PROOFPOINT INC
Form 10-K
March 14, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2013
OR

o	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 001-35506
PROOFPOINT, INC.
(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	51-0414846 (I.R.S. employer identification no.)
892 Ross Drive Sunnyvale, California (Address of principal executive offices)	94089 (Zip Code)

(408) 517-4710
(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 per share	NASDAQ Global Select Market

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 þ NO o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO þ

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 þ NO o

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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. o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ NO þ

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based upon the closing price of a share of the registrant’s common stock on June 30, 2013 as reported by the NASDAQ Global Select Market on that date, was approximately $603,262,000. This calculation does not reflect a determination that certain persons are affiliates of the registrant for any other purpose.

The number of shares outstanding of the registrant’s common stock as of February 28, 2014 was 36,760,707 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s Proxy Statement for its 2014 Annual Meeting of Stockholders (the “Proxy Statement”), to be filed with the Securities and Exchange Commission, are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. The Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2013.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained in this Annual Report on Form 10-K other than statements of historical fact, including statements regarding our future results of operations and financial position, our business strategy and plans, and our objectives for future operations, are forward-looking statements. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in Part I, Item 1A, "Risk Factors" in this Annual Report on Form 10-K. Moreover, we operate in a very competitive and rapidly changing environment. 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 future events and trends 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. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

Unless expressly indicated or the context requires otherwise, the terms “Proofpoint,” “Company,” “Registrant,” “we,” “us,” and “our” mean Proofpoint, Inc. and its subsidiaries unless the context indicates otherwise.

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PART I

ITEM 1. BUSINESS

Overview

Proofpoint is a pioneering security-as-a-service vendor that enables large and mid-sized organizations worldwide to defend, protect, archive and govern their most sensitive data. Our security-as-a-service platform is comprised of an integrated suite of on-demand data protection solutions, including threat protection, regulatory compliance, archiving and governance, and secure communication. Our solutions are built on a flexible, cloud-based platform and leverage a number of proprietary technologies - including big data analytics, machine learning, deep content inspection, secure storage, advanced encryption, intelligent message routing, dynamic malware analysis, and virtual execution environments - to address today's rapidly changing threat landscape.

A fundamental shift in the sources of cyber crime, from hackers to organized crime and governments, combined with the emergence of international data trafficking and sophisticated advanced persistent threats ("APTs"), polymorphic threats, zero-day exploits, and user-transplant "drive-by" downloads, is driving an unprecedented wave of targeted, malicious attacks designed to steal valuable information. At the same time, the growth of business-to-business collaboration, as well as the consumerization of IT and the associated adoption of mobile devices and unmanaged Internet-based applications, has proliferated sensitive data and reduced the effectiveness of many existing security products. These factors have contributed to an increasing number of severe data breaches and expanding regulatory mandates, all of which have accelerated demand for effective data protection and governance solutions.

Our platform addresses this growing challenge by not only protecting data as it flows into and out of the enterprise via on-premise and cloud-based email, instant messaging, social media and other web-based applications, but also by keeping track of such information as it is modified and distributed throughout the enterprise for compliance and data loss prevention and securely archiving these communications for compliance and discovery. We address four important problems for the enterprise:

- Keeping malicious content out;
- Preventing the theft or inadvertent loss of sensitive information and, in turn, ensuring compliance with regulatory data protection mandates;
- Collecting, retaining, governing and discovering sensitive data for compliance and litigation support; and
- Securely sharing sensitive data with customers, partners and suppliers.

Our platform and its associated solutions are sold to customers on a subscription basis and can be deployed through our unique cloud-based architecture that leverages both our global data centers as well as optional points-of-presence behind our customers' firewalls. Our flexible deployment model enables us to deliver superior security and compliance while maintaining the favorable economics afforded by cloud computing, creating a competitive advantage for us over legacy on-premise and cloud-only offerings.

We were founded in 2002 to provide a unified solution to help enterprises address their growing data security requirements. Our first solution was commercially released in 2003 to combat the burgeoning problem of spam and viruses and their impact on corporate email systems. To address the evolving threat landscape and the adoption of communication and collaboration systems beyond corporate email and networks, we have broadened our solutions to defend against a wide range of threats, protect against outbound security risks, and archive and govern corporate information. Today, our solutions are used by approximately 3,100 customers worldwide, including 38 of the Fortune 100, protecting tens of millions of end-users. We market and sell our solutions worldwide both directly through our sales teams and indirectly through a hybrid model where our sales organization actively assists our network of distributors and resellers. We also distribute our solutions through strategic partners, including IBM and Microsoft.

The Proofpoint Solution

Our integrated suite of on-demand security-as-a-service solutions enables large and mid-sized organizations to defend, protect, archive and govern their sensitive data. Our comprehensive platform provides threat protection, regulatory compliance, archiving and governance, and secure communication. These solutions are built on a cloud-based architecture, protecting data not only as it flows into and out of the enterprise via on-premise and cloud-based email, instant messaging, social media and

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other web-based applications, but also keeping track of such information as it is modified and distributed throughout the enterprise for compliance and data loss prevention and securely archiving these communications for compliance and discovery. We have pioneered the use of innovative technologies to deliver better ease-of-use, greater protection against the latest advanced threats, and lower total cost of ownership than traditional alternatives. The key elements of our solution include:

- Superior protection against advanced, targeted threats. We use a combination of proprietary technologies for big data analytics, machine learning, deep content inspection, dynamic malware analysis, and virtual execution environments to predictively, actively, and retroactively detect and stop targeted "spear phishing" and other sophisticated advanced and next-generation threat attacks, including APTs, that employ polymorphic threats, zero-day exploits, user-transparent “drive-by” downloads and other penetration tactics. By processing and modeling billions of requests per day, we can recognize anomalies in traffic flow to predictively detect targeted attacks, before users are exposed. Our deep content inspection technology enables us to identify malicious message attachments and distinguish between valid messages and "phishing" messages designed to look authentic and trick the end-user into divulging sensitive data or clicking on a malicious web link. Our machine learning technology enables us to detect targeted "zero-hour" attacks in real-time, even if they have not been seen previously at other locations, and quarantine them appropriately. Our dynamic malware analysis and virtual execution environment technologies enable us to examine web site destinations and downloadable files to identify and block potentially hostile code that would otherwise compromise end-user computers, even if such web sites are otherwise benign and considered reputable and such code is truly unique, with no antivirus signature.

- Comprehensive, integrated data protection suite. We offer a comprehensive solution for data protection and governance through an integrated, security-as-a-service platform that is comprised of four main suites: Proofpoint Enterprise Protection, Proofpoint Enterprise Privacy, Proofpoint Enterprise Archive & Governance, and Proofpoint Essentials. Together, these solutions can improve an organization's ability to detect and mitigate inbound and outbound threats and securely archive and discover communication across all major communication channels including on-premise and cloud-based email, instant messaging, social media and other web-based applications. In addition, our common policy framework and reporting systems enable organizations to comply with complex regulatory mandates, implement consistent data governance policies and ensure end-to-end incident response across the enterprise.

- Designed to empower end-users. Unlike legacy offerings that simply block communication or report audit violations, our solutions actively enable secure business-to-business and business-to-consumer communications. Our easy-to-use policy-based email encryption service automatically encrypts sensitive emails and delivers them to any PC or mobile device. In addition, our secure file-transfer solution makes it easy for end-users to securely share various forms of documents and other content that are typically too large to send through traditional e-mail systems. All of our solutions provide mobile-optimized capabilities to empower the growing number of people who use mobile devices as their primary computing platform.

- Security optimized cloud architecture. Our multi-tenant security-as-a-service solution leverages a distributed, scalable architecture deployed in our global data centers for deep content inspection, global threat correlation and analytics, high-speed search, secure storage, encryption key management, software updates, intelligent message routing, and other core functions. Customers can choose to deploy optional physical or virtual points-of-presence behind their firewalls for those who prefer to deploy certain functionality inside their security perimeter. This architecture enables us to leverage the benefits of the cloud to cost-effectively deliver superior security and compliance, while optimizing each deployment for the customer's unique threat environment.

- Extensible security-as-a-service platform. The key components of our security-as-a-service platform, including services for secure storage, content inspection, reputation, big data analytics, encryption, key management, and identity and policy, can be exposed through application programming interfaces, or APIs, to integrate with internally developed applications as well as with those developed by third-parties. In addition, these APIs provide a means to integrate with the other security and compliance components deployed in our customers' infrastructures.

