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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 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: 001-36468

ARISTA NETWORKS, INC.

(Exact name of registrant as specified in its charter)

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

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

(408) 547-5500
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
	Emerging growth company ☐

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

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $14,715,944,627 as of June 30, 2018 b ased on the closing sale price of the registrant's common stock on the New York Stock Exchange on such date. Shares held by persons who may be deemed affiliates have been excluded. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

On February 8, 2019 , 75,730,873 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement relating to its 2019 Annual Stockholders' Meeting to be filed pursuant to Regulation 14A within 120 days after the registrant's fiscal year end of December 31, 2018 are incorporated by reference into Part III of this Annual Report on Form 10-K.

ARISTA NETWORKS, INC.

TABLE OF CONTENTS

		Page
PART I		
Item 1.	Business	1
Item 1A.	Risk Factors	14
Item 1B.	Unresolved Staff Comments	49
Item 2.	Properties	49
Item 3.	Legal Proceedings	50
Item 4.	Mine Safety Disclosures	50
PART II		
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	51
Item 6.	Selected Consolidated Financial Data	52
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	54
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	68
Item 8.	Financial Statements and Supplementary Data	70
Item 9.	Change in and Disagreements With Accountants on Accounting and Financial Disclosure	113
Item 9A.	Controls and Procedures	113
Item 9B.	Other Information	114
PART III		
Item 10.	Directors, Executive Officers, and Corporate Governance	115
Item 11.	Executive Compensation	115
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	115
Item 13.	Certain Relationships and Related Transactions and Director Independence	115
Item 14.	Principal Accountant Fees and Services	115
PART IV		
Item 15.	Exhibits and Financial Statement Schedules	116
Item 16.	Form 10-K Summary	119
	Signatures	120

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, including the sections entitled “Business,” “Risk Factors,” “Use of Proceeds,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, as Section 21E of the Securities Exchange Act of 1934, as amended, which statements involve substantial risks and uncertainties. The words “believe,” “may,” “will,” “potentially,” “estimate,” “continue,” “anticipate,” “intend,” “could,” “would,” “project,” “plan,” “predict,” “expect” and similar expressions that convey uncertainty of future events or outcomes are intended to identify forward-looking statements.

These forward-looking statements include, but are not limited to, statements concerning the following:

- our ability to maintain an adequate rate of revenue growth and our future financial performance, including our expectations regarding our revenue, cost of revenue, gross profit or gross margin and operating expenses;
- our belief that the cloud networking market is rapidly evolving and has a significant potential opportunity for growth;
- our ability to expand our leadership position in the network switch industry, including the areas of mobility, virtualization, cloud computing and cloud networks, and to develop new products and expand our business into new markets;
- our ability to satisfy the requirements for cloud networking solutions and to successfully anticipate technological shifts and market needs, innovate new products and bring them to market in a timely manner;
- our ability to integrate and realize the benefits of our recent and future acquisitions;
- our business plan and our ability to effectively manage our growth, including the reporting requirements and compliance obligations of a public company;
- costs associated with defending intellectual property infringement and other claims and the potential outcomes of such disputes, such as those claims discussed in “Legal Proceedings,” including the OptumSoft litigation matters;
- our ability to retain and increase sales to existing customers and attract new end customers, including large end customers;
- the budgeting cycles and purchasing practices of end customers, including large end customers who may receive lower pricing terms due to volume discounts;
- the growth and buying patterns of our large end customers in which large bulk purchases may or may not occur in certain quarters;
- our inability to fulfill our end customers’ orders due to supply chain delays, access to key commodities or technologies or events that impact our manufacturers or their suppliers;
- the deferral or cancellation of orders by end customers, warranty returns or delays in acceptance of our products;
- our ability to further penetrate our existing customer base and sell more complex and higher-performance configurations of our products;
- our ability to displace existing products in established markets;
- our belief that increasing channel leverage will extend and improve our engagement with a broad set of customers;
- our ability to timely and effectively scale and adapt our existing technology;
- the benefits realized by our customers in their use of our products and services including lower total cost of ownership;
- our ability to expand our business domestically and internationally;
- the effects of increased competition in our market and our ability to compete effectively;
- the effects of seasonal and cyclical trends on our results of operations;

- our expectations concerning relationships with third parties;
- the attraction and retention of qualified employees and key personnel;
- our ability to maintain, protect and enhance our brand and intellectual property;
- economic and industry trends;
- estimates and estimate methodologies used in preparing our financial statements;
- future trading prices of our common stock;
- our belief that we have adequately reserved for uncertain tax positions;
- global economic and political conditions that introduce instability into the U.S. economy;
- the impact of global and domestic tax reform, including the Tax Cuts and Jobs Act of 2017;
- the impact of tariffs imposed by the U.S. on goods from other countries and tariffs imposed by other countries on U.S. goods, including the tariffs recently implemented and additional tariffs that have been proposed by the U.S. government on various imports from China;
- our belief that our existing cash and cash equivalents together with cash flow from operations will be sufficient to meet our working capital requirements and our growth strategies for the foreseeable future; and
- future acquisitions of or investments in complementary companies, products, services or technologies;

These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in the section titled "Risk Factors" and elsewhere in this Annual Report on Form 10-K. Moreover, we operate in a very competitive and rapidly changing environment, and new risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Annual Report on Form 10-K may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. You should not rely upon forward-looking statements as predictions of future events.

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

PART I

Item 1. Business

We are a leading supplier of cloud networking solutions that use software innovations to address the needs of large-scale internet companies, cloud service providers and next-generation data centers and campuses for enterprise support. Our cloud networking solutions consist of our Extensible Operating System, or EOS, a set of network applications and our Ethernet switching and routing platforms. Our cloud networking solutions deliver industry-leading performance, scalability, availability, programmability, automation and visibility. At the core of our cloud networking platform is EOS, which was purpose-built to be fully programmable and highly modular. The programmability of EOS has allowed us to create a set of software applications that address the requirements of cloud networking, including workflow automation, network visibility and analytics, and has also allowed us to rapidly integrate with a wide range of third-party applications for virtualization, management, automation, orchestration and network services. Since we began shipping our products, we have grown rapidly, and, according to Crehan Research, we have achieved the second largest market share in data center 10/25/40/50/100 Gigabit Ethernet switch ports, excluding blade switching, sold in 2018. We have been profitable and cash flow positive for each year since 2010.

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

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

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

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

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

In 2018, we announced a new network architecture designed to address transitional changes as the enterprise moves to an Internet of Things (“IoT”)-ready campus. Leveraging EOS® and CloudVision®, our Cognitive Cloud Networking approach brings operational consistency and modern cloud principles to the enterprise campus. As part of the enterprise campus solution, we acquired Mojo Networks, Inc. (“Mojo”), inventor of Cognitive WiFi™ and a leader in cloud-managed wireless networking. We also acquired Metamako Holding PTY LTD. (“Metamako”), a leader in low-latency, FPGA-enabled network solutions.

We sell our products through both our direct sales force and our channel partners. Our end customers span a range of industries and include large internet companies, service providers, financial services organizations, government agencies, media and entertainment companies and others. Our customers include six of the largest cloud services providers based on annual revenue.

Industry Background

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

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

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

Limitations of Traditional Data Center Networks

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

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

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

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

Limitations of Traditional Enterprise Campus Networks

Traditional enterprise campus networks suffer from complex bottlenecks brought on by the myriad of platforms, operating systems, proprietary features and network management tools. Coupled with the explosive growth of IoT and endpoints as well as the requirement for workloads, users and devices to be connected anywhere, the operational costs of managing these complexities become prohibitive.

Arista CloudVision, built on the Cognitive Management Plane (CMP) engine, is a proven and powerful platform for turnkey orchestration, provisioning and telemetry. Born initially in the data center era, CloudVision now extends the same common operational model to the campus providing unified wired, wireless and data center management.

Today’s wired and wireless campus networks must cope with ever-increasing endpoint devices necessitating the understanding of endpoint behavior. CloudVision’s latest feature Device Analyzer provides inventory and deep flow analysis of all connected devices. Campus administrators can access device type, connectivity method, location and communication patterns. This visibility enables an administrator to identify unauthorized traffic and compromised endpoints. Since CloudVision spans the data center and the campus, customers can leverage a single platform for end-to-end troubleshooting.

Requirements for Cloud Networking

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

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

Our Cloud Networking Solutions

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

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

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

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

Capacity, Performance and Scalability

Our cloud networking platform enables data center networks to scale to hundreds of thousands of physical servers and millions of virtual machines with the least number of switching tiers. We achieve this by leveraging standard protocols to meet the scale requirements of cloud computing. We have used active-active Layer 2 and Layer 3 network topologies to enable customers to build extremely large and resilient networks.

High Availability

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

Open and Programmable

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

Workflow Automation

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

Network Visibility

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

Security

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

Lower Total Cost of Ownership

Our cloud networking platform offers architectural and system advantages that provide our customers with cost-effective and highly available cloud networking solutions. Our programmable, scalable leaf-spine architectures, combined with industry-leading applications, significantly reduce networking costs when compared to legacy network designs, enabling faster time to service and improved availability. Our automation tools reduce the operational costs of provisioning, managing and monitoring a data center network and speed up service delivery. Our visibility tools provide high levels of visibility into complex network environments without the need for additional data collection equipment. As a result, fewer network engineers are needed to operate large networks.

Our Market Opportunity

We compete primarily in the data center switching market for 10 Gigabit Ethernet and above, excluding blade switches. We also compete in the enterprise campus market for 1 Gigabit Ethernet switching and above and cloud-managed wireless networking.

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

Our Customers

As of December 31, 2018 , we had delivered our cloud networking solutions to over 5,500 end customers worldwide in approximately 86 countries. Our end customers span a range of industries and include large internet companies, service providers, financial services organizations, government agencies, media and entertainment companies and others. For each of the years ended December 31, 2018 , 2017 , and 2016 , Microsoft purchases, through our channel partner World Wide Technology, Inc., accounted for more than 10% of our total revenue.

Our Competitive Strengths

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

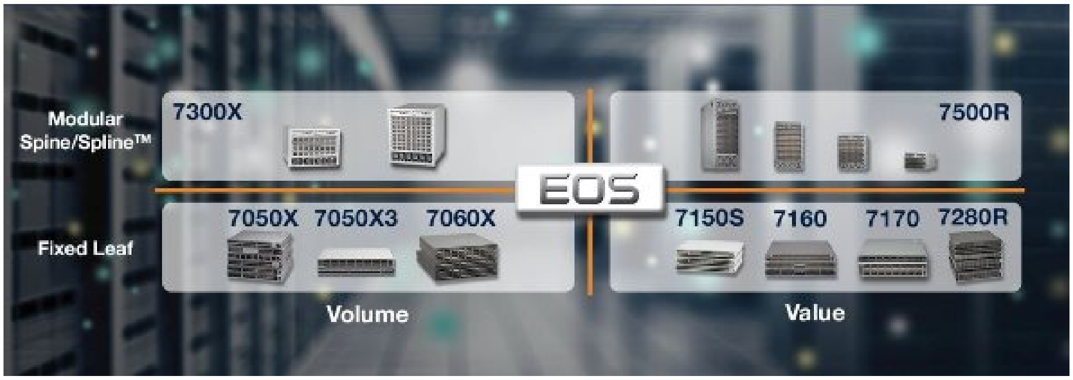
- ***Purpose-Built Cloud Networking Platform.*** We have developed a highly scalable cloud networking platform that uses software to address the needs of large-scale internet companies, cloud service providers, financial services organizations, government agencies and media and entertainment companies,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

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

Our Products and Technology

We offer one of the broadest product lines of data center 10/25/40/50/100 Gigabit Ethernet switches and routers in the industry, comprising our 7010/7020 Series, 7050X Series, 7060X Series, 7130 Series, 7160 Series, 7150 Series, 7170 Series, 7250X Series, 7260 Series, 7280R Series Universal Leaf products, 7300X Series Spline products, and our 7500R Series Universal Spine products.

We deliver routing and switching platforms with industry-leading capacity, low latency, port density and power efficiency. We have also innovated in areas such as deep packet buffers, embedded optics and reversible cooling. An overview of our switching/routing portfolio is shown in the figure below.



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

Our Extensible Operating System

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

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

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

EOS Attributes

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

High Availability

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

Programmable at All Layers

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

Workflow Visibility

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

Network Automation

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

CloudVision

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

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

Containerized EOS

Arista cEOS™ is a containerized packaging of EOS software and its agents for deployment in cloud infrastructure with the same proven EOS software image that runs on all of our products. These flexible deployment options empower cloud network operators that are customizing their operating environments to provide a uniform workflow for development, testing and deployment of differentiated services. It enables the provisioning of a robust and proven network operating system across production and development platforms with a uniform EOS distribution and single-image consistency. Our customers can also utilize cEOS in tandem with industry standard white box hardware and enable a wide array of tools and applications from the container ecosystem.

Arista vEOS Router

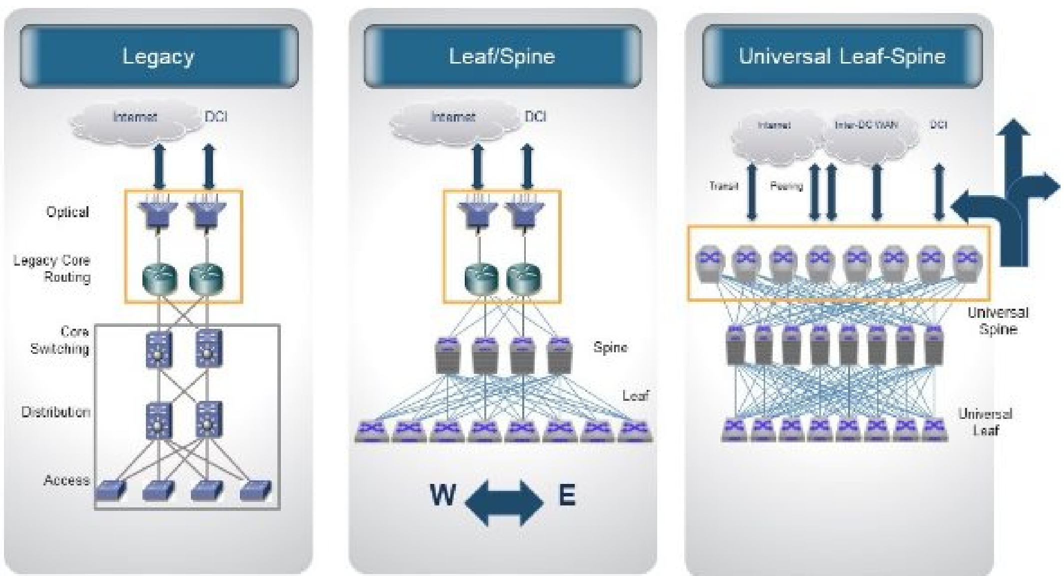
The Arista vEOS Router is a core component of Arista Any Cloud Platform. The vEOS Router is our same, proven single EOS software image, offered as a multi-cloud and multi-hypervisor virtual router. This cloud-grade and feature-rich software platform empowers enterprises and service providers to build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

Leaf-Spine Network Designs

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

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

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



Any Cloud Platform for Hybrid Cloud Networking

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

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

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

Cloud Principles Migrate Enterprise from PINs to PICs

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

Cognitive WiFi

With the acquisition of Mojo, we now integrate the wireless edge via the CloudVision platform. The Cognitive WiFi architecture is tailored to enable an Arista access point portfolio in a controller-less wireless network. These access point (“AP”) solutions are available in disaggregated options harnessing the power of cloud, machine learning and cognitive computing to deliver great experiences to WiFi users. Our Cognitive WiFi delivers massive scalability, and a linear pay-as-you-go pricing model, providing a predictable total cost of ownership path. CloudVision WiFi is based on a similar CMP model for cognitive analytics unifying the operational experience across wired and wireless. CloudVision WiFi enhances real-time insight into the experience of WiFi clients to connect and utilize the network. Client Journey is a set of dashboards that help operators diagnose client connectivity, track availability of network services and identify the root cause of WiFi issues with live and historical telemetry data for the proactive assessment of client to application performance.

Arista Cognitive Campus includes a suite of WiFi Tracer tools for wireless security, reachability and network health diagnostics. The Integrated Wireless Intrusion Protection System (“WIPS”) protects networks against rogue APs, honeypots and implements device classification to determine authorized client devices connecting to unauthorized APs. Additional WIPS scanning is accomplished via a dedicated third radio which can also perform various network performance and health diagnostics. The AP can simulate a client device—association and authentication instrumenting identity and access (AAA and DHCP/DNS) latencies, connectivity to the upstream network and voice calls to calculate MOS score and network throughput. These automated tests can be pre-scheduled without administrator intervention ensuring business ready WiFi. CloudVision WiFi applications fuses Arista access points with cloud networking spines and splines for a seamless topology view.

Cognitive Cloud Networking for the Campus

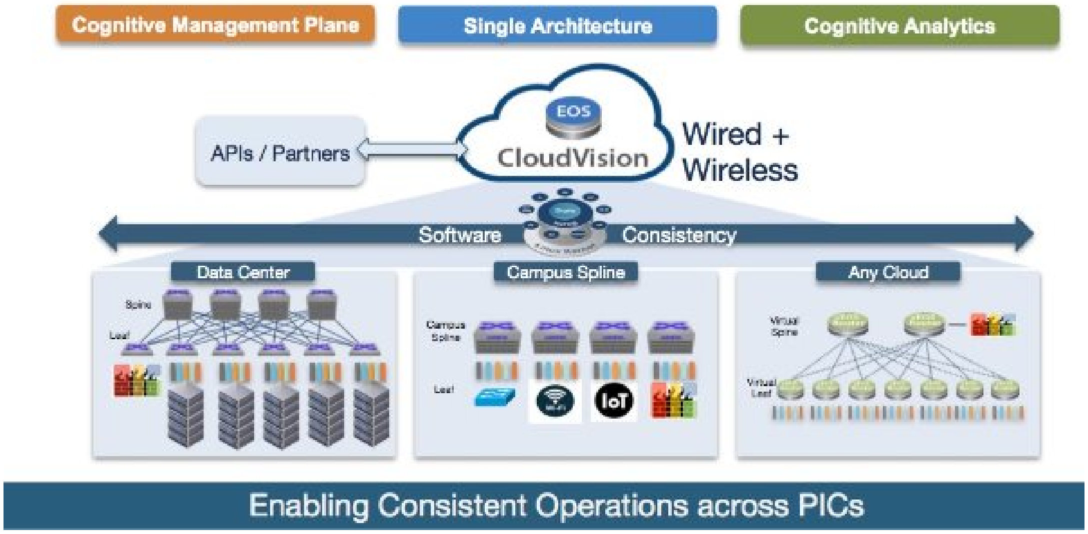
Our Cognitive Cloud Networking for the Campus is based on three principles:

Universal Cloud Network - Offered as an alternative to brittle, proprietary solutions from legacy vendors, our Universal Cloud Network is an open, standards-based design focusing on software-driven control principles. Our collapsed Spline™ approach consolidates traditional campus core and aggregation layers into a simple single tier with high availability.

Cognitive Management Plane - There is a dire void in management plane consistency and a need for data-driven analytics in the campus, as in the data center. We believe that a common model can be applied across both, saving customers operational costs. The Cognitive Management Plane, based on Arista CloudVision, is a data-driven repository for the automated actions across network analytics.

Securing The Campus - Securing the Campus spline requires a holistic approach to network segmentation, device compliance and auditing, as well as service integration with our security partners. We deliver these capabilities through EOS and CloudVision.

Examples of our Cognitive Cloud Networking architectures are illustrated below.



Customer Support and Services

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

We offer multiple service options that allow our customers to select the product replacement service level that best meets their needs. We stock spare parts in over 125 locations around the world through our third-party logistics suppliers. All of our service options include unlimited access to bug-fixes, new feature-releases, online case management and our community forums.

Sales and Marketing

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

Our sales organization is supported by systems engineers with deep technical expertise and responsibility for pre-sales technical support and solutions engineering for our end customers, systems integrators, original equipment manufacturers, or OEMs, and channel partners. A pool of shared channel sales and marketing representatives also supports these teams. Each sales team is responsible for a geographical territory, has responsibility for a number of major direct end-customer accounts or has assigned accounts in a specific vertical market. We have field sales teams operating in approximately 86 countries.

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

Research and Development

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

Manufacturing

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

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

Our products rely on key components, including merchant silicon, integrated circuit components and power supplies purchased from a limited number of suppliers, including certain sole source providers. Generally, neither our contract manufacturers nor we have a written agreement with these component providers to guarantee the supply of the key components used in our products nor do we have exclusive rights to such key components. Our product development efforts also depend upon continued collaboration with our key suppliers, including our merchant silicon vendors such as Broadcom and Intel. As we develop our product roadmap and continue to expand our relationships with these and other merchant silicon vendors, it is critical that we work in tandem with our key merchant silicon vendors to ensure that their silicon includes improved features and that our products take advantage of such improved features. This enables us to focus our research and development resources on software core competencies and to leverage the investments made by merchant silicon vendors to achieve cost-effective solutions.

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

Backlog

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

Competition

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

The data center and campus networking markets have been historically dominated by Cisco Systems ("Cisco"), with competition also coming from other large network equipment and system vendors, including Extreme Networks, Dell/EMC, Hewlett Packard Enterprise, Juniper Networks and Mist Systems. Most of our competitors and some strategic alliance partners have made acquisitions and/or have entered into or extended partnerships or other strategic relationships to offer more comprehensive product lines, including cloud networking solutions. For example, in the last few years alone, Broadcom acquired Brocade Communications Systems, Extreme Networks purchased certain data center networking assets from Broadcom/Brocade and Avaya, Dell acquired Force10 and EMC, IBM acquired Blade Network Technology, Hewlett Packard Enterprise acquired Aruba Networks, Juniper Networks acquired Contrail Systems, and Cisco acquired Insieme Networks . We also face competition from other companies and new market entrants, including "whitebox" switch vendors as well as current technology partners and end customers who may acquire or develop network switches and cloud service solutions for internal use and/or to broaden their portfolio of products to market and sell to customers. Furthermore, our relationships with our strategic alliance partners may shift as industry dynamics changes. If strategic alliance partners acquire or develop competitive products or services, our relationship with those partners may be adversely impacted, which could lead to more variability to our results of operations and impact the pricing of our solutions.

The principal competitive factors applicable to our products include:

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

We believe our products compete favorably with respect to these factors. Our EOS software offers high reliability, integrates with existing network protocols and is open and programmable. We believe the combination of EOS, a set of network applications and our 10/25/40/50/100 Gigabit Ethernet platforms make our offering highly competitive for both cloud and enterprise data centers. However, many of our competitors have greater name recognition, longer operating histories, larger sales and marketing budgets and resources, broader distribution and established relationships with channel partners and end customers, greater access to larger end-customer bases, greater end-customer support resources, greater manufacturing resources, the ability to leverage their sales efforts across a broader portfolio of products, the ability to leverage purchasing power when purchasing subcomponents, the ability to bundle competitive offerings with other products and services, the ability to develop their own silicon chips, the ability to set more aggressive pricing policies, lower labor and development costs, greater resources to make acquisitions, larger intellectual property portfolios and substantially greater financial, technical, research and development or other resources.

Intellectual Property

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

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

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

Our industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patent and other intellectual property rights. If we become more successful, we believe that competitors will be more likely to try to develop products that are similar to ours and that may infringe our proprietary rights. It may also be more likely that competitors or other third parties will claim that our products infringe their proprietary rights. In particular, large and established companies in our industry have extensive patent portfolios and are regularly involved in both offensive and defensive litigation. From time to time, third parties, including certain of these large companies and non-practicing entities, may assert patent, copyright, trademark and other intellectual property rights against us, our channel partners or our end customers, whom our standard license and other agreements obligate us to indemnify against such claims. Please see “Legal Proceedings” included in Part I, Item 3 of this Annual Report on Form 10-K, for a description of this litigation.

Furthermore, in order to comply with the United States International Trade Commission (“USITC”) exclusion and cease and desist orders previously issued in relation to the Cisco legal matter, we made certain design changes to our products for sale in the United States. See Note 7. Commitments and Contingencies of the Notes to Consolidated Financial Statements included in Part II, Item 8, of this Annual Report on Form 10-K for details. Following the expiration and invalidation of related patent claims, effective July 1, 2018, certain features previously covered by the orders could be re-incorporated into our products. We are working with customers to complete any remaining re-qualification procedures related to the reintroduction of these features, the timing of which could result in an impact to our revenue and our deferred revenue balances.

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

Employees

As of December 31, 2018 , we employed approximately 2,300 full-time employees. None of our employees are represented by unions. We consider our relationship with our employees to be good and have not experienced significant interruptions of operations due to labor disagreements.

Corporate Information

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

Available Information

Our website is located at www.arista.com and our investor relations website is located at investors.arista.com. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), are available free of charge on the Investors portion of our web site as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC).

Webcasts of our earnings calls and certain events we participate in or host with members of the investment community are on our investor relations website. Additionally, we announce investor information, including news and commentary about our business and financial performance, SEC filings, notices of investor events, and our press and earnings releases, on our investor relations website. Investors and others can receive notifications of new information posted on our investor relations website in real time by signing up for email alerts and RSS feeds. Further corporate governance information, including our corporate governance guidelines, board committee charters, and code of conduct, is also available on our investor relations website under the heading “Governance.” The contents of our websites, or information that can be accessed through our websites, are not incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

Item 1A. Risk Factors

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

Risks Related to Our Business and Our Industry

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

We have experienced rapid growth and increased demand for our products over the last several years, which has placed a strain on our management, administrative, operational and financial infrastructure. Our employee headcount and number of end customers have increased, and we expect both to continue to grow over the next year. For example, between December 31, 2015 and December 31, 2018 , our headcount grew from approximately 1,200 employees to approximately 2,300 employees, and our cumulative number of end customers grew from approximately 3,700 to over 5,500 . As we have grown, we have had to manage an increasingly large and more complex array of internal systems and processes to scale with all aspects of our business, including our hardware and software development, contract manufacturing, purchasing, logistics, fulfillment and maintenance and support. Our success will depend in part upon our ability to manage our growth effectively. To do so, we must continue to increase the productivity of our existing employees and continue to hire, train and manage new employees as needed. To manage domestic and international growth of our operations and personnel, we will need to continue to improve our operational, financial and management controls and our reporting processes and procedures and implement more extensive and integrated financial and business information systems. We may not be able to successfully implement these or other improvements to our systems and processes in an efficient or timely manner, and we may discover deficiencies in their capabilities or effectiveness. We may experience difficulties in managing improvements to our systems and processes or in connection with third-party technology. In addition, our systems and processes may not prevent or detect all errors, omissions or fraud. Our failure to improve our systems and processes, or their failure to operate effectively and in the intended manner, may result in disruption of our current operations and end-customer relationships, our inability to manage the growth of our business and our inability to accurately forecast our revenue, expenses and earnings and prevent certain losses.

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

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

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

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

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

We pursue new product offerings and technology initiatives from time to time, and if we fail to successfully carry out these initiatives, our business, financial condition, or results of operations could be adversely impacted.

As part of the evolution of our business, we have made substantial investments to develop new products and enhancements to existing products through our acquisitions and research and development efforts. If we are unable to anticipate technological changes in our industry by introducing new or enhanced products in a timely and cost-effective manner, or if we fail to introduce products that meet market demand, we may lose our competitive position, our products may become obsolete, and our business, financial condition or results of operations could be adversely affected.

Additionally, from time to time, we invest in expansion into adjacent markets, including the campus switching and WiFi networking markets. Although we believe these solutions are complementary to our current offerings, we have less experience and a more limited operating history in these markets, and our efforts in this area may not be successful. Expanding our services in existing and new markets and increasing the depth and breadth of our presence imposes significant burdens on our marketing, compliance, and other administrative and managerial resources. Our plan to expand and deepen our market share in our existing markets and possibly expand into additional markets is subject to a variety of risks and challenges. Our success in these new markets depends on a variety of factors, including the following:

- Our ability to develop new products and services that address the customer requirements for these markets;

- Our ability to attract a customer base in markets in which we have less experience;
- Our successful development of new sales and marketing strategies to meet customer requirements;
- Our ability to compete with new and existing competitors in these adjacent markets, many of which may have more financial resources, market experience, brand recognition, relevant intellectual property rights, or established customer relationships than we currently do;
- Our ability to skillfully balance our investment in adjacent markets with investment in our existing products and services;

Additionally, future market share gains may take longer than planned and cause us to incur significant costs. Difficulties in any of our new product development efforts or our efforts to enter adjacent markets could adversely affect our operating results and financial condition.

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

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

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

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

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

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

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

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

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

Our revenue growth rate in recent periods may not be indicative of our future performance. We experienced annual revenue growth rates of 30.7% , 45.8% , and 34.8% in 2018, 2017, and 2016, respectively. In the future, we expect our revenue growth rates to decline as the size of our customer base increases, we achieve higher market penetration in our current target market and we continue to enter and expand into new target markets. Other factors may also contribute to declines in our growth rates, including changes in demand for our products and services, increased competition, our ability to successfully manage our expansion or continue to capitalize on growth opportunities, the maturation of our business and general economic and international trade conditions. You should not rely on our revenue for any prior quarterly or annual period as an indication of our future revenue or revenue growth. If we are unable to maintain consistent revenue or revenue growth, our business, financial condition, results of operations and prospects could be materially adversely affected and our stock price could be volatile.

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

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

- our ability to increase sales to existing customers and attract new end customers, including large end customers;
- the budgeting cycles, purchasing practices and buying patterns of end customers, including large end customers who may receive lower pricing terms due to volume discounts and who may or may not make large bulk purchases in certain quarters;
- changes in end-customer, geographic or product mix;
- changes in growth rates of the networking market;
- the cost and potential outcomes of existing and future litigation, including the OptumSoft litigation matters;
- increased expenses resulting from the tariffs imposed by the U.S. on goods from other countries and tariffs imposed by other countries on U.S. goods, including the tariffs recently implemented and additional tariffs that have been proposed by the U.S. government on various imports from China;
- changes in the sales and implementation cycles for our products including the qualification and testing of our products by our customers and any delays or cancellations of purchases caused by such activities;
- the rate of expansion and productivity of our sales force including any expansion into new markets;
- changes in our pricing policies, whether initiated by us or as a result of competition;
- our inability to fulfill our end customers' orders due to the availability of inventory, supply chain delays, access to key commodities or technologies or events that impact our manufacturers or their suppliers;
- the amount and timing of operating costs and capital expenditures related to the operation and expansion of our business;
- changes in end-customer, distributor or reseller requirements or market needs;

- difficulty forecasting, budgeting and planning due to limited visibility beyond the first two quarters into the spending plans of current or prospective customers;
- deferral, reduction or cancellation of orders from end customers, including in anticipation of new products or product enhancements announced by us or our competitors, or warranty returns;
- the inclusion of any acceptance provisions in our customer contracts or any delays in acceptance of those products;
- the actual or rumored timing and success of new product and service introductions by us or our competitors or any other change in the competitive landscape of our industry, including consolidation among our competitors or end customers;
- our ability to successfully expand our business domestically and internationally;
- our ability to increase the size of our sales or distribution channel, any disruption in our sales or distribution channels, and/or termination of our relationship with important channel partners;
- decisions by potential end customers to purchase our networking solutions from larger, more established vendors, white box vendors or their primary network equipment vendors;
- price competition;
- insolvency or credit difficulties confronting our end customers, which could adversely affect their ability to purchase or pay for our products and services, or confronting our key suppliers, including our sole source suppliers, which could disrupt our supply chain;
- seasonality or cyclical fluctuations in our markets;
- future accounting pronouncements or changes in our accounting policies;
- stock-based compensation expense;
- our overall effective tax rate, including impacts caused by any reorganization in our corporate structure, any changes in our valuation allowance for domestic deferred tax assets and any new legislation or regulatory developments, including the Tax Cuts and Jobs Act of 2017 (the “Tax Act”);
- increases or decreases in our expenses caused by fluctuations in foreign currency exchange rates, as an increasing portion of our expenses are incurred and paid in currencies other than the U.S. dollar;
- general economic conditions, both domestically and in foreign markets; and
- other risk factors described in this Annual Report on Form 10-K.

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

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

To increase our revenue, we must add new end customers and large end customers and sell additional products to existing end customers. For example, one of our sales strategies is to target specific projects at our current end customers because they are familiar with the operational and economic benefits of our solutions, thereby reducing the sales cycle into these customers. We believe this opportunity with current end customers to be significant given their existing infrastructure and expected future spend. Another one of our sales strategies is focused on increasing penetration in the enterprise and campus markets. Enterprise and campus end customers typically start with small purchases, and there is often a long testing period. If we fail to attract new large end customers, including enterprise and campus end customers, or fail to reduce the sales cycle and sell additional products to our existing end customers, our business, financial condition, results of operations and prospects will be harmed.

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

Historically, large purchases by a relatively limited number of end customers have accounted for a significant portion of our revenue, particularly in the cloud networking market. Many of these end customers make large purchases to complete or upgrade specific data center installations and are typically made on a purchase-order basis rather than pursuant to long-term contracts. For example, revenue from sales to Microsoft, through our channel partner, World Wide Technology, Inc., accounted for 27% , 16% and 16% of our revenue for the years ended December 31, 2018, 2017 and 2016, respectively. Our sales to Microsoft as an end-user in the fiscal year ended December 31, 2018 benefited from certain factors that may not repeat in fiscal 2019 or future years and the percentage of our revenue from Microsoft in fiscal 2019 may decline.

As a consequence of the concentrated nature of our customer base and their purchasing behavior, our quarterly revenue and results of operations may fluctuate from quarter to quarter and are difficult to estimate. Changes in the business requirements or focus, vendor selection, project prioritization, financial prospects, capital resources and expenditures or purchasing behavior of our key end customers could significantly decrease our sales to such end customers or could lead to delays, reductions or cancellations of planned purchases of our products or services. Moreover, because our sales will be based primarily on purchase orders, our customers may cancel, delay, reduce or otherwise modify their purchase commitments with little or no notice to us. This limited visibility regarding our end customers' product needs, the timing and quantity of which could vary significantly, requires us to rely on estimated demand forecasts to determine how much material to purchase and product to manufacture. Our failure to accurately forecast demand can lead to product shortages that can impede production by our customers and harm our customer relationships. And, in the event of a cancellation or reduction of an order, we may not have enough time to reduce operating expenses to mitigate the effect of the lost revenue on our business, which could materially affect our operating results.

