assembled for OEM for sale or lease in its regular course of business. OEM expressly agrees that it will use Product ordered only for this purpose.

6. NON-BINDING FORECAST

To assist Supplier with respect to planning, OEM may, from time-to-time, provide Supplier with a quarterly non-binding forecast and a six-month rolling non-binding forecast [\*\*\*].

[\*\*\*]

7. RESCHEDULES AND CANCELLATIONS

OEM may reschedule or cancel any Order provided that Supplier receives written notice prior to later of: (i) date the Products with respect to such Order are shipped; or (ii) the deliver date specified on such Order. OEM's liability with respect to any canceled or rescheduled Orders is set forth in Section 9.

8. [INTENTIONALLY LEFT BLANK]

9. INVENTORY LIABILITY

9.1 OEM shall have no liability for any inventory other than non-standard material, defined as those finished goods, WIP [\*\*\*] and raw material set forth in Exhibit C ("Non-Standard Material"). Inventory liability for Non-Standard Material shall be as follows:

a. [\*\*\*]

b. Obsolete Inventory: OEM shall take receipt of Non-Standard Material inventory that is: (i) aged inventory for a period of [\*\*\*], and (ii) is not included in the monthly forecast (the "Obsolete Inventory"). [\*\*\*]

9.2 Supplier will undertake reasonable efforts to reduce Excess Inventory and Obsolete Inventory through open order cancellations, return for credit programs, reworks or allocation to alternative programs (if available and appropriate) for a period not to exceed thirty days beyond end customer demand change.

9.3 Both parties shall meet monthly regarding Excess Inventory and Obsolete Inventory to determine the best method to mitigate OEM's potential inventory liability. Inventory liability for Non-Standard Material will be evaluated monthly or as mutually agreed by the parties.

\*\*\* Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

## 10. PAYMENT

10.1 [\*\*\*]

10.2 [\*\*\*]

## 11. TAXES

OEM will be responsible for all taxes with respect to Orders for Products placed by OEM (except Supplier's income taxes), unless OEM provides Supplier with tax exemption documentation required by the applicable taxing authority.

## 12. DELIVERY TERMS

12.1 Title. Title to the Products and all risk of loss or damage thereto will pass to OEM according to the following delivery term: [\*\*\*].

12.2 Time. Supplier will use commercially reasonable efforts to ship Products from its warehouse by the shipment date specified on the Order, provided that the date of shipment will be [\*\*\*]. Supplier will use best commercial efforts to make shipment within no more than [\*\*\*] from Order date for any other inventory, or inform OEM within 24 hours from the date of the placement of the Order if Supplier cannot make the shipment within [\*\*\*] from Order date.

## 13. SHORTAGE

In the event of a shortage of any Products, Supplier will first fulfill OEM's Order in quantities equal to the order rate as measured by the monthly order rate during the preceding three-month period (the "Order Rate"). Supplier will use its best commercial efforts to satisfy OEM's demand in excess of the Order Rate.

## 14. ENVIRONMENTAL COMPLIANCE

Supplier represents and warrants that no Products sold by or otherwise transferred by Supplier to OEM contain: lead, cadmium, mercury, hexavalent chromium, polybrominated biphenyls

(PBBs), polybrominated biphenyl ethers (PBDE), or any other hazardous substances the use of which is restricted under EU Directive 2011/65/EU (8 June 2011) (RoHS Recast); chemicals restricted under the Montreal Protocol on ozone-depleting substances or the law of the countries into which Product is shipped; or other materials restricted by applicable law unless expressly agreed otherwise by OEM in writing in advance. From time to time, OEM may request evidence of Supplier's compliance with EU Directive 2011/65/EU, and Supplier shall make best efforts to provide this information in a timely manner.

\*\*\* Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

## 15. INCOMING INSPECTION AND ACCEPTANCE

OEM may conduct incoming inspection testing to confirm that the Product conforms to any mutually agree upon specification. Product found to be nonconforming or otherwise fails to operate (“DOA”) within the greater of: (i) initial 45 days period from the delivery date , or (ii) the period set forth in the warranty table on Exhibit B, may be returned by OEM to Supplier for replacement. Supplier will replace the Products within fifteen (15) business days. Product returned by OEM must be in Supplier’s standard packaging or similar packaging agreed to by the parties. Transportation charges associated with the replacement (a) to be shipped from OEM to Supplier will be borne by OEM and reimbursed by the Supplier, (b) to be shipped back to OEM, or original delivery destination (as directly by OEM) will be borne by Supplier.