Our Security-as-a-Service Platform

We provide a multi-tiered security-as-a-service platform consisting of solutions, platform technologies and infrastructure. Our platform currently includes four solutions bundled for the convenience of our customers, distributors and

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resellers: Proofpoint Enterprise Protection, Proofpoint Enterprise Privacy, Proofpoint Enterprise Archive & Governance, and Proofpoint Essentials. Each of these solutions is built on our security-as-a-service platform, which includes both platform services and enabling technologies. Our platform services provide the key functionality to enable our various solutions while our enabling technologies work in conjunction with our platform services to enable the efficient construction, scaling and maintenance of our customer-facing solutions.

Our suite is delivered by a cloud infrastructure and can be deployed as a secure cloud-only solution, or as a hybrid solution with optional physical or virtual points-of-presence behind our customers' firewalls for those who prefer to deploy certain functionality inside their security perimeter. In all deployment scenarios, our cloud-based architecture enables us to leverage the benefits of the cloud to cost-effectively deliver superior security and compliance while maintaining the flexibility to optimize deployments for customers' unique environments. The modularity of our solutions enables our existing customers to implement additional modules in a simple and efficient manner.

Solutions

Our security-as-a-service platform includes four solutions bundled for the convenience of our customers: Proofpoint Enterprise Protection, Proofpoint Enterprise Privacy, Proofpoint Enterprise Archive & Governance, and Proofpoint Essentials.

Proofpoint Enterprise Protection

Proofpoint Enterprise Protection is our communications and collaboration security suite designed to protect customers' mission-critical messaging infrastructure from outside threats including spam, phishing, unpredictable email volumes, malware and other forms of objectionable or dangerous content before they reach the enterprise. Key capabilities within Proofpoint Enterprise Protection include:

- Threat detection. Uses our Proofpoint MLX machine learning technology and reputation data to examine millions of possible attributes in every message, including envelope headers and structure, embedded web links, images, attachments and sender reputation, as well as unstructured content in the message body, to block phishing and spear phishing attacks, spam and other forms of malicious or objectionable content. This

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solution also includes sophisticated policy and routing controls designed to ensure security and the effective handling of all classifications of content.

- Virus protection. Combats email-borne viruses, worms and trojans with a solution that combines efficient message handling, comprehensive reporting, and robust policy management with leading third-party antivirus scanning engines.

- Zero-hour threat detection. Protects enterprises against new phishing attacks, viruses and other forms of malicious code during the critical period after new attacks are released and before full information is available to characterize the threat.

- Smart search. Offers an easy-to-use interface that provides real-time visibility into message flows across an organization's messaging infrastructure, using built-in logging and reporting capabilities with advanced message tracing, forensics and log analysis capabilities.

- Targeted Attack Protection. Enterprises are protected against advanced persistent threats such as phishing and other targeted email attacks by the use of big data analysis, predictive, virtual execution and dynamic malware analysis techniques to identify and apply additional security controls against suspicious messages and any associated links to the web.

Key benefits of Proofpoint Enterprise Protection include:

- Superior protection from advanced threats, spam and viruses. Protects against advanced threats, spam and other malicious code such as viruses, worms and spyware.

- Comprehensive outbound threat protection. Analyzes all outbound email traffic to block spam, viruses and other malicious content from leaving the corporate network, and pinpoint the responsible compromised systems.

- Effective, flexible policy management and administration. Provides a user-friendly, web-based administration interface and robust reporting capabilities that make it easy to define, enforce and manage an enterprise's messaging policies.

- Easy-to-use end-user controls. Gives email users easy, self-service control over their individual email preferences within the parameters of corporate-defined messaging policies.

Proofpoint Enterprise Privacy

Our data loss prevention, encryption and compliance solution defends against leaks of confidential information, and helps ensure compliance with common U.S., international and industry-specific data protection regulations - including the Health Care Insurance Portability and Accountability Act of 1996 ("HIPAA"), the Gramm-Leach-Bliley Act ("GLBA"), Canada's Personal Information Protection and Electronic Documents Act ("PIPEDA") and the Payment Card Industry Security Standard Council's Data Security Standards ("PCI-DSS"). Key capabilities within Proofpoint Enterprise Privacy include:

- Advanced data loss prevention. Our advanced data loss prevention solution identifies regulated private content, valuable corporate assets and confidential information before it leaves the organization via email, web-based applications, or our Secure Share solution. Pre-packaged smart identifiers and dictionaries automatically and accurately detect a wide range of regulated content such as social security numbers, health records, credit card numbers, and driver's license numbers. In addition to regulated content, our machine learning technology can identify confidential, organization-specific content and assets. Once identified and classified, sensitive data can be blocked, encrypted and transmitted or re-routed internally based on content and identity-aware policies.

- Flexible remediation and supervision. Content, identity and destination-aware policies enable effective remediation of potential data breaches or regulatory violations. Remediation options include stopping the transfer completely, automatically forcing data-encryption, or routing to a compliance supervisor or the end-user for disposition. Proofpoint Enterprise Privacy provides comprehensive reporting on potential violations and remediation using our analytics capabilities.

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- Policy-based encryption. Automatically encrypts regulated and other sensitive data before it leaves an organization's security perimeter without requiring cumbersome end-user key management. This enables authorized users, whether or not they are our customers, to quickly and easily decrypt and view content from most devices.

- Secure file transfer. Provides secure, large file transfer capabilities that allow end-users to send large files quickly, easily, and securely while eliminating the impact of large attachments on an email infrastructure.

- Secure share. Cloud-based security-focused solution designed to enable enterprise users to securely exchange large files with ease while staying compliant with enterprise data policies.

Key benefits of Proofpoint Enterprise Privacy include:

- Regulatory compliance. Allows outbound messages to comply with national and state government and industry-specific privacy regulations.

- Superior malicious and accidental data loss protection. Protects against the loss of sensitive data, whether from a cybercriminal attempting to exfiltrate valuable data from a compromised system, or from an employee accidentally distributing a file to the wrong party through email, webmail, social media, file sharing, or other Internet-based mechanisms for publishing content.

- Easy-to-use secure communication. Allows corporate end-users to easily share sensitive data without compromising security and privacy, and enables authorized external recipients to transparently decrypt and read the communications from any device. Our mobile-optimized interfaces provide an easy experience for the rapidly growing number of recipients on smartphones and tablets.

Proofpoint Enterprise Archive & Governance

Proofpoint Enterprise Archive & Governance is designed to ensure accurate enforcement of data governance, data retention and supervision policies and mandates; cost-effective litigation support through efficient discovery; and active legal-hold management.

Proofpoint Enterprise Archive can store, govern and discover a wide range of data including email, instant message conversations, social media interactions, and other files throughout the enterprise. The key capabilities within Proofpoint Enterprise Archive include:

- Secure cloud storage. With our proprietary double blind encryption technology and the associated data storage architecture, all email messages, files and other content are encrypted with keys controlled by the customer before the data enters the Proofpoint Enterprise Archive. This ensures that even our employees and law-enforcement agencies cannot access a readable form of the customer data without authorized access by the customer to the encryption keys stored behind the customer's firewall.

- Search performance. By employing parallel, big data search techniques, we are able to deliver search performance measured in seconds, even when searching hundreds of terabytes of archived data. Traditional on-premise solutions can take hours or even days to return search results to a complex query.

- Flexible policy enforcement. Enables organizations to easily define and automatically enforce data retention and destruction policies necessary to comply with regulatory mandates or internal policies that can vary by user, group, geography or domain.

- Active legal-hold management. Enables administrators or legal professionals to easily designate specific individuals or content as subject to legal-hold. Proofpoint Enterprise Archive then provides active management of these holds by suspending normal deletion policies and automatically archiving subsequent messages and files related to the designated matter.

- End-user supervision. Leveraging our flexible workflow capabilities, Proofpoint Enterprise Archive analyzes all electronic communications, including email and communications from leading instant messaging and social networking sites, for potential violations of regulations, such as those imposed by Financial Industry Regulatory Authority ("FINRA") and the SEC in the financial services industry.

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Key benefits of Proofpoint Enterprise Archive include:

- Regulatory compliance. Helps organizations meet regulatory requirements by archiving all messages and content according to compliance retention policies and enabling staff to systematically review messages for compliance supervision.

- Proactive data governance. Allows organizations to create, maintain and consistently enforce a clear corporate data retention policy, reducing the risk of data loss and the cost of eDiscovery.