We may be unable to sustain or increase our revenue from our large end customers, grow revenues with new or other existing end customers at the rate we anticipate or at all, or offset the discontinuation of concentrated purchases by our larger end customers with purchases by new or existing end customers. These customers can drive the growth in revenue for particular products and services based on factors such as: trends in the networking market, business mergers and acquisitions, trends in economic conditions and the overall fast growth of a customer's underlying business. These customers could choose to divert all or a portion of their business with us to one of our competitors, demand pricing concessions for our services, or require us to provide enhanced services that increase our costs. If these factors drove some of our large customers to cancel all or a portion of their business relationships with us, the growth in our business and the ability to meet our current and long-term financial forecasts may be materially impacted. We expect that such concentrated purchases will continue to contribute materially to our revenue for the foreseeable future and that our results of operations may fluctuate materially as a result of such larger end customers' buying patterns. In addition, we may see consolidation of our customer base, such as among internet companies and cloud service providers, which could result in loss of end customers. The loss of such end customers, or a significant delay or reduction in their purchases, including reductions or delays due to customer departures from recent buying patterns, or an unfavorable change in competitive conditions could materially harm our business, financial condition, results of operations and prospects.

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

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

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

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

The data center and campus networking markets have been historically dominated by Cisco Systems (“Cisco”), with competition also coming from other large network equipment and system vendors, including Extreme Networks, Dell/EMC, Hewlett Packard Enterprise, Juniper Networks and Mist Systems. Most of our competitors and some strategic alliance partners have made acquisitions and/or have entered into or extended partnerships or other strategic relationships to offer more comprehensive product lines, including cloud networking solutions. For example, in the last few years alone, Broadcom acquired Brocade Communications Systems, Extreme Networks purchased certain data center networking assets from Broadcom/Brocade and Avaya, Dell acquired Force10 and EMC, IBM acquired Blade Network Technology, Hewlett Packard Enterprise acquired Aruba Networks, Juniper Networks acquired Contrail Systems, and Cisco acquired Insieme Networks . We also face competition from other companies and new market entrants, including “white box” switch vendors as well as current technology partners, suppliers and end customers or other cloud service providers who mayacquire or develop network switches and cloud service solutions for internal use and/or to broaden their portfolio of products to market and sell to customers. Furthermore, our relationships with our strategic alliance partners may shift as industry dynamics changes. If strategic alliance partners acquire or develop competitive products or services, our relationship with those partners may be adversely impacted, which could lead to more variability to our results of operations and impact the pricing of our solutions.

Many of our existing and potential competitors enjoy substantial competitive advantages, such as:

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

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

We also expect increased competition if our market continues to expand. As we continue to expand globally, we may see new competition in different geographic regions. In particular, we may experience price-focused competition from competitors in Asia, especially from China. As we expand into new markets, we will face competition not only from our existing competitors but also from other competitors, including existing companies with strong technological, marketing, and sales positions in those markets, as well as those with greater resources, including technical and engineering resources, than we do. Conditions in our market could change rapidly and significantly as a result of technological advancements or other factors. Current or potential competitors may be acquired by third parties that have greater resources available than we do. Our current or potential competitors might take advantage of the greater resources of the larger organization resulting from these acquisitions to compete more vigorously or broadly with us. In addition, continued industry consolidation might adversely affect end customers' perceptions of the viability of smaller and even medium-sized networking companies and, consequently, end customers' willingness to purchase from those companies. Further, certain large end customers may develop network switches and cloud service solutions for internal use and/or to broaden their portfolio of products, which could allow these end customers to become new competitors in the market.

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

Most of our competitors and some strategic alliance partners have made acquisitions and/or have entered into or extended partnerships or other strategic relationships to offer more comprehensive product lines, including cloud networking solutions. For example, in the last few years alone, Broadcom acquired Brocade Communications Systems, Extreme Networks purchased certain data center networking assets from Broadcom/Brocade and Avaya, Dell acquired Force10 and EMC, IBM acquired Blade Network Technology, Hewlett Packard Enterprise acquired Aruba Networks, Juniper Networks acquired Contrail Systems, and Cisco acquired Insieme Networks .

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

We expect this trend to continue as companies attempt to strengthen their market positions in an evolving industry and as companies are acquired or are unable to continue operations. Our relationship with our strategic alliance partners may shift as industry dynamics change. For example, companies that are strategic alliance partners in some areas of our business may acquire or form alliances with our competitors and could combine competitor product portfolios into unified offerings optimized for their platforms. Such changes could result in a reduction of business with us, a change in the terms upon which they offer us their products and services or even a termination of our strategic partnerships entirely. Industry consolidation may result in stronger competitors that are better able to compete with us, including any competitors that seek to become sole source vendors for end customers. This could lead to more variability in our results of operations and could have a material adverse effect on our business, the pricing of our solutions, financial condition, results of operations and prospects.

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

Managing the supply of our products and product components is complex, and our inventory management systems and related supply-chain visibility tools may not enable us to forecast accurately and manage effectively the supply of our products and product components.

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

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

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

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

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

Our reliance on component suppliers also yields the potential for their infringement or misappropriation of third party intellectual property rights with respect to components which may be incorporated into our products. We may not be indemnified by such component suppliers for such infringement or misappropriation claims. Any litigation for which we do not receive indemnification could require us to incur significant legal expenses in defending against such claims or require us to pay substantial royalty payments or settlement amounts that would not be reimbursed by our component suppliers.

Our product development efforts are also dependent upon our continued collaboration with our key merchant silicon vendors such as Broadcom and Intel. As we develop our product roadmap, we select specific merchant silicon from these vendors for each new product, and it is critical that we work in tandem with these vendors to ensure that their silicon includes improved features, that our products take advantage of such improved features, and that such vendors are able to supply us with sufficient quantities on commercially reasonable term to meet customer demand. Our relationship with these merchant silicon vendors enables us to focus our research and development resources on our software core competencies and to leverage the investments made by merchant silicon vendors to achieve cost-effective solutions. However, merchant silicon vendors may not continue to collaborate with us or may become competitive with us by selling merchant silicon for "white boxes" or other products to our customers.

If our key merchant silicon vendors no longer collaborate in such a fashion, if they do not continue to innovate, if there are delays in the release of their products or supply shortages or if such merchant silicon is not offered to us on commercially reasonable terms, our products may become less competitive, own product launches could be delayed or we may be required to redesign our products to incorporate alternative merchant silicon, which could result in lost sales, reduce gross margins, damage to our customer relationships or otherwise have a material effect on revenue and business, financial condition, results of operations and prospects.

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

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

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

Our contract manufacturers typically fulfill our supply requirements on the basis of individual orders. We do not have long-term contracts with our third-party manufacturers that guarantee capacity, the continuation of particular pricing terms or the extension of credit limits. Accordingly, they are not obligated to continue to fulfill our supply requirements, which could result in supply shortages, and the prices we are charged for manufacturing services could be increased on short notice. For example, a competitor could place large orders with the third-party manufacturer, thereby utilizing all or substantially all of such third-party manufacturer's capacity and leaving the manufacturer little or no capacity to fulfill our individual orders without price increases or delays, or at all. Our contract with one of our contract manufacturers permits it to terminate the agreement for convenience, subject to prior notice requirements. We may not be able to develop alternate or second contract manufacturers in a timely manner.

If we add or change contract manufacturers, or change any manufacturing plant locations within a contract manufacturer network, we would add additional complexity and risk to our supply chain management and may increase our working capital requirements. Ensuring a new contract manufacturer or new plant location is qualified to manufacture our products to our standards and industry requirements could take significant effort and be time consuming and expensive. Any addition or change in manufacturers may be extremely costly, time consuming and we may not be able to do so successfully.

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

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

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

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

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

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

We may be subject to supply chain delays, or end-customer buying patterns in which a substantial portion of sales orders and shipments may occur in the second half of each quarter. This places significant pressure on order review and processing, supply chain management, manufacturing, inventory and quality control management, shipping and trade compliance to ensure that we have properly forecasted supply purchasing, manufacturing capacity, inventory and quality compliance and logistics. A significant interruption in these critical functions, it could result in delayed order fulfillment, adversely affect our business, financial condition, results of operations and prospects and result in a decline in the market price of our common stock.

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

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

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

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

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

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

The parties tried Phase I of the case, relating to contract interpretation and application of the contract to certain claimed source code, in September 2015. On March 23, 2016, the Court issued a Final Statement of Decision Following Phase I Trial, in which it agreed with and adopted our interpretation of the 2004 agreement and held that we, and not OptumSoft, own all the software at issue in Phase I. The remaining issues that were not addressed in the Phase I trial are set to be tried in Phase II, including the application of the Court's interpretation of the 2004 agreement to any other source code that OptumSoft claims to own following a review and the trade secret misappropriation and confidentiality claims. The Phase II Trial is set for September 23, 2019 by the judge.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- greater difficulty in enforcing contracts and accounts receivable collection and longer collection periods;
- increased expenses incurred in establishing and maintaining our international operations;
- fluctuations in exchange rates between the U.S. dollar and foreign currencies where we do business;
- greater difficulty and costs in recruiting local experienced personnel;
- wage inflation in certain growing economies;
- general economic and political conditions in these foreign markets;
- economic uncertainty around the world as a result of sovereign debt issues;
- communication and integration problems resulting from cultural and geographic dispersion;
- limitations on our ability to access cash resources in our international operations;
- ability to establish necessary business relationships and to comply with local business requirements;
- risks associated with foreign legal requirements, including the importation, certification and localization of our products required in foreign countries;
- risks associated with U.S. government trade restrictions, including those which may impose restrictions, including prohibitions, on the exportation, reexportation, sale, shipment or other transfer of programming, technology, components, and/or services to foreign persons;

- greater risk of unexpected changes in regulatory practices, tariffs and tax laws and treaties, including the Tax Act;
- greater risk of unexpected changes in tariffs imposed by the U.S. on goods from other countries and tariffs imposed by other countries on U.S. goods, including the tariffs recently implemented and additional tariffs that have been proposed by the U.S. government on various imports from China, Canada, Mexico and the EU, and by the governments of these jurisdictions on certain U.S. goods, and any other possible tariffs that may be imposed on services such as ours, the scope and duration of which, if implemented, remain uncertain;
- deterioration of political relations between the U.S. and Canada, the U.K., the EU and China, which could have a material adverse effect on our sales and operations in these countries;
- greater risk of changes in diplomatic and trade relationships, including new tariffs, trade protection measures, import or export licensing requirements, trade embargoes and other trade barriers;
- the uncertainty of protection for intellectual property rights in some countries;
- greater risk of a failure of foreign employees to comply with both U.S. and foreign laws, including antitrust regulations, the FCPA and any trade regulations ensuring fair trade practices; and
- heightened risk of unfair or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements that may impact financial results and result in restatements of, or irregularities in, financial statements.

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

Moreover, our business is also impacted by the negotiation and implementation of free trade agreements between the United States and other countries. Such agreements can reduce barriers to international trade and thus the cost of conducting business overseas. For instance, the United States recently reached a new trilateral trade agreement with the governments of Canada and Mexico to replace the North American Free Trade Agreement ("NAFTA"). If the United States withdraws from NAFTA and the three countries fail to approve the new agreements, known as the United States-Mexico-Canada Agreement, our cost of doing business within the three countries could increase.

The United Kingdom's vote to leave the European Union will have uncertain effects and could adversely affect us.

On June 23, 2016, the electorate in the United Kingdom, or UK, voted in favor of leaving the European Union, or EU, (commonly referred to as the "Brexit"). Thereafter, on March 29, 2017, the country formally notified the EU of its intention to withdraw pursuant to Article 50 of the Lisbon Treaty, triggering the two-year negotiation period for exiting the EU. The withdrawal of the UK from the EU is scheduled to take effect on March 29, 2019 either on the effective date of the withdrawal agreement or, in the absence of agreement, two years after the UK provides a notice of withdrawal pursuant to the EU Treaty and transitional provisions may or may not be put in place to ease the process.

The effects of Brexit will depend on agreements the UK makes to retain access to EU markets either during a transitional period or more permanently. Brexit creates an uncertain political and economic environment in the UK and potentially across other EU member states for the foreseeable future, including during any period while the terms of Brexit are being negotiated and such uncertainties could impair or limit our ability to transact business in the member EU states.

Further, Brexit could adversely affect European and worldwide economic or market conditions and could contribute to instability in global financial markets, and the value of the Pound Sterling currency or other currencies, including the Euro. We are exposed to the economic, market and fiscal conditions in the UK and the EU and to changes in any of these conditions. Depending on the terms reached regarding Brexit, it is possible that there may be adverse practical and/or operational implications on our business.

A significant amount of the regulatory regime that applies to us in the UK is derived from EU directives and regulations. For so long as the UK remains a member of the EU, those sources of legislation will (unless otherwise repealed or amended) remain in effect. However, Brexit could change the legal and regulatory framework within the UK where we operate and is likely to lead to legal uncertainty and potentially divergent national laws and regulations as the UK determines which EU laws to replace or replicate. Consequently, no assurance can be given as to the impact of Brexit and, in particular, no assurance can be given that our operating results, financial condition and prospects would not be adversely impacted by the result.

Enhanced United States tax, tariff, import/export restrictions, Chinese regulations or other trade barriers may have a negative effect on global economic conditions, financial markets and our business.

There is currently significant uncertainty about the future relationship between the United States and various other countries, most significantly China, with respect trade policies, treaties, tariffs and taxes, including trade policies and tariffs regarding China. The current U.S. Administration has called for substantial changes to U.S. foreign trade policy with respect to China and other countries, including the possibility of imposing greater restrictions on international trade and significant increases in tariffs on goods imported into the United States. In 2018, the Office of the U.S. Trade Representative (the “USTR”) enacted tariffs on imports into the U.S. from China, including communications equipment products and components manufactured and imported from China. The tariff became effective on September 24, 2018, with an initial rate of 10% and was scheduled to increase from 10% to 25% on January 1, 2019; however, that increase has been delayed for 90 days pending trade negotiations between the U.S. and China. In addition, the tariffs may be increased in the future. It is expected that these tariffs will cause our costs to increase, which could narrow the profits we earn from sales of products requiring such materials. Furthermore, if tariffs, trade restrictions, or trade barriers are placed on products such as ours by foreign governments, especially China, the prices for our products may increase, which may result in the loss of customers and our business, financial condition and results of operations may be harmed. We believe we can adjust our supply chain and manufacturing practices to minimize the impact of the tariffs, but our efforts may not be successful, there can be no assurance that we will not experience a disruption in our business related to these or other changes in trade practices and the process of changing suppliers in order to mitigate any such tariff costs could be complicated, time-consuming, and costly.

Furthermore, the U.S. tariffs may cause customers to delay orders as they evaluate where to take delivery of our products in connection with their efforts to mitigate their own tariff exposure. Such delays create forecasting difficulties for us and increase the risk that orders might be canceled or might never be placed. Current or future tariffs imposed by the U.S. may also negatively impact our customers' sales, thereby causing an indirect negative impact on our own sales. Any reduction in our customers' sales, and/or any apprehension among distributors and customers of a possible reduction in such sales, would likely cause an indirect negative impact on our own sales. Even in the absence of further tariffs, the related uncertainty and the market's fear of an escalating trade war might cause our distributors and customers to place fewer orders for our products, which could have a material adverse effect on our business, liquidity, financial condition, and/or results of operations.

Additionally, the current U.S. Administration continues to signal that it may alter trade agreements and terms between China and the United States, including limiting trade with China, and may impose additional tariffs on imports from China. Therefore, it is possible further tariffs may be imposed that could cover imports of communications equipment products and components used in our products, or our business may be adversely impacted by retaliatory trade measures taken by China or other countries, including restricted access to suppliers, communications equipment products and components used in our products, causing us to raise prices or make changes to our products, which could materially harm our business, financial condition and results of operations. The current administration, along with Congress, has created significant uncertainty about the future relationship between the United States and other countries with respect to the trade policies, treaties, taxes, government regulations and tariffs that would be applicable. It is unclear what changes might be considered or implemented and what response to any such changes may be by the governments of other countries. These changes have created significant uncertainty about the future relationship between the United States and China, as well as other countries, including with respect to the trade policies, treaties, government regulations and tariffs that could apply to trade between the United States and other nations. These developments, or the perception that any of them could occur, may have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global trade and, in particular, trade between these nations and the United States. Any of these factors could depress economic activity and restrict our access to suppliers or customers and have a material adverse effect on our business, financial condition and results of operations and affect our strategy in China and elsewhere around the world. Given the relatively fluid regulatory environment in China and the United States and uncertainty how the U.S. Administration or foreign governments will act with respect to tariffs, international trade agreements and policies, a trade war, further governmental action related to tariffs or international trade policies, or additional tax or other regulatory changes in the future could directly and adversely impact our financial results and results of operations.

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

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

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

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

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

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

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

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

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

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

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

For more information regarding the litigation in which we are currently involved, see the "Legal Proceedings" subheading in in Note 7. Commitments and Contingencies of the Notes to Consolidated Financial Statements included in Part II, Item 8, of this Annual Report on Form 10-K incorporated herein by reference.

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

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

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

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

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

An adverse outcome of a dispute (including those lawsuits described under the “Legal Proceedings” subheading in Note 7 . *Commitments and Contingencies* and the settlement with Cisco described in Note 14 . *Legal Settlement* of Notes to Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K) may require us to pay substantial damages or penalties including treble damages if we are found to have willfully infringed a third party’s patents; cease making, licensing, using or importing into the U.S. products or services that are alleged to infringe or misappropriate the intellectual property of others; expend additional development resources to attempt to redesign our products or services or otherwise to develop non-infringing technology, which may not be successful; enter into potentially unfavorable royalty or license agreements in order to obtain the right to use necessary technologies or intellectual property rights; and indemnify our partners and other third parties. Any damages, penalties or royalty obligations we may become subject to as a result of an adverse outcome, and any third-party indemnity we may need to provide, could harm our business, financial condition, results of operations and prospects. Royalty or licensing agreements, if required or desirable, may be unavailable on terms acceptable to us, or at all, and may require significant royalty payments and other expenditures. Further, there is little or no information publicly available concerning market or fair values for license fees, which can lead to overpayment of license or settlement fees. In addition, some licenses may be non-exclusive, and therefore our competitors may have access to the same technology licensed to us. Suppliers subject to third-party intellectual property claims also may choose or be forced to discontinue or alter their arrangements with us, with little or no advance notice to us. Any of these events could seriously harm our business, financial condition, results of operations and prospects.

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

Commission ("ITC"), we were subjected to remedial orders that prohibited us from importing and selling after importation any products the ITC found to infringe Cisco's patents. As a result, we were required to redesign certain aspects of our products and obtain Customs approval of those redesigns before we could continue to import those products into the United States.

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

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

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

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

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

The process of obtaining patent protection is expensive and time-consuming, and we may not be able to prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. We may choose not to seek patent protection for certain innovations and may choose not to pursue patent protection in certain jurisdictions. Further, we do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims. To the extent that additional patents are issued from our patent applications, which is not certain, they may be contested, circumvented or invalidated in the future. Moreover, the rights granted under any issued patents may not provide us with proprietary protection or competitive advantages, and, as with any technology, competitors may be able to develop similar or superior technologies to our own now or in the future. In addition, we rely on confidentiality or license agreements with third parties in connection with their use of our products and technology. There is no guarantee that such parties will abide by the terms of such agreements or that we will be able to adequately enforce our rights, in part because we rely on "shrink-wrap" licenses in some instances.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- changes in end-customer, geographic or product mix, including mix of configurations within each product group;
- increased price competition and changes in the actions of our competitors or their pricing strategies;
- introduction of new products, including products with price-performance advantages and new business models including the sale and delivery of more software and subscription solutions;
- increases in material or component costs including such increases caused by any restriction from sourcing components and manufacturing products internationally;
- our ability to reduce production costs;
- entry into new markets or growth in lower margin markets, including markets with different pricing and cost structures, through acquisitions or internal development;
- entry in markets with different pricing and cost structures;
- pricing discounts;
- increases in material costs in the event we are restricted from sourcing components and manufacturing products internationally.
- costs associated with defending intellectual property infringement and other claims and the potential outcomes of such disputes, such as those claims discussed in “Legal Proceedings,” including the OptumSoft litigation matters;
- excess inventory and inventory holding charges;

- obsolescence charges;
- changes in shipment volume;
- the timing of revenue recognition and revenue deferrals;
- increased cost, loss of cost savings or dilution of savings due to changes in component pricing or charges incurred due to inventory holding periods if parts ordering does not correctly anticipate product demand or if the financial health of either contract manufacturers or suppliers deteriorates;
- increased costs arising from the tariffs imposed by the U.S. on goods from other countries and tariffs imposed by other countries on U.S. goods, including the tariffs recently implemented and additional tariffs that have been proposed by the U.S. government on various imports from China, Canada, Mexico and the E.U. and by the governments of these jurisdictions on certain U.S. goods;
- lower than expected benefits from value engineering;
- changes in distribution channels;
- increased warranty costs; and
- our ability to execute our strategy and operating plans.

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

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

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

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

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

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

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

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

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

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

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

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

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

We anticipate increasing our sales efforts to U.S. and foreign, federal, state and local governmental end customers in the future. Sales to government entities are subject to a number of risks. Selling to government entities can be highly competitive, expensive and time consuming, often requiring significant upfront time and expense without any assurance that these efforts will generate a sale. The substantial majority of our sales to date to government entities have been made indirectly through our channel partners. Government certification requirements for products like ours may change and, in doing so, restrict our ability to sell into the government sector until we have attained revised certifications. Government demand and payment for our products and services may be affected by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our products and services. Government entities may have statutory, contractual or other legal rights to terminate contracts with our distributors and resellers for convenience or due to a default, and any such termination may adversely impact our future business, financial condition, results of operations and prospects. Selling to government entities may also require us to comply with various regulations that are not applicable to sales to non-government entities, including regulations that may relate to pricing, classified material and other matters. Complying with such regulations may also require us to put in place controls and procedures to monitor compliance with the applicable regulations that may be costly or not possible. We are not currently certified to perform work under classified contracts with government entities. Failure to comply with any such regulations could adversely affect our business, prospects, results of operations and financial condition. Governments routinely investigate and audit government contractors' administrative processes, and any unfavorable audit could result in the government ceasing to buy our products and services, a reduction of revenue, fines or civil or criminal liability if the audit uncovers improper or illegal activities, any of which could materially adversely affect our business, financial condition, results of operations and prospects. The U.S. government may require certain products that it purchases to be manufactured in the U.S. and other relatively high-cost manufacturing locations, and we may not manufacture all products in locations that meet these requirements. Any of these and other circumstances could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

As part of our business strategy, we may make investments in complementary companies, products or technologies which could involve licenses, additional channels of distribution, discount pricing or investments in or acquisitions of other companies. For example, we completed the acquisition of Mojo Networks, Inc. ("Mojo") in August 2018 and the acquisition of Metamako Holding PTY LTD. ("Metamako") in September 2018. However, we do not have significant experience in making investments in other companies nor had we made any acquisitions prior to those of Mojo and Metamako, and as a result, our ability as an organization to evaluate and/or complete investments or acquire and integrate other companies, products or technologies in a successful manner is unproven. We may not be able to find suitable investment or acquisition candidates, and we may not be able to complete such investments or acquisitions on favorable terms, if at all. If we do complete investments or acquisitions, we may not ultimately strengthen our competitive position or achieve our goals, and any investments or acquisitions we complete could be viewed negatively by our end customers, investors and securities analysts.

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

Furthermore, through acquisitions, we continue to expand into new markets and new market segments and we may experience challenges in entering into new market segments for which we have not previously manufactured and sold products, including facing exposure to new market risks, difficulty achieving expected business results due to a lack of experience in new markets, products or technologies or the initial dependence on unfamiliar distribution partners or vendors.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- sensitive data regarding our business, including intellectual property and other proprietary data, could be stolen;
- our electronic communications systems, including email and other methods, could be disrupted, and our ability to conduct our business operations could be seriously damaged until such systems can be restored;
- our ability to process customer orders and electronically deliver products and services could be degraded, and our distribution channels could be disrupted, resulting in delays in revenue recognition;

- defects and security vulnerabilities could be introduced into our software, thereby damaging the reputation and perceived reliability and security of our products and potentially making the data systems of our customers vulnerable to further data loss and cyber incidents; and
- personally identifiable data of our customers, employees and business partners could be compromised.

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

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

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

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

Developing our products is expensive, and the investment in product development may involve a long payback cycle. For the years ended December 31, 2018 , 2017 and 2016 , our research and development expenses were $442.5 million , or approximately 20.6% of our revenue, $349.6 million , or approximately 21.2% of our revenue, and $273.6 million , or approximately 24.2% of our revenue, respectively. We expect to continue to invest heavily in software development in order to expand the capabilities of our cloud networking platform, introduce new products and features and build upon our technology leadership. We believe one of our greatest strengths lies in the speed of our product development efforts. By investing in research and development, we believe we will be well positioned to continue our rapid growth and take advantage of our large market opportunity. We expect that our results of operations will be impacted by the timing and size of these investments. These investments may take several years to generate positive returns, if ever.

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

Our income taxes are subject to volatility and could be adversely affected by several factors, many of which are outside of our control, including earnings that are lower than anticipated in countries that have lower tax rates and higher than anticipated in countries that have higher tax rates; our ability to generate and use tax attributes; changes in the valuation of our deferred tax assets and liabilities; expiration of or lapses in the federal research and development (“R&D”) tax credit laws; transfer pricing adjustments, including the effect of acquisitions on our inter-company R&D cost sharing arrangement and legal structure; tax effects of nondeductible compensation, including certain stock-based compensation; tax costs related to inter-company realignments; changes in accounting principles; adverse tax consequences, including imposition of withholding or other taxes on payments by subsidiaries or customers; a change in our decision to indefinitely reinvest foreign earnings or changes in tax laws and regulations, including the Tax Act enacted on December 22, 2017 and the new U.S. changes to the taxation of earnings of our foreign subsidiaries.

Significant judgment is required to evaluate our tax positions and determine our income taxes. The accounting guidance for uncertainty in income taxes applies to all income tax positions, including the potential recovery of previously paid taxes, which if settled unfavorably could adversely affect income taxes or additional paid-in capital. In addition, tax laws are dynamic and subject to change as evidenced by the Tax Act. As new laws are passed and new interpretations of the law are issued or applied, our income taxes may be affected. Recent changes to U.S. tax laws, including taxation of earnings outside of the U.S., the introduction of a base erosion anti-abuse tax and the disallowance of tax deductions for certain book expense, as well as changes to U.S. tax laws that may be enacted in the future, could impact the tax treatment of our earnings, as well as cash and cash equivalent balances we currently maintain. For example, the Ninth Circuit Court of Appeals, or the Court, is expected to issue an opinion in Altera Corp. v. Commissioner that addresses the treatment of stock-based compensation under a cost-sharing arrangement. We are monitoring this case and any impact the final opinion could have on our financial statements and effective tax rate. Furthermore, due to shifting economic and political conditions, tax policies or rates in various jurisdictions may be subject to significant change.

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

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

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

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

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

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

Our business is subject to regulation by various federal, state, local and foreign governmental agencies, including agencies responsible for monitoring and enforcing employment and labor laws, workplace safety, product safety, environmental laws, consumer protection laws, anti-bribery laws, import/export controls, federal securities laws and tax laws and regulations. In certain jurisdictions, these regulatory requirements may be more stringent than those in the United States. For example, the European Union, or EU, has now implemented General Data Protection Regulation ("GDPR"). The GDPR requires substantial changes to the handling and storage of data and administrative fines for violations, which can be up four percent of the previous year's annual revenue or €20 million, whichever is higher. From time to time, we may receive inquiries from such governmental agencies or we may make voluntary disclosures regarding our compliance with applicable governmental regulations or requirements relating to import/export controls, federal securities laws and tax laws and regulations which could lead to formal investigations. Noncompliance with applicable government regulations or requirements could subject us to sanctions, mandatory product recalls, enforcement actions, disgorgement of profits, fines, damages, civil and criminal penalties or injunctions. If any governmental sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation, our business, financial condition, results of operations and prospects could be materially adversely affected. In addition, responding to any action will likely result in a significant diversion of management's attention and resources and an increase in professional fees. Enforcement actions and sanctions could harm our business, financial condition, results of operations and prospects.

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

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

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

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

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

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

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

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

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

As a public company, we are subject to requirements under the Dodd-Frank Act that require us to perform diligence, and disclose and report whether or not our products contain "conflict minerals" mined from the Democratic Republic of Congo and adjoining countries and procedures regarding a manufacturer's efforts to prevent the sourcing of such "conflict minerals."

The implementation of these requirements could adversely affect the sourcing, availability and pricing of the materials used in the manufacture of components used in our products. In addition, we will incur additional costs to comply with these disclosure requirements, including costs related to conducting diligence procedures and, if applicable, potential changes to products, processes or sources of supply as a consequence of such verification activities. We may also face reputational harm if we determine that certain of our products contain minerals not determined to be conflict-free or if we are unable to alter our products, processes or sources of supply to avoid such materials.

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

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

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

- actual or anticipated announcements of new products, services or technologies, commercial relationships, acquisitions or other events by us or our competitors;
- forward-looking statements related to future revenue, gross margins and earnings per share;
- price and volume fluctuations in the overall stock market from time to time;
- changes in the growth rate of the networking market;
- litigation involving us, our industry, or both including events occurring in our litigation with OptumSoft;
- manufacturing, supply or distribution shortages or constraints, or challenges with adding or changing our manufacturing process or supply chain;
- significant volatility in the market price and trading volume of technology companies in general and of companies in the IT security industry in particular;
- fluctuations in the trading volume of our shares or the size of our public float;
- sales by our officers, directors or significant stockholders;
- actual or anticipated changes or fluctuations in our results of operations;
- adverse changes to our relationships with any of our channel partners;
- whether our results of operations or our financial outlook for future fiscal periods meet the expectations of securities analysts or investors;
- actual or anticipated changes in the expectations of investors or securities analysts;
- regulatory developments in the U.S., foreign countries or both;
- general economic conditions and trends;
- major catastrophic events;
- sales of large blocks of our common stock; or
- departures of key personnel.

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

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

Sales of a substantial number of shares of our common stock in the public market, or the perception that such sales could occur, could adversely affect the market price of our common stock and may make it more difficult for you to sell your common stock at a time and price that you deem appropriate and may dilute your voting power and your ownership interest in us.

Based on shares outstanding as of December 31, 2018 , holders of approximately 24.0% of our common stock have rights, subject to some conditions, to require us to file registration statements covering the sale of their shares or to include their shares in registration statements that we may file for ourselves or other stockholders. In addition, we have registered the offer and sale of all shares of common stock that we may issue under our equity compensation plans. If holders, by exercising their registration rights, sell large numbers of shares, it could adversely affect the market price of our common stock.

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

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

Our directors, executive officers and each of our stockholders who own greater than 10% of our outstanding common stock together with their affiliates, in the aggregate, beneficially own approximately 23.2% of the outstanding shares of our common stock, based on shares outstanding as of December 31, 2018 . As a result, these stockholders, if acting together, could exercise a significant level of influence over matters requiring approval by our stockholders, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. They may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. This concentration of ownership may also discourage a potential investor from acquiring our common stock due to the limited voting power of such stock or otherwise may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

We have not paid dividends in the past and do not intend to pay dividends for the foreseeable future.

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

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

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

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters is located in Santa Clara, California where we currently lease approximately 210,000 square feet of space under a lease agreement that expires in 2023. In addition, we lease office spaces for operations, sales personnel and research and development in locations throughout the U.S. and various international locations, including Ireland, Canada, India, Australia, the United Kingdom, Korea, Singapore, Japan, Malaysia, China, Mexico, France, Taiwan, and United Arab Emirates. We also lease data centers in the U.S., Ireland and the United Kingdom.

We believe that our current facilities are adequate to meet our current needs. We intend to expand our facilities or add new facilities as we add employees and enter new geographic markets, and we believe that suitable additional or alternative space will be available as needed to accommodate ongoing operations and any such growth. We expect to incur additional expenses in connection with such new or expanded facilities.