## 16. EPIDEMIC FAILURES

Epidemic Failures. For purposes of this Agreement, “Epidemic Failure Event” shall mean the Product failures (i) having a similar cause related to a particular component, verified by the supplier, and by OEM, or an independent third party on behalf of OEM, (ii) occurring at any time during the applicable warranty period (as set forth in Section 17) with respect to the particular Product (iii) resulting from defects in materials, workmanship, manufacturing process or design or failure to conform with the Specifications, (iv) [\*\*\*]. Upon occurrence of an Epidemic Failure Event, the remedies of this Section 16 shall apply to the entire Product population affected by the root cause failure until corrective action is complete. Supplier’s obligation to ensure that components meet the Specification include, but are not limited to, incoming quality control, sub-tier audits, statistical process control, control of workmanship, outgoing quality inspection and all other relevant elements of quality set forth in this Agreement.

Notwithstanding the foregoing, this Section 16 shall apply or be enforced with respect to third party components listed below only during the respective warranty period set forth in Section 17:

[\*\*\*]

Upon occurrence of an Epidemic Failure Event, OEM shall promptly notify Supplier, and shall provide, if known and as may then exist, a description of the failure, and the suspected lot numbers, serial numbers or other identifiers, and delivery dates, of the failed Products. OEM shall make available to Supplier, samples of the failed Products for testing and analysis. Upon receipt of product from OEM, Supplier shall promptly provide its preliminary findings regarding the cause of the failure. The parties shall cooperate and work together to determine the root cause. Thereafter, Supplier shall promptly provide the results of its root cause corrective analysis, its proposed plan for the identification of and the repair and/or replacement of the affected Products, and such other appropriate information. Supplier shall recommend a corrective action program which identifies the affected units for repair or replacement, and which minimizes disruption to the end user. OEM and Supplier shall consider, evaluate and determine the corrective action program.

Upon occurrence of an Epidemic Failure Event, Supplier shall: (a) at OEM’s option: (i) either repair and/or replace the affected Products; or (ii) provide a credit or payment to OEM in an amount equal to (a) the cost to OEM for qualified, replacement Products acceptable to OEM; and (b) all labor, equipment and processing costs incurred by OEM or third parties in the implementation of the corrective action program, including test procedures, test equipment, the testing of Products, the cost of repairing and/or replacing the affected Products; and (c) reasonable freight, transportation, customs, duties, insurance, storage, handling and other incidental shipping costs incurred by OEM in connection with the repair and/or replacement of the affected Products.

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17. LIMITED WARRANTY AND DISCLAIMER

17.1 Supplier hereby represents and warrants that the Product(s) will conform to the Product specification and documentation during the periods set forth in Exhibit B under the heading "Super Micro Limited Warranty."

17.2 EXCEPT FOR THE WARRANTIES SET FORTH IN THIS AGREEMENT, THE FOREGOING STATES THE SOLE WARRANTY AND EXCEPT AS SET FORTH IN WRITING IN THIS AGREEMENT, SUPPLIER MAKES NO PERFORMANCE REPRESENTATIONS, WARRANTIES, OR GUARANTEES, EITHER EXPRESS OR IMPLIED, ORAL OR WRITTEN, WITH RESPECT TO THE PRODUCTS AND ANY SERVICES COVERED BY OR FURNISHED PURSUANT TO THIS AGREEMENT, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTY (A) OF MERCHANTABILITY, (B) OF FITNESS FOR A PARTICULAR PURPOSE, OR (C) ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING, OR USAGE OF TRADE. THE PROVISIONS OF THE FOREGOING LIMITED WARRANTY AND WARRANTY DISCLAIMER ARE REFLECTED IN THE PRODUCT PRICES.