- Efficient litigation support. Provides advanced search features that reduce the cost of eDiscovery and allow organizations to more effectively manage the litigation hold process.

- Reduced storage and management costs. Helps to simplify mailbox and file system management by automatically moving storage-intensive attachments and files into cost-effective cloud storage.

Proofpoint Enterprise Governance can track, classify, monitor, and apply governance policies to unstructured information across the enterprise. By proactively governing unstructured information "in-place," organizations can effectively manage regulatory compliance, increase control over information and mitigate legal and financial risks. The key capabilities within Proofpoint Enterprise Governance include:

- Document tracking—digital thread. Proofpoint Enterprise Governance creates a unique "digital fingerprint" for every document and version. Our solution can monitor most major document stores including share-drives, Microsoft Sharepoint, Microsoft Exchange, Lotus Domino, EMC Documentum and desktops, and track every document, version and location. This enables organizations to track and govern their sensitive documents wherever they travel inside or outside the enterprise.

- Cloud-based search and analytics. By employing advanced search techniques, we are able to deliver detailed reporting on all monitored documents and locations. Administrators can quickly locate all copies and versions of a given document or run summary reports detailing types and locations of stored documents throughout the enterprise.

- Flexible policy enforcement. Enables organizations to easily define and automatically enforce data retention and destruction policies necessary to comply with regulatory mandates or internal policies that can vary by user, group, project or geography.

Key benefits of Proofpoint Enterprise Governance include:

- Regulatory compliance. Helps organizations meet regulatory requirements by systematically retaining required documents and unstructured content according to compliance retention policies and enabling staff to efficiently review and enforce these policies.

- Proactive data governance. Allows organizations to create, maintain and consistently enforce a clear corporate data retention and destruction policy around documents and other unstructured content, reducing the risk of data loss and the cost of eDiscovery.

- Efficient litigation support. Provides advanced search features that locate all copies of documents wherever they live reducing the cost of eDiscovery and allowing organizations to effectively manage the litigation process.

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Reduced storage and management costs. Reduces document management and storage costs by automating the reporting and clean-up of unnecessary documents including duplicates, intermediate versions and non-business records.

Proofpoint Essentials

Proofpoint Essentials is our small & medium business ("SMB") suite of security-as-a-service security and compliance solutions specifically designed for distribution across managed service providers ("MSP's") and dedicated security resellers.

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Key capabilities include inbound email filtering to block spam and malware, outbound filtering for compliance with company policies, email continuity to enable email service availability, and email archiving.

Platform Services

Our platform services provide the key functionality to enable our various solutions, using our enabling technologies. Our platform services primarily consist of:

- Content inspection. Applies our Proofpoint MLX machine learning techniques to understand the meaning of email, documents and social networking communications and to identify and classify content as malicious, sensitive or relevant to a litigation matter for threat protection, data loss prevention and discovery.

- Reputation. Leverages machine learning and big data analytics to analyze and correlate billions of requests per day to create a dynamic reputation profile of hundreds of millions of IP addresses, domains, web links and other Internet content. This database of reputation profiles is used to help identify and block malicious attacks.

- Encryption and key management. Securely encrypts data and stores and indexes hundreds of thousands of individual encryption keys without requiring cumbersome key-exchange or other end-user set-up. Enables authorized users to quickly and easily decrypt and view content from a wide variety of devices.

- Notification and workflow. Creates notifications and an enabling workflow to alert administrators and compliance officers of an incident and enable subsequent review, commentary, tracking, escalation and remediation of each event.

- Analytics and search. Provides an easy-to-use, web-based interface for searching and analyzing information to enable enterprises to rapidly trace inbound and outbound messages, analyze how messages were processed by a Proofpoint Enterprise deployment, report on the disposition and status of any email message, and retrieve in real-time archived communications for litigation support and eDiscovery.

Enabling Technologies

Our enabling technologies are a proprietary set of building blocks that work in conjunction with our application services to enable the efficient construction, scaling and maintenance of our customer-facing solutions. These technologies primarily consist of:

- Big data analytics. Indexes and analyzes petabytes of information in real-time to discover threats, detect data leaks and enable end-users to quickly and efficiently access information distributed across their organizations.

- Machine learning. Builds predictive data models using our proprietary Proofpoint MLX machine learning techniques to rapidly identify and classify threats and sensitive content in real-time.

- Identity and policy. Enables the definition and enforcement of sophisticated data protection policies based on a wide set of variables, including type of content, sender, recipient, pending legal matters, time and date, regulatory status and more.

- Secure storage. Stores petabytes of data in the cloud cost-effectively using proprietary encryption methods, keeping sensitive data tamper-proof and private, yet fully searchable in real-time.

- Intelligent message routing. Policies can be established by administrators to automatically direct email communications differently through the email network, based on aspects of the messages, for security, compliance, supervisory, system performance, or other reasons.

Infrastructure

We deliver our security-as-a-service solutions through our cloud architecture and international data center infrastructure. We operate thousands of physical and virtual servers across eight data centers located in the United States, Canada, the Netherlands, Germany and Ireland.

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Our cloud architecture is optimized to meet the unique demands of delivering real-time security-as-a-service to global enterprises. Key design elements include:

- Security. Security is central to our cloud architecture and is designed into all levels of the system, including physical security, network security, application security, and security at our third-party data centers. Our security measures have met the rigorous standards of SSAE 16 certification. In addition to this commercial certification program, we have also successfully completed the FISMA certification for our cloud-based archiving and governance solution, enabling us to serve the rigorous security requirements of U.S. federal agencies.

- Scalability and performance. By leveraging a distributed, scalable architecture we process billions of requests against our reputation systems and hundreds of millions of messages per day, all in near real-time. Massively-parallel query processing technology is designed to ensure rapid search results over this vast data volume. In addition to this aggregate scalability across all customers, our architecture also scales to effectively meet the needs of several of our largest individual customers, each of which has millions of users and processes tens of millions of messages per day.

- Flexibility. Our cloud architecture enables individual customers to deploy entirely in Proofpoint's global data centers or in hybrid configurations with optional points of presence located behind the customer's firewall. This deployment flexibility enables us to deliver security, compliance and performance tailored to the unique threat profile and operating environment of each customer.

- High availability. Our services employ a wide range of technologies including redundancy, geographic distribution, real-time data replication and end-to-end service monitoring to provide 24x7 system availability.

- Network operations control. We employ a team of skilled professionals who monitor, manage and maintain our global data center infrastructure and its interoperability with the distributed points of presence located behind our customers' firewalls to ensure 24x7 operations.

- Low cost. We deploy our services on shared, low-cost, commodity computing and storage infrastructure. In addition, we utilize multi-tenancy and hardware virtualization to further reduce hardware and management costs. Because we primarily rely on internally developed and open source technology instead of commercially licensed technology, we are able to offer a cost-effective solution to our customers.

Customers

As of December 31, 2013, we had approximately 3,100 customers of all sizes across a wide variety of industries, including 38 of the Fortune 100. A number of our largest customers use our platform to protect millions of users and handle tens of millions of messages per day. We have a highly diversified customer base, with no single partner or customer accounting for more than 10% of total revenue in 2011 and one customer, a strategic partner serving a number of end customers with our platform, who accounted for 14% of total revenue in both 2013 and 2012. In each year since the launch of our first solution in 2003, we have retained over 90% of our customers.

We target large and mid-sized organizations across all major verticals including financial services, retail, manufacturing, aerospace and defense, healthcare, education and government. We have been particularly successful selling to the largest enterprises; 24 of the 50 largest companies in the United States as ranked by Fortune Magazine are our customers. We have also had success penetrating the market leaders in a number of significant verticals including:

- 3 of the 5 largest U.S. retailers

- 3 of the 5 largest U.S. aerospace and defense contractors
- 5 of the 5 largest U.S. banks
- 2 of the 5 largest global pharmaceutical companies
- 2 of the 5 largest U.S. petroleum refining companies

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Among our customers are: Alticor Inc., AON Corporation, Bank of America Corporation, Bank of China Limited, Citicorp North America, Inc., First Data Corporation, Grant Thornton LLP, Grupo IUSA, Hospital Corporation of America, Hitachi Data Systems Corporation, Huntsman Corporation, Kaiser Permanente, Mary Kay, Inc., Pitney Bowes Inc., The Radio France Group, Raymond James Financial, Inc., Royal Mail Group Ltd., Scottsdale Healthcare Corporation, the State of California, Sub-Zero, Inc., Swisscom, T-Mobile Wireless USA, Inc., Tyson Foods, Inc., UCLA Health System, University of North Carolina at Charlotte, United States Department of Agriculture, VF Corporation, VMware, Inc., Washington State University, Weatherford International Ltd., and Zions Bancorporation.