Item 3. Legal Proceedings

The information set forth under the “Legal Proceedings” in Note 7. Commitments and Contingencies of the Notes to Consolidated Financial Statements included in Part II, Item 8, of this Annual Report on Form 10-K is incorporated herein by reference.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

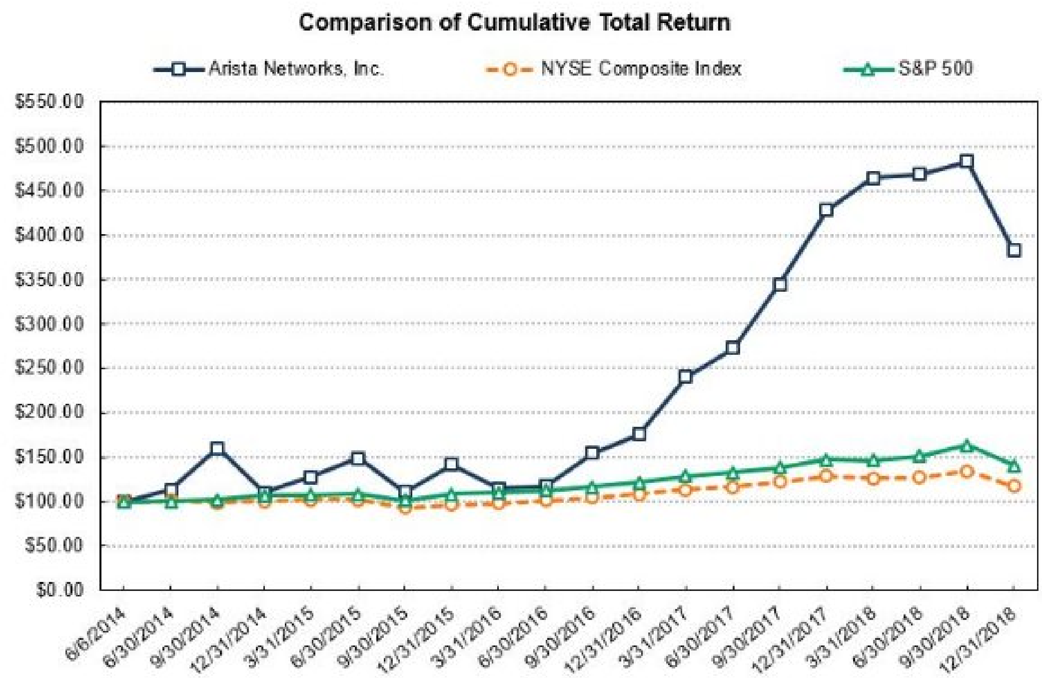
Market Information

Our common stock is listed on the NYSE under the symbol "ANET". As of February 8, 2019 , there were 78 holders of record of our common stock. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

Stock Performance Graph

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

The following graph compares the cumulative total return of our common stock with the total return for the NYSE Composite Index and the Standard & Poor's 500 Index (the "S&P 500") from June 6, 2014 (the date of our initial public offering) through December 31, 2018 . The graph assumes that $100 was invested on June 6, 2014's closing price in our common stock, the NYSE Composite Index and the S&P 500, and assumes reinvestment of any dividends. The stock price performance on the following graph is not necessarily indicative of future stock price performance.



Securities Authorized for Issuance Under Equity Compensation Plans

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

Recent Sales of Unregistered Equity Securities

On September 12, 2018, in connection with our acquisition of Metamako, we issued 79,821 shares of our common stock to the stockholders of Metamako as partial consideration for this acquisition. For further discussion of this acquisition, see Note 2. Business Combinations of the Notes to Consolidated Financial Statements included in Part II, Item 8, of this Annual Report on Form 10-K .

This stock issuance was not registered under the Securities Act of 1933, as amended (the "Securities Act"). Such shares were issued in a private placement exempt from the registration requirements of the Securities Act, in reliance upon Section 4(a)(2) of the Securities Act or Regulation D or Regulation S promulgated thereunder. The recipients of the securities in each of these transactions represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were placed upon the share certificates issued in these transactions.

Issuer Repurchases of Equity Securities

Under our equity incentive plans, certain participants may exercise options prior to vesting, subject to a right of a repurchase by us. During the fourth quarter of 2018, there were no repurchases of unvested shares of our common stock made pursuant to our equity incentive plans as a result of us exercising our rights nor pursuant to any publicly announced plan or program.

Item 6. Selected Consolidated Financial Data

The selected consolidated statements of operations data for fiscal 2018 , 2017 and 2016 and the consolidated balance sheet data as of December 31, 2018 and 2017 are derived from our audited financial statements appearing in Part II, Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K. The selected consolidated statements of operations data for fiscal 2015 and 2014 and the consolidated balance sheet data as of December 31, 2016 , 2015 and 2014 are derived from audited financial statements not included in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of the results to be expected in the future. The following selected consolidated financial data should be read in conjunction with Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," our consolidated financial statements, and the accompanying notes appearing in Part II, Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K to fully understand factors that may affect the comparability of the information presented below.

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands, except per share data)				
Consolidated Statements of Operations Data:					
Revenue	$ 2,151,369	$ 1,646,186	$ 1,129,167	$ 837,591	$ 584,106
Cost of revenue (1)	777,992	584,417	406,051	294,031	192,015
Total gross profit	1,373,377	1,061,769	723,116	543,560	392,091
Operating expenses (1) :					
Research and development	442,468	349,594	273,581	209,448	148,909
Sales and marketing	187,142	155,105	130,887	109,084	85,338
General and administrative	65,420	86,798	75,239	75,720	32,331
Legal settlement (2)	405,000	—	—	—	—
Total operating expenses	1,100,030	591,497	479,707	394,252	266,578
Income from operations	273,347	470,272	243,409	149,308	125,513
Other income (expense), net:					
Interest expense	(2,701)	(2,780)	(3,136)	(3,152)	(6,280)
Other income (expense), net	18,155	7,268	1,952	(147)	2,275
Total other income (expense), net	15,454	4,488	(1,184)	(3,299)	(4,005)
Income before income taxes	288,801	474,760	242,225	146,009	121,508
Provision for (benefit from) income taxes (3)	(39,314)	51,559	58,036	24,907	34,658
Net income	$ 328,115	$ 423,201	$ 184,189	$ 121,102	$ 86,850
Net income attributable to common stockholders:					
Basic	$ 327,926	$ 422,400	$ 182,965	$ 119,115	$ 68,889
Diluted	$ 327,941	$ 422,468	$ 183,039	$ 119,264	$ 70,524
Net income per share attributable to common stockholders:					
Basic	$ 4.39	$ 5.85	$ 2.66	$ 1.81	$ 1.42
Diluted	$ 4.06	$ 5.35	$ 2.50	$ 1.67	$ 1.29
Weighted-average shares used in computing net income per share attributable to common stockholders:					
Basic	74,750	72,258	68,771	65,964	48,427
Diluted	80,844	78,977	73,222	71,411	54,590

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

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands)				
Cost of revenue	$ 5,087	$ 4,353	$ 3,620	$ 3,048	$ 1,535
Research and development	48,205	42,184	31,892	25,515	14,986
Sales and marketing	24,995	17,953	15,666	11,454	7,643
General and administrative	12,915	10,937	7,854	5,286	3,455
Total stock-based compensation	$ 91,202	$ 75,427	$ 59,032	$ 45,303	$ 27,619

(2) See Note 14. Legal Settlement of the Notes to Consolidated Financial Statements included in Part II, Item 8, of this Annual Report on Form 10-K .

(3) Provision for (benefit from) income taxes for 2018 and 2017 included an excess tax benefit of $75.5 million and $110.0 million , respectively, resulting from the adoption of Accounting Standards Update ("ASU") 2016-09 in 2017. Benefit from income taxes for 2018 also included a benefit of $96.9 million resulting from our legal settlement with Cisco (see Note 14. Legal Settlement of the Notes to Consolidated Financial Statements included in Part II, Item 8, of this Annual Report on Form 10-K). Provision for income taxes for 2017 also included a provisional amount of $51.8 million in connection with the Tax Cuts and Jobs Act enacted in December 2017 (see Note 10. Income Taxes of the Notes to Consolidated Financial Statements included in Part II, Item 8, of this Annual Report on Form 10-K).

	December 31,				
	2018	2017	2016	2015	2014
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash, cash equivalents and marketable securities	$ 1,956,147	$ 1,535,555	$ 867,833	$ 687,326	$ 449,457
Working capital	2,108,298	1,736,524	1,066,573	739,317	535,106
Total assets	3,081,983	2,460,860	1,729,007	1,159,890	811,023
Total indebtedness (1)	37,743	39,592	41,210	42,546	43,634
Total deferred revenue and customer contract liabilities (2)	619,822	515,262	372,935	196,808	106,468
Total stockholders' equity	$ 2,143,389	$ 1,661,914	$ 1,107,820	$ 788,152	$ 555,658

(1) Total indebtedness for all periods presented included our lease financing obligations.

(2) As a result of our adoption of ASC 606 - *Revenue from Contracts with Customers* ("ASC 606") on January 1, 2018, we began to record our performance obligations related to customer prepaid subscription under cancellable contracts as contract liabilities. Prior to 2018, such liabilities were classified as deferred revenue. See Note 1. Organization and Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements included in Part II, Item 8, of this Annual Report on Form 10-K for details. December 31, 2018 included such liabilities, current and noncurrent, of $32.6 million .

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

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

Overview

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

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

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

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

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

Historically, large purchases by a relatively limited number of end customers have accounted for significant portion of our revenue. We have experienced unpredictability in the timing of large orders, especially with respect to our large end customers, due to the complexity of orders, the time it takes end customers to evaluate, test, qualify and accept our products and factors specific to our end customers. Due to these factors, we expect continued variability in our customer concentration and timing of sales on a quarterly and annual basis. For example, our sales to Microsoft as an end-user in the fiscal year ended December 31, 2018, representing 27% of our revenue during fiscal 2018, benefited from certain factors that may not repeat in fiscal 2019 or future fiscal years and the percentage of our revenue from Microsoft in fiscal 2019 may decline. In addition, we have provided, and may in the future provide, pricing discounts to large end customers, which may result in lower margins for the period in which such sales occur. Our gross margins may also fluctuate as a result of the timing of such sales to large end customers.

On August 6, 2018, we entered into a binding term sheet with Cisco (the “Term Sheet”). Pursuant to the Term Sheet, we paid Cisco $400.0 million on August 20, 2018, and the Company and Cisco obtained dismissals of all ongoing district court and USITC litigation between us. Cisco granted us a release for all past claims relating to the patents Cisco asserted against us in the district court and USITC, and we granted Cisco a release from all past antitrust and unfair competition claims. These mutual releases extended to the Company's and Cisco’s customers, contract manufacturers, and partners. The parties further agreed to a five-year stand-down period for any utility patent infringement claims either may have against features currently implemented in the other party’s products and services, with some carve-outs for products stemming from acquired companies. The parties further agreed to a three-year dispute resolution process for allegations by either party against new and/or modified features in the other party's products. We also agreed to make certain modifications to our Command Line Interface ("CLI"). On December 3, 2018, the parties entered into a Mutual Release and Settlement Agreement (the "Definitive Agreement"), which superseded the Term Sheet but did not substantially alter the terms. See Note 14. Legal Settlement of the Notes to Consolidated Financial Statements included in Part II, Item 8, of this Annual Report on Form 10-K .

Furthermore, in order to comply with USITC exclusion and cease and desist orders previously issued in relation to the Cisco legal matter, we made certain design changes to our products for sale in the United States. Following the expiration and invalidation of related patent claims, effective July 1, 2018, certain features previously covered by the orders could be re-incorporated into our products. We are working with customers to complete any remaining re-qualification procedures related to the reintroduction of these features, the timing of which could result in an impact to our revenue and our deferred revenue balances.

Acquisitions

On August 2, 2018, we completed the acquisition of Mojo Networks, Inc., a provider of Cognitive WiFi and cloud-managed wireless networking solutions headquartered in Mountain View, California. We expect to extend our cognitive cloud networking architecture with the addition of Mojo by providing secure, high performance cognitive WiFi at cloud scale.

On September 12, 2018, we completed the acquisition of Metamako Holding PTY LTD. Headquartered in Sydney, Australia, Metamako was a leader in solutions for latency sensitive business applications. We expect this acquisition to play a key role in the delivery of our next generation platforms for low-latency applications.

Results of Operations

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

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

	Year Ended December 31,					
	2018		2017		Change in	
	$	% of Revenue	$	% of Revenue	$	%
Revenue						
Product	$ 1,841,100	85.6%	$ 1,432,810	87.0%	$ 408,290	28.5%
Service	310,269	14.4	213,376	13.0	96,893	45.4
Total revenue	2,151,369	100.0	1,646,186	100.0	505,183	30.7
Cost of revenue						
Product	720,584	33.5	538,035	32.7	182,549	33.9
Service	57,408	2.7	46,382	2.8	11,026	23.8
Total cost of revenue	777,992	36.2	584,417	35.5	193,575	33.1
Gross profit	$ 1,373,377	63.8%	$ 1,061,769	64.5%	$ 311,608	29.3%
Gross margin	63.8%		64.5%			

Revenue by Geography (in thousands, except percentages)

	Year Ended December 31,			
	2018	% of Total	2017	% of Total
Americas	$ 1,550,453	72.1%	$ 1,192,289	72.4%
Europe, Middle East and Africa	414,069	19.2	299,547	18.2
Asia-Pacific	186,847	8.7	154,350	9.4
Total revenue	$ 2,151,369	100.0%	$ 1,646,186	100.0%

Revenue

We generate revenue primarily from sales of our products. We also derive a portion of our revenue from sales of PCS, which is typically purchased in conjunction with our products, and subsequent renewals of those contracts. We expect our revenue may vary from period to period based on, among other things, the timing and size of orders, the delivery and acceptance of products, and the impact of significant transactions. In addition, while we expect our revenue to continue to grow in absolute dollars on a year-over-year basis, our revenue growth rates are expected to decline as our business scales.

Product revenue increased $408.3 million , or 28.5% , in the year ended December 31, 2018 compared to 2017 . The increase was primarily driven by sales to our existing customers as they continued to expand and upgrade their cloud networks. In addition, our newer switch products have continued to gain market acceptance, which has contributed to our revenue growth. Service revenue increased $96.9 million , or 45.4% , in the year ended December 31, 2018 compared to 2017 as a result of continued growth in initial and renewal support contracts as our customer installed base has continued to expand. We continue to experience pricing pressure on our products and services due to competition, but demand for our products and growth in our installed base has more than offset this pricing pressure during the period.

Cost of Revenue and Gross Margin

Cost of revenue primarily consists of amounts paid for inventory to our third-party contract manufacturers and merchant silicon vendors, overhead costs in our manufacturing operations department, and other manufacturing-related costs associated with manufacturing our products and managing our inventory.

Cost of revenue increased $193.6 million or 33.1% for the year ended December 31, 2018 compared to 2017 . The increase in cost of revenue was primarily due to the corresponding increases in product revenues. We expect our cost of product revenue to continue to increase as our product revenue increases. Cost of providing PCS and other services consists primarily of personnel costs for our global customer support organization.

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

Gross margin decreased from 64.5% to 63.8% for the year ended December 31, 2018 compared to 2017 . The decrease in gross margin was primarily driven by a decrease in product margins due to customer mix, partially offset by reduced inventory-related charges and an improved service margins due to a relatively fixed services cost base and growing service revenues. We expect our gross margins to fluctuate over time, depending on the factors described above.

Operating Expenses (in thousands, except percentages)

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

	Year Ended December 31,					
	2018		2017		Change in	
	$	% of Revenue	$	% of Revenue	$	%
Operating expenses:						
Research and development	$ 442,468	20.6%	$ 349,594	21.2%	$ 92,874	26.6 %
Sales and marketing	187,142	8.7	155,105	9.4	32,037	20.7
General and administrative	65,420	3.0	86,798	5.3	(21,378)	(24.6)
Legal settlement	405,000	18.8	—	—	405,000	*
Total operating expenses	$ 1,100,030	51.1%	$ 591,497	35.9%	$ 508,533	86.0 %

* Not meaningful.

Research and development.

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

Research and development expenses increased $92.9 million , or 26.6% , for the year ended December 31, 2018 compared to 2017 . The increase was primarily due to a $48.9 million increase in personnel costs, including corporate bonuses and stock-based compensation, driven primarily by headcount growth from our normal hiring process and from the two acquisitions we completed in the third quarter of 2018, and a $24.7 million increase in new product introduction costs, driven by additional development projects. In addition, facility and IT costs increased by $9.5 million due to increased IT services, headcount growth and additional costs associated with our acquired businesses.

Sales and marketing.

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

Sales and marketing expenses increased $32.0 million , or 20.7% for the year ended December 31, 2018 compared to 2017 . The increase primarily included a $28.0 million increase in personnel costs, which was driven by increased headcount as well as higher sales volumes, resulting in increased compensation costs, including commissions and stock-based compensation.

General and administrative.

General and administrative expenses consist primarily of Cisco and OptumSoft litigation related expenses, personnel costs, professional services fees, and an allocated portion of facility and IT costs including depreciation. General and administrative personnel costs include those for our executive, finance, human resources and legal functions. Our professional services fees are primarily due to external legal, accounting, and tax services.

General and administrative expenses decreased $21.4 million , or 24.6% , for the year ended December 31, 2018 compared to 2017 . The decrease included a $33.8 million decrease that was primarily related to a reduced level of litigation activities and a decrease in bond costs as a result of the settlement of the Cisco litigation in August 2018. The decrease was partially offset by $3.5 million of acquisition-related expenses incurred in 2018, a $3.3 million increase in personnel costs, including increased stock-based compensation, driven by increased headcount, and a $3.1 million increase in other legal and professional fees.

Legal settlement.

During the three months ended June 30, 2018, we recorded $405.0 million in legal settlement expenses in connection with the Term Sheet that was entered into on August 6, 2018 between the Company and Cisco, which included a $400.0 million payment to Cisco pursuant to the Term Sheet and $5.0 million of legal fees associated with the settlement. See Note 14. Legal Settlement of the Notes to Consolidated Financial Statements included in Part II, Item 8, of this Annual Report on Form 10-K for further discussion.

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

Other income (expense) consists primarily of interest income from our cash, cash equivalents and marketable securities, foreign currency transaction gains and losses, gains and losses on our investments in privately-held companies, and interest expense on our lease financing obligation. In connection with our adoption of ASU 2016-01 in 2018, other income (expense) may fluctuate in the future as a result of the re-measurement of our private company equity investments upon the occurrence of observable price changes and/or impairments. See Note 1. Organization and Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements included in Part II, Item 8, of this Annual Report on Form 10-K for details of this new guidance. In addition, Other income (expense), net will also fluctuate due to changes in interest rates, returns on our cash and cash equivalents and marketable securities, and foreign currency exchange rate fluctuations on our foreign currency transactions.

	Year Ended December 31,					
	2018		2017		Change in	
	$	% of Revenue	$	% of Revenue	$	%
Other income (expense), net:						
Interest expense	$ (2,701)	(0.1)%	$ (2,780)	(0.2)%	$ 79	(2.8)%
Other income (expense), net	18,155	0.8	7,268	0.4	10,887	149.8
Total other income (expense), net	$ 15,454	0.7 %	$ 4,488	0.2 %	$ 10,966	244.3 %

The favorable change in other income (expense), net, during the year ended December 31, 2018 as compared to 2017 was driven by a $23.6 million increase in interest income as we continued to generate cash and expand our marketable securities portfolios, which was offset partially by a $13.8 million net loss recorded in 2018 on our investments in privately-held companies. See Note 5. Investments of the Notes to Consolidated Financial Statements included in Part II, Item 8, of this Annual Report on Form 10-K for further discussion.

Provision for (Benefit from) Income Taxes (in thousands, except percentages)

We operate in a number of tax jurisdictions and are subject to taxes in each country or jurisdiction in which we conduct business. Earnings from our non-U.S. activities are subject to local country income tax and may also be subject to U.S. income tax. Generally, our U.S. tax obligations are reduced by a credit for foreign income taxes paid on these foreign earnings which avoids double taxation. Our tax expense to date consists of federal, state and foreign current and deferred income taxes.

	Year Ended December 31,					
	2018		2017		Change in	
	$	% of Revenue	$	% of Revenue	$	%
Provision for (benefit from) income taxes	$ (39,314)	(1.9)%	$ 51,559	3.1%	$ (90,873)	(176.3)
Effective tax rate	(13.6)%		10.9%			

For the years ended December 31, 2018 and 2017, we recorded a benefit of $39.3 million and an expense of $51.6 million for income taxes, respectively. The change in our income taxes was largely attributable to a $96.9 million tax benefit on the Cisco settlement in 2018 whereas we recorded a $51.8 million tax expense in 2017 related to the enactment of the Tax Act. The Tax Act provided for a decrease in the 2018 U.S. federal statutory tax rate, but this was partially offset by a new requirement to provide U.S. tax on foreign earnings. For further information regarding income taxes and the impact on our results of operations and financial position, see Note 10. Income Taxes of the Notes to Consolidated Financial Statements included in Part II, Item 8, of this Annual Report on Form 10-K .

Our future effective tax rate is expected to be impacted by fluctuations in excess tax benefits on share-based compensation.

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

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

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

Revenue by Geography (in thousands, except percentages)

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

Revenue

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

We continued to experience pricing pressure on our products and services due to competition, but demand for our products and growth in our installed base had more than offset this pricing pressure. Deferred product revenue at December 31, 2017 remained consistent with the balance at December 31, 2016. The deferred product revenue balance at December 31, 2016 primarily included customer arrangements with new product and new customer acceptance clauses, which expired during 2017, while the balance at December 31, 2017 primarily represented arrangements with a few of our larger customers related to the then ongoing qualification activities of our 945 Investigation-related product redesigns. See Note 7. Commitments and Contingencies of the Notes to Consolidated Financial Statements included in Part II, Item 8, of this Annual Report on Form 10-K

Cost of Revenue and Gross Margin

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

Operating Expenses (in thousands, except percentages)

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

Research and development

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

Sales and marketing

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

General and administrative

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

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

	Year Ended December 31,					
	2017		2016		Change in	
	$	% of Revenue	$	% of Revenue	$	%
Other income (expense), net:						
Interest expense	$ (2,780)	(0.2)%	$ (3,136)	(0.3)%	$ 356	(11.4)%
Other income (expense), net	7,268	0.4	1,952	0.2	5,316	272.3
Total other income (expense), net	$ 4,488	0.2 %	$ (1,184)	(0.1)%	$ 5,672	(479.1)%

Other income (expense), net improved during the year ended December 31, 2017 compared to 2016 primarily due to an increase in interest income as we continued to generate cash and expand our marketable securities portfolio.

Provision for Income Taxes (in thousands, except percentages)

	Year Ended December 31,					
	2017		2016		Change in	
	$	% of Revenue	$	% of Revenue	$	%
Provision for income taxes	$ 51,559	3.1%	$ 58,036	5.1%	$ (6,477)	(11.2)%
Effective tax rate	10.9%		24.0%			

Our provision for income taxes was approximately $51.6 million and $58.0 million for the year ended December 31, 2017 and 2016, respectively, which resulted in a decrease in our effective tax rate from 24.0% in 2016 to 10.9% in 2017. The reduction in our effective tax rate was primarily due to the recognition of $110.0 million of excess tax benefits on share-based awards in the provision for income taxes as a result of our adoption of ASU 2016-09 in 2017, combined with a favorable geographical mix of our earnings towards jurisdictions with lower tax rates than the U.S. These positive drivers were partially offset by the inclusion of provisional tax amount totaling $51.8 million resulting from the recently enacted the Tax Act.

The Tax Act makes significant changes to the U.S. tax code, which include, but are not limited to, a U.S. federal corporate tax rate decrease from 35% to 21% effective January 1, 2018, and a shift to a modified territorial tax regime, which requires companies to pay a one-time transition tax on the mandatory deemed repatriation of the cumulative earnings of certain foreign subsidiaries as of December 31, 2017. As of December 31, 2017, we had not yet completed our accounting for the tax effects of the Tax Act. As a result, we recorded a provisional tax amount of $18.8 million for the transition tax and a provisional tax amount of $33.0 million related to the re-measurement of certain deferred tax assets and liabilities, based on the tax rates at which they are expected to reverse in the future.

Liquidity and Capital Resources

Our principal sources of liquidity are cash, cash equivalents, marketable securities, and cash generated from operations. As of December 31, 2018 , our total balance of cash, cash equivalents and marketable securities was $2.0 billion , of which approximately $294.1 million was held outside the U.S. in our foreign subsidiaries.

Our cash, cash equivalents and marketable securities are held for working capital purposes. Our marketable securities investment portfolio is primarily invested in highly-rated securities with the primary objective of minimizing the potential risk of principal loss. We plan to continue to invest for long-term growth. We believe that our existing balances of cash, cash equivalents and marketable securities together with cash generated from operations will be sufficient to meet our working capital requirements and our growth strategies for at least the next 12 months. Our future capital requirements will depend on many factors, including our growth rate, the timing and extent of our spending to support research and development activities, the timing and cost of establishing additional sales and marketing capabilities, the introduction of new and enhanced product and service offerings, our costs associated with supply chain activities, including access to outsourced manufacturing, our costs related to investing in or acquiring complementary or strategic businesses and technologies, the continued market acceptance of our products, and costs incurred related to outstanding litigation claims. If we require or elect to seek additional capital through debt or equity financing in the future, we may not be able to raise capital on terms acceptable to us or at all. If we are required and unable to raise additional capital when desired, our business, operating results and financial condition may be adversely affected.

Cash Flows

	Year Ended December 31,		
	2018	2017 As Adjusted (1)	2016 As Adjusted (1)
	(in thousands)		
Cash provided by operating activities	$ 503,119	$ 631,627	$ 174,295
Cash used in investing activities (1)	(755,113)	(391,320)	(325,775)
Cash provided by financing activities	42,851	51,469	32,745
Effect of exchange rate changes	(1,390)	753	(464)
Net increase/(decrease) in cash, cash equivalents and restricted cash	$ (210,533)	$ 292,529	$ (119,199)

(1) Cash used in investing activities for year ended December 31, 2017 and 2016 were adjusted as a result of our adoption of ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* , in the first quarter of 2018. See Note 1. *Organization and Summary of Significant Accounting Policies* included in Part II, Item 8, of this Annual Report on Form 10-K for more information.

Cash Flows from Operating Activities

Our primary source of cash provided by operating activities has been cash collections from our customers. We expect cash inflows from operating activities to be affected by increased sales and timing of collections. Our primary uses of cash from operating activities have been for personnel costs, inventory purchases from our contract manufacturers and suppliers, investment in research and development, and litigation expenses.

During the year ended December 31, 2018 , cash provided by operating activities was $503.1 million , net of $405.0 million payments for the legal settlement with Cisco including the associated legal fees. Our cash provided by operating activities was primarily from net income of $328.1 million , non-cash adjustments to net income of $71.4 million , and a net increase of $103.6 million in cash from changes in our operating assets and liabilities. Our operating cash benefited $70.5 million from increased deferred revenue reflecting ongoing growth in service and support contracts, $51.1 million from decreased inventories driven by improved inventory management and timing of receipts, $39.3 million from increased accounts payable due to timing of vendor payments primarily related to inventory-related purchases, $21.4 million from a decrease in prepaid expenses and other assets primarily due to decreased deposits at our contract manufacturers, and $17.5 million from an increase in other long term liabilities primarily driven by increased customer prepayments under cancellable contracts. These favorable changes were partially offset by unfavorable changes of $77.9 million from increased accounts receivable due to increased billing and timing of customer shipments, and $14.8 million from decreased accrued liabilities due primarily to a decline in supplier liabilities and the timing of vendor accruals.

During the year ended December 31, 2017, cash provided by operating activities was $631.6 million, primarily from net income of $423.2 million with non-cash adjustments to net income of $105.9 million, and a net increase of $102.5 million in cash from changes in our operating assets and liabilities. Our operating cash benefited $142.3 million from increased deferred revenue reflecting ongoing growth in service and support contracts, $43.5 million from increased accrued liabilities driven by increased inventory purchases and product development activities, and $19.9 million from increased income taxes payable. These favorable changes were partially offset by a growth in inventory of $69.7 million, supporting overall growth in the business and the expansion of our manufacturing and supply chain activities, by a decline in accounts payable of $30.1 million due to timing of vendor payments primarily related to inventory purchases, and by an increase in prepaid expenses and other assets of $11.6 million primarily due to increased prepaid taxes.

During the year ended December 31, 2016, cash provided by operating activities was $174.3 million, primarily from net income of $184.2 million with non-cash adjustments to net income of $58.6 million, partially offset by a net decrease in cash from changes in our operating assets and liabilities of $68.4 million. The decrease in cash from changes in operating assets and liabilities was primarily due to an increase in working capital requirements with accounts receivable up $108.9 million, inventories and inventory deposits up $207.5 million, and increased prepaid expenses and current assets (excluding inventory deposits) of $54.8 million which was primarily driven by an increase in deferred cost of inventory associated with increased product revenue deferrals referenced below. These increases reflect substantial growth in the business and the expansion of our manufacturing and supply chain activities at our new contract manufacturer. These working capital increases were partially offset by an increase in deferred revenue of $176.1 million reflecting ongoing growth in service and support contracts and a significant increase in product deferred revenue related to contract acceptance terms, as well as an increase in accounts payable and accrued liabilities of $69.3 million primarily due to timing of inventory purchases, and an increase in income taxes payable of $42.7 million.

Cash Flows from Investing Activities

Our investing activities have consisted primarily of purchases of available for sale marketable securities, net of proceeds from maturities of marketable securities, business acquisitions, investments in privately-held companies, and capital expenditures.

During the year ended December 31, 2018 , cash used in investing activities was $755.1 million , consisting of purchases of marketable securities of $1.2 billion , offset by proceeds of $547.8 million from maturities of marketable securities, $96.8 million for business acquisitions, additional investments in privately-held companies of $8.0 million , and purchases of property, equipment and other assets of $23.8 million .

During the year ended December 31, 2017, cash used in investing activities was $391.3 million , consisting of purchases of marketable securities of $585.4 million, purchases of property, equipment and other assets of $15.3 million, partially offset by proceeds of $206.3 million from maturities of marketable securities and proceeds of $3.0 million from repayment of notes receivable.

During the year ended December 31, 2016, cash used in investing activities was $325.8 million , consisting of purchases of marketable securities of $439.7 million, purchases of property, equipment and other assets of $21.4 million, and an additional investment in a privately-held company of $2.5 million. These decreases were partially offset by proceeds from the maturity of available-for-sale securities of $137.9 million.

Cash Flows from Financing Activities

Our financing activities have consisted primarily of proceeds from the issuance of our common stock under employee equity incentive plans, offset by principal payments for lease financing obligations related to our headquarters facility.

During the year ended December 31, 2018 , cash provided by financing activities was $42.9 million , consisting primarily of proceeds of $53.7 million from the issuance of common stock under employee equity incentive plans, partially offset by $8.9 million of minimum tax withheld for employees and payments of $1.9 million for lease financing obligations.

During the year ended December 31, 2017, cash provided by financing activities was $51.5 million, consisting primarily of proceeds of $44.6 million from employee stock option exercises, partially offset by $4.0 million of minimum tax withheld for employees, and proceeds of $12.5 million from employee stock purchases under our ESPP, partially offset by payments of $1.6 million for lease financing obligations.

During the year ended December 31, 2016, cash provided by financing activities was $32.7 million, consisting primarily of proceeds from the exercise of stock options of $24.9 million and proceeds from the issuance of common stock from our ESPP of $10.3 million, partially offset by payments of $1.3 million for lease financing obligations.

Off-Balance Sheet Arrangements

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

Contractual Obligations and Commitments

Our contractual commitments will have an impact on our future liquidity. Our contractual obligations represent material expected or contractually committed future payment obligations. We believe that we will be able to fund these obligations through cash generated from operations and from our existing balances of cash, cash equivalent and marketable securities.

The following summarizes our contractual obligations and commitments as of December 31, 2018 (in thousands):

	Payments Due by Period				
	Total	**Less than 1 Year**	**1 to 3 Years**	**3 to 5 Years**	**More than 5 Years**
Financing lease obligation [(1)]	$ 31,649	$ 6,321	$ 13,192	$ 12,136	$ —
Operating lease obligations	103,351	12,789	28,077	26,616	35,869
Purchase commitments with contract manufacturers and suppliers	345,968	345,968	—	—	—
Other non-cancellable purchase obligations	43,254	43,254	—	—	
Total	$ 524,222	$ 408,332	$ 41,269	$ 38,752	$ 35,869

(1) Includes interest and land lease.

The contractual obligation table above excludes tax liabilities of $40.3 million related to uncertain tax positions and transition tax due under the Tax Act because we are unable to make a reasonably reliable estimate of the timing of settlement, if any, of these future payments.

Critical Accounting Policies and Estimates

We have prepared our consolidated financial statements in accordance with GAAP and include our accounts and the accounts of our wholly owned subsidiaries. The preparation of these consolidated financial statements requires our management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the applicable periods. We base our estimates, assumptions and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances. Different assumptions and judgments would change the estimates used in the preparation of our consolidated financial statements, which, in turn, could change the results from those reported. We evaluate our estimates, assumptions and judgments on an ongoing basis. Actual results may differ from these estimates. To the extent that there are material differences between these estimates and our actual results, our future financial statements will be affected. The critical accounting estimates, assumptions and judgments that we believe have the most significant impact on our consolidated financial statements are the following:

Revenue Recognition

Prior to 2018, our revenue recognition policy was based on ASC 605 - Revenue Recognition (“ASC 605”), and is described in the section entitled *Critical Accounting Policies* under Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on February 20, 2018.

Effective January 1, 2018, we adopted the new revenue recognition guidance under ASC 606 as discussed in the section titled *Recently Adopted Accounting Pronouncements* in Note 1. Organization and Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements included in Part II, Item 8, of this Annual Report on Form 10-K . The following is our new revenue recognition policy effective January 1, 2018.

We generate revenue from sales of our products, which incorporate our EOS software and accessories such as cables and optics, to direct customers and channel partners together with PCS. We typically sell products and PCS in a single contract. We recognize revenue upon transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to be entitled to receive in exchange for those products or services. We apply the following five-step revenue recognition model:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when (or as) we satisfy the performance obligation

Post-Contract Customer Support

PCS, which includes technical support, hardware repair and replacement parts beyond standard warranty, bug fixes, patches and unspecified upgrades on a when-and-if-available basis, is offered under renewable, fee-based contracts. We initially defer PCS revenue and recognize it ratably over the life of the PCS contract as there is no discernable pattern of delivery related to these promises. We do not provide unspecified upgrades on a set schedule and addresses customer requests for technical support if and when they arise, with the related expenses recognized as incurred. PCS contracts generally have a term of one to three years. We include billed but unearned PCS revenue in deferred revenue.

Contracts with Multiple Performance Obligations

Most of our contracts with customers, other than renewals of PCS, contain multiple performance obligations with a combination of products and PCS. Products and PCS generally qualify as distinct performance obligations. Our hardware includes EOS software, which together deliver the essential functionality of our products. For contracts which contain multiple performance obligations, we allocate revenue to each distinct performance obligation based on the standalone selling price (“SSP”). Judgment is required to determine the SSP for each distinct performance obligation. We use a range of amounts to estimate SSP for products and PCS sold together in a contract to determine whether there is a discount to be allocated based on the relative SSP of the various products and PCS.