17.3 Stored Data. OEM will be responsible for saving or backing up data contained in any Product returned to Supplier for in-warranty or out-of-warranty repairs or service. SUPPLIER WILL HAVE NO RESPONSIBILITY FOR SUCH DATA AND WILL HAVE NO LIABILITY ARISING OUT OF ANY DAMAGE TO OR LOSS OF SUCH DATA WHILE THE PRODUCT IS IN SUPPLIER'S POSSESSION.

18. LIMITATION OF LIABILITY

[\*\*\*]

19. INDEMNIFICATION

19.1 Subject to Section 19.2 below, each Party agrees to defend, indemnify and hold the other Party its officers, directors, agents, distributors, resellers, customers and employees harmless from and against any and all claims, damages, costs, expenses (including, but not limited to, reasonable attorney's fee and costs) or liabilities that may result, in whole or in part, from, with respect to each party's obligations to the other party: its gross negligence, willful misconduct, or infringement of intellectual property rights of any third party; and with respect to Supplier's obligations to OEM: damage to personal property or personal injury resulting from the Products.

19.2 Each indemnifying party's obligations as stated in this Section 19 are subject to the following condition and exclusion: the indemnified party must give the indemnifying party prompt notice of the claim, sole control of its defense, and all reasonable cooperation.

19.3 Limitations. Notwithstanding the foregoing, neither party shall have any obligation hereunder for claims, actions or demands under this Section 19 to the extent resulting from each party's use of the other's product, component or software in a combination which violates the intellectual property rights of third parties.

\*\*\* Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

20. NOTICE

Any notice required or permitted under the terms of this Agreement, or when any statute or law requiring the giving of notice, may be delivered (i) by registered airmail or registered courier service, or (ii) by electronic mail, if properly posted and sent to the relevant party at the address set forth below or to such changed address as may be given by either party to the other by such written notice. Any such notice shall be deemed to have been given upon receipt or upon the tenth (10th) day after having been dispatched in the manner provided above, whichever is earlier.

For Supplier: Super Micro Computer, Inc.

980 Rock Avenue  
San Jose, CA 95131

Phone: \_\_\_\_\_

Facsimile: \_\_\_\_\_

For OEM: Nutanix, Inc.  
1740 Technology Drive, Suite 150  
San Jose, California 95110  
Attn: Legal Counsel  
Phone: 855-NUTANIX (688-2649)  
Facsimile: 408-916-4039

21. CONFIDENTIAL INFORMATION

21.1 During the Term of the Agreement, OEM and Supplier may, each as "Recipient," receive or have access to certain information of the other party, each as "Discloser," that is identified as Confidential Information, including, though not limited to, information or data concerning the Discloser's Products or Product plans, business operations, strategies, customers and related business information. Either Party's quotes or other pricing information shall be considered Confidential Information regardless of whether it is separately identified as such. Recipient will protect the confidentiality of Confidential Information with the same degree of care as Recipient uses for its own similar information, but no less than a reasonable degree of care. Confidential Information may be used only by those employees of Recipient who have a need to know such information for the purposes of this Agreement. OEM and Supplier each acknowledge that all Supplier software, technical manufacturing information and forecasts are deemed Confidential Information, which will be protected for a term of five (5) years from the date of disclosure. Further, Supplier agrees that it shall make no use of any software provided to Supplier by OEM other than as explicitly set forth herein.

21.2 Exclusions. The foregoing confidentiality obligations will not apply to any information that is (a) already known by Recipient prior to its first disclosure by Discloser and not otherwise subject to a duty of confidentiality, (b) independently developed by Recipient prior to or independent of the disclosure without use of Discloser's Confidential Information, (c) publicly available through no fault of Recipient, (d) rightfully received from a third party with no duty of confidentiality, (e) disclosed by Recipient with Discloser's prior written approval, or (f) disclosed under operation of law.

22. INTELLECTUAL PROPERTY

22.1 Under the terms of this Agreement, neither party hereto acquires any right to any of the other party's trademarks, patents, service marks, trade names, copyrights, commercial symbols, goodwill, or other form of intellectual or commercial property of Supplier, nor any physical media on which it is delivered or stored regardless of location, and may not use such property or rights in any manner other than as explicitly set forth herein. Each party hereto acknowledges that it does not have

and will not have any right to enhance or reverse engineer the Product except (i) in connection with OEM's support and testing efforts and making modification and additions to software, (ii) as authorized by Supplier, or (iii) as explicitly stated herein.