Sales and Marketing

Sales

We primarily target large and mid-sized organizations across all industries. Our sales and marketing programs are organized by geographic regions, including Asia-Pacific, EMEA, Japan, North America, and South America, and we further segment and organize our sales force into teams that focus on large enterprises (2,500 employees and above), mid-sized organizations (500 - 2,500 employees) and existing customers. In addition, we create integrated sales and marketing programs targeting specific vertical-markets. This vertical-market approach enables us to provide a higher level of service and understanding of our customers' unique needs, including the industry-specific business and regulatory requirements in industries such as healthcare, financial services, retail and education.

We sell through both direct and indirect channels, including technology and channel partners:

- Direct sales and reseller channel. We market and sell our solutions to large and mid-sized customers directly through our field and inside sales teams as well as indirectly through a hybrid model, where our sales organization actively assists our network of distributors and resellers. Our sales personnel are primarily located in North America, with additional personnel located in Asia-Pacific, EMEA, Japan and South America. Our reseller partners maintain relationships with their customers throughout the territories in which they operate, providing them with services and third-party solutions to help meet their evolving security requirements. As such, these partners act as a direct conduit through which we can connect with these prospective customers to offer our solutions. Our reseller channel includes top security organizations including Accuvant, Adaptive Solutions, Inc., Exclusive Networks SAS, FishNet Security, Forsythe Technology Inc., Insight Direct USA, SBS Security, SHI International Corp, Vinitech, Inc. and World Wide Technology Inc.

- Strategic relationships. We also sell our solutions indirectly through key technology companies such as IBM and Microsoft that offer our solutions in conjunction with one or more of their own products or services. These companies each have a large, established customer base built around a broad platform of products and solutions sold under their own brand, and they promote our products to augment their own branded solutions.

For sales involving a partner such as a distributor, reseller or strategic partner, the partner engages with the prospective customer directly and involves our sales team as needed to assist in developing and closing an order. At the conclusion of a successful sales cycle, we sell the associated subscription, hardware and services to the partner who in turn resells these items to the customer, with the partner earning a fee based on the total value of the order. With the order completed, we provide these customers with direct access to our security-as-a-service platform and other associated services, enabling us to establish a direct relationship and provide them with support as part of ensuring that the customer has a good experience with our platform. At the end of the contract term, the partner engages with the customer to execute a renewal order, with our team providing assistance as required. For 2013, over half of our billings were through one of these partners.

Marketing

Our marketing programs include a variety of online marketing, advertising, conferences, events, white-papers, public relations activities and web-based seminar campaigns targeted at key decision makers within our prospective customers.

We have a number of marketing initiatives to build awareness about our solutions and encourage customer adoption of our solutions. We offer free trials, competitive evaluations and free security and compliance risk audits to allow prospective customers to experience the quality of our solutions, to learn in detail about the features and functionality of our suite, and to quantify the potential benefits of our solutions.

Customer Service and Support

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We believe that our customer service and support provide a competitive advantage and are critical to retaining and expanding our customer base. We conduct regular third-party surveys to measure customer loyalty and satisfaction with our solutions.

Proofpoint Support Services

We deliver 24x7x365 customer support from support centers located in New York, California, Japan, Malaysia, Singapore, Canada and the United Kingdom. We offer a wide range of support offerings with varying levels of access to our support resources.

Proofpoint Professional Services and Training

With our security-as-a-service model, our solutions are designed to be implemented, configured, and operated without the need for any training or professional services. For those customers that would like to develop deeper expertise in the use of our solutions or would like some assistance with complex configurations or the importing of data, we offer various training and professional services. Many implementation services can be completed in one day and are primarily provided remotely using web-based conferencing tools. If requested, our professional services organization also provides additional assistance with data importing, design, implementation, customization, or advanced reporting. We also offer a learning center for both in-person and online training and certification.

Research and Development

We devote significant resources to improve and enhance our existing security solutions and maintain the effectiveness of our platform. We also work closely with our customers to gain valuable insights into their threat environments and security management practices to assist us in designing new solutions and features that extend the data protection, archiving and governance capabilities of our platform. Our technical staff monitors and tests our software on a regular basis, and we maintain a regular release process to update and enhance our existing solutions. Leveraging our on-demand platform model, we can deploy real-time upgrades with no downtime.

Research and development expenses were $34.4 million, $24.8 million and $19.8 million for 2013, 2012 and 2011, respectively.

Competition

Our markets are highly competitive, fragmented and subject to rapid changes in technology. We compete primarily with companies that offer a broad array of data protection and governance solutions. Providers of data protection solutions generally have product offerings that include threat protection, virus protection, data loss prevention, flexible remediation, data encryption, and in some cases secure file transfer. Providers of governance solutions generally have product offerings that provide data storage, search, policy enforcement, legal-hold management, and in some cases supervision.

Key competitors include:

- Data Protection and Privacy: Cisco (through its acquisition of IronPort), Google (through its acquisition of Postini), McAfee, an Intel subsidiary (through its acquisitions of Secure Computing and MX Logic), Microsoft (through its acquisition of Frontbridge), and Symantec (through its acquisitions of Brightmail and MessageLabs)

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Archiving and Governance: Hewlett-Packard (through its acquisition of Autonomy) and Symantec (through its acquisitions of KVS and LiveOffice)

We believe we compete favorably based on the following factors:

- level of protection against advanced threats;
- comprehensiveness and integration of the solution;
- flexibility of delivery models;

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- total cost of ownership;
- scalability and performance;
- customer support; and
- extensibility of platform.

Certain of our competitors have greater sales, marketing and financial resources, more extensive geographic presence and greater name recognition than we do. We may face future competition in our markets from other large, established companies, as well as from emerging companies. In addition, we expect that there is likely to be continued consolidation in our industry that could lead to increased price competition and other forms of competition.

Intellectual Property

We rely on a combination of trade secrets, patents, copyrights and trademarks, as well as contractual protections, to establish and protect our intellectual property rights and protect our proprietary technology. As of December 31, 2013, we had 40 patents and 13 patent applications. We have a number of registered and unregistered trademarks. We require our employees, consultants and other third parties to enter into confidentiality and proprietary rights agreements and control access to software, documentation and other proprietary information. Although we rely on intellectual property rights, including trade secrets, patents, copyrights and trademarks, as well as contractual protections to establish and protect our proprietary rights, we believe that factors such as the technological and creative skills of our personnel, creation of new modules, features and functionality, and frequent enhancements to our solutions are more essential to establishing and maintaining our technology leadership position.

Despite our efforts to protect our proprietary technology and our intellectual property rights, unauthorized parties may attempt to copy or obtain and use our technology to develop products with the same functionality as our solution. Policing unauthorized use of our technology and intellectual property rights is difficult.

We expect that software and other solutions in our industry may be subject to third-party infringement claims as the number of competitors grows and the functionality of products in different industry segments overlaps. Any of these third parties might make a claim of infringement against us at any time.

Employees

As of December 31, 2013, we had 680 employees. We also engage a number of temporary employees and consultants. None of our employees is represented by a labor union with respect to his or her employment with us. We have not experienced any work stoppages and we consider our relations with our employees to be good. Our future success will depend upon our ability to attract and retain qualified personnel. Competition for qualified personnel remains intense and we may not be successful in retaining our key employees or attracting skilled personnel.

Corporate Information

We were incorporated in Delaware in 2002. Our principal executive offices are located at 892 Ross Drive, Sunnyvale, California 94089, and our telephone number is (408) 517-4710.

Proofpoint, the Proofpoint logo, all of our product names and our other registered or common law trademarks, service marks, or trade names appearing in this Annual Report on Form 10-K are our property. Other trademarks appearing in this prospectus are the property of their respective holders.