If we do not have an observable SSP, such as when we do not sell a product or service separately, then SSP is estimated using judgment and considering all reasonably available information such as market conditions and information about the size and/or purchase volume of the customer. We generally use a range of amounts to estimate SSP for individual products and services based on multiple factors including, but not limited to the sales channel (reseller, distributor or end customer), the geographies in which our products and services are sold, and the size of the end customer.

We limit the amount of revenue recognition for contracts containing forms of variable consideration, such as future performance obligations, customer-specific returns, and acceptance or refund obligations. We include some or all of an estimate of the related at risk consideration in the transaction price only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recorded under each contract will not occur when the uncertainties surrounding the variable consideration are resolved.

Most of our contracts with customers have payment terms of 30 days with some large high volume customers having terms of up to 60 days. We have determined our contracts generally do not include a significant financing component because the Company and the customer have specific business reasons other than financing for entering into such contracts. Specifically, both we and our customers seek to ensure the customer has a simplified way of purchasing Arista products and services.

We account for multiple contracts with a single partner as one arrangement if the contractual terms and/or substance of those agreements indicate that they may be so closely related that they are, in effect, parts of a single contract.

We may occasionally accept returns to address customer satisfaction issues even though there is generally no contractual provision for such returns. We estimate returns for sales to customers based on historical returns rates applied against current-period shipments. Specific customer returns and allowances are considered when determining our sales return reserve estimate.

Our policy applies to the accounting for individual contracts. However, we have elected a practical expedient to apply the guidance to a portfolio of contracts or performance obligations with similar characteristics so long as such application would not differ materially from applying the guidance to the individual contracts (or performance obligations) within that portfolio. Consequently, we have chosen to apply the portfolio approach when possible, which we do not believe will happen frequently. Additionally, we will evaluate a portfolio of data, when possible, in various situations, including accounting for commissions, rights of return and transactions with variable consideration.

We report revenue net of sales taxes. We include shipping charges billed to customers in revenue and the related shipping costs are included in cost of product revenue.

Inventory Valuation and Contract Manufacturer/Supplier Liabilities

Inventories primarily consist of finished goods and strategic components, primarily integrated circuits. Inventories are stated at the lower of cost (computed using the first-in, first-out method) and net realizable value. Manufacturing overhead costs and inbound shipping costs are included in the cost of inventory. We record a provision when inventory is determined to be in excess of anticipated demand, or obsolete, to adjust inventory to its estimated realizable value.

Our contract manufacturers procure components and assemble products on our behalf based on our forecasts. We record a liability and a corresponding charge for non-cancellable, non-returnable purchase commitments with our contract manufacturers or suppliers for quantities in excess of our demand forecasts or that are considered obsolete due to manufacturing and engineering change orders resulting from design changes.

We use significant judgment in establishing our forecasts of future demand and obsolete material exposures. These estimates depend on our assessment of current and expected orders from our customers, product development plans and current sales levels. If actual market conditions are less favorable than those projected by management, which may be caused by factors within and outside of our control, we may be required to increase our inventory write-downs and liabilities to our contract manufacturers and suppliers, which could have an adverse impact on our gross margins and profitability. We regularly evaluate our exposure for inventory write-downs and adequacy of our contract manufacturer liabilities.

Income Taxes

Income tax expense is an estimate of current income taxes payable in the current fiscal year based on reported income before income taxes. Deferred income taxes reflect the effect of temporary differences and carryforwards that we recognize for financial reporting and income tax purposes.

We account for income taxes under the liability approach for deferred income taxes, which requires recognition of deferred income tax assets and liabilities for the expected future tax consequences of events that have been recognized in our consolidated financial statements, but have not been reflected in our taxable income. Estimates and judgments occur in the calculation of certain tax liabilities and in the determination of the recoverability of certain deferred income tax assets, which arise from temporary differences and carryforwards. Deferred income tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. We regularly assess the likelihood that our deferred income tax assets will be realized based on the positive and negative evidence available. We record a valuation allowance to reduce the deferred tax assets to the amount that we are more likely than not to realize.

We believe that we have adequately reserved for our uncertain tax positions, although we can provide no assurance that the final tax outcome of these matters will not be materially different. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made and could have a material impact on our financial condition and results of operations. The provision for income taxes includes the effects of any reserves that we believe are appropriate, as well as the related net interest and penalties.

We regularly review our tax positions and benefits to be realized. We recognize tax liabilities based upon our estimate of whether, and to the extent to which, additional taxes will be due when such estimates are more likely than not to be sustained. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. We recognize interest and penalties related to income tax matters as income tax expense.

Loss Contingencies

In the ordinary course of business, we are a party to claims and legal proceedings including matters relating to commercial, employee relations, business practices and intellectual property. In assessing loss contingencies, we use significant judgment and assumptions to estimate the likelihood of loss, impairment of an asset or the incurrence of a liability, as well as our ability to reasonably estimate the amount of loss. We record a provision for contingent losses when it is both probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. We will record a charge equal to the minimum estimated liability for litigation costs or a loss contingency only when both of the following conditions are met: (i) information available prior to issuance of our consolidated financial statements indicates that it is probable that a liability had been incurred at the date of the financial statements and (ii) the range of loss can be reasonably estimated. We regularly evaluate current information available to us to determine whether such accruals should be adjusted and whether new accruals are required.

Recent Accounting Pronouncements

Refer to “Recent Accounting Pronouncements” in Note 1. Organization and Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements included in Part II, Item 8, of this Annual Report on Form 10-K .

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in foreign currency exchange rates, interest rates and investments in privately held companies.

Foreign Currency Exchange Risk

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. Substantially all of our revenue is denominated in U.S. dollars, and therefore, our revenue is not directly subject to foreign currency risk. However, we are indirectly exposed to foreign currency risk. A stronger U.S. dollar could make our products and services more expensive in foreign countries and therefore reduce demand. A weaker U.S. dollar could have the opposite effect. Such economic exposure to currency fluctuations is difficult to measure or predict because our sales are also influenced by many other factors.

Our expenses are generally denominated in the currencies in which our operations are located, which is primarily in the U.S. and to a lesser extent in Europe and Asia. Our results of operations and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates and may be adversely affected in the future due to changes in foreign exchange rates. For the year ended December 31, 2018, 2017 and 2016, a hypothetical 10% change in foreign currency exchange rates applicable to our business would have had a maximum impact of approximately $8.2 million , $6.1 million and $3.8 million on our operating results. To date, foreign currency transaction gains and losses and exchange rate fluctuations have not been material to our financial statements. While we have not engaged in the hedging of our foreign currency transactions to date and do not enter into any hedging contracts for trading or speculative purposes, we may in the future hedge selected significant transactions denominated in currencies other than the U.S. dollar.

Interest Rate Sensitivity

As of December 31, 2018 and 2017, we had cash, cash equivalents and available-for-sale marketable securities totaling $2.0 billion and $1.5 billion , respectively. Cash equivalents and marketable securities were invested primarily in money market funds, corporate bonds, U.S. agency mortgage-backed securities, U.S. treasury securities and commercial paper. Our primary investment objectives are to preserve capital and maintain liquidity requirements. In addition, our policy limits the amount of credit exposure to any single issuer. We do not enter into investments for trading or speculative purposes and have not used any derivative financial instruments to manage our interest rate risk exposure. Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of the interest rates in the U.S. A decline in interest rates would reduce our interest income on our cash, cash equivalents and marketable securities. For the year ended December 31, 2018, 2017 and 2016, the effect of a hypothetical 100 basis point increase or decrease in overall interest rates would not have had a material impact on our interest income.

On the other hand, the fair market value of our investments in fixed income securities may be adversely impacted. We would incur unrealized losses on fixed income securities primarily due to higher interest rates compared to interest rates at the time of purchase. Under certain circumstances, if we are forced to sell our marketable securities prior to maturity, we may incur realized losses in such investments. However, because of the conservative and short-term nature of the investments in our portfolio, a change in interest rates is not expected to have a material impact on our consolidated financial statements.

Investments in Privately-Held Companies

Our non-marketable equity investments in privately-held companies are recorded in “Investments” in our consolidated balance sheets. As of December 31, 2018 and 2017, the total carrying amount of our investments in privately-held companies was $30.3 million and $36.1 million . During the year ended December 31, 2018, we recorded a net loss of $13.8 million on certain investments. Prior to 2018, we did no t record any impairment losses for these investments. See Note 5. Investments of the Notes to Consolidated Financial Statements included in Part II, Item 8, of this Annual Report on Form 10-K for details.

The privately-held companies in which we invested are in the startup or development stages. These investments are inherently risky because the markets for the technologies or products these companies are developing are typically in the early stages and may never materialize. We could lose our entire investment in these companies. Our evaluation of investments in privately-held companies is based on the fundamentals of the businesses invested in, including among other factors, the nature of their technologies and potential for financial return.

Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Reports of Independent Registered Public Accounting Firm	71
Consolidated Balance Sheets	73
Consolidated Statements of Operations	74
Consolidated Statements of Comprehensive Income	75
Consolidated Statements of Stockholders' Equity	76
Consolidated Statements of Cash Flows	77
Notes to the Consolidated Financial Statements	78

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of Arista Networks, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Arista Networks, Inc. (the Company) as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 15, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2008.
San Jose, California
February 15, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of Arista Networks, Inc.

Opinion on Internal Control over Financial Reporting

We have audited Arista Networks, Inc.'s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Arista Networks, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Arista Networks Inc. as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements") of the Company and our report dated February 15, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

San Jose, California
February 15, 2019

ARISTA NETWORKS, INC.
Consolidated Balance Sheets
(In thousands, except par value)

	December 31,	
	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 649,950	$ 859,192
Marketable securities	1,306,197	676,363
Accounts receivable, net of rebates and allowances of $9,120 and $7,535, respectively	331,777	247,346
Inventories	264,557	306,198
Prepaid expenses and other current assets	162,321	177,330
Total current assets	2,714,802	2,266,429
Property and equipment, net	75,355	74,279
Acquisition-related intangible assets, net	58,610	—
Goodwill	53,684	—
Investments	30,336	36,136
Deferred tax assets	126,492	65,125
Other assets	22,704	18,891
TOTAL ASSETS	$ 3,081,983	$ 2,460,860
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 93,757	$ 52,200
Accrued liabilities	123,254	133,827
Deferred revenue	358,586	327,706
Other current liabilities	30,907	16,172
Total current liabilities	606,504	529,905
Income taxes payable	36,167	34,067
Lease financing obligations, non-current	35,431	37,673
Deferred revenue, non-current	228,641	187,556
Other long-term liabilities	31,851	9,745
TOTAL LIABILITIES	938,594	798,946
Commitments and contingencies (Note 7)		
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.0001 par value—100,000 shares authorized and no shares issued and outstanding as of December 31, 2018 and 2017	—	—
Common stock, $0.0001 par value—1,000,000 shares authorized as of December 31, 2018 and 2017; 75,668 and 73,706 shares issued and outstanding as of December 31, 2018 and 2017	8	7
Additional paid-in capital	956,572	804,731
Retained earnings	1,190,803	859,114
Accumulated other comprehensive loss	(3,994)	(1,938)
TOTAL STOCKHOLDERS' EQUITY	2,143,389	1,661,914
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 3,081,983	$ 2,460,860

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

ARISTA NETWORKS, INC.
Consolidated Statements of Operations
(In thousands, except per share amounts)

	Year Ended December 31,		
	2018	2017	2016
Revenue:			
Product	$ 1,841,100	$ 1,432,810	$ 991,337
Service	310,269	213,376	137,830
Total revenue	2,151,369	1,646,186	1,129,167
Cost of revenue:			
Product	720,584	538,035	369,768
Service	57,408	46,382	36,283
Total cost of revenue	777,992	584,417	406,051
Gross profit	1,373,377	1,061,769	723,116
Operating expenses:			
Research and development	442,468	349,594	273,581
Sales and marketing	187,142	155,105	130,887
General and administrative	65,420	86,798	75,239
Legal settlement (Note 14)	405,000	—	—
Total operating expenses	1,100,030	591,497	479,707
Income from operations	273,347	470,272	243,409
Other income (expense), net:			
Interest expense	(2,701)	(2,780)	(3,136)
Other income (expense), net	18,155	7,268	1,952
Total other income (expense), net	15,454	4,488	(1,184)
Income before income taxes	288,801	474,760	242,225
Provision for (benefit from) income taxes	(39,314)	51,559	58,036
Net income	$ 328,115	$ 423,201	$ 184,189
Net income attributable to common stockholders:			
Basic	$ 327,926	$ 422,400	$ 182,965
Diluted	$ 327,941	$ 422,468	$ 183,039
Net income per share attributable to common stockholders:			
Basic	$ 4.39	$ 5.85	$ 2.66
Diluted	$ 4.06	$ 5.35	$ 2.50
Weighted-average shares used in computing net income per share attributable to common stockholders:			
Basic	74,750	72,258	68,771
Diluted	80,844	78,977	73,222

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

ARISTA NETWORKS, INC.
Consolidated Statements of Comprehensive Income
(In thousands)

	Year Ended December 31,		
	2018	2017	2016
Net income	$ 328,115	$ 423,201	$ 184,189
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	(2,069)	672	(348)
Net change in unrealized gains (losses) on available-for-sale marketable securities	13	(1,135)	(452)
Other comprehensive loss	(2,056)	(463)	(800)
Comprehensive income	$ 326,059	$ 422,738	$ 183,389

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

ARISTA NETWORKS, INC.
Consolidated Statements of Stockholders' Equity
(In thousands)

	Common Stock										
	Shares		Amount		Additional Paid-In Capital		Retained Earnings		Accumulated Other Comprehensive Income (Loss)		Total Stockholders' Equity
Balance — December 31, 2015	68,132	$	7	$	537,904	$	250,916	$	(675)	$	788,152
Net income	—		—		—		184,189		—		184,189
Other comprehensive loss, net of tax	—		—		—		—		(800)		(800)
Tax benefit for equity incentive plans	—		—		42,084		—		—		42,084
Stock-based compensation	—		—		59,032		—		—		59,032
Issuance of common stock in connection with employee equity incentive plans	2,694		—		35,181		—		—		35,181
Tax withholding paid for net share settlement of equity awards	(15)		—		(1,100)		—		—		(1,100)
Vesting of early exercised stock options and restricted stock	—		—		1,082		—		—		1,082
Balance — December 31, 2016	70,811		7		674,183		435,105		(1,475)		1,107,820
Cumulative-effect adjustment to beginning balance (1)	—		—		1,471		808		—		2,279
Net income	—		—		—		423,201				423,201
Other comprehensive loss, net of tax	—		—		—		—		(463)		(463)
Stock-based compensation	—		—		75,427		—		—		75,427
Issuance of common stock in connection with employee equity incentive plans	2,918		—		57,111		—		—		57,111
Tax withholding paid for net share settlement of equity awards	(23)		—		(4,025)		—		—		(4,025)
Vesting of early-exercised stock options	—		—		564		—		—		564
Balance — December 31, 2017	73,706		7		804,731		859,114		(1,938)		1,661,914
Cumulative-effect adjustment to beginning balance (2)	—		—		—		3,574		—		3,574
Net income	—		—		—		328,115		—		328,115
Other comprehensive loss, net of tax	—		—		—		—		(2,056)		(2,056)
Stock-based compensation	—		—		91,202		—		—		91,202
Issuance of common stock in connection with employee equity incentive plans	1,918		1		53,657		—		—		53,658
Tax withholding paid for net share settlement of equity awards	(36)		—		(8,878)		—		—		(8,878)
Vesting of early-exercised stock options	—		—		305		—		—		305
Common stock issued for business acquisition	80		—		15,555		—		—		15,555
Balance — December 31, 2018	75,668	$	8	$	956,572	$	1,190,803	$	(3,994)	$	2,143,389

(1) During our first fiscal quarter of 2017, we adopted ASU 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* . See Note 1 of the accompanying notes for further details. This adoption resulted in a cumulative-effect adjustment to the beginning balance of Additional Paid-in Capital and Retained Earnings for 2017.

(2) On January 1, 2018, we adopted ASC 606 and ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory* , which resulted in a cumulative-effect adjustment to the beginning balance of Retained Earnings for 2018. See Note 1 of the accompanying notes for further details.

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

ARISTA NETWORKS, INC.
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31,		
	2018	2017 As Adjusted (1)	2016 As Adjusted (1)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 328,115	$ 423,201	$ 184,189
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and other	27,671	20,640	19,749
Stock-based compensation	91,202	75,427	59,032
Deferred income taxes	(57,896)	8,426	(21,720)
Loss on investments in privately-held companies, net	13,800	—	—
Amortization (accretion) of investment premiums (discounts)	(3,360)	1,452	1,493
Changes in operating assets and liabilities:			
Accounts receivable, net	(77,916)	5,773	(108,856)
Inventories	51,054	(69,708)	(144,361)
Prepaid expenses and other current assets	21,411	(11,645)	(115,074)
Other assets	(3,389)	907	2,866
Accounts payable	39,337	(30,104)	38,678
Accrued liabilities	(14,786)	43,535	30,629
Deferred revenue	70,533	142,327	176,126
Income taxes payable	(112)	19,921	42,650
Other liabilities	17,455	1,475	8,894
Net cash provided by operating activities	503,119	631,627	174,295
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from maturities of marketable securities	547,797	206,332	137,855
Purchases of marketable securities	(1,174,259)	(585,373)	(439,711)
Business acquisitions, net of cash acquired	(96,821)	—	—
Purchases of property and equipment	(23,830)	(15,279)	(21,419)
Proceeds from repayment of notes receivable	2,000	3,000	—
Investments in privately-held companies	(8,000)	—	(2,500)
Other investing activities	(2,000)	—	—
Net cash used in investing activities (1)	(755,113)	(391,320)	(325,775)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments of lease financing obligations	(1,929)	(1,617)	(1,336)
Proceeds from issuance of common stock under equity plans	53,658	57,111	35,181
Tax withholding paid on behalf of employees for net share settlement	(8,878)	(4,025)	(1,100)
Net cash provided by financing activities	42,851	51,469	32,745
Effect of exchange rate changes	(1,390)	753	(464)
NET INCREASE /(DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(210,533)	292,529	(119,199)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH —Beginning of period	864,697	572,168	691,367
CASH, CASH EQUIVALENTS AND RESTRICTED CASH —End of period (2)	$ 654,164	$ 864,697	$ 572,168
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid for income taxes, net of refunds	$ 17,573	$ 44,216	$ 39,638
Cash paid for interest — lease financing obligation	2,692	2,814	2,916
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING INFORMATION:			
Common stock issued for business acquisition	$ 15,555	$ —	$ —
Property and equipment included in accounts payable and accrued liabilities	2,340	3,811	869
Vesting of early exercised stock options and restricted stock awards	305	564	1,082

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(1) Net cash used in investing activities for the years ended December 31 of 2017 and 2016, respectively, was adjusted as a result of our adoption of ASU 2016-18, *Statement of*

Cash Flows (Topic 230): Restricted Cash , in the first quarter of 2018. See Note 1 of the accompanying notes for details of the adjustments.
(2) See Note 4 of the accompanying notes for a reconciliation of the ending balance of cash, cash equivalents and restricted cash as shown in this consolidated statements of cash flows.

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

ARISTA NETWORKS, INC.
Notes to Consolidated Financial Statements

1. Organization and Summary of Significant Accounting Policies

Organization

Arista Networks, Inc. (together with our subsidiaries, "we," "our" or "us") is a supplier of cloud networking solutions that use software innovations to address the needs of large-scale internet companies, cloud service providers and next-generation enterprise. Our cloud networking solutions consist of our Extensible Operating System, a set of network applications and our 10/25/40/50/100 Gigabit Ethernet switching and routing platforms. We are incorporated in the state of Delaware. Our corporate headquarters are located in Santa Clara, California, and we have wholly-owned subsidiaries throughout the world, including North America, Europe, Asia and Australia.

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Arista Networks, Inc. and its wholly owned subsidiaries and are prepared in accordance with U.S. generally accepted accounting principles (GAAP). All significant intercompany accounts and transactions have been eliminated.

Certain reclassifications of prior period amounts were made in the current year to conform to the current period presentation.

Use of Estimates

The preparation of the accompanying consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the amounts reported and disclosed in the consolidated financial statements and accompanying notes. Those estimates and assumptions include, but are not limited to, revenue recognition and deferred revenue; allowance for doubtful accounts, sales rebates and return reserves; valuation of goodwill and acquisition-related intangible assets, accounting for income taxes, including the valuation allowance on deferred tax assets and reserves for uncertain tax positions; estimate of useful lives of long-lived assets including intangible assets; valuation of inventory and contract manufacturer/supplier liabilities; recognition and measurement of contingent liabilities; valuation of equity investments in privately-held companies; determination of fair value for stock-based awards; and valuation of warranty accruals. We evaluate our estimates and assumptions based on historical experience and other factors and adjust those estimates and assumptions when facts and circumstances dictate. Actual results could differ materially from those estimates.

Concentrations of Business and Credit Risk

We work closely with third-party contract manufacturing suppliers to manufacture our products. As of December 31, 2018 and 2017, we had three suppliers, who provided substantially all of our electronic manufacturing services. Our contract manufacturing suppliers deliver our products to our third party direct fulfillment facilities. We and our fulfillment partners then perform labeling, final configuration, quality assurance testing and shipment to our customers. Our products rely on key components, including certain integrated circuit components and power supplies, some of which our contract manufacturers purchase on our behalf from a limited number of suppliers, including certain sole source providers. We generally do not have guaranteed supply contracts with our component suppliers, and our suppliers could delay shipments or cease manufacturing such products or selling them to us at any time. If we are unable to obtain a sufficient quantity of these components on commercially reasonable terms or in a timely manner, or if we are unable to obtain alternative sources for these components, sales of our products could be delayed or halted entirely or we may be required to redesign our products. Quality or performance failures of our products or changes in our contractors' or vendors' financial or business condition could disrupt our ability to supply quality products to our customers. Any of these events could result in lost sales and damage to our end-customer relationships, which would adversely impact our business, financial condition and results of operations.

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

Our accounts receivable are unsecured and represent amounts due to us based on contractual obligations of our customers. We mitigate credit risk in respect to accounts receivable by performing ongoing credit evaluations of our customers to assess the probability of accounts receivable collection based on a number of factors, including past transaction experience with the customer, evaluation of their credit history, the credit limits extended and review of the invoicing terms of the arrangement. In situations where a customer may be thinly capitalized and we have limited payment history with it, we will either establish a small credit limit or require it to prepay its purchases. We generally do not require our customers to provide collateral to support accounts receivable. We have recorded an allowance for doubtful accounts for those receivables that we have determined not to be collectible. We mitigate credit risk in respect to the notes receivable by performing ongoing credit evaluations of the borrower to assess the probability of collecting all amounts due to us under the existing contractual terms.

We market and sell our products through both our direct sales force and our channel partners, including distributors, value-added resellers, system integrators and original equipment manufacturer ("OEM") partners and in conjunction with various technology partners. Significant customers are those which represent more than 10% of our total net revenue during the period or net accounts receivable balance at each respective balance sheet date. As of December 31, 2018, we had two customers who represented 35% and 10% of total accounts receivable, respectively. As of December 31, 2017, we had two customers who represented 30% and 18% of total accounts receivable, respectively. For the years ended December 31, 2018, 2017 and 2016, there was one customer who represented 27% , 16% and 16% of our total revenue, respectively.

Cash and Cash Equivalents

We consider all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents. Cash and cash equivalents consist of cash on deposit with various financial institutions and highly liquid investments in money market funds. Interest is accrued as earned. As of December 31, 2018 and 2017, we had restricted cash of $4.2 million and $5.5 million that primarily included $4.0 million pledged as collateral representing a security deposit required for a facility lease. As of December 31, 2017, we also had $1.1 million restricted cash related to a letter of credit issued to a business partner. Our restricted cash is classified as other assets in our consolidated balance sheets.

Marketable Securities

We classify all highly liquid investments in debt and equity securities with maturities of greater than three months at the date of purchase as marketable securities. We have classified and accounted for our marketable securities as available-for-sale. We determine the appropriate classification of these investments at the time of purchase and reevaluate such designation at each balance sheet date. We may or may not hold securities with stated maturities greater than 12 months until maturity. After consideration of our risk versus reward objectives, as well as our liquidity requirements, we may sell these securities prior to their stated maturities. As we view these securities as available to support current operations, we classify securities with maturities beyond 12 months as current assets under the caption marketable securities in the accompanying consolidated balance sheets. We carry these securities at fair value, and report the unrealized gains and losses, net of taxes, as a component of stockholders' equity, except for unrealized losses determined to be other-than-temporary, which we record as other income (expense), net. We determine any realized gains or losses on the sale of marketable securities on a specific identification method, and we record such gains and losses as a component of interest and other income, net.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount, net of allowances for doubtful accounts, and sales rebates and returns reserves. We estimate our allowance for doubtful accounts based upon the collectability of the receivables in light of historical trends, adverse situations that may affect our customers' ability to pay and prevailing economic conditions. This evaluation is done in order to identify issues which may impact the collectability of receivables and related estimated required allowance. Revisions to the allowance are recorded as an adjustment to bad debt expense. After appropriate collection efforts are exhausted, specific accounts receivable deemed to be uncollectible are charged against the allowance in the period they are deemed uncollectible. Recoveries of accounts receivable previously written-off are recorded as credits to bad debt expense. We primarily estimate our sales rebates and returns reserves based on historical rates applied against current period gross revenues. Specific customer returns, rebates and allowances are considered when determining our estimates. Revisions to the reserves are recorded as adjustments to revenue.

Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or an exit price that would be paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. We apply fair value accounting for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. These assets and liabilities include cash and cash equivalents, marketable securities, accounts receivable, accounts payable, and accrued liabilities. Cash equivalents, accounts receivable, accounts payable and accrued liabilities are stated at carrying amounts as reported in the consolidated financial statements, which approximate fair value due to their short-term nature.

Assets and liabilities recorded at fair value on a recurring basis in the accompanying consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. We use a fair value hierarchy to measure fair value, maximizing the use of observable inputs and minimizing the use of unobservable inputs. The three-tiers of the fair value hierarchy are as follows:

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

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

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

Foreign Currency

The functional currency of our foreign subsidiaries is either the U.S. dollar or their local currency **.**

Transaction re-measurement - Assets and liabilities denominated in a currency other than a subsidiary's functional currency are re-measured into the subsidiary's functional currency using exchange rates in effect at the end of the reporting period, with gains and losses recorded in other income (expense), net in the consolidated statements of operations. We recognized $0.3 million in transaction gains, $0.5 million and $0.7 million in transaction losses for the years ended December 31, 2018 , 2017 and 2016 , respectively.

Translation - Assets and liabilities of subsidiaries denominated in foreign functional currencies are translated into U.S. dollars at the closing exchange rate on the balance sheet date and equity related balances are translated at historical exchange rates. Revenues, costs and expenses in foreign functional currencies are translated using average exchange rates that approximate those in effect during the period. Translation adjustments are accumulated as a separate component of accumulated other comprehensive income within stockholders' equity.

Inventory Valuation and Contract Manufacturer/Supplier Liabilities

Inventories primarily consist of finished goods and strategic components, primarily integrated circuits. Inventories are stated at the lower of cost (computed using the first-in, first-out method) and net realizable value. Manufacturing overhead costs and inbound shipping costs are included in the cost of inventory. We record a provision when inventory is determined to be in excess of anticipated demand, or obsolete, to adjust inventory to its estimated realizable value. For the years ended December 31, 2018 , 2017 and 2016 , we recorded charges of $20.8 million , $28.1 million and $12.1 million , respectively, within cost of product revenue for inventory write-downs.

Our contract manufacturers procure components and assemble products on our behalf based on our forecasts. We record a liability and a corresponding charge for non-cancellable, non-returnable purchase commitments with our contract manufacturers or suppliers for quantities in excess of our demand forecasts or that are considered obsolete due to manufacturing and engineering change orders resulting from design changes. For the year ended December 31, 2018, we did no t incur a net loss on such supplier liabilities. For the years ended

December 31, 2017 and 2016, we recorded a charge of $21.2 million and $6.2 million , respectively, within cost of product revenue for such liabilities with our contract manufacturers and suppliers.

We use significant judgment in establishing our forecasts of future demand and obsolete material exposures. These estimates depend on our assessment of current and expected orders from our customers, product development plans and current sales levels. If actual market conditions are less favorable than those projected by management, which may be caused by factors within and outside of our control, we may be required to increase our inventory write-downs and liabilities to our contract manufacturers and suppliers, which could have an adverse impact on our gross margins and profitability. We regularly evaluate our exposure for inventory write-downs and adequacy of our contract manufacturer liabilities.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets, generally three years. Our building is depreciated over 30 years and leasehold improvements are depreciated over the shorter of the estimated useful lives of the improvements or the remaining lease term. The leased building under our build-to-suit lease is capitalized and included in property and equipment as we were involved in the construction funding and did not meet the “sale-leaseback” criteria.

Investments in Privately-Held Companies

Our equity investments in privately-held companies without readily determinable fair values are measured using the measurement alternative, defined by Accounting Standards Codification (“ASC”) 321- *Investments-Equity Securities* as cost, less impairments, and adjusted up or down based on observable price changes in orderly transactions for identical or similar investments of the same issuer. Any adjustments resulting from impairments and/or observable price changes are recorded as “Other income (expense), net” in our consolidated statements of operations.

Prior to 2018, such investments were accounted for under the cost method and were recorded at historical cost at the time of investment, with adjustments to the balance only in the event of an impairment.

Impairment of Long-Lived Assets and Investments

The carrying amounts of our long-lived assets, including property and equipment and investments in privately held companies, are periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Recoverability of these assets is measured by comparison of the carrying amount of each asset to the future undiscounted cash flows the asset is expected to generate over their remaining lives. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset. No impairment of any long-lived assets or investments was identified for any of the periods presented.

Loss Contingencies

In the ordinary course of business, we are a party to claims and legal proceedings including matters relating to commercial, employee relations, business practices and intellectual property. In assessing loss contingencies, we use significant judgment and assumptions to estimate the likelihood of loss, impairment of an asset or the incurrence of a liability, as well as our ability to reasonably estimate the amount of loss. We record a provision for contingent losses when it is both probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. We will record a charge equal to the minimum estimated liability for litigation costs or a loss contingency only when both of the following conditions are met: (i) information available prior to issuance of our consolidated financial statements indicates that it is probable that a liability had been incurred at the date of the financial statements and (ii) the range of loss can be reasonably estimated. We regularly evaluate current information available to us to determine whether such accruals should be adjusted and whether new accruals are required.

Revenue Recognition

Effective January 1, 2018, we adopted a new revenue recognition policy in accordance with ASC 606 - *Revenue from Contracts with Custome* rs (“ASC 606”) using the modified retrospective method as discussed in the section titled *Recently Adopted Accounting Pronouncements* of this Note 1. Prior to 2018, our revenue recognition policy was based on ASC 605 - *Revenue Recognition* (“ASC 605”), and is described in Note 1 of Notes to Consolidated Financial Statements under Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on February 20, 2018.

We generate revenue from sales of our products, which incorporate our EOS software and accessories such as cables and optics, to direct customers and channel partners together with post-contract customer support (“PCS”). We typically sell products and PCS in a single contract. We recognize revenue upon transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to be entitled to receive in exchange for those products or services. We apply the following five-step revenue recognition model:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when (or as) we satisfy the performance obligation

Post-Contract Customer Support

Post-contract support, which includes technical support, hardware repair and replacement parts beyond standard warranty, bug fixes, patches and unspecified upgrades on a when-and-if-available basis, is offered under renewable, fee-based contracts. We initially defer PCS revenue and recognize it ratably over the life of the PCS contract as there is no discernable pattern of delivery related to these promises. We do not provide unspecified upgrades on a set schedule and addresses customer requests for technical support if and when they arise, with the related expenses recognized as incurred. PCS contracts generally have a term of one to three years. We include billed but unearned PCS revenue in deferred revenue.

Contracts with Multiple Performance Obligations

Most of our contracts with customers, other than renewals of PCS, contain multiple performance obligations with a combination of products and PCS. Products and PCS generally qualify as distinct performance obligations. Our hardware includes EOS software, which together deliver the essential functionality of our products. For contracts which contain multiple performance obligations, we allocate revenue to each distinct performance obligation based on the standalone selling price (“SSP”). Judgment is required to determine the SSP for each distinct performance obligation. We use a range of amounts to estimate SSP for products and PCS sold together in a contract to determine whether there is a discount to be allocated based on the relative SSP of the various products and PCS.

If we do not have an observable SSP, such as when we do not sell a product or service separately, then SSP is estimated using judgment and considering all reasonably available information such as market conditions and information about the size and/or purchase volume of the customer. We generally use a range of amounts to estimate SSP for individual products and services based on multiple factors including, but not limited to the sales channel (reseller, distributor or end customer), the geographies in which our products and services are sold, and the size of the end customer.

We limit the amount of revenue recognition for contracts containing forms of variable consideration, such as future performance obligations, customer-specific returns, and acceptance or refund obligations. We include some or all of an estimate of the related at risk consideration in the transaction price only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recorded under each contract will not occur when the uncertainties surrounding the variable consideration are resolved.

Most of our contracts with customers have payment terms of 30 days with some large high volume customers having terms of up to 60 days. We have determined our contracts generally do not include a significant financing component because the Company and the customer have specific business reasons other than financing for entering into such contracts. Specifically, both we and our customers seek to ensure the customer has a simplified way of purchasing Arista products and services.

We account for multiple contracts with a single partner as one arrangement if the contractual terms and/or substance of those agreements indicate that they may be so closely related that they are, in effect, parts of a single contract.

We may occasionally accept returns to address customer satisfaction issues even though there is generally no contractual provision for such returns. We estimate returns for sales to customers based on historical returns rates applied against current-period shipments. Specific customer returns and allowances are considered when determining our sales return reserve estimate.