22.2 Software Products. Each party acknowledges that any software products provided to it by the other party hereunder ("Software Product") constitutes only discrete copies of software, the media in which it is stored, and related documentation, as shipped to OEM. Nothing herein transfers any right, title or interest in the software or any intellectual property rights therein from one party to the other. Supplier's use or distribution of the OEM's Software Products requires and is subject to a separate software license agreement.

## 23. PRODUCT DISCONTINUANCE; SUPPLY CONTINUITY; END OF LIFE

23.1 Supplier may discontinue manufacture of any Product of Supplier in its sole discretion ("Product Discontinuance"), by providing OEM with [\*\*\*] prior written notice. OEM may continue to place Orders and purchase Products from Supplier during the [\*\*\*] notice period according to the terms and conditions, including but not limited to pricing, Orders, and delivery dates, available prior to the Product Discontinuance notice. Following any termination of the Agreement, OEM may continue to place orders for Products for a period of [\*\*\*] from the date of termination (the "Supply Continuity Period"). During such period the terms and conditions of this Agreement, including but not limited to the payment of fees, shall continue with respect to orders placed during the Supply Continuity Period.

23.2 Supplier may discontinue the availability of third party supplied components (such as drives and memory) by providing OEM with [\*\*\*] prior written notice (an "End of Life Notice"). OEM may continue to place Orders and purchase Products from Supplier during the End of Life Notice according to the terms and conditions, including but not limited to pricing, Orders, and delivery dates, available prior to the End of Life Notice. Notwithstanding the foregoing, OEM may place "Last-Time-Buy" Orders.

## 24. ARBITRATION

The parties shall settle any controversy arising out of this Agreement by arbitration in Santa Clara County, California in accordance with the rules of the American Arbitration Association. A single arbitrator shall be agreed upon by the parties or, if the parties cannot agree upon an arbitrator within thirty (30) days, then the parties agree that a single arbitrator shall be appointed by the American Arbitration Association. The arbitrator may award attorneys' fees and costs as part of the award. The award of the arbitrator shall be binding and may be entered as a judgment in any court of competent jurisdiction. Notwithstanding anything to the contrary, nothing in this Section shall prevent either party from seeking specific performance, including but not limited to injunctive relief in a court of competent jurisdiction.

\*\*\* Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

25. TERMINATION

25.1 Term. The term of this Agreement shall commence on the Effective Date and continue for a period of three (3) years (“Initial Term”) and shall thereafter be automatically renewed for additional one (1) year period unless either party gives written Notice of termination at least one-hundred and eighty (180) days before the anniversary of the Initial Term or of any renewal term, as applicable.

25.2 Payment Breach. Except as otherwise provided herein, Supplier may suspend acceptance of Orders in the event OEM fails to cure any breach of a payment obligation hereunder within [\*\*\*] of written notice from Supplier describing the breach provided such suspension terminates upon the earlier of: (i) resolution of the payment dispute; or (ii) executive management of the parties agree to meet to resolve the payment dispute.

25.3 Termination for Cause. Either party may terminate this Agreement at any time if: (i) the commencement of a proceeding that will lead to the dissolution of the other party’s corporate entity or the cessation of its business operations without an assignment to a surviving entity, (ii) the other party commits a material breach of this Agreement which remains uncured more than [\*\*\*] after written notice of such breach from the non-breaching party, or (iv) the other party commits a breach of a material obligation hereunder which by its nature is incurable.

25.4 Effect of Termination or Expiration. In the event of a termination or expiration of this Agreement, the provisions of this Agreement will continue to apply to all Orders placed by OEM prior to the effective date of such termination or expiration, except for any Order, or portion thereof, canceled pursuant to “Termination for Cause.”. Termination or expiration of this Agreement will not, however, relieve or release either party from making payments which may be owing to the other party under the terms of this Agreement.

26. EXPORT REGULATION COMPLIANCE

Each party acknowledges and agrees that its respective exports of any Product or any Proprietary Information shall comply with the United States Export Administration Act as amended from time to time, with the Export Administration Regulations promulgated from time to time hereunder, all other export laws and regulations of the United States and all amendments, modifications or additions thereto, including all laws and regulations relating to re-export.