Available Information

We file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy and information statements and amendments to reports filed or furnished pursuant to Sections 13(a), 14 and 15(d) of the Securities Exchange Act of 1934, as amended. The public may obtain these filings at the Securities and Exchange Commission ("SEC")'s Public Reference Room at 100 F Street, NE, Washington, DC 20549 or by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website at http://www.sec.gov that contains reports, proxy and information statements and other information regarding Proofpoint and other companies that file materials with the SEC electronically. Copies of Proofpoint's reports on Form 10-K, Forms 10-Q and Forms 8-K, may be obtained, free of charge, electronically through our Internet website, http://

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investor.proofpoint.com/financials.cfm, or by sending an electronic message by visiting the Contact Us section within the investor relations portion of our website.

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ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the following risk factors, as well as the other information in this Annual Report on Form 10-K, before deciding whether to invest in shares of our common stock. The occurrence of any of the events described below could harm our business, financial condition, results of operation and growth prospects. In such an event, the trading price of our common stock may decline and you may lose all or part of your investment.

Risks Related to Our Business and Industry

We have a history of losses, and we are unable to predict the extent of any future losses or when, if ever, we will achieve profitability in the future.

We have incurred net losses in every year since our inception, including net losses of $27.5 million, $20.4 million and $20.1 million in 2013, 2012 and 2011, respectively. As a result, we had an accumulated deficit of $210.0 million as of December 31, 2013. Achieving profitability will require us to increase revenue, manage our cost structure, and avoid unanticipated liabilities. We do not expect to be profitable in the near term. Revenue growth may slow or revenue may decline for a number of possible reasons, including slowing demand for our solutions, increasing competition, a decrease in the growth of our overall market, or if we fail for any reason to continue to capitalize on growth opportunities. Any failure by us to obtain and sustain profitability, or to continue our revenue growth, could cause the price of our common stock to decline significantly.

Our quarterly operating results are likely to vary significantly and be unpredictable, which could cause the trading price of our stock to decline.

Our operating results have historically varied from period to period, and we expect that they will continue to do so as a result of a number of factors, many of which are outside of our control and may be difficult to predict, including:

- the level of demand for our solutions, including our newly-introduced solutions, and the level of perceived urgency regarding security threats and compliance requirements;

- the timing of new subscriptions and renewals of existing subscriptions;

- the mix of solutions sold;

- the extent to which customers subscribe for additional solutions or increase the number of users;

- customer budgeting cycles and seasonal buying patterns;

- the extent to which we bring on new distributors;

- any changes in the competitive landscape of our industry, including consolidation among our competitors, customers, partners or resellers;

- timing of costs and expenses during a quarter;

- deferral of orders in anticipation of new solutions or enhancements announced by us;

- price competition;

- changes in renewal rates and terms in any quarter;
- the impact of acquisitions;
- any disruption in our sales channels or termination of our relationship with important channel partners;
- general economic conditions, both domestically and in our foreign markets;
- insolvency or credit difficulties confronting our customers, affecting their ability to purchase or pay for our solutions; or

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- future accounting pronouncements or changes in our accounting policies.

Any one of the factors above or the cumulative effect of some of the factors referred to above may result in significant fluctuations in our quarterly financial and other operating results, including fluctuations in our key metrics. This variability and unpredictability could result in our failing to meet the expectations of securities analysts or investors for any period. If we fail to meet or exceed such expectations for these or any other reasons, the market price of our shares could fall substantially and we could face costly lawsuits, including securities class action suits. In addition, a significant percentage of our operating expenses are fixed in nature and based on forecasted revenue and cash flow trends. Accordingly, in the event of revenue shortfalls, we are generally unable to mitigate the negative impact on margins or other operating results in the short term.

We may fail to meet or exceed the expectations of securities analysts and investors, and the market price for our common stock could decline. If one or more of the securities analysts who cover us change their recommendation regarding our stock adversely, the market price for our common stock could decline. Additionally, our stock price may be based on expectations, estimates or forecasts of our future performance that may be unrealistic or may not be achieved. Further our stock price may be affected by financial media, including press reports and blogs.

If we are unable to maintain high subscription renewal rates, our future revenue and operating results will be harmed.
Our customers have no obligation to renew their subscriptions for our solutions after the expiration of their initial subscription period, which typically ranges from one to three years. In addition, our customers may renew for fewer subscription services or users, renew for shorter contract lengths or renew at lower prices due to competitive or other pressures. We cannot accurately predict renewal rates and our renewal rates may decline or fluctuate as a result of a number of factors, including competition, customers' IT budgeting and spending priorities, and deteriorating general economic conditions. If our customers do not renew their subscriptions for our solutions, our revenue would decline and our business would suffer.

If we are unable to sell additional solutions to our customers, our future revenue and operating results will be harmed.
Our future success depends on our ability to sell additional solutions to our customers. This may require increasingly sophisticated and costly sales efforts and may not result in additional sales. In addition, the rate at which our customers purchase additional solutions depends on a number of factors, including the perceived need for additional solutions, growth in the number of end-users, and general economic conditions. If our efforts to sell additional solutions to our customers are not successful, our business may suffer.

If our solutions fail to protect our customers from security breaches, our brand and reputation could be harmed, which could have a material adverse effect on our business and results of operations.
The threats facing our customers are constantly evolving and the techniques used by attackers to access or sabotage data change frequently. As a result, we must constantly update our solutions to respond to these threats. If we fail to update our solutions in a timely or effective manner to respond to these threats, our customers could experience security breaches. Many federal, state and foreign governments have enacted laws requiring companies to notify individuals of data security breaches involving their personal data. These mandatory disclosures regarding a security breach often lead to widespread negative publicity, and any association of us with such publicity may cause our customers to lose confidence in the effectiveness of our data security measures. Any security breach at one of our customers would harm our reputation as a secure and trusted company and could cause the loss of customers. Similarly, if a well-publicized breach of data security at a customer of any other cloud based data protection or archiving service provider or other major enterprise cloud services provider were to occur, there could be a loss of confidence in the cloud based storage of sensitive data and information generally.

In addition, our solutions work in conjunction with a variety of other elements in customers' IT and security infrastructure, and we may receive blame and negative publicity for a security breach that may have been the result of the failure of one of the other elements not provided by us. The occurrence of a breach, whether or not caused by our solutions, could delay or reduce market acceptance of our solutions and have an adverse effect on our business and financial performance. In addition, any revisions to our solutions that we believe may be necessary or appropriate in connection with any such breach may cause us to incur significant expenses. Any of these events could have material adverse effects on our brand and reputation, which could harm our business, financial condition, and operating results.

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If our customers experience data losses, our brand, reputation and business could be harmed.

Our customers rely on our archive solutions to store their corporate data, which may include financial records, credit card information, business information, health information, other personally identifiable information or other sensitive personal information. A breach of our network security and systems or other events that cause the loss or public disclosure of, or access by third parties to, our customers' stored files or data could have serious negative consequences for our business, including possible fines, penalties and damages, reduced demand for our solutions, an unwillingness of our customers to use our solutions, harm to our brand and reputation, and time-consuming and expensive litigation. The techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently, often are not recognized until launched against a target, and may originate from less regulated or remote areas around the world. As a result, we may be unable to proactively prevent these techniques, implement adequate preventative or reactionary measures, or enforce the laws and regulations that govern such activities. In addition, because of the large amount of data that we collect and manage, it is possible that hardware failures, human errors or errors in our systems could result in data loss or corruption, or cause the information that we collect to be incomplete or contain inaccuracies that our customers regard as significant. If our customers experience any data loss, or any data corruption or inaccuracies, whether caused by security breaches or otherwise, our brand, reputation and business would be harmed.

Our errors and omissions insurance may be inadequate or may not be available in the future on acceptable terms, or at all. In addition, our policy may not cover any claim against us for loss of data or other indirect or consequential damages. Defending a suit based on any data loss or system disruption, regardless of its merit, could be costly and divert management's attention.

Defects or vulnerabilities in our solutions could harm our reputation, reduce the sales of our solutions and expose us to liability for losses.

Because our solutions are complex, undetected errors, failures or bugs may occur, especially when solutions are first introduced or when new versions or updates are released despite our efforts to test those solutions and enhancements prior to release. We may not be able to correct defects, errors, vulnerabilities or failures promptly, or at all.

Any defects, errors, vulnerabilities or failures in our solutions could result in:

- expenditure of significant financial and development resources in efforts to analyze, correct, eliminate or work around errors or defects or to address and eliminate vulnerabilities;
- loss of existing or potential partners or customers;
- loss or disclosure of our customers' confidential information, or the inability to access such information;
- loss of our proprietary technology;
- our solutions being susceptible to hacking or electronic break-ins or otherwise failing to secure data;
- delayed or lost revenue;
- delay or failure to attain market acceptance;
- lost market share;
- negative publicity, which could harm our reputation; or
- litigation, regulatory inquiries or investigations that would be costly and harm our reputation.