Our policy applies to the accounting for individual contracts. However, we have elected a practical expedient to apply the guidance to a portfolio of contracts or performance obligations with similar characteristics so long as such application would not differ materially from applying the guidance to the individual contracts (or performance obligations) within that portfolio. Consequently, we have chosen to apply the portfolio approach when possible, which we do not believe will happen frequently. Additionally, we will evaluate a portfolio of data, when possible, in various situations, including accounting for commissions, rights of return and transactions with variable consideration.

We report revenue net of sales taxes. We include shipping charges billed to customers in revenue and the related shipping costs are included in cost of product revenue.

Contract Balances

A contract asset is recognized when we have performed under the contract, but our right to consideration is conditional on something other than the passage of time. Contract assets are included in “Other current assets” on our consolidated balance sheets.

A contract liability is recognized when we have received customer payments in advance of our satisfaction of a performance obligation under a contract that is cancellable. Contract liabilities are included in “Other current liabilities” and “Other long-term liabilities” on our consolidated balance sheets.

Assets Recognized from Costs to Obtain a Contract with a Customer

Effective January 1, 2018 in connection with the adoption of ASC 606, we recognize an asset for the incremental costs of obtaining a contract with a customer if we expect the benefit of those costs to be longer than one year. We have determined that certain sales commissions earned by our sales force meet the requirements for capitalization. These costs are deferred and then amortized over a period of benefit that we have determined to be five years. Total capitalized costs to obtain a contract are included in other current and long-term assets on our consolidated balance sheets. As of December 31, 2018, total capitalized costs to obtain contracts was $6.4 million .

Research and Development Expenses

Costs related to the research, design and development of our products are charged to research and development expenses as incurred. Software development costs are capitalized beginning when a product’s technological feasibility has been established and ending when the product is available for general release to customers. Generally, our products are released soon after technological feasibility has been established. As a result, costs incurred subsequent to achieving technological feasibility have not been significant and accordingly, all software development costs have been expensed as incurred.

Warranty

We offer a one -year warranty on all of our hardware products and a 90 -day warranty against defects in the software embedded in the products. We use judgment and estimates when determining warranty costs based on historical costs to replace product returns within the warranty period at the time we recognize revenue. We accrue for potential warranty claims at the time of shipment as a component of cost of revenues based on historical experience and other relevant information. We reserve for specifically identified products if and when we determine we have a systemic product failure. Although we engage in extensive product quality programs, if actual product failure rates or use of materials differ from estimates, additional warranty costs may be incurred, which could reduce our gross margin. The accrued warranty liability is recorded in accrued liabilities in the accompanying consolidated balance sheets.

Segment Reporting

We develop, market and sell cloud networking solutions, which consist of our Gigabit Ethernet switches and related software. We have one business activity and there are no segment managers who are held accountable for operations or operating results below the Company level. Our chief operating decision maker is our Chief Executive Officer, who reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. Accordingly, we have determined that we operate as one reportable segment.

Stock-Based Compensation

Compensation expense related to stock-based transactions, including stock options, restricted stock units (“RSUs”), restricted stock awards (“RSAs”), and stock purchase rights under our employee stock purchase program is measured and recognized in the financial statements based on the fair value of the equity granted on a straight-line basis over the requisite service periods of the awards, which typically ranges from two to five years. Beginning 2017, upon the adoption of ASU 2016-09, *Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting,* we account for forfeitures as they occur and no longer include an estimate of future forfeitures in the expense recognition. Prior to 2017, stock-based compensation expense was recognized net of estimated forfeitures.

Excess tax benefits generated from stock option exercises and other equity awards are recorded as a reduction to provision for income taxes in the consolidated statements of operations. Prior to 2017, before we adopted ASU 2016-09, such excess tax benefits were recognized as additional paid-in capital in the consolidated balance sheets. See *Recently Adopted Accounting Pronouncements* below for details. Excess tax benefits resulting from stock awards were $75.5 million , $110.0 million and $42.1 million for the years ended December 31, 2018 , 2017 and 2016 , respectively.

Income Taxes

Income tax expense is an estimate of current income taxes payable in the current fiscal year based on reported income before income taxes. Deferred income taxes reflect the effect of temporary differences and carryforwards that we recognize for financial reporting and income tax purposes.

We account for income taxes under the liability approach for deferred income taxes, which requires recognition of deferred income tax assets and liabilities for the expected future tax consequences of events that have been recognized in our consolidated financial statements, but have not been reflected in our taxable income. Estimates and judgments occur in the calculation of certain tax liabilities and in the determination of the recoverability of certain deferred income tax assets, which arise from temporary differences and carryforwards. Deferred income tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. We regularly assess the likelihood that our deferred income tax assets will be realized based on the positive and negative evidence available. We record a valuation allowance to reduce the deferred tax assets to the amount that we are more likely than not to realize.

We believe that we have adequately reserved for our uncertain tax positions, although we can provide no assurance that the final tax outcome of these matters will not be materially different. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made and could have a material impact on our financial condition and results of operations. The provision for income taxes includes the effects of any reserves that we believe are appropriate, as well as the related net interest and penalties.

We regularly review our tax positions and benefits to be realized. We recognize tax liabilities based upon our estimate of whether, and to the extent to which, additional taxes will be due when such estimates are more likely than not to be sustained. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. We recognize interest and penalties related to income tax matters as income tax expense.

Net Income per Share of Common Stock

Basic and diluted net income per share attributable to common stockholders is calculated in conformity with the two-class method required for participating securities. Our shares of common stock subject to repurchase are considered participating securities. In addition, our convertible preferred stock prior to conversion to common shares upon our initial public offering in June 2014, were also considered to be participating securities. Under the two-class method, net income attributable to common stockholders is calculated as net income less earnings attributable to participating securities. In computing diluted net income attributable to common stockholders, undistributed earnings are re-allocated to reflect the potential impact of dilutive securities. Basic net income per common share is computed by dividing the net income attributable to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted net income per share attributable to common stockholders is computed by dividing the net income attributable to common stockholders by the weighted-average number of common shares outstanding, including potential dilutive common shares assuming the dilutive effect of outstanding stock options, restricted stock units, and employee stock purchase plan using the treasury stock method. For purposes of this calculation, these amounts are excluded from the calculation of diluted net income per share of common stock if their effect is antidilutive.

Business Combinations

We use the acquisition method to account for our business combinations in accordance with ASC 805 - *Business Combinations* ("ASC 805"). We allocate the total fair value of purchase consideration to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. The excess of the consideration transferred over the fair values of the assets acquired and liabilities assumed is recorded as goodwill. The results of operations of the acquired businesses are included in our consolidated financial statements from the date of acquisition. Acquisition-related costs and restructuring costs are expensed as incurred.

During the measurement period, which is not to exceed one year from the acquisition date, we may record adjustments to the acquired assets and liabilities assumed, with a corresponding offset to goodwill or the preliminary purchase price, to reflect new information obtained about facts and circumstances that existed as of the acquisition date. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

Goodwill

We perform our annual goodwill impairment analysis in the fourth quarter of each year or more frequently if there are any events or circumstances that would indicate the carrying amount is not recoverable. We first perform a qualitative assessment to determine if it's necessary to perform a quantitative assessment. If after our qualitative assessment, we determine it is more likely than not that the fair value of the Company is less than its carrying amount, then a quantitative test is performed by comparing the fair value of the Company with its carrying amount in accordance with Accounting Standard Update ("ASU") No. 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* . We would recognize an impairment loss for the amount by which the carrying amount exceeds the fair value.

Intangible Assets

Intangible assets are carried at cost less accumulated amortization. All intangible assets have been determined to have definite lives and are amortized on a straight-line basis over their estimated useful lives, ranging from one to seven years. Intangible assets are reviewed for impairment periodically or whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable.

Recently Adopted Accounting Pronouncements

Goodwill Impairment

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment* , which eliminated step two from the goodwill impairment test. In assessing impairment of goodwill, if it is concluded that it is more likely than not that the carrying amount of a reportable segment exceeds its fair value during the qualitative assessment, a one-step quantitative goodwill impairment test will be performed. If it is concluded during the quantitative test that the carrying amount of a reportable segment exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reportable segment. The guidance is effective for us for our first quarter of 2020. Early adoption is permitted. In the third quarter of 2018, we early adopted ASU 2017-04 upon the completion of our business combinations. The standard did not have an impact to our qualitative assessment for goodwill impairment that we performed in the fourth quarter of fiscal 2018.

Revenue Recognition

During May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* . In 2016, the FASB issued ASU 2016-08, ASU 2016-10 and ASU 2016-12, which provide interpretive clarifications on the new guidance in Topic 606 (collectively, “ASC 606”). Under ASC 606, the recognition of revenue is based on consideration we expect to be entitled to from the transfer of goods or services to a customer.

The primary impact of ASC 606 is related to the deferral of incremental commission costs of obtaining customer service contracts, which were previously expensed as incurred. Under ASC 606, we defer all such costs and amortize them over the expected period of benefit. ASC 606 also requires companies to account for termination clauses at the onset of an arrangement. While there is limited history of cancellations, our prepaid subscription offerings are generally cancellable by customers with 30 days’ notice, therefore, the subscription contracts are considered month-to-month. While these prepaid amounts have historically been recorded to deferred revenue, ASC 606 requires that we record these amounts as other liabilities. In addition, ASC 606 may impact the amount and timing of revenue recognition of certain sales arrangements and the related disclosures on our consolidated financial statements.

We adopted ASC 606 on January 1, 2018 using the modified retrospective method to those contracts that were not completed as of January 1, 2018, which resulted in a cumulative effect adjustment of $3.5 million that increased retained earnings to capitalize certain commission costs that were expensed in the prior year. Correspondingly, we increased prepaid expenses and other current assets by $2.0 million , other assets by $2.2 million , and decreased deferred tax assets by $0.7 million as of January 1, 2018. In addition, we reclassified $16.5 million of deferred revenue as of January 1, 2018 to other current liabilities and other long-term liabilities related to our prepaid subscription offerings. The impact of adopting ASC 606 was not material to our financial results for the year ended December 31, 2018.

We apply a practical expedient to expense costs as incurred for costs to obtain a contract with a customer when the amortization period would have been one year or less, as well as the portfolio approach for the contracts reviewed. These costs include a portion of our sales force compensation program as we have determined annual compensation is commensurate with recurring sales activities.

Financial Instruments

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments-Recognition and Measurement of Financial Assets and Financial Liabilities* (“ASU 2016-01”), which enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information. In February 2018, the FASB issued ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments* , to clarify certain aspects of ASU 2016-01. ASU 2016-01 and ASU 2018-03 (collectively, the “new guidance”) address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. We adopted this new guidance on January 1, 2018.

Under the new guidance, there was no change in the accounting of our marketable securities as our investment policy only allows investments in debt securities. For our cost method equity investments in privately-held companies without readily determinable fair value, we elected to use the measurement alternative, defined as cost, less impairments, as adjusted up or down based on observable price changes in orderly transactions for identical or similar investments of the same issuer, which was adopted prospectively. Adjustments resulting from impairments and/or observable price changes are to be recorded as other income (expense) on a prospective basis.

The carrying amount of our equity investments and any related gain or loss may fluctuate in the future as a result of the re-measurement of such equity investments upon the occurrence of observable price changes and/or impairments.

Income Taxes on Intra-Entity Transfers of Assets

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory, which addresses recognition of current and deferred income taxes for intra-entity asset transfers when assets are sold to an outside party. Current GAAP prohibits the recognition of current and deferred income taxes until the asset has been sold to an outside party. This prohibition on recognition is considered an exception to the principle of comprehensive recognition of current and deferred income taxes in GAAP. The new guidance requires an entity to recognize the income tax consequences when the transfer occurs eliminating the exception. The guidance must be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. We adopted this guidance in our first quarter of fiscal 2018 and the impact was immaterial.

Restricted Cash in Statement of Cash Flows

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force* ("ASU 2016-18"), which requires that amounts generally described as restricted cash or restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This standard is required to be applied using a retrospective transition method to each period presented. We retrospectively adopted ASU 2016-18 in our first quarter of fiscal 2018. As a result of the adoption, we adjusted the consolidated statements of cash flows for the years ended December 31, 2017 and 2016 to increase the beginning-of-period cash amounts by $4.2 million and $4.0 million , respectively, and end-of-period cash amount by $5.5 million and $4.2 million , respectively. In addition, net cash used in investing activities for the years ended December 31, 2017 and 2016 decreased by $1.3 million and $0.2 million , respectively.

Recent Accounting Pronouncements Not Yet Effective

Nonemployee Share-Based Payments

In June 2018, the FASB issued ASU 2018-07, *Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting* ("ASU 2018-07"), to simplify the accounting for share-based payments to nonemployees by aligning it with the accounting for share-based payments to employees with certain exceptions. Under the guidance, the measurement of equity-classified nonemployee awards will be fixed at the grant date, which may lower their cost and reduce volatility in the income statement. The guidance is effective for us for our first quarter of 2019. Early adoption is permitted. ASU 2018-07 shall be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year in which the guidance is adopted. We have evaluated this new guidance and do not expect the adoption of the guidance to have a material impact on our consolidated financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases* ("ASU 2016-02"). In July 2018, the FASB issued ASU 2018-11, *Lea* ses (Topic 842): Targeted Improvements ("ASU 2018-11"). Under the guidance, lessees are required to recognize assets and lease liabilities on the balance sheet for most leases including operating leases and provide enhanced disclosures. There are optional practical expedients that a company may elect to apply. The guidance is effective for us beginning in our first quarter of 2019. Companies are required to adopt this guidance using a modified retrospective approach and apply the transition provisions under the guidance at either 1) the later of the beginning of the earliest comparative period presented in the financial statements and the commencement date of the lease, or 2) the beginning of the period of adoption (i.e. on the effective date). Under the transition method using the second application date, a company initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.

We will adopt the guidance for financial statements periods beginning January 1, 2019 using the modified retrospective transition method and initially apply the transition provisions at January 1, 2019, which allows us to continue to apply the legacy guidance in ASC 840 for periods prior to 2019. We will elect the package of transition practical expedients, which, among other things, allows us to keep the historical lease classifications and not have to reassess the lease classification for any existing leases as of the date of adoption. We will also make an accounting policy election to apply the short-term lease exception, which allows us to keep leases with an initial term of twelve months or less off the balance sheet. While we are continuing to assess all potential impacts of the standard, we expect to recognize right-of-use assets and lease liabilities for operating leases of approximately \$70.9 million and \$79.4 million as of January 1, 2019, respectively. The new guidance will not have a material impact on our consolidated statements of operations.

Credit Losses of Financial Instruments

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which requires a financial asset measured at amortized cost basis to be presented at the net amount expected to be collected. Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. This standard is effective for us for our first quarter of 2020. We are currently assessing the impact this guidance may have on our consolidated financial statements.

2. Business Combinations

In the three months ended September 30, 2018, we acquired Mojo Networks, Inc. (“Mojo”) and Metamako Holding PTY LTD. (“Metamako”) in order to extend our cognitive cloud networking architecture and to improve our next generation platforms for low-latency applications.

The total fair value of consideration transferred for these acquisitions was approximately \$117.3 million , which consisted of \$101.7 million in cash and \$15.6 million for the fair value of 58,072 shares of our common stock issued. The following table summarizes our preliminary purchase price allocation of the two acquisitions, in aggregate, based on the estimated fair value of the assets acquired and liabilities assumed at their respective acquisition dates (in thousands):

	Purchase Price Allocation
Cash and cash equivalents	$ 4,953
Other tangible assets	23,677
Liabilities	(28,706)
Intangible assets	63,720
Goodwill	53,684
Net assets acquired	$ 117,328

We continue the process of identifying and evaluating pending escrow claims related to inventory, tax and other liabilities. Accordingly, the preliminary values reflected in the table above are subject to potential measurement period adjustments.

The acquired intangible assets are amortized on a straight-line basis over their estimated useful lives as we believe this method most closely reflects the pattern in which the economic benefits of the assets will be consumed. The following table shows the valuation of the intangible assets acquired (in thousands) along with their estimated useful lives.

	Acquisition Date Fair Value	Estimated Useful Life
Developed technology	$ 52,510	5 years
Customer relationships	7,080	7 years
Trade name	2,470	3 years
Others	1,660	1 year
Total intangible assets acquired	$ 63,720	

The goodwill of $53.7 million is primarily attributable to the expected synergies created by incorporating the solutions of the acquired businesses into our technology platform, and the value of the assembled workforce. We operate under a single reportable segment. The goodwill is not deductible for income taxes purposes.

For the year ended December 31, 2018, revenue and earnings from the acquired businesses included in our consolidated statements of operations were immaterial. Pro forma results of operations for these acquisitions have not been presented because they are not material to the consolidated results of operations, either individually or in aggregate.

3. Fair Value Measurements

We measure and report our cash equivalents, restricted cash, and available-for-sale marketable securities at fair value on a recurring basis. The following tables summarize the amortized costs, unrealized gains and losses, and fair value of these financial assets by significant investment category and their level within the fair value hierarchy (in thousands):

	December 31, 2018						
	Amortized Cost	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	**Level I**	**Level II**	**Level III**
Financial Assets:							
Cash Equivalents:							
Money market funds	$ 322,080	$ —	$ —	$ 322,080	$ 322,080	$ —	$ —
Marketable Securities:							
Commercial paper	59,479	—	—	59,479	—	59,479	—
Certificates of deposits (1)	5,000	—	—	5,000	—	5,000	—
U.S. government notes	308,946	118	(286)	308,778	308,778	—	—
Corporate bonds	660,353	264	(1,399)	659,218	—	659,218	—
Agency securities	273,993	240	(511)	273,722	—	273,722	—
	1,307,771	622	(2,196)	1,306,197	308,778	997,419	—
Other Assets:							
Money market funds - restricted	4,214	—	—	4,214	4,214	—	—
Total Financial Assets	$ 1,634,065	$ 622	$ (2,196)	$ 1,632,491	$ 635,072	$ 997,419	$ —

(1) As of December 31, 2018, all of our certificates of deposits were domestic deposits.

	December 31, 2017						
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Level I	Level II	Level III
Financial Assets:							
Cash Equivalents:							
Money market funds	$ 701,145	$ —	$ —	$ 701,145	$ 701,145	$ —	$ —
Agency securities	12,728	—	—	12,728		12,728	—
	713,873	—	—	713,873	701,145	12,728	—
Marketable Securities:							
Commercial paper	11,924	—	—	11,924	—	11,924	—
U.S. government notes	137,025	—	(378)	136,647	136,647	—	—
Corporate bonds	313,080	20	(616)	312,484	—	312,484	—
Agency securities	215,923	2	(617)	215,308	—	215,308	—
	677,952	22	(1,611)	676,363	136,647	539,716	—
Other Assets:							
Money market funds - restricted	5,505	—	—	5,505	5,505	—	—
Total Financial Assets	$ 1,397,330	$ 22	$ (1,611)	$ 1,395,741	$ 843,297	$ 552,444	$ —

We did no t realize any other-than-temporary losses on our marketable securities for the years ended December 31, 2018 and 2017. As of December 31, 2018 and 2017, total unrealized losses of our marketable securities that had been in a continuous unrealized loss portion were immaterial. We invest in marketable securities that have maximum maturities of up to two years and are generally deemed to be low risk based on their credit ratings from the major rating agencies. The longer the duration of these marketable securities, the more susceptible they are to changes in market interest rates and bond yields. As interest rates increase, those marketable securities purchased at a lower yield show a mark-to-market unrealized loss. The unrealized losses are due primarily to changes in credit spreads and interest rates. We expect to realize the full value of these investments upon maturity or sale and therefore, we do no t consider any of our marketable securities to be other-than-temporarily impaired as of December 31, 2018.

As of December 31, 2018, the contractual maturities of our investments did not exceed 24 months. The fair values of available-for-sale marketable securities, by remaining contractual maturity, are as follows (in thousands):

	December 31, 2018
Due in 1 year or less	$ 875,498
Due in 1 year through 2 years	430,699
Total marketable securities	$ 1,306,197

The weighted-average remaining duration of our current marketable securities is approximately 0.7 years as of December 31, 2018. As we view these securities as available to support current operations, we classify securities with maturities beyond 12 months as current assets under the caption marketable securities in the accompanying consolidated balance sheets.

4. Financial Statements Details

Cash, Cash Equivalents and Restricted Cash

The following table is a reconciliation of cash, cash equivalents and restricted cash reported within the accompanying consolidated balance sheets that sum to the total of the same such amounts shown in the accompanying consolidated statements of cash flows (in thousands):

	December 31,		
	2018	2017	2016
Cash and cash equivalents	$ 649,950	$ 859,192	$ 567,923
Restricted cash included in other assets	4,214	5,505	4,245
Total cash, cash equivalents and restricted cash	$ 654,164	$ 864,697	$ 572,168

Accounts Receivable, net

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

	December 31,	
	2018	2017
Accounts receivable	$ 340,897	$ 254,881
Allowance for doubtful accounts	(507)	(112)
Product sales rebate and returns reserve	(8,613)	(7,423)
Accounts receivable, net	$ 331,777	$ 247,346

Allowance for Doubtful Accounts

Activity in the allowance for doubtful accounts consists of the following (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Balance at the beginning of year	$ 112	$ 204	$ 963
Additions (deductions) charged (credited) to expense	368	17	(292)
Addition in connection with business acquisitions	132	—	—
Deductions/write-offs	(105)	(109)	(467)
Balance at the end of year	$ 507	$ 112	$ 204

Product Sales Rebate and Returns Reserve

Activity in the product sales rebate and returns reserve consists of the following (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Balance at the beginning of year	$ 7,423	$ 1,317	$ 566
Additions charged against revenue	4,269	17,371	5,122
Consumption	(3,079)	(11,265)	(4,371)
Balance at the end of year	$ 8,613	$ 7,423	$ 1,317

The increase in activity in 2017 primarily relates to channel rebates that we began to offer during 2017.

Inventories

Inventories consist of the following (in thousands):

	December 31, 2018	December 31, 2017
Raw materials	$ 76,795	$ 69,673
Finished goods	187,762	236,525
Total inventories	$ 264,557	$ 306,198

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consists of the following (in thousands):

	December 31, 2018	December 31, 2017
Inventory deposit	$ 14,639	$ 34,141
Prepaid income taxes	38,636	38,134
Other current assets	95,730	96,215
Other prepaid expenses and deposits	13,316	8,840
Total prepaid expenses and other current assets	$ 162,321	$ 177,330

Property and Equipment, net

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

	December 31, 2018	December 31, 2017
Equipment and machinery	$ 55,912	$ 47,711
Computer hardware and software	30,566	22,124
Furniture and fixtures	3,697	3,020
Leasehold improvements	36,447	30,548
Building	35,154	35,154
Construction-in-process	3,591	4,742
Property and equipment, gross	165,367	143,299
Less: accumulated depreciation	(90,012)	(69,020)
Property and equipment, net	$ 75,355	$ 74,279

Depreciation expense was $21.6 million , $20.2 million and $19.4 million for the years ended December 31, 2018 , 2017 and 2016 , respectively.

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	December 31,	
	2018	2017
Accrued payroll related costs	$ 70,755	$ 56,626
Accrued manufacturing costs	31,336	35,703
Accrued product development costs	6,988	21,201
Accrued warranty costs	5,362	7,415
Accrued professional fees	5,678	7,086
Accrued taxes	839	794
Other	2,296	5,002
Total accrued liabilities	$ 123,254	$ 133,827

Warranty Accrual

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

	Year Ended December 31,	
	2018	2017
Warranty accrual, beginning of year	$ 7,415	$ 6,744
Liabilities accrued for warranties issued during the year	3,565	5,542
Warranty costs incurred during the year	(5,618)	(4,871)
Warranty accrual, end of year	$ 5,362	$ 7,415

There were no significant specific product warranty reserves recorded for the years ended December 31, 2018 or 2017 .

Contract Balances

The following table summarizes the beginning and ending balances of our contract assets (in thousands):

	Year Ended December 31, 2018
Contract assets, beginning balance	$ —
Contract assets, ending balance	$ 6,341

The following table summarizes the activity related to our contract liabilities (in thousands):

	Year Ended December 31, 2018
Contract liabilities, beginning balance	$ 16,521
Less: Revenue recognized from beginning balance	(7,561)
Less: Beginning balance reclassified to deferred revenue	(371)
Add: Contract liabilities recognized	24,006
Contract liabilities, ending balance	$ 32,595

As of December 31, 2018, $13.5 million of our contract liabilities was included in “Other current liabilities” with the remaining balance included in “Other long-term liabilities”.

Deferred Revenue and Performance Obligations

Deferred revenue is comprised mainly of unearned revenue related to multi-year PCS contracts, services and product deferrals related to acceptance clauses. The following table summarizes the activity related to our deferred revenue (in thousands):

	Year Ended December 31, 2018
Deferred revenue, beginning balance	$ 498,740 (1)
Less: Revenue recognized from beginning balance	(328,758)
Add: Deferral of revenue in current period, excluding amounts recognized during the period	417,245
Deferred revenue, ending balance	$ 587,227

(1) The beginning balance of the year ended December 31, 2018 excludes $16.5 million that was reclassified to other current liabilities and other long-term liabilities at January 1, 2018 as a result of our adoption of ASC 606. See Note 1 for details.

Revenue from Remaining Performance Obligations

Revenue from remaining performance obligations represents contracted revenue that has not yet been recognized, which primarily includes contract liabilities and deferred revenue that will be recognized as revenue in future periods. As of December 31, 2018, approximately $621.1 million of revenue is expected to be recognized from remaining performance obligations. We expect to recognize revenue on approximately 85% of these remaining performance obligations over the next 2 years and 15% during the 3rd to the 5th year.

Other Income (Expense), Net

Other income (expense), net consists of the following (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Interest income	$ 31,666	$ 8,093	$ 2,995
Interest expense	(2,701)	(2,780)	(3,136)
Loss on investments in privately-held companies, net	(13,800)	—	—
Other income (expense)	289	(825)	(1,043)
Total other income (expense), net	$ 15,454	$ 4,488	$ (1,184)

5. Investments

Investments in Privately-Held Companies

As of December 31, 2018 and 2017 , the carrying amount of our non-marketable equity investments was approximately $30.3 million and $36.1 million , respectively, with total initial costs of $44.1 million and $36.1 million , respectively. These investments are in the equity of privately-held companies, which do not have readily determinable fair values.

Prior to 2018, we accounted for our non-marketable equity securities at cost less impairment. In 2018, we adopted ASU 2016-01 and began to measure such investments using the measurement alternative. See Note 1.

During the year ended December 31, 2018, we recorded $1.2 million of unrealized gain on investments in one company after they were re-measured to fair value as of the date observable transactions occurred. In addition, during the year ended December 31, 2018, we recorded $15.0 million of impairment loss on an investment. Accordingly, as of December 31, 2018, $36.1 million of the initial costs of our investments were re-measured to fair value at $22.3 million and are classified within Level III of the fair value hierarchy. Prior to 2018, we did no t record any impairment losses for these investments.

6. Goodwill and Acquisition-Related Intangible Assets

Goodwill

Goodwill was recorded as a result of our acquisition of Mojo and Metamako in the third quarter of 2018. See Note 2 for details.

In the fourth quarter of 2018, we completed an annual goodwill impairment analysis. Based on our assessment of the qualitative factors, management concluded that the fair value of the Company was not more likely than not less than its carrying amount as of December 31, 2018. Subsequent to this 2018 annual impairment test, we have not identified significant events or circumstances negatively affecting the valuation of goodwill. As of December 31, 2018, there was no impairment to the carrying value of our goodwill.

Acquisition-Related Intangible Assets

The following table presents details of our acquisition-related intangible assets as of December 31, 2018 (in thousands):

	December 31, 2018			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Useful Life (In Years)
Developed technology	$ 52,510	$ (3,824)	$ 48,686	4.6
Customer relationships	7,080	(375)	6,705	6.6
Trade name	2,470	(289)	2,181	2.7
Others	1,660	(622)	1,038	0.6
Total	$ 63,720	$ (5,110)	$ 58,610	4.7

Amortization expense related to acquisition-related intangible assets was $5.1 million for the year ended December 31, 2018. Prior to 2018, we didn't have acquisition-related intangibles assets.

As of December 31, 2018, future estimated amortization expense related to the acquired-related intangible assets is as follows (in thousands):

Years Ending December 31,	Future Amortization Expense
2019	$ 13,375
2020	12,337
2021	12,048
2022	11,513
2023	7,690
Thereafter	1,647
Total	$ 58,610

7. Commitments and Contingencies

Operating Leases

We lease various offices and data centers in North America, Europe, Asia and Australia under non-cancelable operating lease arrangements that expire on various dates through 2028 . These arrangements require us to pay certain operating expenses, such as taxes, repairs, and insurance and contain renewal and escalation clauses. We recognize rent expense under these arrangements on a straight-line basis over the term of the lease.

As of December 31, 2018 , the aggregate future minimum payments under non-cancelable operating leases consist of the following (in thousands):

Years Ending December 31,		
2019	$	12,789
2020		13,769
2021		14,308
2022		14,291
2023		12,325
Thereafter		35,869
Total minimum future lease payments	$	103,351

Rent expense for all operating leases amounted to $11.6 million , $9.4 million and $8.1 million for the years ended December 31, 2018 , 2017 and 2016 , respectively.

Financing Obligations

Build-to-Suit Lease

In August 2012, we executed a lease for a building then under construction in Santa Clara, California to serve as our headquarters. The lease term is 120 months and commenced in August 2013. Based on the terms of the lease agreement and due to our involvement in certain aspects of the construction, we were deemed the owner of the building (for accounting purposes only) during the construction period. Upon completion of construction in 2013, we concluded that we had forms of continued economic involvement in the facility, and therefore did not meet with the provisions for sale-leaseback accounting. We continue to maintain involvement in the property post construction and lack transferability of the risks and rewards of ownership, due to our required maintenance of a $4.0 million letter of credit, in addition to our ability and option to sublease our portion of the leased building for fees substantially higher than our base rate. Therefore, the lease is accounted for as a financing obligation and lease payments will be attributed to (1) a reduction of the principal financing obligation; (2) imputed interest expense; and (3) land lease expense, representing an imputed cost to lease the underlying land of the building. At the conclusion of the initial lease term, we will de-recognize both the net book values of the asset and the remaining financing obligation.

As of December 31, 2018 and 2017 , we have recorded assets of $53.4 million , representing the total costs of the building and improvements incurred, including the costs paid by the lessor (the legal owner of the building) and additional improvement costs paid by us, and a corresponding financing obligation of $37.7 million and $39.6 million , respectively. As of December 31, 2018 , $2.3 million and $35.4 million were recorded as short-term and long-term financing obligations, respectively.

Land lease expense under our lease financing obligation amounted to $1.3 million for each of the years ended December 31, 2018 , 2017 and 2016 respectively.

As of December 31, 2018 , the future minimum payments due under our lease financing obligations were as follows (in thousands):

Years Ending December 31,		
2019	$	6,321
2020		6,506
2021		6,686
2022		6,871
2023		5,265
Thereafter		—
Total payments		31,649
Less: interest and land lease expense		(17,536)
Total payments under lease financing obligations		14,113
Property reverting to landlord		23,630
Present value of obligations		37,743
Less: current portion		(2,312)
Lease financing obligations, non-current	$	35,431

Purchase Commitments

We outsource most of our manufacturing and supply chain management operations to third-party contract manufacturers, who procure components and assemble products on our behalf based on our forecasts in order to reduce manufacturing lead times and ensure adequate component supply. We issue purchase orders to our contract manufacturers for finished product and a significant portion of these orders consist of firm non-cancellable commitments. In addition, we purchase strategic component inventory from certain suppliers under purchase commitments that in some cases are non-cancellable, including integrated circuits, which are consigned to our contract manufacturers. As of December 31, 2018 , we had non-cancellable purchase commitments of $389.2 million , of which $346.0 million was to our contract manufacturers and suppliers. In addition, we have provided deposits to secure our obligations to purchase inventory. We had $17.4 million and $36.9 million in deposits as of December 31, 2018 and 2017 , respectively. These deposits are classified in 'Prepaid expenses and other current assets' and 'Other assets' in our accompanying consolidated balance sheets.

Guarantees

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

Legal Proceedings

Cisco Systems, Inc. (“Cisco”) Matters

On August 6, 2018, we entered into a settlement agreement with Cisco Systems, Inc. (“Cisco”) as described in Note 14 relating to several litigation matters which are summarized below.

Cisco Systems, Inc. v. Arista Networks, Inc. (Case No. 4:14-cv-05343) (“’43 Case”)

On December 5, 2014, Cisco filed a complaint against us in the District Court for the Northern District of California alleging that we infringe U.S. Patent Nos. 6,377,577; 6,741,592; 7,023,853; 7,061,875; 7,162,537;

7,200,145; 7,224,668; 7,290,164; 7,340,597; 7,460,492; 8,051,211; and 8,356,296 (respectively, “the ’577 patent,” “the ’592 patent,” “the ’853 patent,” “the ’875 patent,” “the ’537 patent,” “the ’145 patent,” “the ’668 patent,” “the ’164 patent,” “the ’597 patent,” “the ’492 patent,” “the ’211 patent,” and “the ’296 patent”). Pursuant to the settlement with Cisco, as described in Note 14 , the ’43 Case was dismissed on August 27, 2018.

Cisco Systems, Inc. v. Arista Networks, Inc. (Case No. 5:14-cv-05344) (“’44 Case”)

On December 5, 2014, Cisco filed a complaint against us in the District Court for the Northern District of California alleging that we infringe numerous copyrights pertaining to Cisco’s “Command Line Interface” or “CLI” and U.S. Patent Nos. 7,047,526 and 7,953,886 (respectively, “the ’526 patent” and “the ’886 patent”). As relief for our alleged copyright infringement, Cisco sought monetary damages for alleged lost profits, profits from our alleged infringement, statutory damages, attorney’s fees, and associated costs. The ’526 patent is subject to a non-appealable final judgment of non-infringement and the ’886 patent was dismissed with prejudice.