27. RELATIONSHIP OF PARTIES

The relationship of Supplier and OEM established by this Agreement is that of independent contractor. Nothing contained in this Agreement may be construed to (i) give either party the power to direct and control the day to day activities of the other, (ii) constitute the parties as partners, joint ventures, co-owners or otherwise participants in a joint or common undertaking, or (iii) allow OEM to create or assume any obligation on behalf of Supplier for any purpose whatsoever. All financial obligations associated with OEM’s business are the sole responsibility of OEM.

28. GOVERNING LAW

This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of California excluding its conflict of law rules and principles. The parties agree that the proper and exclusive jurisdiction and venue of any legal action brought in connection with this Agreement shall be in the Federal or State courts located in Santa Clara County in the State of California. The United Nations Convention on Contracts for International Sale of Goods does not apply to this Agreement.

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29. FORCE MAJEURE

Neither party will be liable to the other for its failure to perform any of its obligations hereunder during any period in which such performance is delayed by circumstances beyond its reasonable control including, but not limited to earthquake, fire, flood, war, embargo, strike, and riot, the intervention of any governmental authority or any other similar situation or circumstances which is beyond such party's control and renders such party unable to secure materials and transportation facilities (a "Force Majeure Event"). If a Force Majeure continues for more than ten (10) days, the party injured by the inability of the other to perform will have the right to (a) immediately terminate this Agreement by providing written notice, or (b) treat this Agreement as suspended during the delay and reduce any commitment in proportion to the duration of the delay,. The party claiming a Force Majeure Event shall use best efforts to mitigate or eliminate the impact of such "Force Majeure" and shall attempt to resume the performance of obligations delayed or impeded by such event.

30. ASSIGNMENT

OEM may not assign or otherwise transfer its rights or obligations under this Agreement without prior written consent of Supplier, which will not be unreasonably withheld. The foregoing notwithstanding, OEM may assign this Agreement in the case of a merger or acquisition involving the majority of OEM's assets. The assignee's ability to place Orders according to this Agreement will be limited to Orders with respect to the OEM's products (and updated versions of the same) as of the date of such assignment.

31. ATTORNEY FEES

In the event of any litigation or arbitration hereunder, the arbitrator or court will award costs and reasonable attorney's fees to the prevailing party.

32. SEVERABILITY

The terms of this Agreement are severable. If any term is held invalid, illegal, or unenforceable for any reason whatsoever, such term will be enforced to the fullest extent permitted by applicable law, and the validity, legality, and enforceability of the remaining terms will not in any way be affected or impaired thereby.

33. ENTIRE AGREEMENT

This Agreement and its Exhibits constitute the entire agreement of the parties with respect to the subject matter hereof, and supersedes and replaces all prior oral or written agreements, representations and understandings of the parties with respect to such subject matter. Except as expressly provided for herein, this Agreement may be changed only by written amendment signed by the parties.

34. SURVIVAL

Except as stated to the contrary herein, all obligations herein which by their terms or nature survive termination of this Agreement will continue thereafter until fully performed.



IN WITNESS WHEREOF, the parties have executed this agreement effective as of the date first written above.

**Supplier:**  
**Super Micro Computer, Inc**

By: /s/ Robert Aeschliman  
Name: Robert Aeschliman  
Title: General Counsel

**OEM:**  
**NUTANIX INC.**

By: /s/ Kenneth Long  
Name: Kenneth Long  
Title: VP of Accounting

EXHIBIT A  
PRODUCT AND PRICE LIST  
[PROVIDED QUARTERLY]

EXHIBIT B  
WARRANTY

**Warranty Coverage Table:**

*Supermicro Standard Warranty Remedies for OEM Product (coverage dates calculated from date of invoice)*

**Eligible Items:**

Products set forth on Exhibit A, as updated from time-to-time.

Products set forth on Exhibit A, as updated from time-to-time.