Limitation of liability provisions in our standard terms and conditions and our other agreements may not adequately or effectively protect us from any claims related to defects, errors, vulnerabilities or failures in our solutions, including as a result of federal, state or local laws or ordinances or unfavorable judicial decisions in the United States or other countries.

Because we provide security solutions, our software, website and internal systems may be subject to intentional disruption that could adversely impact our reputation and future sales.

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We could be a target of attacks specifically designed to impede the performance of our solutions and harm our reputation. Similarly, experienced computer hackers may attempt to penetrate our network security or the security of our website and misappropriate proprietary information and/or cause interruptions of our services. Because the techniques used by such computer hackers 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. If an actual or perceived breach of network security occurs, it could adversely affect the market perception of our solutions, and may expose us to the loss of information, litigation and possible liability. In addition, such a security breach could impair our ability to operate our business, including our ability to provide support services to our customers.

We believe that there is a trend for large and mid sized enterprises to migrate their on premise email systems to cloud based offerings. If we fail to successfully develop, market, broaden or enhance our solutions to continue to be attractive to existing customers currently using cloud based email systems or to new prospects, our ability to grow or maintain our revenue could be harmed, and our business could suffer.

We derive a substantial portion of our revenue from our solutions that protect and archive data in our customers' on-premise email systems and expect to continue to do so for the foreseeable future. We currently derive a portion of our revenue from customers using cloud-based email systems such as Google's Google Apps and Microsoft's Office 365, both of which include varying degrees of threat protection and governance services as part of their offering. A significant market shift from on premise email systems toward such cloud based email systems could decrease demand for our solutions because customers who move to cloud based email systems may no longer value our threat and governance solutions and may choose to instead use competing or low cost alternatives from companies such as Google or Microsoft that may offer competing solutions in connection with their cloud-based email systems. If our current or prospective customers who utilize cloud based systems fail to find value in our solutions or migrate to these other threat or governance offerings, our business could be adversely affected.

Historically, our solutions have been used primarily for email, and any decrease in the use of email systems by large and mid sized enterprises over time, or the failure of our newly developed solutions for emerging methods of communication and collaboration to gain acceptance could harm our business.

Historically, our customers have primarily used our solutions to protect and archive data in their corporate email systems. If the use of email decreases, demand for our solutions would decrease and we may fail to diversify our revenue base by increasing demand for our other technology solutions.

In addition, messaging and collaboration technologies are evolving rapidly. For instance, the widespread adoption and use of mobile devices, unmanaged Internet based collaboration and file sharing applications and social networking sites have caused valuable and sensitive data to proliferate well beyond traditional corporate email systems, resulting in new and increasing security risks. We are devoting resources to continue developing and marketing our solutions for these emerging methods of communication and collaboration. However, our customers may not perceive the need to deploy our solutions intended to address these emerging areas. If we are unable to successfully develop, market, broaden or enhance our solutions to address the wider range of threats caused by the proliferation of new technologies and methods of communication, demand for our existing solutions would decrease, and our business would be harmed.

If functionality similar to that offered by our solutions is incorporated into our competitors' networking products, potential or existing customers may decide against adding our solutions to their network, which would have an adverse effect on our business.

Some large, well-established providers of networking equipment, such as Cisco Systems, Inc. and Juniper Networks, Inc. currently offer, and may continue to introduce, network security features that compete with our solutions, either in stand alone security products or as additional features in their network infrastructure products. The inclusion of, or the announcement of an intent to include, functionality perceived to be similar to that offered by our solutions in networking products that are already generally accepted as necessary components of customers' network architecture may have an adverse effect on our ability to market and sell our solutions. Furthermore, even if the functionality offered by network infrastructure providers is more limited than that offered by our solutions, a significant number of our customers may elect to accept such limited functionality in lieu of adding appliances or software from an additional vendor such as us. Many organizations have invested substantial personnel and financial resources to design and operate their networks and have established deep relationships with other providers of networking products, which may make them reluctant to add new third party components to their networks.

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Our solutions collect, filter and archive customer data which may contain personal information, which raises privacy concerns and could result in us having liability or inhibit sales of our solutions.

Many federal, state and foreign government bodies and agencies have adopted or are considering adopting laws and regulations regarding the collection, use, and disclosure of personal information. Because many of the features of our solutions use, store, and report on customer data which may contain personal information from our customers, any inability to adequately address privacy concerns, or comply with applicable privacy laws, regulations and policies could, even if unfounded, result in liability to us, damage to our reputation, loss of sales, and harm to our business. Furthermore, the costs of compliance with, and other burdens imposed by, such laws, regulations and policies that are applicable to the businesses of our customers may limit the use and adoption of our solutions and reduce overall demand for them. Privacy concerns, whether or not valid, may inhibit market adoption of our solutions. For example, in the United States regulations such as the Gramm Leach Bliley Act (GLBA), which protects and restricts the use of consumer credit and financial information, and the Health Insurance Portability and Accountability Act of 1996 (HIPAA), which regulates the use and disclosure of personal health information, impose significant security and data protection requirements and obligations on businesses that may affect the use and adoption of our solutions. The European Union has also adopted a data privacy directive that requires member states to impose restrictions on the collection and use of personal data that, in some respects, are more stringent, and impose more significant burdens on subject businesses, than current privacy standards in the United States.

Any failure or perceived failure to comply with laws and regulations may result in proceedings or actions against us by government entities or others, or could cause us to lose users and customers, which could potentially have an adverse effect on our business.

We operate in a highly competitive environment with large, established competitors, and our competitors may gain market share in the markets for our solutions that could adversely affect our business and cause our revenue to decline.

Our traditional competitors include security focused software vendors, such as Symantec Corporation and McAfee, Inc., an Intel Corporation subsidiary, which offer software products that directly compete with our solutions. In addition to competing with these vendors directly for sales to customers, we compete with them for the opportunity to have our solutions bundled with the product offerings of our strategic partners. Our competitors could gain market share from us if any of these partners replace our solutions with the products of our competitors or if these partners more actively promote our competitors' products over our solutions. In addition, software vendors who have bundled our solutions with theirs may choose to bundle their software with their own or other vendors' software, or may limit our access to standard product interfaces and inhibit our ability to develop solutions for their platform.

We also face competition from large technology companies, such as Cisco, Google Inc., Hewlett Packard Company, Intel and Microsoft. These companies are increasingly developing and incorporating into their products data protection and storage software that compete on various levels with our solutions. Our competitive position could be adversely affected to the extent that our customers perceive that the functionality incorporated into these products would replace the need for our solutions or that buying from one vendor would provide them with increased leverage and purchasing power and a better customer experience. We also face competition from many smaller companies that specialize in particular segments of the markets in which we compete.

Many of our competitors have greater financial, technical, sales, marketing or other resources than we do and consequently may have the ability to influence our customers to purchase their products instead of ours. Further consolidation within our industry or other changes in the competitive environment could also result in larger competitors that compete with us on several levels. In addition, acquisitions of smaller companies by large technology companies that specialize in particular segments of the markets in which we compete would result in increased competition from these large technology companies. For example, Cisco's acquisition of IronPort, an email and web security service, resulted in Cisco becoming one of our competitors. If we are unsuccessful in responding to our competitors or to changing technological and customer demands, our competitive position and financial results could be adversely affected.

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

We continue to be substantially dependent on our sales force to obtain new customers and to sell additional solutions to our existing customers. We believe that 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

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recruiting, training and retaining sufficient numbers of sales personnel to support our growth. New hires require significant training and may take significant time before they achieve full productivity. Our recent hires and planned hires may not become as productive as we expect, and we may be unable to hire or retain sufficient numbers of qualified individuals in the markets where we do business or plan to do business. If we are unable to hire and train sufficient numbers of effective sales personnel, or the sales personnel are not successful in obtaining new customers or increasing sales to our existing customer base, our business will be harmed.

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

We sell our security and compliance offerings primarily to enterprise IT departments that are managing a growing set of user and compliance demands, which has increased the complexity of customer requirements to be met and confirmed in the sales cycle. Additionally, we have found that increasingly security, legal and compliance departments are involved in testing, evaluating and finally approving purchases, which has also made the sales cycle longer and less predictable. We may not be able to accurately predict or forecast the timing of sales, which makes our future revenue difficult to predict and could cause our results to vary significantly. In addition, we might devote substantial time and effort to a particular unsuccessful sales effort, and as a result we could lose other sales opportunities or incur expenses that are not offset by an increase in revenue, which could harm our business.