On December 14, 2016, following a two-week trial, a jury found that we had proven our copyright defense of scenes a faire. Cisco filed a notice of appeal on June 6, 2017. Cisco did not appeal the jury’s noninfringement verdict on the ’526 patent but did appeal the jury’s finding that we established the defense of scenes a faire. On October 1, 2018, at the parties’ request and pursuant to the settlement agreement, the District Court vacated the jury verdict regarding our copyright defense and dismissed the case.

Arista Networks, Inc. v. Cisco Systems, Inc. (Case No. 5:16-cv-00923) (“’23 Case”)

On February 24, 2016, we filed a complaint against Cisco in the District Court for the Northern District of California alleging antitrust violations and unfair competition. On August 6, 2018, the Court vacated the trial in light of the settlement with Cisco as describe in Note 14 . Pursuant to the settlement with Cisco, the ’23 Case was dismissed.

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

On December 19, 2014, Cisco filed a complaint against us in the USITC alleging that we violated 19 U.S.C. § 1337 (“Section 337”). The USITC instituted Cisco’s complaint as Investigation No. 337-TA-944. Cisco initially alleged that certain of our switching products infringe the ’592, ’537, ’145, ’164, ’597, and ’296 patents.

On February 2, 2016, the Administrative Law Judge (“ALJ”) issued his initial determination finding a violation of Section 337. The ALJ found that a violation had occurred in the importation into the United States, the sale for importation or the sale within the United States after importation, of certain network devices, related software, and components thereof that the ALJ found infringed asserted claims 1, 2, 8-11, and 17-19 of the ’537 patent; asserted claims 6, 7, 20, and 21 of the ’592 patent; and asserted claims 5, 7, 45, and 46 of the ’145 patent. The ALJ did not find a violation of Section 337 with respect to any asserted claims of the ’597 and ’164 patents. Cisco dropped the ’296 patent before the hearing. On June 23, 2016, the USITC issued its Final Determination, which found a violation with respect to the ’537, ’592, and ’145 patents, and found no violation with respect to the ’597 and ’164 patents. The USITC also issued a limited exclusion order and a cease and desist order pertaining to network devices, related software, and components thereof that infringe one or more of claims 1, 2, 8-11, and 17-19 of the ’537 patent; claims 6, 7, 20, and 21 of the ’592 patent; and claims 5, 7, 45, and 46 of the ’145 patent. On August 22, 2016, the presidential review period for the 944 Investigation expired. The USITC orders will be in effect until the expiration of the ’537, ’592, and ’145 patents.

Both we and Cisco filed petitions for review of the USITC’s Final Determination to the Federal Circuit. The appeal was fully briefed and oral argument was held on June 6, 2017. On September 27, 2017, the Federal Circuit affirmed the USITC’s Final Determination.

In response to the USITC’s findings in the 944 Investigation, we made design changes to our products for sale in the United States to address the features that were found to infringe the ’537, ’592, and ’145 patents. Following the issuance of the final determination in the 944 Investigation, we submitted a Section 177 ruling request to CBP seeking approval to import these redesigned products into the United States.

On August 26, 2016, Cisco filed an enforcement complaint under Section 337 with the USITC. Cisco alleged that we violated the cease and desist and limited exclusion orders issued in the 944 Investigation by engaging in the “marketing, distribution, offering for sale, selling, advertising, and/or aiding or abetting other entities in the sale and/or distribution of products that Cisco alleges continue to infringe claims 1-2, 8-11, and 17-19 of the ’537 patent,” despite the design changes we made to those products. On September 28, 2016, the USITC instituted the enforcement proceeding.

On April 7, 2017, we received a 177 ruling from CBP finding that our redesigned products did not infringe the relevant claims of the ’537, ’592, and ’145 patents, and approving the importation of those redesigned products into the United States.

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

On August 4, 2017, the USITC issued an order remanding the investigation to the ALJ to make additional findings on certain issues and issue a remand initial determination. The USITC ordered the ALJ to set a schedule for completion of any necessary remand proceedings and a new target date for the enforcement action (the “944 Enforcement Action”). The ALJ held a hearing on February 1, 2018 and issued a remand initial determination on June 4, 2018, again finding that we did not violate the June 23, 2016 cease and desist order. Pursuant to the settlement with Cisco, the 944 Enforcement Investigation was terminated on September 17, 2018. The parties have jointly requested suspension of the remedial orders in the 944 Investigation, and on October 23, 2018, the ITC instituted a modification proceeding to determine how to modify the orders consistent with the parties’ request.

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

On December 19, 2014, Cisco filed a complaint against us in the USITC alleging that we violated Section 337. The USITC instituted Cisco’s complaint as Investigation No. 337-TA-945. The remedial orders from the 945 Investigation are no longer in effect and will terminate when the USPTO issues a certificate cancelling the asserted claims of the ’668 patent based on the IPR proceeding described below.

Inter Partes Reviews

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

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

OptumSoft, Inc. Matters

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

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

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

The parties tried Phase I of the case, relating to contract interpretation and application of the contract to certain claimed source code, in September 2015. On March 23, 2016, the Court issued a Final Statement of Decision Following Phase I Trial, in which it agreed with and adopted our interpretation of the 2004 agreement and held that we, and not OptumSoft, own all the software at issue in Phase I. The remaining issues that were not addressed in the Phase I trial are set to be tried in Phase II, including the application of the Court's interpretation of the 2004 agreement to any other source code that OptumSoft claims to own and the trade secret misappropriation and confidentiality claims. The Phase II Trial is set for September 23, 2019 by the judge.

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

With respect to the legal proceedings described above, it is our belief that while a loss is not probable, it may be reasonably possible. Further, at this stage in the litigation, any possible loss or range of loss cannot be estimated. However, the outcome of litigation is inherently uncertain. Therefore, if one or more of these legal matters were resolved against us in a reporting period for a material amount, our consolidated financial statements for that reporting period could be materially adversely affected.

Other Matters

In the ordinary course of business, we are a party to other claims and legal proceedings including matters relating to commercial, employee relations, business practices and intellectual property.

We record a provision for contingent losses when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. As of December 31, 2018 , provisions recorded for contingent losses related to other claims and matters have not been significant. Based on currently available information, management does not believe that any additional liabilities relating to other unresolved matters are probable or that the amount of any resulting loss is estimable, and believes these other matters are not likely, individually and in the aggregate, to have a material adverse effect on our financial position, results of operations or cash flows. However, litigation is subject to inherent uncertainties and our view of these matters may change in the future. Were an unfavorable outcome to occur, there exists the possibility of a material adverse impact on our financial position, results of operations or cash flows for the period in which the unfavorable outcome occurs, and potentially in future periods.

8. Equity Award Plan Activities

2014 Equity Incentive Plan

In April 2014, the board of directors and stockholders approved the 2014 Equity Incentive Plan (the “2014 Plan”), effective on the first day that our common stock was publicly traded. Our board of directors has terminated the 2004 and 2011 equity plans as to future grants. However, these plans will continue to govern the terms and conditions of the outstanding options previously granted thereunder.

Awards granted under the 2014 Plan could be in the form of Incentive Stock Options (“ISOs”), Nonstatutory Stock Options (“NSOs”), Restricted Stock Units (“RSUs”), Restricted Stock Awards (“RSAs”) or Stock Appreciation Rights (“SARs”). The number of shares available for grant and issuance under the 2014 Plan increases automatically on January 1 of each year commencing with 2016 by the number of shares equal to 3% of the outstanding shares of our common stock on the immediately preceding December 31, but not to exceed 12,500,000 shares, unless the board of directors, in its discretion, determines to make a smaller increase. Effective January 1, 2018, our board of directors authorized an increase of 2,211,176 shares to the shares available for issuance under the 2014 Plan. As of December 31, 2018 , there remained approximately 22.6 million shares available for issuance under the 2014 Plan.

2014 Employee Stock Purchase Plan

In April 2014, the board of directors and stockholders approved the 2014 Employee Stock Purchase Plan (the “ESPP”). The ESPP became effective on the first day that our common stock was publicly traded. The number of shares reserved for issuance under the ESPP increases automatically on January 1 of each year by the number of shares equal to 1% of our shares outstanding immediately preceding December 31, but not to exceed 2,500,000 shares, unless the board of directors, in its discretion, determines to make a smaller increase. Effective January 1, 2018, our board of directors authorized an increase of 737,058 shares to shares available for issuance under the ESPP. On February 4, 2019 , our board of directors authorized an increase of 756,679 shares to shares available for issuance under the ESPP effective January 1, 2019 . As of December 31, 2018 , there remained 2,533,438 shares available for issuance under the ESPP.

Under our 2014 ESPP eligible employees are permitted to acquire shares of our common stock at 85% of the lower of the fair market value of our common stock on the first trading day of each offering period or on the exercise date. Each offering period will be approximately two years starting on the first trading date after February 15 and August 15 of each year. Participants may purchase shares of common stock through payroll deductions up to 10% of their eligible compensation, subject to Internal Revenue Service mandated purchase limits.

Stock Option Activities

The following table summarizes the option activities under our stock plans and related information (in thousands, except years and per share amounts):

	Number of Shares Underlying Outstanding Options	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Balance—December 31, 2017	7,024	$ 33.05	6.1	$ 1,422,637
Options granted	113	241.92		
Options exercised	(1,189)	32.24		
Options canceled	(49)	49.53		
Balance—December 31, 2018	5,899	$ 37.09	5.2	$ 1,027,741
Vested and exercisable—December 31, 2018	3,097	$ 25.22	4.7	$ 574,392

The weighted-average grant-date fair value of options granted during the year ended December 31, 2018 , 2017 and 2016 was $121.18 , $40.17 and $23.66 per share, respectively. The aggregate intrinsic value of options exercised during the year ended December 31, 2018 , 2017 and 2016 was $283.8 million , $307.7 million and $147.6 million . The total fair value of options vested for the years ended December 31, 2018 , 2017 and 2016 was approximately $31.9 million , $30.7 million and $28.6 million , respectively.

Restricted Stock Unit (RSU) Activities

A summary of the RSU activities under our 2014 Plan and changes during the reporting period and a summary of related information are presented below (in thousands, except years and per share amounts):

	Number of Shares	Weighted-Average Grant Date Fair Value Per Share	Weighted-Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Unvested balance—December 31, 2017	1,537	$ 104.29	1.6	$ 362,119
RSUs granted	378	257.91		
RSUs vested	(538)	96.49		
RSUs forfeited/canceled	(69)	129.00		
Unvested balance—December 31, 2018	1,308	$ 150.60	1.5	$ 275,638

The total fair value of RSUs vested for the years ended December 31, 2018 , 2017 and 2016 was approximately $52.5 million , $35.4 million , and $16.9 million , respectively.

Employee Stock Purchase Plan Activities

During the year ended December 31, 2018 , we issued 190,659 shares at an average purchase price of $80.35 under our ESPP.

Shares Available for Grant

The following table presents the stock activities and the total number of shares available for grant as of December 31, 2018 (in thousands):

	Number of Shares
Balance—December 31, 2017	13,512
Authorized	2,211
Options granted	(113)
RSUs granted	(378)
Options canceled	49
RSUs forfeited	69
Shares traded for taxes	36
Balance—December 31, 2018	15,386

Restricted Stock

Pursuant to the close of an acquisition during the current quarter (see Note 2), we issued 21,749 restricted shares of our common stock to certain key employees. These restricted shares vest over four years from the acquisition date and any unvested shares will be forfeited upon termination of such employees under certain conditions. The acquisition date fair value of these shares will be recognized as stock-based compensation over their vesting period.

Stock-Based Compensation Expense

Total stock-based compensation expense related to options, RSAs, ESPP and RSUs granted were charged to the department to which the associated employee reported as follow (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Cost of revenue	$ 5,087	$ 4,353	$ 3,620
Research and development	48,205	42,184	31,892
Sales and marketing	24,995	17,953	15,666
General and administrative	12,915	10,937	7,854
Total stock-based compensation	$ 91,202	$ 75,427	$ 59,032

Determination of Fair Value

We record stock-based compensation awards based on fair value as of the grant date. We value RSUs at the market close price of our common stock on the date of grant. For option awards and ESPP offerings we use the Black-Scholes option pricing model to determine fair value. We recognize such costs as compensation expense generally on a straight-line basis over the requisite service period of the award.

Stock Options

For the years ended December 31, 2018 , 2017 and 2016 , the fair value of each stock option granted under our plans was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Year Ended December 31,		
	2018	2017	2016
Expected term (in years)	7.0	6.3	6.7
Risk-free interest rate	2.9%	2.1%	1.5%
Expected volatility	44.6%	38.9%	38.9%
Dividend rate	—%	—%	—%

ESPP

The following table summarizes the assumptions relating to our ESPP:

	Year Ended December 31,		
	2018	2017	2016
Expected term (in years)	1.1	1.2	1.2
Risk-free interest rate	2.4%	1.1%	0.6%
Expected volatility	41.9%	31.7%	31.8%
Dividend rate	—%	—%	—%

As of December 31, 2018 , unrecognized stock-based compensation expenses by award type and their expected weighted-average recognition periods are summarized in the following table (in thousands, except years).

	December 31, 2018			
	Stock Option	RSU	ESPP	Restricted Stock
Unrecognized stock-based compensation expense	$ 56,441	$ 177,382	$ 6,474	$ 5,387
Weighted-average amortization period	3.6 years	3.3 years	1.0 year	3.7 years

9. Net Income Per Share Available to Common Stock

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

	Year Ended December 31,		
	2018	2017	2016
Numerator:			
Basic:			
Net income	$ 328,115	$ 423,201	$ 184,189
Less: undistributed earnings allocated to participating securities	(189)	(801)	(1,224)
Net income available to common stockholders, basic	$ 327,926	$ 422,400	$ 182,965
Diluted:			
Net income attributable to common stockholders, basic	$ 327,926	$ 422,400	$ 182,965
Add: undistributed earnings allocated to participating securities	15	68	74
Net income attributable to common stockholders, diluted	$ 327,941	$ 422,468	$ 183,039
Denominator:			
Basic:			
Weighted-average shares used in computing net income per share available to common stockholders, basic	74,750	72,258	68,771
Diluted:			
Weighted-average shares used in computing net income per share available to common stockholders, basic	74,750	72,258	68,771
Add weighted-average effect of dilutive securities:			
Stock options, RSUs and RSAs	6,083	6,599	4,408
Employee stock purchase plan	11	120	43
Weighted-average shares used in computing net income per share available to common stockholders, diluted	80,844	78,977	73,222
Net income per share attributable to common stockholders:			
Basic	$ 4.39	$ 5.85	$ 2.66
Diluted	$ 4.06	$ 5.35	$ 2.50

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

	Year Ended December 31,		
	2018	2017	2016
Stock options and RSUs to purchase common stock	140	58	2,594
Employee stock purchase plan	71	—	—
Total	211	58	2,594

10. Income Taxes

The geographical breakdown of income before provision for income taxes is as follows (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Domestic	$ 136,818	$ 373,221	$ 196,202
Foreign	151,983	101,539	46,023
Income before income taxes	$ 288,801	$ 474,760	$ 242,225

The components of the provision for income taxes are as follows (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Current provision for income taxes:			
Federal	$ 6,113	$ 31,935	$ 64,594
State	2,018	3,645	10,529
Foreign	10,451	7,322	4,675
Total current	18,582	42,902	79,798
Deferred taxes benefit:			
Federal	(57,726)	12,795	(18,579)
State	(4,164)	(3,404)	(3,564)
Foreign	3,994	(734)	381
Total deferred	(57,896)	8,657	(21,762)
Total provision for (benefit from) income taxes	$ (39,314)	$ 51,559	$ 58,036

The reconciliation of the statutory federal income tax rate and our effective income tax rate is as follows:

	Year Ended December 31,		
	2018	2017	2016
U.S. federal statutory income tax rate	21.00 %	35.00 %	35.00 %
State tax, net of federal benefit	(0.59)	0.03	1.87
Taxes on foreign earnings differential	(3.37)	(5.18)	(2.27)
Tax credits	(7.68)	(3.23)	(4.39)
Change in valuation allowance	1.00	—	—
Uncertain tax positions and associated interest	—	—	(2.33)
Stock-based compensation	(24.90)	(25.86)	(2.81)
Tax Cuts and Jobs Act	(1.72)	11.14	—
Acquisition and integration costs	2.12	—	—
Other, net	0.53	(1.04)	(1.11)
Effective tax rate	(13.61)%	10.86 %	23.96 %

We have operations and a taxable presence in numerous jurisdictions outside the U.S. In 2018, a few of these countries have a lower tax rate than the U.S. The significant jurisdictions in which we have a presence include Cayman Islands, Ireland, and the United Kingdom.

In years ended December 31, 2017 and 2018, excess tax benefits attributable to equity compensation significantly reduced the effective tax rate upon adoption of ASU 2016-09 in the first fiscal quarter of 2017. The benefit for equity compensation has proportionally grown in the current year.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act made broad and complex changes to the U.S. tax code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 35 percent to 21 percent; (2) requiring companies to pay a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries; (3) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries; and (4) requiring a current inclusion in U.S. federal taxable income of certain earnings of controlled foreign corporations.

The SEC staff issued Staff Accounting Bulletin 118 (“SAB 118”), which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides for a one-year measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. As of December 31, 2018, we have reflected the income tax effects of the Tax Act for which the accounting is complete, as follows:

- The Deemed Repatriation Transition Tax (“Transition Tax”) is a tax on previously untaxed accumulated and current earnings and profits (“E&P”) of certain of our controlled foreign corporations (“CFCs”). In 2018, we recorded a Transition Tax expense of $6.1 million in addition to the provisional Transition Tax obligation of $18.8 million recorded in 2017.
- The Tax Act reduces the corporate tax rate to 21 percent , effective January 1, 2018. For the year ended December 31, 2017, we recorded a provisional decrease of $33.0 million for our net deferred tax assets, with a corresponding net adjustment to deferred income tax expense. There was no material change to this provision in 2018.
- The Tax Act creates a new requirement to provide U.S. tax on foreign earnings, global intangible low taxed income (“GILTI”). Under U.S. GAAP, we are allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the “period cost method”) or (2) factoring such amounts into a company’s measurement of its deferred taxes (the “deferred method”). We selected the deferred method of accounting. As a result we recorded a discrete deferred tax benefit of $11.0 million for the year ended December 31, 2018 to record the associated basis differences anticipated to influence prospective GILTI calculations.

The final impact of the Tax Act may differ from the tax expense as described above, due to, among other things, possible changes in the interpretations and assumptions made by us as a result of additional information, additional guidance that will be issued by the U.S. Department of Treasury or any other relevant governing bodies. There may be additional tax effects of the Tax Act that may materially impact our future financial statement upon finalization of law, regulations, and additional guidance and will be accounted for when such guidance is issued.

The tax effects of temporary differences that give rise to significant portions of deferred tax assets (liabilities) are as follows (in thousands):

	December 31, 2018	December 31, 2017
Deferred tax assets:		
Property and equipment	$ 1,890	$ 1,942
Stock-based compensation	19,186	22,050
Reserves and accruals not currently deductible	77,373	41,024
Net operating losses	11,052	2,432
Tax credits	57,793	30,831
Capitalized R&D expenses	30,027	—
Other	2,053	2,115
Gross deferred tax assets	199,374	100,394
Valuation allowance	(56,724)	(35,132)
Total deferred tax assets	142,650	65,262
Deferred tax liabilities:		
Acquired intangibles	(13,401)	—
Accrued liabilities	(5,190)	(2,006)
Other	(1,320)	(9)
Total deferred tax liabilities	(19,911)	(2,015)
Net deferred tax assets	$ 122,739	$ 63,247

The following table presents the breakdown between non-current deferred tax assets and liabilities (in thousands):

	December 31, 2018	December 31, 2017
Deferred tax assets, non-current	$ 126,492	$ 65,125
Deferred tax liabilities, non-current	(3,753)	(1,878)
Total net deferred tax assets	$ 122,739	$63,247

Recognition of deferred tax assets is appropriate when realization of these assets is more likely than not. We believe that all of the deferred tax assets were realizable with the exception of U.S. Federal capital losses, California, Canadian, and U.K. deferred tax assets. Therefore, a valuation allowance of $56.7 million and $35.1 million was recorded as of December 31, 2018 and 2017 , respectively, against the U.S. Federal capital losses, California, Canadian, U.K. deferred tax assets as it is more likely than not that these assets will be not be recognized.

As of December 31, 2018 , we had $73.7 million and $38.4 million of net operating loss carryforwards for federal and state income tax purposes, from the acquisition of Mojo. These losses begin to expire in 2019. For foreign jurisdictions, we had combined foreign net operating loss carryforwards of $23.8 million , which do not expire.

As of December 31, 2018 , we had U.S. federal credit carryforwards of $22.2 million , which begin to expire in 2039. We had state credit carryforwards of $84.2 million , which can be carried over indefinitely. For foreign jurisdictions, we had $1.2 million of Canadian scientific research and experimental development tax credit carry-forwards, which begin to expire in 2033.

Utilization of the net operating losses and tax credit carryforwards may be subject to limitations due to ownership changes limitations provided in the Internal Revenue code and similar state or foreign provisions.

As discussed above, the Tax Act required a Transition Tax on previously untaxed accumulated and current foreign earnings. Correspondingly, all undistributed earnings were deemed to be taxed and distributions of the unremitted earnings will not have any significant U.S. federal income tax impact. We have not provided for any remaining tax effect, if any, of limited outside basis differences of our foreign subsidiaries based upon plans of future reinvestment. The determination of the future tax consequences of the remittance of these earnings is not practicable.

Uncertain Tax Positions

We recognize uncertain tax positions only to the extent that management believes that it is more likely than not the position will be sustained. The reconciliation of the beginning and ending amount of gross unrecognized tax benefits as of December 31, 2018 , 2017 and 2016 was as follows (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Gross unrecognized tax benefits—beginning balance	$ 48,835	$ 26,915	$ 22,239
Increases related to tax positions taken in a prior year	330	1,243	46
Increases related to tax positions taken during current year	27,413	22,202	11,359
Decreases related to tax positions taken in a prior year	(675)	(21)	(426)
Decreases related to settlements with taxing authorities	—	—	(432)
Decreases related to lapse of statute of limitations	(2,173)	(1,504)	(5,871)
Adjustment for acquisition	706	—	—
Gross unrecognized tax benefits—ending balance	$ 74,436	$ 48,835	$ 26,915

As of December 31, 2018 , 2017 and 2016 , the total amount of gross unrecognized tax benefits was $74.4 million , $48.8 million and $26.9 million of which $35.7 million , $26.8 million and $13.9 million would affect our effective tax rate if recognized, respectively.

Our policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. We have recorded a net expense for interest and penalties of $0.9 million and $0.4 million in the years ended December 31, 2018 and 2017 , respectively. As of December 31, 2018 and 2017 , we recognized a liability for interest and penalties of $1.9 million and $1.0 million , respectively.

The statute of limitations for Federal remains open for 2015 and forward. Because of the net operating loss and tax credit carryforwards, all tax years remain open to state tax examination. The majority of our foreign tax returns are open to audit under the statute of limitations of the respective foreign countries, in which the subsidiaries are located. It is possible that the amount of existing unrecognized tax benefits may decrease within the next 12 months as a result of statute of limitation lapses in some of the jurisdictions, however, an estimate of the range cannot be made.

11. Segment Information

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

	Year Ended December 31,		
	2018	2017	2016
Americas	$ 1,550,453	$ 1,192,289	$ 874,740
Europe, Middle East and Africa	414,069	299,547	168,789
Asia Pacific	186,847	154,350	85,638
Total revenue	$ 2,151,369	$ 1,646,186	$ 1,129,167

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

	December 31,	
	2018	2017
United States	$ 69,238	$ 69,128
International	6,117	5,151
Total	$ 75,355	$ 74,279

12. Post-Employment Benefits

We have a 401(k) Plan that covers substantially all of our employees in the U.S. Effective January 1, 2017, we have elected to match 100% of employees' contributions up to a maximum of 3% of an employee's annual salary. Matching contributions will be immediately vested. For the years ended December 31, 2018 and 2017, we contributed approximately $4.6 million and $3.5 million for the matching contributions. For the year ended December 31, 2016 , we did not provide a discretionary company match to employee contributions.

13. Selected Quarterly Financial Information (Unaudited)

The following table sets forth selected unaudited quarterly consolidated statements of operations data for each of the quarters in the years ended December 31, 2018 and 2017 :

	Three Months Ended							
	Dec. 31, 2018	Sep. 30, 2018	Jun. 30, 2018	Mar. 31, 2018	Dec. 31, 2017	Sep. 30, 2017	Jun. 30, 2017	Mar. 31, 2017
	(in thousands)							
Revenue:								
Product	$ 503,235	$ 485,481	$ 444,767	$ 407,617	$ 407,195	$ 380,344	$ 353,904	$ 291,367
Service	92,491	77,828	75,078	64,872	60,672	57,289	51,307	44,108
Total revenue	595,726	563,309	519,845	472,489	467,867	437,633	405,211	335,475
Cost of revenue:								
Product	204,507	187,764	171,622	156,691	147,919	145,874	134,406	109,836
Service	16,227	13,962	14,340	12,879	12,783	11,142	11,028	11,429
Total cost of revenue	220,734	201,726	185,962	169,570	160,702	157,016	145,434	121,265
Gross profit	374,992	361,583	333,883	302,919	307,165	280,617	259,777	214,210
Operating expenses:								
Research and development	118,439	117,589	104,078	102,362	107,180	79,610	81,194	81,610
Sales and marketing	50,911	47,903	46,188	42,140	38,808	40,640	38,630	37,027
General and administrative	12,000	15,321	18,420	19,679	21,789	19,535	23,319	22,155
Legal settlement (1)	—	—	405,000	—	—	—	—	—
Total operating expenses	181,350	180,813	573,686	164,181	167,777	139,785	143,143	140,792
Income from operations	193,642	180,770	(239,803)	138,738	139,388	140,832	116,634	73,418
Other income (expense), net:								
Interest expense	(661)	(673)	(680)	(687)	(741)	(701)	(623)	(715)
Other income (expense), net	5,509	9,292	(1,489)	4,843	2,988	2,136	1,119	1,025
Total other income (expense), net	4,848	8,619	(2,169)	4,156	2,247	1,435	496	310
Income before income taxes	198,490	189,389	(241,972)	142,894	141,635	142,267	117,130	73,728
Provision for (benefit from) income taxes (2)	28,168	20,865	(86,703)	(1,644)	37,802	8,545	14,445	(9,233)
Net income (loss)	$ 170,322	$ 168,524	$ (155,269)	$ 144,538	$ 103,833	$ 133,722	$ 102,685	$ 82,961
Net income (loss) per share attributable to common stockholders:								
Basic	$ 2.26	$ 2.25	$ (2.08)	$ 1.95	$ 1.42	$ 1.84	$ 1.42	$ 1.16
Diluted	$ 2.10	$ 2.08	$ (2.08)	$ 1.79	$ 1.29	$ 1.68	$ 1.30	$ 1.07

(1) See Note 14.

(2) Resulting from the adoption of ASU 2016-09, provision for (benefit from) income taxes for the first, second, third and fourth quarter of 2018 included excess tax benefits of $25.3 million, $20.1 million, $22.3 million and $7.8 million, respectively, of 2017 included $28.8 million, $19.1 million, $23.8 million and $38.3 million, respectively. In addition, provision for income taxes for the fourth quarter of 2017 included a provisional amount of $51.8 million in connection with the Tax Act enacted on December 22, 2017. See Note 10 for details. Benefit from income taxes for the second quarter of 2018 also included a benefit of $99.0 million in connection with our legal settlement with Cisco. See Note 14.

14. Legal Settlement

On August 6, 2018, we entered into a binding Term Sheet with Cisco to settle various legal matters between us and Cisco as described in Note 7. Pursuant to the Term Sheet, we paid Cisco $400.0 million on August 20, 2018, and the Company and Cisco obtained dismissals of all ongoing district court and USITC litigation between us. Cisco granted us a release for all past claims relating to the patents Cisco asserted against us in the district court and USITC, and we granted Cisco a release from all past antitrust and unfair competition claims. These mutual releases extended to the Company's and Cisco's customers, contract manufacturers, and partners. The parties further agreed to a five -year stand-down period for any utility patent infringement claims either may have against features currently implemented in the other party's products and services, with some carve-outs for products stemming from acquired companies. The parties further agreed to a three -year dispute resolution process for allegations by either party against new and/or modified features in the other party's products. We also agreed to make certain modifications to our CLI. On December 3, 2018, the parties entered into a Mutual Release and Settlement Agreement ("Definitive Agreement"), which superseded the Term Sheet but did not substantially alter the terms.

Upon signing the Term Sheet, we recorded a legal settlement charge of $405.0 million to operating expenses, which included the $400.0 million payment to Cisco and $5.0 million of legal fees associated with the settlement in the three months ended June 30, 2018. We have also recorded a corresponding income tax benefit of $96.9 million for the year ended December 31, 2018.

Item 9. Change in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Management, with the participation of our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2018 . The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Based on the evaluation of our disclosure controls and procedures as of December 31, 2018 , our CEO and CFO concluded that, as of such date, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission (SEC) rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Securities and Exchange Act of 1934, as amended, that occurred during the year ended December 31, 2018 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

In connection with our adoption of ASC 842, the new lease accounting standard, on January 1, 2019, we implemented internal controls to ensure we adequately evaluated our contracts and properly assessed the impact of ASC 842 on our financial statements disclosures.

Inherent Limitations of Internal Controls

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

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is a process designed under the supervision of our principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the Consolidated Financial Statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2018 , based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework (2013 framework). Based on that assessment, management concluded that, as of December 31, 2018 , our internal control over financial reporting was effective.

The effectiveness of our internal control over financial reporting as of December 31, 2018 , has been audited by Ernst & Young LLP, the independent registered public accounting firm that audits our Consolidated Financial Statements, as stated in their report included in Item 8 of this Annual Report on Form 10-K, which expresses an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2018 .

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers, and Corporate Governance

Information required by this Item is incorporated herein by reference to our definitive proxy statement with respect to our 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 11. Executive Compensation

Information required by this Item is incorporated herein by reference to our definitive proxy statement with respect to our 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by this Item is incorporated herein by reference to our definitive proxy statement with respect to our 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 13. Certain Relationships and Related Transactions and Director Independence

Information required by this Item is incorporated herein by reference to our definitive proxy statement with respect to our 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 14. Principal Accountant Fees and Services

Information required by this Item is incorporated herein by reference to our definitive proxy statement with respect to our 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

PART IV

Item 15. Exhibits and Financial Statement Schedules

Documents filed as part of this Annual Report on Form 10-K are as follows:

1. Consolidated Financial Statements

Our Consolidated Financial Statements are listed in the “Index to Consolidated Financial Statements” under Part II, Item 8 of this Annual Report on Form 10-K.

2. Financial Statement Schedules

Financial statement schedules have been omitted because they are not required, not applicable, not present in amounts sufficient to require submission of the schedule, or the required information is shown in the Consolidated Financial Statements or Notes thereto.

3. Exhibits

The exhibits listed in the following Exhibit Index are filed or incorporated by reference into this report:

EXHIBIT INDEX

Exhibit Number	Description	Incorporated by Reference: Form	File No.	Exhibit	Filing Date	Filed Herewith
3.1	Amended and Restated Certificate of Incorporation of the Registrant.	10-Q	001-36468	3.1	8/8/2014	
3.2	Bylaws of the Registrant.	10-Q	001-36468	3.2	8/8/2014	
4.1	Form of the Registrant's common stock certificate.	S-1/A	333-194899	4.1	4/21/2014	
4.2	Investors' Rights Agreement, dated October 16, 2004, between Registrant and certain holders of Registrant's capital stock named therein.	S-1	333-194899	4.2	3/31/2014	
4.3	Investors' Rights Agreement, dated January 4, 2011, between Registrant and certain holders of Registrant's capital stock named therein.	S-1	333-194899	4.3	3/31/2014	
10.1	Form of Indemnification Agreement between the Registrant and each of its directors and executive officers.	S-1/A	333-194899	10.1	5/2/2014	
10.2 †	2004 Equity Incentive Plan.	S-1	333-194899	10.2	3/31/2014	
10.3 †	2011 Equity Incentive Plan.	S-1	333-194899	10.3	3/31/2014	
10.4 †	2014 Equity Incentive Plan.	S-1/A	333-194899	10.4	5/27/2014	
10.5 †	2014 Employee Stock Purchase Plan.	10-K	001-36468	10.5	3/12/2015	
10.6 †	Offer Letter, dated October 17, 2004, by and between the Registrant and Kenneth Duda.	S-1	333-194899	10.6	3/31/2014	
10.7 †	Offer Letter, dated June 8, 2007, by and between the Registrant and Anshul Sadana.	S-1	333-194899	10.7	3/31/2014	
10.8 †	Offer Letter, dated August 1, 2008, by and between the Registrant and Jayshree Ullal.	S-1	333-194899	10.8	3/31/2014	
10.9 †	Offer Letter, dated March 27, 2013, by and between the Registrant and Charles Giancarlo.	S-1	333-194899	10.9	3/31/2014	
10.10 †	Offer Letter, dated June 3, 2013, by and between the Registrant and Ann Mather.	S-1	333-194899	10.10	3/31/2014	
10.11	Lease between Arista Networks, Inc. and The Irvine Company LLC, dated August 10, 2012, as amended on February 28, 2013.	S-1	333-194899	10.15	3/31/2014	
10.12	Second Amendment to Lease, by and between Arista Networks, Inc. and The Irvine Company LLC, dated July 30, 2014.	10-Q	001-36468	10.1	8/8/2014	
10.13	License Agreement, dated November 30, 2004, by and between the Registrant and OptumSoft, Inc.	S-1	333-194899	10.16	3/31/2014	
10.14‡	Manufacturing Services Letter Agreement, dated February 5, 2007, between the Registrant and Jabil Circuit, Inc.	S-1	333-194899	10.17	3/31/2014	
10.15 †	Employee Incentive Plan.	S-1/A	333-194899	10.21	4/21/2014	
10.16 †	Offer Letter, dated May 18, 2015, by and between the Registrant and Ita Brennan.	8-K	001-36468	10.1	5/14/2015	
10.17 †	Severance Agreement, effective May 18, 2015, by and between the Registrant and Ita Brennan.	8-K	001-36468	10.2	5/14/2015	
10.18 †	2015 Global Sales Incentive Plan.	10-Q	001-36468	10.3	5/5/2016	
10.19 †	Offer letter, dated January 2, 2013, by and between the Registrant and Marc Taxay.	10-Q	001-36468	10.1	5/8/2017	
10.20 †	Severance Agreement, dated March 30, 2015, by and between the Registrant and Marc Taxay.	10-Q	001-36468	10.2	5/8/2017	

Exhibit Number	Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.21 †	Offer letter, dated February 14, 2017, by and between the Registrant and John McCool.	10-Q	001-36468	10.3	5/8/2017	
10.22 †	Severance Agreement, dated March 20, 2017, by and between the Registrant and John McCool.	10-Q	001-36468	10.4	5/8/2017	
10.23 ‡	Term Sheet of Mutual Release and Settlement Agreement, dated August 6, 2018, between the Registrant and Cisco Systems, Inc.	10-Q	001-36468	10.1	11/5/2018	
10.24 ‡	Mutual Release and Settlement Agreement, dated August 6, 2018, by and between the Registrant and Cisco Systems, Inc.					✓
10.25 †	Offer letter, dated December 22, 2017, by and between the Registrant and Manuel Rivelo.					✓
10.26 †	Severance Agreement, dated December 22, 2017, by and between the Registrant and Manuel Rivelo.					✓
21.1	List of Subsidiaries of the Registrant.					✓
23.1	Consent of Independent Registered Public Accounting Firm.					✓
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					✓
31.2	Certification of the Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.					✓
32.1*	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.					✓
101.INS	XBRL Instance Document.					
101.SCH	XBRL Taxonomy Extension Schema Document.					
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.					
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.					
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.					
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.					