- Three-year labor<sup>1</sup>
- Three-year parts<sup>2</sup> [\*\*\*]
- One-year Advance parts replacement services [\*\*\*]
- 120 days parts DOA cross ship<sup>3</sup>
  
- One-year parts<sup>2</sup>
- 120 days parts DOA cross ship<sup>3</sup> [\*\*\*]
- Return within 30 days return for credit<sup>4</sup>
  
- Five-year parts<sup>2</sup> [\*\*\*]
- 120 days parts DOA cross ship<sup>3</sup>
- Return within 30 days return for credit<sup>4</sup>
  
- Five-year parts<sup>2</sup>
- 120 days parts DOA cross ship<sup>3</sup> [\*\*\*]
- Return within 30 days return for credit<sup>4</sup>
  
- Three-year parts<sup>2</sup>
- 120 days parts DOA cross ship<sup>3</sup> [\*\*\*]
- Return within 30 days return for credit<sup>4</sup>

FUSION IO Warranty terms does not include advance cross shipment. Add Fusion IO Support agreement:

F11-GNR-1T65-CS-3YR

SNS, FUSION-IO IOSCALE, [\*\*\*]

1650GB MLC, GOLD NON-

RETURN SUPPORT, 3YR

1. Labor coverage includes any labor costs incurred for repairs by Supermicro during coverage period.
2. Parts coverage includes any material and parts costs incurred for repairs by Supermicro during coverage period.
3. In the event a product is dead on arrival (“DOA”), Supermicro shall directly ship to Nutanix, at’s direction, a replacement product during the coverage period, which shall begin on the date of Supermicro’s invoice.
4. Supermicro shall refund a credit for the current value of the product if said product is returned under the following criteria: (i) the product is returned for refund during thirty (30) day from Supermicro’s invoice date; and (ii) Supermicro is unable to repair or replace the product. The date of return shall be the date Customer ships product to Supermicro as long as the refund request is made within the thirty (30) day period described in this section.

\*\*\* Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Remark: Out of Warranty

If returned products are: a) within the warranty period, b) accompanied by the proper Return Materials Authorization (“RMA”) and c) defective as determined by Supermicro; Supermicro will, at its option: 1) repair the defective product within 15 working days, or 2) issue a credit to Nutanix for the current value of the product. Supermicro has no obligation to repair or replace parts beyond the three-year warranty period; however, Supermicro may repair or replace provided that 1) Nutanix pays for the cost of obtaining the part(s) and 2) the part(s) are available for purchase. Unless otherwise agreed to in writing by the parties all repairs will be performed with new parts.

EXHIBIT C  
[\*\*\*]

This EXHIBIT C is incorporated as part of the Original Equipment Manufacturer (OEM) Purchase Agreement (“Agreement”) which together with this EXHIBIT C, and other cited Exhibits, Schedules and Addendums, form the entirety of the Agreements, entered into as of the first date written below, by and between Super Micro Computer, Inc. (“SMCI”), a Delaware corporation, having a principal place of business at 980 Rock Avenue, San Jose, CA 95131 and NUTANIX INC. (“OEM”), a Delaware Corporation, having a principal place of business at 1740 TECHNOLOGY DR. SUITE 400, SAN JOSE, CA, 95110. The terms and conditions set forth in this EXHIBIT C will be construed and governed by the terms and conditions set forth in the Agreement.

[PROVIDED PERIODICALLY]

IN WITNESS WHEREOF, the parties have executed this agreement effective as of the date first written above.

**Supplier:**

**Super Micro Computer, Inc**

**OEM:**

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

Name:

Title:

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

Name:

Title:

\*\*\* Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

## AMENDMENT ONE TO ORIGINAL EQUIPMENT MANUFACTURER (OEM) PURCHASE AGREEMENT

This Amendment One (“Amendment”) to the Original Equipment Manufacturer Purchase Agreement (“Agreement”) by and between SUPER MICRO COMPUTER INC. (“Supplier”) and NUTANIX, INC. (“OEM”) is entered into as of November 13, 2017 (“Amendment Effective Date”). Collectively Supplier and OEM are referred to as the “Parties”.

### RECITALS

A. The Parties entered into the Agreement as of May 16, 2014.

B. The parties now desire to amend the Agreement to add Nutanix Netherlands B.V. as a party to the Agreement and to add terms and conditions around the “Software at Scale” program (further defined below).