Our contributions to cash flow are dependent in part upon our average contract durations, so significant shortening of our average contract durations may cause significant negative impact to our operating results.

With the majority of our business, we invoice our customers for the entire contract amount at the start of the term and these amounts are recorded as deferred revenue on our balance sheet, with the dollar weighted average duration of these contracts for any given period over the past three years typically ranging from 16 to 23 months. As a result, while our practice of invoicing customers for the entire amount of the contract at the start of the term provides us with a relatively immediate contribution to cash flow, the revenue is recognized ratably over the term of the contract, and hence contributions toward operating income are realized over an extended period. If these average contract durations were to shorten significantly from their current range, it may cause us to experience less favorable cash flows as compared to our current operating condition, requiring us to seek additional sources of capital to fund our operations.

Because our long-term success depends, in part, on our ability to expand the sales of our platform to our customers located outside of the United States, our business will be increasingly susceptible to risks associated with international operations.

One key element of our growth strategy is to develop a worldwide customer base and expand our operations worldwide. We have added employees, offices and customers internationally, particularly in Europe and Asia, and while our international revenue has declined as a percentage of total revenue in 2013 as compared to 2012, international revenue has grown on an overall basis.

Operating in international markets requires significant resources and management attention and will subject us to regulatory, economic, political and competitive risks and competition that are different from those in the United States. Because of our limited experience with international operations, we cannot assure you that our international expansion efforts will be successful or that expected returns on such investments will be achieved in the future.

In addition, our international operations may fail to succeed due to other risks inherent in operating businesses internationally, including:

- our lack of familiarity with commercial and social norms and customs in other countries which may adversely affect our ability to recruit, retain and manage employees in these countries;
- difficulties and costs associated with staffing and managing foreign operations;
- the potential diversion of management's attention to oversee and direct operations that are geographically distant from our U.S. headquarters;

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- compliance with multiple, conflicting and changing governmental laws and regulations, including employment, tax, privacy and data protection laws and regulations;
- legal systems in which our ability to enforce and protect our rights may be different or less effective than in the United States, including more limited protection for intellectual property rights in some countries;
- immaturity of compliance regulations in other jurisdictions, which may lower demand for our solutions;
- greater difficulty with payment collections and longer payment cycles;
- higher employee costs and difficulty terminating non-performing employees;
- differences in work place cultures;
- the need to adapt our solutions for specific countries;
- our ability to comply with differing technical and certification requirements outside the United States;
- tariffs, export controls and other non-tariff barriers such as quotas and local content rules;
- adverse tax consequences;
- fluctuations in currency exchange rates;
- restrictions on the transfer of funds;
- anti-bribery compliance by us or our partners, including under the Foreign Corrupt Practices Act; and
- new and different sources of competition.

Our failure to manage any of these risks successfully could harm our existing and future international operations and seriously impair our overall business.

If the market for our delivery model and cloud computing services develops more slowly than we expect, our business could be harmed.

Our success will depend to a substantial extent on the willingness of enterprises, large and small, to increase their use of cloud computing services. The market for messaging security and data compliance solutions delivered as a service in particular is at an early stage relative to on-premise solutions, and these applications may not achieve and sustain high levels of demand and market acceptance. Many enterprises have invested substantial personnel and financial resources to integrate traditional enterprise software or hardware appliances for these applications into their businesses or may be reluctant or unwilling to use cloud computing services because they have concerns regarding the risks associated with reliability and security, among other things, of this delivery model, or its ability to help them comply with applicable laws and regulations. If enterprises do not perceive the benefits of this delivery model, then the market for our services may develop more slowly than we expect, which would adversely affect our business and operating results.

If we are unable to enhance our existing solutions and develop new solutions, our growth will be harmed and we may not be able to achieve profitability.

Our ability to attract new customers and increase revenue from existing customers will depend in large part on our ability to enhance and improve our existing solutions and to introduce new solutions. The success of any enhancement or new solution depends on several factors, including the timely completion, introduction and market acceptance of the enhancement or solution. Any new enhancement or solution we develop or acquire may not be introduced in a timely or cost-effective manner and may not achieve the broad market acceptance necessary to generate significant revenue. If we are unable to successfully develop or acquire new solutions or enhance our existing solutions to meet customer requirements, we may not grow as expected and we may not achieve profitability.

We cannot be certain that our development activities will be successful or that we will not incur delays or cost overruns. Furthermore, we may not have sufficient financial resources to identify and develop new technologies and bring enhancements or new solutions to market in a timely and cost-effective manner. New technologies and enhancements could be delayed or cost more than we expect, and we cannot ensure that any of these solutions will be commercially successful if and when they are introduced.

If we are unable to cost-effectively scale or adapt our existing architecture to accommodate increased traffic, technological advances or changing customer requirements, our operating results could be harmed.

As our customer base grows, the number of users accessing our solutions over the Internet will correspondingly increase. Increased traffic could result in slow access speeds and response times. Since our customer agreements often include service availability commitments, slow speeds or our failure to accommodate increased traffic could result in breaches of our service level agreements or obligate us to issue service credits. In addition, the market for our solutions is characterized by rapid technological advances and changes in customer requirements. In order to accommodate increased traffic and respond to technological advances and evolving customer requirements, we expect that we will be required to make future investments in our network architecture. If we do not implement future upgrades to our network architecture cost-effectively, or if we experience prolonged delays or unforeseen difficulties in connection with upgrading our network architecture, our service quality may suffer and our operating results could be harmed.

If we fail to manage our sales and distribution channels effectively or if our partners choose not to market and sell our solutions to their customers, our operating results could be adversely affected.

We have derived and anticipate that in the future we will continue to derive a substantial portion of the sales of our solutions through channel partners. In order to scale our channel program to support growth in our business, it is important that we continue to help our partners enhance their ability to independently sell and deploy our solutions. We may be unable to continue to successfully expand and improve the effectiveness of our channel sales program. Our agreements with our channel partners are generally non-exclusive and some of our channel partners have entered, and may continue to enter, into strategic relationships with our competitors or are competitors themselves. Further, many of our channel partners have multiple strategic relationships and they may not regard us as significant for their businesses. Our channel partners may terminate their respective relationships with us with limited or no notice and with limited or no penalty, pursue other partnerships or relationships, or attempt to develop or acquire products or services that compete with our solutions. Our partners also may impair our ability to enter into other desirable strategic relationships. If our channel partners do not effectively market and sell our solutions, if they choose to place greater emphasis on products of their own or those offered by our competitors, or if they fail to meet the needs of our customers, our ability to grow our business and sell our solutions may be adversely affected. Similarly, the loss of a substantial number of our channel partners, and our possible inability to replace them, the failure to recruit additional channel partners, any reduction or delay in their sales of our solutions, or any conflicts between channel sales and our direct sales and marketing activities could materially and adversely affect our results of operations.

Because we recognize revenue from subscriptions over the term of the relevant service period, decreases or increases in sales are not immediately reflected in full in our operating results.

We recognize revenue from subscriptions over the term of the relevant service period, which typically range from one to three years, with some up to five years. As a result, most of our quarterly revenue from subscriptions results from agreements entered into during previous quarters. Consequently, a shortfall in demand for our solutions in any quarter may not significantly reduce our subscription revenue for that quarter, but could negatively affect subscription revenue in future quarters. We may be unable to adjust our cost structure to compensate for this potential shortfall in subscription revenue. Accordingly, the effect of significant downturns in sales of subscriptions may not be fully reflected in our results of operations until future periods. Our subscription model also makes it difficult for us to rapidly increase our subscription revenue through additional sales in any period, as subscription revenue must be recognized over the term of the contract.

Interruptions or delays in services provided by third parties could impair the delivery of our service and harm our business.