† Indicates a management contract or compensatory plan or arrangement.

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

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

Item 16. Form 10-K Summary

None.

SIGNATURES

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

Arista Networks, Inc.
(Registrant)

Dated: February 15, 2019

By: /s/ JAYSHREE ULLAL
Jayshree Ullal
President, Chief Executive Officer and Director
(Principal Executive Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Jayshree Ullal and Ita Brennan, jointly and severally, his or her attorney-in-fact, with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Annual Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his or her substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ JAYSHREE ULLAL **Jayshree Ullal**	President, Chief Executive Officer and Director (Principal Executive Officer)	February 15, 2019
/s/ ITA BRENNAN **Ita Brennan**	Chief Financial Officer (Principal Accounting and Financial Officer)	February 15, 2019
/s/ ANDY BECHTOLSHEIM **Andy Bechtolsheim**	Founder, Chief Development Officer and Director	February 15, 2019
/s/ CHARLES GIANCARLO **Charles Giancarlo**	Director	February 15, 2019
/s/ ANN MATHER **Ann Mather**	Director	February 15, 2019
/s/ DAN SCHEINMAN **Dan Scheinman**	Director	February 15, 2019
/s/ MARK TEMPLETON **Mark Templeton**	Director	February 15, 2019
/s/ NIKOS THEODOSOPOULOS **Nikos Theodosopoulos**	Director	February 15, 2019

Exhibit 10.24

CONFIDENTIAL TREATMENT REQUESTED

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

MUTUAL RELEASE AND SETTLEMENT AGREEMENT

This Mutual Release and Settlement Agreement ***("Agreement")*** is effective as of August 6, 2018 ***("Effective Date")*** between Cisco Systems, Inc. ***("Cisco"),*** a California corporation with its principal place of business at 170 West Tasman Drive, San Jose, California 95134, and Arista Networks, Inc. ***("Arista"),*** a Delaware corporation with its principal place of business at 5453 Great America Parkway, Santa Clara, CA 95054.

RECITALS

WHEREAS, Cisco and Arista have been involved in ongoing disputes involving proceedings at the International Trade Commission ***("ITC"),*** litigations in federal district courts, inter partes review ***("IPR")*** proceedings at the Patent Trial and Appeal Board ***("PTAB"),*** and related appeals; and

WHEREAS, the Parties now desire to fully resolve the Parties' ongoing disputes; and

THEREFORE, in consideration of the promises and mutual covenants herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Cisco and Arista, each on behalf of itself and its Affiliates, agree as follows:

AGREEMENT

Section 1 . DEFINITIONS

1.1 ***"Acquire"*** or ***"Acquisition"*** shall mean: (a) if an Entity has voting shares or other voting securities, an acquisition of more than fifty percent (50%) of the outstanding shares or securities representing the right to vote for the election of directors or other similar managing authority for such Entity; or (b) if an Entity does not have voting shares or other voting securities, an acquisition of more than fifty percent (50%) of the ownership interests representing the right to make decisions for such Entity; or (c) an acquisition of all or substantially all of the assets of an Entity; or (d) otherwise obtaining the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of an Entity, whether through the ownership of voting securities, by contract or otherwise.

1.2 ***"Acquired Products"*** shall mean any products or services developed, offered for sale, marketed or sold by (a) Mojo Networks, Inc. or Duo Security, Inc., or their affiliates prior to Acquisition by the respective Parties, (b) any Entity that has been or is acquired by a Party or its

Affiliates in an acquisition with a closing date after August 1, 2018, or (c) any Entity that otherwise has become or becomes an Affiliate of a Party after August 1, 2018.

1.3 ***"Affiliate"*** of a Party shall mean any and all Entities that, at any time during the term of this Agreement (but only during such period of time that the following ownership and control exist): (i) own or Control, directly or indirectly, that Party; or (ii) are owned or Controlled by, or under common Control with, directly or indirectly, that Party; or (iii) are owned or Controlled by, directly or indirectly, the same parent company as the Party. ***"Control"*** of an Entity means (a) if the Entity has voting shares or other voting securities, ownership of, or authority over, (directly or indirectly) more than fifty percent (50%) or more of the voting power of the outstanding voting stock or other equity interests in the Entity; (b) if the Entity does not have voting shares or other voting securities, ownership of, or authority over, (directly or indirectly) more than fifty percent (50%) or more of the ownership interest representing the right to make decisions for such Entity; or (c) the power to otherwise direct the affairs of the Entity.

1.4 ***"Antitrust Case"*** shall mean District Court Case No. 5:16-cv-00923-BLF in the Northern District of California.

1.5 ***"Change of Control"*** shall mean (a) an Acquisition of a Party by another Entity; or (b) a merger or consolidation with or into another Entity as a result of which transaction (or series of related transactions) the shareholders of a Party immediately prior to such transaction(s) own, immediately after such transaction(s), less than fifty percent (50%) of the outstanding voting shares or securities of the surviving Entity; or (c) any transaction (or series of related transactions) in which another Entity (together with its affiliates) Acquires, directly or indirectly, including pursuant to a sale of assets, tender offer, exchange offer, merger, consolidation, reorganization, business combination, recapitalization, liquidation, dissolution or similar transaction, a Party.

1.6 ***"CLI"*** shall mean multiword commands, help description strings, and screen outputs of a command line interface, including the selection, arrangement, organization, and design of such elements.

1.7 ***"Contract Manufacturers"*** shall mean Entities independent from a Party that assemble finished products in accordance with that Party's proprietary specifications, but expressly excludes component or subassembly manufacturers or developers and designers thereof.

1.8 ***"Copyright Appeal"*** shall mean Case No. 17-2145 in the Court of Appeals for the Federal Circuit ***("Federal Circuit").***

1.9 ***"District Court Copyright Case"*** shall mean District Court Case No. 5:14-cv- 5344-BLF in the Northern District of California.

1.10 ***"District Court Patent Case"*** shall mean District Court Case No. 4:14-cv- 05343-JSW in the Northern District of California.

1.11 ***"Entity"*** shall mean a corporation, association, partnership, business trust, joint venture, limited liability company, proprietorship, unincorporated association, individual or other entity that can exercise independent legal standing.

1.12 ***"Existing Material"*** shall mean material subject to copyright in use by a Party or its Affiliates as of the Effective Date.

1.13 ***"Existing Products"*** shall mean any generally available products or services of a Party sold or offered for sale under the Party's or its Affiliates' brand before the Effective Date, but shall exclude Acquired Products.

1.14 ***"Five Year Stand Down for Existing Products"*** shall mean the provisions of Section 3.1.

1.15 ***"Future CLI Elements"*** shall mean any multiword commands, help description strings, and screen outputs first used by Arista or its Affiliates after the Effective Date.

1.16 ***"IPR Appeals"*** shall mean the appeals from IPRs currently before the Federal Circuit involving U.S. Patent Nos. 7,162,537 (the ***"'537 Patent"***), 6,377,577 (the ***"'577 Patent"***), 7,023,853 (the ***"'853 Patent"***), and 7,340,597 (the ***"'597 Patent"***).

1.17 ***"IPR Proceedings"*** shall mean the IPR-related proceedings currently before the PTAB involving the '537, '853, and '597 Patents, and U.S. Patent No. 8,051,211 (the ***"'211 Patent"***).

1.18 ***"ITC Actions"*** shall mean both ITC Investigation Nos. 337-TA-944 (including the enforcement action, collectively the ***"944 Investigation"***) and 337-TA-945 (including the modification proceeding, collectively the ***"945 Investigation"***).

1.19 ***"ITC Appeal"*** shall mean the appeal from the remedial orders in the 945 Investigation pending before the Federal Circuit as Case Nos. 17-2289 and 17-2351.

1.20 ***"Modified CLI"*** shall mean multiword commands and help description strings in Appendices A and B that Arista will remove and replace with new multiword commands and help description strings that comply with Future CLI Elements in accordance with Section 5.3.

1.21 ***"Monetary Payment"*** shall mean the payment in accordance with Section 7.1.

1.22 ***"New Products"*** shall mean products or services of a Party or its Affiliates having any new or changed features and/or functionality from Existing Products or otherwise different from any Existing Products, and shall include Acquired Products.

1.23 ***"Party"*** or ***"Parties"*** shall mean either Cisco, Arista, or both, as the context indicates.

1.24 ***"Proceedings"*** shall mean the ITC Actions, the ITC Appeal, the District Court Patent Case, the District Court Copyright Case, the Copyright Appeal, the Antitrust Case, the IPR Proceedings, and the IPR Appeals.

1.25 ***"Redesigned Products"*** shall mean current Arista products for sale in the United States with changes made to address the ITC's infringement findings for the '537 Patent and U.S. Patent Nos. 7,200,145 (the ***"'145 Patent"***) and 6,741,592 (the ***"'592 Patent"***) as referenced in Section 4 of this Agreement.

1.26 ***"Three Year Stand Down and Dispute Resolution Process for New Products"*** shall mean the provisions of Section 3.2.

Section 2. GLOBAL SETTLEMENT

2.1 Suspension of ITC Actions. Upon receipt of the Monetary Payment, the Parties will jointly ask the ITC to suspend the enforcement action in the 944 Investigation.

2.2 Dismissals. Within five (5) business days after receipt of the Monetary Payment, the following will occur:

(a) ITC Actions. Cisco will move to terminate the ITC Actions. Cisco will also seek to suspend the remedial orders from the 944 Investigation provided that Arista complies with the requirements in this Agreement that Arista maintain the modifications in its Redesigned Products to address the ITC's infringement findings for the '537, '145, and '592 Patents. Cisco will cooperate with Arista to facilitate suspension by United States Custom and Border Protection of enforcement of the ITC remedial orders relating to Arista products. Cisco will consent to a request by Arista to the ITC for return of any bonds posted in connection with the 945 Investigation. Both Cisco and Arista will dismiss with prejudice the ITC Appeal.

(b) Dismissal of District Court Patent Case . Cisco will dismiss with prejudice the District Court Patent Case.

(c) Dismissal of Antitrust Case . Within five (5) days of execution of this Agreement, Arista will dismiss with prejudice the Antitrust Case.

2.3 Continuation of IPR Proceedings and IPR Appeals. Arista may continue at its discretion the IPR Proceedings. In the event Arista chooses to proceed adjudicating any of the **IPR** Proceedings, Cisco may continue to defend against those proceedings. Either Party may continue adjudicating the IPR Appeals.

2.4 Mutual Releases. Upon receipt of the Monetary Payment, each Party will on behalf of itself and its Affiliates release all claims that exist as of the Effective Date against the other Party and its Affiliates, whether known or unknown, arising from or relating to (a) the patents asserted in the ITC Actions, the District Court Patent Case and the District Court Copyright Case; and (b) all antitrust or unfair competition claims that could have been brought against the other Party or its Affiliates as of the Effective Date. Upon receipt of the Monetary Payment, each Party will on behalf of itself and its Affiliates release claims against the customers, Contract Manufacturers (but only to the extent specified below), and downstream partners of the other Party or its Affiliates, but only claims that exist as of the Effective Date against Existing Products of the other Party or its Affiliates, whether known or unknown, arising from or relating to the patents asserted in the ITC Actions, the District Court Patent Case and the District Court

Copyright Case. The mutual releases extend to Contract Manufacturers solely for their activities of assembling finished products for a Party according to the proprietary specifications of that Party and do not extend to any other activities performed by a Contract Manufacturer for a Party or any activities performed for another Entity. Each Party hereby represents and warrants that it has the authority to execute such releases. The above-mentioned releases will take effect from the date of receipt of the Monetary Payment and will from such date be irrevocable.

Section 3. STAND DOWNS

3.1 Five Year Stand Down for Existing Products. Upon receipt of the Monetary Payment, for a period of five (5) years from the Effective Date, neither Party nor any of its Affiliates will bring in a court or other governmental tribunal against (a) the other Party or any of its Affiliates any utility patent infringement claim against features or functionalities used in any Existing Product, or (b) the other Party's or its Affiliates' respective customers, Contract Manufacturers, or downstream partners any utility patent infringement claim against features or functionalities used in Existing Products, or (c) any antitrust claims against the other Party or its Affiliates. Also, during the Five Year Stand Down for Existing Products, neither Party nor any of its Affiliates will bring against (x) the other Party or any of its Affiliates any copyright infringement claim against their user interfaces based on Existing Material, or (y) the other Party's or its Affiliates' respective customers, Contract Manufacturers, or downstream partners any copyright infringement claim against the other Party's user interfaces based on Existing Material.

3.2 Three Year Stand Down and Dispute Resolution Process for New Products. Upon receipt of the Monetary Payment, for three (3) years from the Effective Date (***"Arbitration Period"***), and subject to the terms and conditions set forth below, neither Party nor any of its Affiliates (the ***"Asserting Party"***) will bring in a court or other governmental tribunal a utility patent infringement claim against the other Party or its Affiliates (the ***"Defending Party"***) for New Products, unless the following occur:

(a) Meet and Confer. The Asserting Party first sends written notice to the Defending Party and immediately in good faith engages in a meet and confer process of not more than fifteen (15) calendar days, unless extended by the Asserting Party, with the Defending Party in which they attempt to resolve a claim or allegation that New Product(s) of the Defending Party infringe one or more valid claims of utility patent(s) of the Asserting Party (the ***"Infringement Claim"***) and whether any such infringement arises entirely from features or functionality completely contained within a component generally available for sale by a third party supplier and which features or functionality were developed entirely without input from the Defending Party (***"Supplier Functionality"***). Features and/or functionality which are implemented by a combination of one or more components with software or hardware developed by or for the Defending Party shall not be deemed to be Supplier Functionality. During the meet and confer process, the Defending Party shall in good faith provide sufficient information to the Asserting Party (or, at the request of the Defending Party to protect its confidential business information to the Asserting Party ' s outside counsel or third party experts) about the New Product(s) for the Asserting Party to assess whether there is any infringement or alternatively whether the Infringement Claim is entirely directed to Supplier Functionality.

(b) Arbitration. If the Infringement Claim is not resolved during the meet and confer process, the Asserting Party may then provide written notice to the Defending Party and the Judicial Arbitration and Mediation Services, Inc. (***"JAMS"***) within five (5) calendar days after completion of the meet and confer period that it is initiating arbitration proceedings to adjudicate the Infringement Claim (***"New Product Arbitration Notice"***) . The Defending Party may elect to defend against the Infringement Claim on the basis of any defenses that would be available in U.S. District Court (***"Infringement Defense"***) and/or on the basis that the infringement assertion is entirely directed to Supplier Functionality (***"Supplier Defense"***). For avoidance of doubt, the Defending Party may assert both an Infringement Defense and a Supplier Defense, and in such case the provisions referring to Infringement Defense and Supplier Defense will both apply. The Parties will meet and confer to seek to mutually agree on an arbitrator from JAMS within ten (10) calendar days of the New Product Arbitration Notice. If the Parties cannot reach an agreement on an arbitrator within this timeframe, the Parties hereby consent to appointment of an arbitrator by JAMS according to its appointment procedures. The arbitration will proceed in accordance with JAMS Comprehensive Arbitration Rules as modified herein. In the case of an Infringement Defense, the arbitration shall provide for discovery of information relevant to the Infringement Claim, the construction of the patent claims and validity of the patent. In the case of a Supplier Defense, the arbitration shall provide for discovery of information relevant to establishing whether the Infringement Claim is directed exclusively to Supplier Functionality. Within two (2) days of the arbitrator being selected, the Parties will exchange via electronic mail the names of individuals with relevant knowledge of the underlying dispute. Within three (3) calendar days of such exchange, the arbitrator will determine the scope and extent of fact and expert discovery after considering oral argument from both Parties. In either case, the arbitration shall provide for written briefing and a hearing within one hundred (100) calendar days of the New Product Arbitration Notice. Within fifteen (15) calendar days of the hearing, the arbitrator will render a preliminary determination (the ***"PD"***) of the Infringement Claim. In the case of an Infringement Defense, the PD will include a determination as to validity and infringement of the patent. In the case of a Supplier Defense, the PD will include a determination as to whether the Infringement Claim is entirely directed to Supplier Functionality. The arbitrator shall issue a final arbitration decision (***"FAD"***) within fifteen (15) calendar days of the PD. Prior to the FAD, the Parties may provide information to each other and the arbitrator relevant to the PD, or if the PD finds infringement, the Defending Party may elect by providing written notice to the Asserting Party and the arbitrator, to end the arbitration and proceed to modification in accordance with Section 3.2(c). For the sake of clarity, if the Defending Party proceeds to successful modification in accordance with Section 3.2(c) in response to the PD and before issuance of a FAD, the Three Year Stand Down and Dispute Resolution Process will remain in effect.

(c) Infringement Finding. If the arbitrator determines in a FAD in the case of an Infringement Defense that there is infringement of a valid patent (***"Infringement Finding"***) or the Defending Party elects to proceed to modification after a PD but before the

FAD, then the Defending Party shall have [***] calendar days following such determination to (i) cure the infringement through modification of the New Product; (ii) submit the

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proposed modification to the arbitrator; and (iii) provide sufficient evidence to the arbitrator that the New Product as modified no longer infringes. The arbitrator will review the New Product as modified and will determine within thirty (30) calendar days whether the New Product as modified infringes the asserted valid patent. If the arbitrator determines that the New Product as modified does not infringe, the arbitrator shall determine a time period up to a maximum of [***] calendar days for software-related changes and [***] calendar days for hardware-related changes, by which the Defending Party must complete the transition to sell and distribute to its customers this modification of the New Product (***"Implementation of New Product as Modified"***). At the time the arbitrator determines that the New Product as modified does not infringe, the Defending Party may make a request to the arbitrator for up to an additional [***] calendar days for Implementation of New Product as Modified, provided that the Defending Party publicly announces the modification and that the modification is in response to a patent related issue simultaneously with the request for additional time. The arbitrator shall grant such request for additional time if the arbitrator deems it is necessary and that it would have been impractical for the Defending Party to commence earlier work on the modification or to have avoided infringement. The Defending Party may continue to provide service and support in accordance with existing service contracts for any products that were shipped before the end of the timeframe for completing Implementation of New Product as Modified.

(d) Termination. In the event the Defending Party does not complete Implementation of New Product as Modified within the designated timeframe, then the Arbitration Period and Three Year Stand Down and Dispute Resolution Process for New Products shall immediately terminate for all purposes and either Party may bring any action for patent infringement in a court or other governmental tribunal. If the arbitrator determines that the New Product as modified infringes (whether or not a related Supplier Defense is raised) or the Defending Party has failed to submit a modified product for review by the arbitrator within the designated time frame, then the Arbitration Period and Three Year Stand Down and Dispute Resolution Process for New Products shall immediately terminate and either Party may bring a patent infringement claim (other than infringement claims subject to the Five Year Stand Down for Existing Products) against any New Product of the other Party based on any patent in a court or other governmental tribunal. Neither the arbitration proceedings nor the findings in the arbitration proceedings will be admissible in any court or other government tribunal proceeding.

(e) Exceptions to Termination. Notwithstanding the foregoing, the Arbitration Period and Three Year Stand Down and Dispute Resolution Process for New Products shall remain in effect, notwithstanding the fact that the Defending Party has not modified the New Product so as to no longer infringe, under the following circumstances: (a) if the Infringement Claim is determined by the arbitrator to be based on an allegation that features and/or functionality required for standards compliance infringe a Standards Essential Patent with respect to which the Defending Party gives the Asserting Party written notice it is willing to pay royalties at FRAND rates determined by a U.S. District Court after adjudication of infringement and any defenses by the arbitrator, or (b) if the infringement arises from a combination of new, different or changed Supplier Functionality with a feature

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or functionality of the Defending Party and the only way the Defending Party can cure the infringement would be to remove a significant feature or functionality (as determined by the arbitrator) that was present in an Existing Product, and where the prior Supplier Functionality is no longer available.

(f) Supplier Defense. In the case of a Supplier Defense, if the arbitrator determines in a FAD that the Infringement Claim is not entirely directed to Supplier Functionality then the Arbitration Period and Three Year Stand Down and Dispute Resolution Process for New Products continues, but the Asserting Party may bring a patent infringement claim in a court or administrative proceeding against the accused New Product. In the case of a Supplier Defense, if the arbitrator determines in a FAD that the Infringement Claim is entirely directed to Supplier Functionality, then the Arbitration Period and Three Year Stand Down and Dispute Resolution Process for New Products continue, the Asserting Party may not bring a patent infringement claim against the Defending Party based on the Supplier Functionality for the remainder of the Arbitration Period, but the Asserting Party retains its rights to proceed directly against the relevant supplier.

(g) Fees and Costs . The prevailing Party in the arbitration will be entitled to its reasonable attorneys' fees and costs incurred in connection with the arbitration.

(h) Termination for Infringement in a FAD. Notwithstanding the foregoing, if the arbitrator determines in a FAD that a New Product has infringed, and regardless of whether the New Product is modified to avoid infringement after the FAD and regardless of whether the Defending Party also raises a Supplier Defense, the Arbitration Period and Three Year Stand Down and Dispute Resolution Process for New Products immediately terminates and either Party may bring a patent infringement claim (other than infringement claims subject to the Five Year Stand Down for Existing Products) against any New Product of the other Party based on any patent in a court or other governmental tribunal (except with respect to the New Product that was subject to the FAD, provided modification occurs and is timely implemented as provided in this Agreement).

(i) Clarification . For sake of clarity, any Infringement Claim that is based on features or functionalities that are new, changed, or different from Existing Products, either alone or in combination with any other products, services, features or functionalities, where such Infringement Claim would not have arisen based on the same patent but-for the new, changed, or different feature or functionality, will be subject to the Three Year Stand Down and Dispute Resolution Process for New Products so long as such process remains in effect. Any Infringement Claim that is based entirely on the features or functionalities of Existing Products, even if the features or functionalities that were present in Existing Products are contained in New Products, will be subject to the Five Year Stand Down for Existing Products.

3.3 Access to Products. Neither Party, directly or indirectly, will take any action (or refuse to take any action) to block or prevent the other Party from purchasing its products generally available for sale on the market.

3.4 Excluded Claims. Notwithstanding any other provision of this Agreement, there is no Five Year Stand Down for Existing Products or Three Year Stand Down and Dispute Resolution Process for New Products applicable to claims (a) based on trade secret theft or misappropriation, design patents, theft, use of confidential information, copying of source code, object code or firmware, an intentional tort, trademark or trade dress; (b) for other claims not expressly referenced in Sections 3.1 and 3.2; and (c) breach of, or to enforce, this Agreement (collectively, ***"Excluded Claims"***). For the avoidance of doubt, (i) a claim of willful patent infringement will not constitute an Excluded Claim, and (ii) either Party may bring an action in any forum for relief based on an Excluded Claim at any time. Except for the Copyright Appeal, both Parties, on behalf of themselves and their Affiliates, represent that as of the Effective Date they are unaware of any facts that would give rise to an Excluded Claim.

3.5 Successors and Tolling.

(a) The obligations set forth in the Five Year Stand Down for Existing Products and the Three Year Stand Down and Dispute Resolution Process for New Products provisions in Sections 3.1 and 3.2 run with title to the patents and copyrights referred to therein, and each Party will cause such obligations to bind any future owner of such patents and copyrights. Notwithstanding anything to the contrary and for the avoidance of doubt, any patent that Cisco has agreed to dispose of as part of Cisco's business divestiture of its video software business announced in May 2018 shall not be subject to any licenses, releases, covenants, immunities, and other rights under this Agreement, including, without limitation, the Five Year Stand Down for Existing Products and the Three Year Stand Down and Dispute Resolution Process for New Products.

(b) The statute of limitations for any claim that is covered by the Five Year Stand Down for Existing Products and Three Year Stand Down and Dispute Resolution Process for New Products will be tolled during such periods and damages for such claims will continue to accrue during such periods.

Section 4 . PRODUCT MODIFICATIONS

4.1 Non-Infringement of Redesigned Products.

(a) Arista has removed from the Redesigned Products the agent-to- Sysdb write mount requests held to infringe in the ITC Actions as part of the Passive Mount redesign presented in the enforcement action of the 944 Investigation (***"Sysdb Modification"***). Arista will maintain the Sysdb Modification in Existing Products and New Products until the expiration of the '537 Patent.

(b) Arista has removed from the Redesigned Products the Private Virtual LAN feature held to infringe in the ITC Actions (***"PVLAN Modification"***). Arista will maintain the PVLAN Modification in Existing Products and New Products until the expiration of the '145 and '592 Patents.

(c) Arista will not be obligated to modify products sold outside the United States for use outside the United States.

(d) Upon expiration of the ’537, ’592 and ’145 Patents, Arista will have no obligation to retain any product modifications made to address any of those patents which has expired.

(e) Neither Cisco nor its Affiliates will claim or bring any action in a court or other governmental tribunal claiming that the Redesigned Products (and future Arista products containing the Sysdb Modification, the PVLAN Modification, and the same features and functionality in the Redesigned Products) infringe any patent asserted in the ITC Actions or the District Court Patent Case. The foregoing obligations run with title to such patents, and Cisco will cause such obligations to bind any future owner of such patents.

4.2 Modified Product. If Arista or an Affiliate of Arista sells or offers to sell a product after the Effective Date with additional features or functionality not present in the Redesigned Products (***“Modified Product”***), Cisco may claim infringement of any patent in the ITC Actions or the District Court Patent Case only based on the difference in features or functionality between the Redesigned Product and the Modified Product subject to the Three Year Stand Down and Dispute Resolution Process for New Products.

Section 5 . COMMAND LINE INTERFACE

5.1 Transition Period. Within a period of [***] from the Effective Date (***“Transition Period”***), Arista shall modify the multiword commands and help description strings identified in Appendices A and B to comply with the requirements in Section 5.2. During the Transition Period, Arista may continue to sell its products containing the multiword commands, screen outputs and help description strings that were at issue in the District Court Copyright Case (***“Disputed CLI Elements”***). Following the Transition Period, Arista may continue to provide service and support for any previously released products in accordance with services contracts existing as of the end of the Transition Period. Arista will provide Cisco with the proposed Modified CLI within ninety (90) calendar days of the end of the Transition Period.

5.2 Modified CLI .

(a) Existing Commands. Arista will remove from products sold after the Transition Period the multiword commands set forth in Appendix A and replace them with new commands that comply with the requirements for Future CLI Elements defined in Section 5.3.

(b) Existing Help Description Strings . Arista will remove from products sold after the Transition Period the help description strings identified in Appendix B and replace them with help description strings that comply with the requirements for Future CLI Elements defined in Section 5.3.

(c) If Arista complies with the Modified CLI requirements as determined by the arbitrator following the completion of any arbitration proceeding

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as described in Section 5.4, Cisco will not bring any copyright infringement claim against the Modified CLI.

(d) Backwards Compatibility . Notwithstanding Sections 5.2 and 6, Arista's Extensible Operating System may continue to read and interpret customer configuration files using the commands identified in Appendix A. Arista agrees that after the Transition Period, the following will be implemented in Arista's products: [***].

(e) Arista may continue to make maintenance releases on old releases without implementing the Modified CLI to make bug fixes. If Arista is required to make additional changes to the Disputed CLI Elements set forth in Section 6, the Backwards Compatibility requirements in Sections 5.2(d) and (e) will apply to the Additional Commands in Appendix D.

5.3 Future CLI Elements.

(a) Arista will independently select, arrange, organize, and design all Future CLI Elements including multiword commands, help descriptions and screen outputs without reference (except to the extent necessary to ensure compliance with this Agreement) to Cisco's multiword commands, help descriptions, screen outputs, user interfaces, or any other copyright protected or proprietary Cisco materials.

(b) Arista may create Future CLI Elements that use individual terms and syntax that are common to the industry and/or found in standards, provided that such CLI elements are created without reference (except to the extent necessary to ensure compliance with this Agreement) to the corresponding CLI element used by Cisco, if any.

(c) In determining whether Arista Future CLI Elements comply with these requirements, the Parties and any arbitrator(s) will take into account (i) common terms and commands used in the industry; (ii) common acronyms used in the industry; (iii) terms used in industry standards; (iv) a range of up to [***] identity between the multiword command expressions used by Arista and the Cisco multiword commands used by Cisco for competitive products and services. Ultimately, a Future CLI Element complies with these requirements if its use by Arista would not constitute infringement of a copyright in the corresponding Cisco CLI element.

5.4 CLI Dispute Resolution Process.

(a) If Cisco contends that the Modified CLI does not comply with the Modified CLI requirements, Cisco may give Arista written notice of its contention with details in support thereof sufficient to enable Arista to understand the basis of Cisco's contention and, if it so elects, to make further modifications to the CLI. In the event that Arista does not make such changes and Cisco wishes to initiate a claim that the Modified CLI does not comply with this Agreement, Cisco may provide a written notice to Arista (***"CLI Arbitration Notice"***) to initiate arbitration.

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(b) The Parties will meet and confer to mutually agree on an arbitrator from JAMS within ten (10) calendar days of the CLI Arbitration Notice. If the Parties cannot reach an agreement on an arbitrator within this timeframe, the Parties hereby consent to appointment of an arbitrator by JAMS according to its appointment procedures. The arbitration will proceed in accordance with JAMS Comprehensive Arbitration Rules as modified by this Agreement, and shall provide for discovery of information relevant to the claim and written briefing and a hearing within ninety (90) calendar days of the CLI Arbitration Notice. Within thirty (30) calendar days of the hearing, the arbitrator will render a determination of whether the Modified CLI complies with this Agreement. If the arbitrator rules that the Modified CLI complies with this Agreement, Arista will not be required to make further modifications to the Modified CLI. If the arbitrator rules that the Modified CLI does not comply with this Agreement, Arista will be required to make further modifications consistent with this Agreement within ninety (90) calendar days of the arbitrators' decision. If Arista fails to make changes to comply with the arbitrator's decision, the claim will be treated as one to enforce this Agreement and an Excluded Claim. The prevailing Party in the arbitration will be entitled to its reasonable attorneys' fees and costs incurred in connection with the arbitration.

Section 6 . COPYRIGHT APPEAL

6.1 Vacatur. The Parties will jointly approach the District Court with legal grounds for vacatur to attempt to persuade the Court to vacate the judgment in the District Court Copyright Case to facilitate a global settlement of all matters. If the District Court agrees to vacate the judgment, the Parties will then jointly petition the Federal Circuit for a limited remand to the District Court for the sole purpose of considering a motion to vacate and hold the Copyright Appeal in abeyance pending the District Court's decision on the motion. If the Federal Circuit grants the request, the Parties will jointly file a motion in the District Court to vacate the final copyright judgment and dismiss the case.

6.2 Continued Litigation. If the District Court will not agree to vacate the judgment in the District Court Copyright Case, or if the Federal Circuit will not agree to order the limited remand described in Section 6.1, the Parties will continue to litigate the Copyright Appeal subject to the following:

(a) If the judgment is affirmed after all appeals are exhausted, then no further changes will be required to Arista's Disputed CLI Elements.

(b) If the judgment is reversed after all appeals are exhausted or the Federal Circuit remands the case to District Court for further proceedings on the merits (" ***Remand Order"),*** Arista will make the following additional changes to the Disputed CLI Elements within the later of [***] months of all appeals being exhausted or issuance of the Remand Order or [***] months from the Effective Date (***"Second Transition Period"***): (a) reformat the data entries in the disputed screen outputs identified in Appendix C such that the data entries will be in sufficiently different order and positions from those

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used in Cisco's screen outputs (***"Revised Screen Outputs"***); and (b) remove from its products the additional multiword commands set forth in Appendix D and replace them with new commands that comply with the requirements for Future CLI Elements as defined in Section 5.3 (***"Additional Commands"***). Arista will make the proposed Revised Screen Outputs and Additional Commands available for Cisco's review within [***] calendar days of the Second Transition Period. If Cisco contends that the Revised Screen Outputs or Additional Commands do not comply with additional changes of this Section 6.2(b), the Parties will follow the CLI Dispute Resolution Process to resolve such dispute.