NOW THEREFORE, in consideration of the foregoing, and for good and valuable consideration, the sufficiency of which is hereby acknowledged, the Parties agree as follows:

1. The Parties agree that Nutanix Netherlands B.V., an entity affiliated with Nutanix, Inc., should be added to the Agreement as a party. Therefore all references to “OEM” in the Agreement, as amended, shall include both Nutanix, Inc. and Nutanix Netherlands, B.V.

2. A new paragraph is added to the end of Section 2 as follows:

In addition to the purchase of Product(s) by OEM, Exhibit D, “Software at Scale” describes the process and the terms under which Supplier shall sell Software at Scale Products (as defined in Exhibit D). For additional clarity, the term “Product(s)” shall not include Software at Scale Products.

3. Section 8 of the Agreement is deleted in its entirety and replaced with the following:

**8. APPOINTMENT AS [\*\*\*].** Supplier [\*\*\*] such appointment, as a [\*\*\*] for Supplier with [\*\*\*] and the [\*\*\*]. The services performed as [\*\*\*] includes the following:

- a. Life Cycle [\*\*\*] will [\*\*\*] and provide such [\*\*\*]. For the purpose of clarity, no [\*\*\*] shall be [\*\*\*] to them.
- b. [\*\*\*]. Supplier shall use commercially reasonable efforts to [\*\*\*] manufacturing as part of the forecasting mechanism described in Section 6 of the Agreement [\*\*\*].
- c. [\*\*\*]. OEM [\*\*\*] of Software at Scale Products as part of performing [\*\*\*] be solely [\*\*\*] Software at Scale Hardware (as defined in Exhibit D). OEM [\*\*\*] the Software at Scale Hardware and [\*\*\*]. However, OEM [\*\*\*] that [\*\*\*] the Software at Scale Hardware utilizing [\*\*\*].

4. A new Exhibit D is added to the Agreement as attached to this Amendment.

5. No other changes are made to the Agreement, and following the Amendment Effective Date, all references to the “Agreement” shall mean the Agreement as amended by this Amendment.

\*\*\* Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the Amendment Effective Date.

**NUTANIX INC.**

**NUTANIX NETHERLANDS, B.V.**

By: /s/ Duston Williams

By: /s/ Kenneth Long

Title: CFO

Title: Managing Director 1

Date: November 13, 2017

Date: November 13, 2017

By: /s/ Servais Willie Ngabo

Title: Managing Director 2

Date: November 13, 2017

ACKNOWLEDGED AND AGREED:

**SUPER MICRO COMPUTER, INC.**

By: /s/ Cenly Chon

Title: VP, Sales, Strategic Accounts

Date: 11/10/2017

EXHIBIT D  
SOFTWARE AT SCALE

This EXHIBIT D is incorporated as part of the Agreement which together with this EXHIBIT D, and other cited Exhibits, Schedules, and Addendums, form the entirety of the Agreements entered into as of the Amendment Effective Date. Capitalized terms not defined below have the definitions set forth in the Agreement.

**1. INTRODUCTION**

This Exhibit D shall enable Supplier to sell Software at Scale Hardware [\*\*\*] (defined below) and OEM to license software [\*\*\*]. Such program shall be referred to as “Software at Scale”. To facilitate such sales of Software at Scale Products, [\*\*\*] in accordance with the terms of Section 4.

The goal of the Software at Scale program is that the End Customer (defined below) [\*\*\*] purchasing the Software at Scale Products and includes the following characteristics:

- [\*\*\*] will be made by the [\*\*\*].
- The Parties shall enable the End Customer to [\*\*\*] with Products contemplated under the Agreement as of the Effective Date of the Agreement.
- The Supplier shall [\*\*\*] and OEM shall provide the software license [\*\*\*] to the End Customer.
- Supplier may impose any qualifications to do business [\*\*\*] and may choose to [\*\*\*], at its sole discretion.
- Provided that the End Customer purchases Nutanix support, OEM shall support the hardware and software [\*\*\*] as set forth in Section 6 of this Exhibit D.
- OEM has no involvement or responsibility for any associated [\*\*\*] and therefore, is not qualified for any promotion program for its customers related to its [\*\*\*].