Section 7 . PAYMENT

7.1 Payment. Arista will make a non-refundable lump sum payment of four hundred million US dollars ($400,000,000US) to Cisco by August 20, 2018. This payment shall be made by electronic transfer of funds to Cisco's bank account as follows:

Bank Name: Bank of America Merrill Lynch

Routing No.: 026009593

Account No.: 1233257433

Beneficiary: Cisco Systems, Inc.

Beneficiary Address: 170 West Tasman Dr., San Jose, CA 95134

7.2 Costs and Expenses. The Parties agree that each Party shall be responsible for its own costs and expenses relating to the Proceedings.

Section 8 . ASSIGNMENT AND CHANGE OF CONTROL

8.1 Assignment and Change of Control. Neither Party may assign its rights or obligations under this Agreement without the other Party's prior written consent provided, however, that a Change of Control will not be deemed to be an assignment. Any attempted assignment without prior written consent of the other Party shall be void and of no effect. In the event a Party undergoes a Change of Control, both the Five Year Stand Down for Existing Products and the Arbitration Period and Three Year Stand Down and Dispute Resolution Process for New Products will automatically terminate, but all other terms of this Agreement will remain in full force and effect.

Section 9 . MISCELLANEOUS

9.1 Public Statements . The Parties agree to the following joint statement regarding the settlement of the Proceedings:
"Cisco and Arista have come to an agreement which resolves existing litigation and demonstrates their commitment to the principles of IP

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protection. They have agreed that, with limited exceptions, no new litigation will be brought over patents or copyrights related to existing products, for five years. In addition, for three years, they will use an arbitration process to address any patent issues regarding new products. As part of this agreement, Arista will be making a $400 million payment to Cisco, is committed to maintaining the product modifications it made as a result of previous rulings, and will be making limited changes to further differentiate its user interfaces from Cisco's. Arista and Cisco will continue to seek appellate court review of the scènes à faire verdict in the earlier trial regarding legal protection for user interfaces."

Each Party may make such public disclosures it believes are required to comply with securities laws and regulations. Any statements made by either Party will not be phrased in a way that disparages the other Party or its products, practices, or intellectual property.

9.2 Authority. Each Party, on behalf of itself and its Affiliates, represents and warrants that the individuals signing this Agreement have full authority or authorization to execute this Agreement for, and on behalf of, and to bind the Parties and their Affiliates, and that, when signed, this Agreement will be binding and enforceable according to its terms. Each Party represents and warrants that no other Entity owns or controls (directly or indirectly) more than fifty percent (50%) of its outstanding shares or securities representing the right to vote for the election of directors or other managing authority.

9.3 No Conflicts. Each Party, on behalf of itself and its Affiliates, represents and warrants that neither it, nor any of its Affiliates, will enter into any other agreement or understanding in conflict with the provisions contained in this Agreement.

9.4 Other Intellectual Property. Nothing contained in this Agreement shall be construed as conferring any right or license to or to otherwise use any copyright, patent, patent application, trademark, service name, service mark, trade dress, trade secret or other intellectual property belonging to the Parties or their Affiliates.

9.5 Injunctive Relief. The Parties acknowledge that in the event of a breach or threatened breach of this Agreement by a Party or its Affiliates or a termination of the 3 Year Stand Down and Dispute Resolution Process for New Products, the other Party may suffer irreparable harm and will be entitled to seek injunctive relief. Nothing contained in this Agreement shall be used by a Party or its Affiliates to challenge the availability of injunctive relief of the other Party.

9.6 Notices. Notices and other communications shall be sent by electronic mail (with confirmation of receipt) or by express courier (with tracking capabilities and costs prepaid) to the following addressees and addresses (or such other addressee and address as shall be designated by a Party in writing) and shall be effective upon delivery:

For Arista: Marc Taxay General Counsel Arista Networks, Inc. 5453 Great America Parkway Santa Clara, CA 95054 Email: mtaxay@arista.com	For Cisco: General Counsel Cisco Systems, Inc. 170 W. Tasman Drive San Jose, CA 95134 United States of America Email: litigation_attorneys@cisco.com
And copy to: Sean Christofferson Deputy General Counsel Arista Networks, Inc. 5453 Great America Parkway Santa Clara, CA 95054 Email: schristofferson@arista.com	And a copy to: Vice President, Litigation Cisco Systems, Inc. 170 West Tasman Drive San Jose, CA 95134 United States of America Email: litigation_attorneys@cisco.com

9.7 Amendments. No amendment or modification hereof shall be valid or binding upon the Parties or their Affiliates unless made in writing and signed by both Parties, except that either Party may amend its address by written notice to the other Party.

9.8 Severability: In the event that any provision of this Agreement is held to be void or unenforceable by a court, tribunal, or arbitrator of competent jurisdiction, the remaining provisions of this Agreement shall nevertheless be binding upon the Parties with the same effect as though the voided or unenforceable part had been deleted.

9.9 Choice of Law; Venue. This Agreement shall be construed, and the legal relations between the Parties shall be determined, in accordance with the federal law of the United States and the laws of the state of California, USA, without regard to any conflict of law provisions thereof, as such law applies to contracts signed between residents of California and fully performed in California. The exclusive venue for disputes arising out of this Agreement shall be the state and federal courts having jurisdiction in Santa Clara County, California, USA, and the Parties and their Affiliates agree to submit to the exclusive jurisdiction of such courts and agree to waive any objections as to proper venue or jurisdiction in such courts.

9.10 Attorney Fees. The prevailing Party in any dispute arising under this Agreement shall be awarded reasonable attorney fees and costs, in addition to any other relief to which such Party may be entitled.

9.11 Interpretation . The headings and designated sections of this Agreement are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement. The Parties have participated jointly in the negotiation of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this Agreement.

9.12 Integration . This Agreement contains the entire and only understanding between the Parties and their Affiliates with respect to the subject matter hereof and supersedes any prior or collateral agreements, negotiations and communications in connection with the subject matter covered herein, whether oral or written, and any warranty, representation, promise, or condition in connection therewith not incorporated herein shall not be binding upon either Party or its Affiliates.

9.13 Waiver. No relaxation, forbearance, delay or negligence by any Party in enforcing any of the terms and conditions of this Agreement, or the granting of time by any Party to another, shall operate as a waiver or prejudice, affect or restrict the rights, powers or remedies of any Party.

9.14 Counterparts. This Agreement may be executed in two or more counterparts, which together shall constitute one and the same instrument.

9.15 Acknowledgment . The obligations of the Parties outlined in Sections 2.1, 2.2, 6.1, and 7.1 were completed after the Effective Date, but before this Agreement was signed.

IN WITNESS WHEREOF, the Parties have executed this Agreement through their duly authorized representatives as of the Effective Date set forth above:

ARISTA NETWORKS, INC.		**CISCO SYSTEMS, INC.**	
By:	/s/ Ita Brennan	By:	/s/ Kelly A. Kramer
Name:	Ita Brennan	Name:	Kelly A. Kramer
Title	Chief Financial Officer	Title	EVP & CFO

Appendix A

[***]

[***] 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.

Appendix B

[***]

[***] 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.

Appendix C

[***]

[***] 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.

Appendix D

[***]

[***] 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 10.25

ARISTA

5470 Great America Parkway
Santa Clara, CA 95054

www.aristanetworks.com

Manny Rivelo
[redacted]

December 21, 2017

Dear Manny,

On behalf of Arista Networks, Inc. (the "Company"), I am pleased to offer you a full-time exempt position as Senior Vice President, Chief Sales Officer starting on January 8, 2018 (the "Start Date"). You have until December 27, 2017 to accept this offer, at which time it expires. The terms of this offer are as follows:

1. Salary: The Company will pay you a base salary of $300,000.00 per year in accordance with the Company's standard payroll policies.

2. Sign-on Bonus: The Company will pay you a sign-on bonus in the amount of $25,000.00, less applicable taxes, by December 31, 2017. Payment will be made in accordance with the Company's standard payroll policies.

3. Benefits: During the term of your employment, you will be eligible to participate in all of the Company's standard health, vacation, and other benefits covering employees. The Company reserves the right to change the benefit plans and programs it offers to its employees at any time.

4. Bonus: You will be eligible to participate in the Company's Corporate bonus program pursuant to the terms of such bonus program. Any bonus paid pursuant to the Company's Corporate bonus program is in the sole discretion of the Company, and may be any amount from zero, should the Company choose no bonus should be paid, up to a maximum bonus of 200% of your then-current base salary. Please note that you must be an employee of the Company on the payout date of the Corporate bonus payout to be eligible to receive any such bonus. Additionally, your receipt of a bonus in one year does not necessarily mean you will receive a bonus the next year, nor does it convey any promise of continued employment. Your employment is, at all times, at-will in accordance with the terms of your offer letter and the Company's applicable policy. Lastly, as a reminder, both your base salary and the components of your Corporate bonus are subject to periodic review and may be modified by the Company as deemed necessary in its sole and absolute discretion.

5. Stock: At the first regularly scheduled meeting of the Company's board of directors following the Start Date, it will be recommended that you will be granted restricted stock units covering 20,000 shares of the Company common stock (the "RSUs") pursuant to the Company's 2014 Equity Incentive Plan (the "Plan") and individual RSU agreement. The RSUs will be governed by the form of RSU Agreement. Subject to the accelerated vesting provisions set forth in such stock option agreement and in the Severance Agreement (as defined below), the Company's restricted stock units vest on 4 designated dates each quarter (each, a "Quarterly Vesting Date"). Your RSU Agreement will specify these Quarterly Vesting Date. Your RSUs will vest at a rate of 1/5 on the first Quarterly Vesting Date after the one year anniversary of the vesting commencement date and 1/20th of the RSUs vest per quarter on each Quarterly Vesting Date thereafter over a total of approximately five years. All vesting is subject to your continued service to the Company through each Quarterly Vesting Date. If your status as a Service Provider terminates for any reason, the unvested portion of your RSUs, after giving effect to the applicable acceleration provisions, terminate as shall be set forth in the Plan and the RSU Agreement.

Your employment with the Company is "at-will". This means that it is not for any specified period of time and can be terminated either by you or by the Company at any time, with or without advance notice, and for any or no particular reason or cause. It also means that your job duties, title, responsibilities, reporting level, compensation and benefits, as well as the Company's personnel policies and procedures, may be changed with or without notice at any time in the sole discretion of the Company. Notwithstanding the foregoing, you may be entitled to accelerated vesting and other severance benefits in the event of a termination or change in the nature of your job, all as set forth in the Severance Agreement.

This offer is conditioned on you signing the Company's Employment, Confidential Information and Invention Assignment Agreement (the "Confidentiality and Invention Assignment Agreement") and submitting the legally required proof of your identity and authorization to work in the United States. By signing and accepting this offer, you represent and warrant that you are not subject to any other legal obligation that prevents you to be employed with or to provide services to the Company.

The Company intends that all payments made under this letter agreement be exempt from, or comply with, the requirements of Section 409A of the Internal Revenue Code of 1986, as amended, and any guidance promulgated thereunder ("Section 409A") so that none of the

5470 Great America Parkway
Santa Clara, CA 95054

www.aristanetworks.com

payments or benefits will be subject to the additional tax imposed under Section 409A, and any ambiguities or ambiguous terms herein will be interpreted to so be exempt or comply. You and the Company agree to work together in good faith to consider amendments to this letter agreement and to take such reasonable actions which are necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition prior to actual payment to you under Section 409A. In no event will the Company reimburse you for any taxes that may be imposed on you as a result of Section 409A.

On the Start Date, you and the Company will enter into a Severance Agreement dated as of the Start Date in the form attached hereto as Exhibit A (the "Severance Agreement"). This letter agreement, the Severance Agreement (when entered into), the Confidentiality and Invention Assignment Agreement, the RSU Agreement (when entered into upon grant of the RSUs) set forth the terms of your employment with the Company and supersede any prior representations and agreements, whether written and oral. This letter agreement may not be modified or amended, except by a written agreement, signed by both you and the Company's Chief Executive Officer. This letter agreement is governed by California law. If any provision of this agreement is held invalid or unenforceable, the remaining provisions shall continue to be valid and enforceable.

Manny, I look very much forward to working with you. Sincerely,

/s/ Anshul Sadana
Anshul Sadana
Chief Customer Officer

Enclosure:

Exhibit A - Severance Agreement

Accepted: /s/ Manuel Rivelo Date: 12/22/2017

Exhibit 10.26

ARISTA NETWORKS, INC.

SEVERANCE AGREEMENT

This Severance Agreement (the " ***Agreement*** ") is made and entered into by and between **Manny Rivelo** (" ***Executive*** ") and Arista Networks, Inc., a Delaware corporation (" ***Company*** "), effective as of January 8, 2018 (the " ***Effective Date*** ").

RECITALS

1. The Board of Directors of the Company (the " ***Board*** ") believes that it is in the best interests of the Company and its stockholders (i) to assure that the Company will have the continued dedication and objectivity of Executive, notwithstanding the possibility, threat, or occurrence of a Change in Control (as defined below) and (ii) to provide Executive with an incentive to continue Executive's employment and to motivate Executive to maximize the value of the Company for the benefit of its stockholders.

2. The Board believes that it is imperative to provide Executive with certain severance benefits upon Executive's termination of employment under certain circumstances. These benefits will provide Executive with enhanced financial security and incentive and encouragement to remain with the Company.

3. Certain capitalized terms used in the Agreement are defined in Section 6 below.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the parties hereto agree as follows:

1. Term of Agreement . This Agreement will terminate upon the date that all of the obligations of the parties hereto with respect to this Agreement have been satisfied.

2. At-Will Employment . The Company and Executive acknowledge that Executive's employment is and will continue to be at-will, as defined under applicable law. If Executive's employment terminates for any reason and Executive elects to sign and not revoke the Release (as defined in Section 4(a)), Executive will not be entitled to any payments, benefits, damages, awards or compensation other than as provided by this Agreement or any Equity Award agreement, the payment of accrued but unpaid wages or other compensation, as required by law, as may otherwise be available in accordance with the Company's established employee plans, and any unreimbursed reimbursable expenses, and this Agreement supersedes all prior agreements or arrangements relating to the same.

3. Severance Benefits .

(a) Termination without Cause or Resignation for Good Reason not in Connection with a Change in Control . If the Company terminates Executive's employment with the Company without Cause (excluding Executive's death or Disability) or if Executive resigns from such employment for Good Reason, then, subject to Section 4, Executive will receive the following:

(i) Accrued Compensation . The Company will pay Executive all accrued but unpaid vacation, expense reimbursements, wages, and other benefits due to Executive under any Company-provided plans, policies, and arrangements.

(ii) Severance Payment . Executive will be paid continuing payments of severance pay at a rate equal to Executive's base salary rate, as then in effect, for twelve (12) months from the date of such termination of employment, to be paid periodically in accordance with the Company's normal payroll policies.

(iii) Equity Acceleration for Time-Based Equity Awards . The vesting of Executive's outstanding Equity Awards subject to time-based vesting will accelerate and vest as to the portion that would have vested had Executive remained employed with the Company for twelve (12) months following the termination of employment date. For the avoidance of doubt, no portion of any Equity Award subject to performance-based vesting will vest under this Section 3(a)(iii).

(b) Termination without Cause or Resignation for Good Reason in Connection with a Change in Control . If the Company terminates Executive's employment with the Company without Cause or if Executive resigns from such employment for Good Reason, and such termination occurs within the period commencing with, and ending twelve (12) months following, a Change in Control, then, subject to Section 4, Executive will receive the following (in addition to the consideration set forth in Sections 3(a)(i) and (ii) above):

(i) Vesting Acceleration of Equity Awards . Fifty percent (50%) of Executive's then outstanding and unvested Equity Awards as of the termination of employment date will become vested and otherwise will remain subject to the terms and conditions of the applicable Equity Award agreement. If, however, an outstanding Equity Award is to vest and/or the amount of the award to vest is to be determined based on the achievement of performance criteria, then the Equity Award will vest as to fifty percent (50%) of the amount of the Equity Award assuming the performance criteria had been achieved at target levels for the relevant performance period(s). For the avoidance of doubt, if the accelerated vesting benefit for an applicable Equity Award is greater under Section 3(a)(iii) than under this Section 3(b)(i), then Executive shall be entitled to the superior benefit set forth in Section 3(a)(iii).

(c) Voluntary Resignation; Termination for Cause . If Executive's employment with the Company terminates (i) voluntarily by Executive (other than for Good Reason) or (ii) for Cause by the Company, then Executive will not be entitled to receive severance or other benefits except for those (if any) as may then be established under the Company's then existing severance and benefits plans and practices or pursuant to other written agreements with the Company.

(d) Disability; Death . If the Company terminates Executive's employment as a result of Executive's Disability, or Executive's employment terminates due to his or her death, then Executive will not be entitled to receive any other severance or other benefits, except for those (if any) as may then be established under the Company's then existing written severance and benefits plans and practices or pursuant to other written agreements with the Company.

(e) Exclusive Remedy . In the event of a termination of Executive's employment as set forth in Section 3 of this Agreement and assuming that Executive elects to sign and not revoke the Release, the provisions of Section 3 are intended to be and are exclusive and in lieu of any other rights or remedies to which Executive or the Company otherwise may be entitled, whether at law, tort or contract, in equity, or under this Agreement (other than the payment of accrued but unpaid wages, as required by law, any unreimbursed reimbursable expenses, and any rights under any Equity Award agreement). In such case, Executive will be entitled to no benefits, compensation or other payments or rights upon a termination of employment other than those benefits expressly set forth in Section 3 of this Agreement and in any Equity Award agreement.

4. Conditions to Receipt of Severance

(a) Release of Claims Agreement . The receipt of any severance payments or benefits (other than the accrued benefits set forth in Section 3(a)(i)) pursuant to this Agreement is subject to Executive signing and not revoking a separation agreement and release of claims in a form acceptable to the Company (the " ***Release*** "), which must become effective and irrevocable no later than the sixtieth (60th) day following Executive's termination of employment (the " ***Release Deadline*** "). If the Release does not become effective and irrevocable by the Release Deadline, Executive will forfeit any right to severance payments or benefits under this Agreement. In no event will severance payments or benefits be paid or provided until the Release actually becomes effective and irrevocable.

(b) Confidential Information and Invention Assignment Agreements . Executive's receipt of any payments or benefits under Section 3 (other than the accrued benefits set forth in Section 3(a)(i)) will be subject to Executive continuing to comply with the terms of the Employment, Confidential Information and Invention Assignment

Agreement dated January 8, 2018 (the " ***Confidentiality and Invention Assignment Agreement*** "), between the Company and Executive, as such agreement may be amended from time to time.

(c) Section 409A .

(i) Notwithstanding anything to the contrary in this Agreement, no severance payments or benefits to be paid or provided to Executive, if any, pursuant to this Agreement that, when considered together with any other severance payments or separation benefits, are considered deferred compensation under Section 409A of the Internal Revenue Code of 1986, as amended (the " ***Code*** "), and the final regulations and any guidance promulgated thereunder (" ***Section 409A*** ") (together, the " ***Deferred Payments*** ") will be paid or otherwise provided until Executive has a "separation from service" within the meaning of Section 409A. Similarly, no severance payable to Executive, if any, pursuant to this Agreement that otherwise would be exempt from Section 409A pursuant to Treasury Regulation Section 1.409A-1(b)(9) will be payable until Executive has a "separation from service" within the meaning of Section 409A. Termination of employment is intended to constitute a "separation from service" within the meaning of Section 409A.

(ii) It is intended that none of the severance payments under this Agreement will constitute " ***Deferred Payments*** " but rather will be exempt from Section 409A as a payment that would fall within the "short-term deferral period" as described in Section 4(c)(iv) below or resulting from an involuntary separation from service as described in Section 4(c)(v) below. However, any severance payments or benefits under this Agreement that would be considered Deferred Payments will be paid on, or, in the case of installments, will not commence until, the sixtieth (60th) day following Executive's separation from service, or, if later, such time as required by Section 4(c)(iii). Except as required by Section 4(c)(iii), any installment payments that would have been made to Executive during the sixty (60) day period immediately following Executive's separation from service but for the preceding sentence will be paid to Executive on the sixtieth (60th) day following Executive's separation from service and the remaining payments shall be made as provided in this Agreement.

(iii) Notwithstanding anything to the contrary in this Agreement, if Executive is a "specified employee" within the meaning of Section 409A at the time of Executive's termination (other than due to death), then the Deferred Payments, if any, that are payable within the first six (6) months following Executive's separation from service, will become payable on the first payroll date that occurs on or after the date six (6) months and one (1) day following the date of Executive's separation from service. All subsequent Deferred Payments, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, if Executive dies following Executive's separation from service, but before the six (6) month anniversary of the separation from service, then any payments delayed in accordance with this paragraph will be payable in a lump sum as soon as administratively practicable after the date of Executive's death and all other Deferred Payments will be payable in accordance with the payment schedule applicable to each payment or benefit. Each payment and benefit payable under this Agreement is intended to constitute a separate payment under Section 1.409A-2(b)(2) of the Treasury Regulations.

(iv) Any amount paid under this Agreement that satisfies the requirements of the "short-term deferral" rule set forth in Section 1.409A-1(b)(4) of the Treasury Regulations will not constitute Deferred Payments for purposes of clause (i) above.

(v) Any amount paid under this Agreement that qualifies as a payment made as a result of an involuntary separation from service pursuant to Section 1.409A-1(b)(9)(iii) of the Treasury Regulations that does not exceed the Section 409A Limit (as defined below) will not constitute Deferred Payments for purposes of clause (i) above.

(vi) The foregoing provisions are intended to comply with the requirements of Section 409A so that none of the severance payments and benefits to be provided hereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to so comply. The Company and Executive agree to work together in good faith to consider amendments to this Agreement and to take such reasonable actions which are necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition before actual payment to Executive under Section 409A.

5. Limitation on Payments. In the event that the severance and other benefits provided for in this Agreement or otherwise payable to Executive (i) constitute "parachute payments" within the meaning of Section 280G of the Code, and (ii) but for this Section 5, would be subject to the excise tax imposed by Section 4999 of the Code, then Executive's benefits under Section 3 will be either:

(a) delivered in full, or

(b) delivered as to such lesser extent which would result in no portion of such benefits being subject to excise tax under Section 4999 of the Code,

whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the excise tax imposed by Section 4999, results in the receipt by Executive on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable under Section 4999 of the Code. If a reduction in severance and other benefits constituting "parachute payments" is necessary so that benefits are delivered to a lesser extent, reduction will occur in the following order: (i) reduction of cash payments; (ii) cancellation of awards granted "contingent on a change in ownership or control" (within the meaning of Code Section 280G), (iii) cancellation of accelerated vesting of equity awards; (iv) reduction of employee benefits. In the event that acceleration of vesting of equity award compensation is to be reduced, such acceleration of vesting will be cancelled in the reverse order of the date of grant of Executive's equity awards.

Unless the Company and Executive otherwise agree in writing, any determination required under this Section 5 will be made in writing by the Company's independent public accountants immediately prior to a Change in Control or such other person or entity to which the parties mutually agree (the "***Firm***"), whose determination will be conclusive and binding upon Executive and the Company. For purposes of making the calculations required by this Section 5, the Firm may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and Executive will furnish to the Firm such information and documents as the Firm may reasonably request in order to make a determination under this Section. The Company will bear all costs the Firm may incur in connection with any calculations contemplated by this Section 5.

6. Definition of Terms. The following terms referred to in this Agreement will have the following meanings:

(a) Cause. "***Cause***" will mean:

(i) an act of dishonesty made by Executive in connection with Executive's responsibilities as an employee;

(ii) Executive's conviction of, or plea of nolo contendere to, a felony or any crime involving fraud, embezzlement or any other act of moral turpitude;

(iii) Executive's gross misconduct;

(iv) Executive's unauthorized use or disclosure of any proprietary information or trade secrets of the Company or any other party to whom Executive owes an obligation of nondisclosure as a result of Executive's relationship with the Company;

(v) Executive's willful breach of any obligations under any written agreement or covenant with the Company; or

(vi) Executive's continued failure to perform his employment duties after Executive has received a written demand of performance from the Company which specifically sets forth the factual basis for the Company's belief that Executive has not substantially performed his duties and has failed to cure such non-performance to the Company's reasonable satisfaction within 10 business days after receiving such notice.

(b) Change in Control . " ***Change in Control*** " will have the meaning set forth in the Company's 2014 Equity Incentive Plan.

(c) Disability . " ***Disability*** " means that Executive has been unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months. Alternatively, Executive will be deemed disabled if determined to be totally disabled by the Social Security Administration. Termination resulting from Disability may only be effected after at least thirty (30) days' written notice by the Company of its intention to terminate Executive's employment. In the event that Executive resumes the performance of substantially all of Executive's duties hereunder before the termination of Executive's employment becomes effective, the notice of intent to terminate based on Disability will automatically be deemed to have been revoked.

(d) Equity Awards . " ***Equity Awards*** " will mean an Executive's outstanding stock options, stock appreciation rights, restricted stock, restricted stock units and other Company equity compensation awards.

(e) Good Reason . " ***Good Reason*** " will mean Executive's resignation within thirty (30) days following the expiration of any Company cure period (discussed below) following the occurrence of one or more of the following, without Executive's consent:

(i) a material diminution of Executive's authority, duties or responsibilities; provided, however, that a reduction in authority, duties or responsibilities in connection with the Company being acquired and made part of a larger entity (as, for example, when the Chief Financial Officer of the Company remains as such following an acquisition of the Company but is not made the Chief Financial Officer of the acquiring corporation) will constitute "Good Reason";

(ii) a material reduction in Executive's base salary (except where there is a reduction applicable to the management team generally); provided, however, that a reduction in Executive's base salary of fifteen percent (15%) or less in any one (1) year will not be deemed a material reduction; or

(iii) a material change in the geographic location of Executive's primary work facility or location; provided that a relocation of less than fifty (50) miles from Executive's then present location will not be considered a material change in geographic location.

Executive will not resign for Good Reason without first providing the Company with written notice of the acts or omissions constituting the grounds for "Good Reason" within ninety (90) days of the initial existence of the grounds for "Good Reason" and a cure period of thirty (30) days following the date of such notice.

(f) Section 409A Limit . " ***Section 409A Limit*** " will mean two (2) times the lesser of: (i) Executive's annualized compensation based upon the annual rate of pay paid to Executive during the Executive's taxable year preceding the Executive's taxable year of Executive's termination of employment as determined under, and with such adjustments as are set forth in, Treasury Regulation 1.409A-1(b)(9)(iii)(A)(1) and any Internal Revenue Service guidance issued with respect thereto; or (ii) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Code for the year in which Executive's employment is terminated.

7. Successors .

(a) The Company's Successors . Any successor to the Company (whether direct or indirect and whether by purchase, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company's business and/or assets will assume the obligations under this Agreement and agree expressly to perform the obligations under this Agreement in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term "Company" will include any successor to the Company's business and/or assets which executes and delivers the assumption agreement described in this Section 7(a) or which becomes bound by the terms of this Agreement by operation of law.

(b) Executive's Successors. The terms of this Agreement and all rights of Executive hereunder will inure to the benefit of, and be enforceable by, Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

8. Notice.

(a) General. Notices and all other communications contemplated by this Agreement will be in writing and will be deemed to have been duly given when sent electronically or personally delivered when mailed by U.S. registered or certified mail, return receipt requested and postage prepaid or when delivered by a private courier service such as UPS, DHL or Federal Express that has tracking capability. In the case of Executive, notices will be sent to the e-mail address or addressed to Executive at the home address, in either case which Executive most recently communicated to the Company in writing. In the case of the Company, electronic notices will be sent to the e-mail address of the Chief Executive Officer and the General Counsel and mailed notices will be addressed to its corporate headquarters, and all notices will be directed to the attention of its Chief Executive Officer and General Counsel.

(b) Notice of Termination. Any termination by the Company for Cause or by Executive for Good Reason will be communicated by a notice of termination to the other party hereto given in accordance with Section 8(a) of this Agreement. Such notice will indicate the specific termination provision in this Agreement relied upon, will set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provision so indicated, and will specify the termination date (which will be not more than ninety (90) days after the giving of such notice).

9. Resignation. Upon the termination of Executive's employment for any reason, Executive will be deemed to have resigned from all officer and/or director positions held at the Company and its affiliates voluntarily, without any further required action by Executive, as of the end of Executive's employment and Executive, at the Board's request, will execute any documents reasonably necessary to reflect Executive's resignation.

10. Miscellaneous Provisions.

(a) No Duty to Mitigate. Executive will not be required to mitigate the amount of any payment contemplated by this Agreement, nor will any such payment be reduced by any earnings that Executive may receive from any other source.

(b) Waiver. No provision of this Agreement will be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by Executive and by an authorized officer of the Company (other than Executive). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party will be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(c) Headings. All captions and section headings used in this Agreement are for convenient reference only and do not form a part of this Agreement.

(d) Entire Agreement. This Agreement, the Confidentiality and Invention Assignment Agreement, Executive's offer letter agreement, and the Equity Award agreements (when entered into) with the Company constitute the entire agreement of the parties hereto and supersedes in their entirety all prior representations, understandings, undertakings or agreements (whether oral or written and whether expressed or implied) of the parties with respect to the subject matter hereof. No waiver, alteration, or modification of any of the provisions of this Agreement will be binding unless in writing and signed by duly authorized representatives of the parties hereto and which specifically mention this Agreement.

(e) Choice of Law. The validity, interpretation, construction and performance of this Agreement will be governed by the laws of the State of California (with the exception of its conflict of laws provisions). Any claims or legal actions by one party against the other arising out of the relationship between the parties contemplated herein (whether or not arising under this Agreement) will be commenced or maintained in any state or federal court located in the jurisdiction where Executive resides, and Executive and the Company hereby submit to the jurisdiction and venue of any such court.

(f) Severability . The invalidity or unenforceability of any provision or provisions of this Agreement will not affect the validity or enforceability of any other provision hereof, which will remain in full force and effect.

(g) Withholding . All payments made pursuant to this Agreement will be subject to withholding of applicable income, employment and other taxes.

(h) Counterparts . This Agreement may be executed in counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

[Signature Page to Follow]

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, as of the day and year set forth below.

COMPANY	**ARISTA NETWORKS, INC.**	
	By:	
	Title:	
	Date:	
EXECUTIVE	By:	/s/ Manuel Rivelo
	Title:	Manuel Rivelo
	Date:	12/22/2017

Exhibit 21.1

SUBSIDIARIES OF ARISTA NETWORKS, INC.

Name of Subsidiary	Jurisdiction of Incorporation
Arista Networks Australia Pty Ltd	Australia
Arista Acquisition Australia Pty Limited	Australia
Metamako Holding Pty Ltd	Australia
Metamako Group Pty Ltd	Australia
Metamako General Pty Ltd	Australia
Metamako LP	Australia
Metamako Technology LP	Australia
Arista Networks Austria GmbH	Austria
Arista Networks Canada Ltd.	Canada
Arista Networks ULC	Canada
Arista Networks (Shanghai) Co., Ltd.	China
Arista Technology Limited	Cayman Islands
Arista Networks Cyprus Ltd	Cyprus
Arista Networks EURL	France
Arista Networks GmbH	Germany
Arista Networks Hong Kong Limited	Hong Kong
Arista Networks India Private Limited	India
Mojo Networks Private Limited	India
Arista Networks Limited	Ireland
Arista Networks International Limited	Ireland
Arista Networks Israel Ltd	Israel
Arista Networks Japan Ltd.	Japan
Arista Networks Korea, LLC	Korea
Arista Networks Malaysia Sdn. Bhd.	Malaysia
Arista Networks Mexico S. de R.L. de C.V.	Mexico
Arista Networks B.V.	The Netherlands
Arista Networks Singapore Private Ltd.	Singapore
Arista Networks Sweden AB	Sweden
Arista Networks Taiwan Limited	Taiwan
Arista Networks Middle East DMCC	United Arab Emirates
Arista Networks UK Ltd	United Kingdom
Metamako Europe Limited	United Kingdom
ANET LLC	United States
Arista Networks Holding Corporation	United States
Metamako America LLC	United States
Mojo Networks, LLC	United States
Skylark Partners, LLC	United States

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 333-196550, 333-202919, 333-209723, 333-216136, and 333-223093) pertaining to the 2004 Equity Incentive Plan, the 2011 Equity Incentive Plan, the 2014 Equity Incentive Plan and the 2014 Employee Stock Purchase Plan of Arista Networks, Inc. of our reports dated February 15, 2019 , with respect to the consolidated financial statements of Arista Networks, Inc. and the effectiveness of internal control over financial reporting of Arista Networks, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 2018 , filed with the Securities and Exchange Commission.

/s/ Ernst & Young LLP

San Jose, California
February 15, 2019

Exhibit 31.1

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

I, Jayshree Ullal, certify that:

1. I have reviewed this Annual Report on Form 10-K of Arista Networks, Inc.;

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

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

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

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

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

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

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

5. The registrant's other certifying officer 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: February 15, 2019

/s/ JAYSHREE ULLAL

Jayshree Ullal
President, Chief Executive Officer and Director
(Principal Executive Officer)

Exhibit 31.2

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

I, Ita Brennan, certify that:

1. I have reviewed this Annual Report on Form 10-K of Arista Networks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer 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: February 15, 2019

/s/ ITA BRENNAN

Ita Brennan
Chief Financial Officer
(Principal Accounting and Financial Officer)

Exhibit 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Jayshree Ullal, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Arista Networks, Inc. on Form 10-K for the fiscal year ended December 31, 2018 , fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Arista Networks, Inc.

Date: February 15, 2019

By:	/s/ JAYSHREE ULLAL
Name:	Jayshree Ullal
Title:	President, Chief Executive Officer and Director
	(Principal Executive Officer)

I, Ita Brennan, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Arista Networks, Inc. on Form 10-K for the fiscal year ended December 31, 2018 , fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Arista Networks, Inc.

Date: February 15, 2019

By:	/s/ ITA BRENNAN
Name:	Ita Brennan
Title:	Chief Financial Officer
	(Principal Accounting and Financial Officer)