**2. DEFINITIONS.** Capitalized terms in this Exhibit D shall have the meanings set forth below.

- a. “[\*\*\*]” means another entity in the sales channel for the [\*\*\*] and not use the [\*\*\*].
- b. “**End Customer**” means the last entity who purchases the Software at Scale Products for their own use and not for resale to another entity.
- c. “**Software at Scale [\*\*\*]**” means [\*\*\*] as described in this Agreement.
- d. “**Software at Scale Hardware**” means the [\*\*\*].
- e. “**Software at Scale Products**” means [\*\*\*] as part of the Software at Scale program. These Software at Scale Products shall be designated with the suffix [\*\*\*].
- f. “**Territory**” means the United States of America.

**3. INVENTORY LIABILITY FOR SOFTWARE AT SCALE PRODUCTS**

OEM shall provide forecasts for Products that include [\*\*\*]. For the purpose of clarity, this Exhibit D does not modify either Party’s obligations with regard to inventory liability as described in the Agreement, [\*\*\*] of the Agreement. As [\*\*\*] are accepted, the [\*\*\*].

\*\*\* Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.



#### 4. APPOINTMENT AS [\*\*\*]

- a. Non-Exclusive Appointment. Supplier [\*\*\*], and [\*\*\*] such appointment, to act as an [\*\*\*] during the term of Agreement (as described in Section 1 of the Agreement), solely in accordance with the terms and conditions of this Agreement.
- b. OEM Marketing Obligations as [\*\*\*]. OEM shall, at its own expense, market the Software at Scale program including, advertising, promoting, and soliciting the sale of the Software at Scale Products [\*\*\*] consistent with good business practice. OEM is not qualified for Supplier's marketing promotion program.
- c. OEM Obligations to Provide Quotes [\*\*\*]. For expediency purposes, [\*\*\*]. For the purpose of clarity, the Parties agree that the sales quotes [\*\*\*] are not binding until agreed to in writing [\*\*\*]. Supplier may reject any such quotes before they become an Order in its sole discretion.

#### 5. SUPPLIER OBLIGATIONS

- a. Supplier shall fulfill any [\*\*\*] that it [\*\*\*] as part of the processes outlined in this Exhibit D.
- b. Supplier shall provide End Customers (through the sales channel) with a standard [\*\*\*] portion of the [\*\*\*] consistent with or equivalent to the [\*\*\*].
- c. As part of fulfilling any Software at Scale Orders, Supplier shall also meet the following requirements in a timely fashion such that an [\*\*\*]. At a minimum, Supplier shall:
  - i. [\*\*\*];
  - ii. Maintain a [\*\*\*] on time ship rate for all Software at Scale Products shipped based on a [\*\*\*] lead time;
  - iii. [\*\*\*]; and
  - iv. Manage transportation and return material authorization [\*\*\*] as they arise.

#### 6. END CUSTOMER SUPPORT

OEM separately sells product support for Product(s) and Software at Scale Products shipped to End Customers. Provided that the End Customer has purchased Nutanix support from OEM, either directly or indirectly, OEM shall provide such support to the [\*\*\*]. To facilitate such support, upon shipment of the Software at Scale Hardware, Supplier shall provide OEM with all serial number information so that OEM can provide such support.

\*\*\* Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

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

I, Dheeraj Pandey, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Nutanix, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers 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 officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2018

/s/ Dheeraj Pandey  
Dheeraj Pandey  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

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

I, Duston M. Williams, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Nutanix, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers 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 officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2018

/s/ Duston M. Williams

Duston M. Williams

Chief Financial Officer

(Principal Financial Officer)

**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**

I, Dheeraj Pandey, certify pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Nutanix, Inc. for the quarter ended January 31, 2018, fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Nutanix, Inc.

Date: March 14, 2018

/s/ Dheeraj Pandey

Dheeraj Pandey

Chairman and Chief Executive Officer

*(Principal Executive Officer)*

**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**

I, Duston M. Williams, certify pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Nutanix, Inc. for the quarter ended January 31, 2018, fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Nutanix, Inc.

Date: March 14, 2018

/s/ Duston M. Williams

Duston M. Williams

Chief Financial Officer

*(Principal Financial Officer)*