We currently serve our customers from third party data center hosting facilities located in the United States, Canada and Europe. We also rely on bandwidth providers, Internet service providers, and mobile networks to deliver our solutions. Any damage to, or failure of, the systems of our third party providers could result in interruptions to our service. If for any reason our arrangement with one or more of our data centers is terminated we could experience additional expense in arranging for

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new facilities and support. Our data center facilities providers have no obligations to renew their agreements with us on commercially reasonable terms, or at all. If we are unable to renew our agreements with the facilities providers on commercially reasonable terms or if in the future we add additional data center facility providers, we may experience costs or downtime in connection with the transfer to, or the addition of, new data center facilities. In addition, the failure of our data centers to meet our capacity requirements could result in interruptions in the availability of our solutions, impair the functionality of our solutions or impede our ability to scale our operations. As we continue to add data centers, restructure our data management plans, and increase capacity in existing and future data centers, we may move or transfer our data and our customers' data. Despite precautions taken during such processes and procedures, any unsuccessful data transfers may impair the delivery of our service, and we may experience costs or downtime in connection with the transfer of data to other facilities.

We also depend on access to the Internet through third party bandwidth providers to operate our business. If we lose the services of one or more of our bandwidth providers, or if these providers experience outages, for any reason, we could experience disruption in delivering our solutions or we could be required to retain the services of a replacement bandwidth provider. Our business also depends on our customers having high-speed access to the Internet. Any Internet outages or delays could adversely affect our ability to provide our solutions to our customers.

Our operations also rely heavily on the availability of electricity, which also comes from third party providers. If we or the third party data center facilities that we use to deliver our services were to experience a major power outage or if the cost of electricity were to increase significantly, our operations and financial results could be harmed. If we or our third party data centers were to experience a major power outage, we or they would have to rely on back-up generators, which might not work properly or might not provide an adequate supply during a major power outage. Such a power outage could result in a significant disruption of our business.

The occurrence of an extended interruption of our or third party services for any reason could result in lengthy interruptions in our services or in the delivery of customers' email and require us to provide service credits, refunds, indemnification payments or other payments to our customers, and could also result in the loss of customers.

Any failure to offer high-quality technical support services may adversely affect our relationships with our customers and harm our financial results.

Once our solutions are deployed, our customers depend on our support organization to resolve any technical issues relating to our solutions. In addition, our sales process is highly dependent on our solutions and business reputation and on strong recommendations from our existing customers. Any failure to maintain high-quality technical support, or a market perception that we do not maintain high-quality support, could harm our reputation, adversely affect our ability to sell our solutions to existing and prospective customers, and harm our business, operating results and financial condition.

We offer technical support services with many of our solutions. We may be unable to respond quickly enough to accommodate short-term increases in customer demand for support services. We also may be unable to modify the format of our support services to compete with changes in support services provided by competitors. Increased customer demand for these services, without corresponding revenue, could increase costs and adversely affect our operating results.

We have outsourced a substantial portion of our worldwide customer support functions to third party service providers. If these companies experience financial difficulties, do not maintain sufficiently skilled workers and resources to satisfy our contracts, or otherwise fail to perform at a sufficient level, the level of support services to our customers may be significantly disrupted, which could materially harm our reputation and our relationships with these customers.

If we fail to develop or protect our brand, our business may be harmed.

We believe that developing and maintaining awareness and integrity of our company and our brand are important to achieving widespread acceptance of our existing and future offerings and are important elements in attracting new customers. We believe that the importance of brand recognition will increase as competition in our market further intensifies. Successful promotion of our brand will depend on the effectiveness of our marketing efforts and on our ability to provide reliable and useful solutions at competitive prices. We plan to continue investing substantial resources to promote our brand, both domestically and internationally, but there is no guarantee that our brand development strategies will enhance the recognition of our brand. Some of our existing and potential competitors have well-established brands with greater recognition than we have. If our efforts to promote and maintain our brand are not successful, our operating results and our ability to attract and retain customers may be adversely affected. In addition, even if our brand recognition and loyalty increases, this may not result in increased use of our solutions or higher revenue.

In addition, independent industry analysts often provide reviews of our solutions, as well as those of our competitors, and perception of our solutions in the marketplace may be significantly influenced by these reviews. We have no control over what these industry analysts report, and because industry analysts may influence current and potential customers, our brand could be harmed if they do not provide a positive review of our solutions or view us as a market leader.

The steps we have taken to protect our intellectual property rights may not be adequate.

We rely on a combination of contractual rights, trademarks, trade secrets, patents and copyrights to establish and protect our intellectual property rights. These offer only limited protection, however, and the steps we have taken to protect our proprietary technology may not deter its misuse, theft or misappropriation. Any of our patents, copyrights, trademarks or other intellectual property rights may be challenged by others or invalidated through administrative process or litigation. Competitors may independently develop technologies or products that are substantially equivalent or superior to our solutions or that inappropriately incorporate our proprietary technology into their products. Competitors may hire our former employees who may misappropriate our proprietary technology or misuse our confidential information. Although we rely in part upon confidentiality agreements with our employees, consultants and other third parties to protect our trade secrets and other confidential information, those agreements may not effectively prevent disclosure of trade secrets and other confidential information and may not provide an adequate remedy in the event of misappropriation of trade secrets or unauthorized disclosure of confidential information. In addition, others may independently discover our trade secrets and confidential information, and in such cases we could not assert any trade secret rights against such parties.

We might be required to spend significant resources to monitor and protect our intellectual property rights. We may initiate claims or litigation against third parties for infringement of our intellectual property rights or misappropriation of our trade secrets, or to establish the validity of our intellectual property rights. Any litigation, whether or not it is resolved in our favor, could result in significant expense to us and divert the efforts of our technical and management personnel, which may adversely affect our business, operating results and financial condition. Certain jurisdictions may not provide adequate legal infrastructure for effective protection of our intellectual property rights. Changing legal interpretations of liability for unauthorized use of our solutions or lessened sensitivity by corporate, government or institutional users to refraining from intellectual property piracy or other infringements of intellectual property could also harm our business.

Our issued patents may not provide us with any competitive advantages or may be challenged by third parties, and our patent applications may never be granted at all. It is possible that innovations for which we seek patent protection may not be protectable. Additionally, 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. Given the cost, effort, risks and downside of obtaining patent protection, including the requirement to ultimately disclose the invention to the public, we may not choose to seek patent protection for certain innovations. However, such patent protection could later prove to be important to our business. Even if issued, there can be no assurance that any patents will have the coverage originally sought or adequately protect our intellectual property, as the legal standards relating to the validity, enforceability and scope of protection of patent and other intellectual property rights are uncertain. Any patents that are issued may be invalidated or otherwise limited, or may lapse or may be abandoned, enabling other companies to better develop products that compete with our solutions, which could adversely affect our competitive business position, business prospects and financial condition.

We cannot assure you that the measures we have taken to protect our intellectual property will adequately protect us, and any failure to protect our intellectual property could harm our business.

Third parties claiming that we infringe their intellectual property rights could cause us to incur significant legal expenses and prevent us from selling our solutions.

Companies in the software and technology industries, including some of our current and potential competitors, own large numbers of patents, copyrights, trademarks and trade secrets and frequently enter into litigation based on allegations of infringement, misappropriation or other violations of intellectual property rights. In addition, many of these companies have the capability to dedicate substantially greater resources to enforce their intellectual property rights and to defend claims that may be brought against them. The litigation may involve patent holding companies or other adverse patent owners who have no relevant product revenue and against whom our potential patents may provide little or no deterrence. We have received, and

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may in the future receive, notices that claim we have infringed, misappropriated or otherwise violated other parties' intellectual property rights. To the extent we gain greater visibility, we face a higher risk of being the subject of intellectual property infringement claims, which is not uncommon with respect to software technologies in general and information security technology in particular. There may be third party intellectual property rights, including issued or pending patents that cover significant aspects of our technologies or business methods. Any intellectual property claims, with or without merit, could be very time consuming, could be expensive to settle or litigate and could divert our management's attention and other resources. These claims could also subject us to significant liability for damages, potentially including treble damages if we are found to have willfully infringed patents or copyrights. These claims could also result in our having to stop using technology found to be in violation of a third-party's rights. We might be required to seek a license for the intellectual property, which may not be available on reasonable terms or at all. Even if a license were available, we could be required to pay significant royalties, which would increase our operating expenses. As a result, we may be required to develop alternative non-infringing technology, which could require significant effort and expense. If we cannot license or develop technology for any infringing aspect of our business, we would be forced to limit or stop sales of one or more of our solutions or features of our solutions and may be unable to compete effectively. Any of these results would harm our business, operating results and financial condition.

In addition, our agreements with customers and channel partners include indemnification provisions under which we agree to indemnify them for losses suffered or incurred as a result of claims of intellectual property infringement and, in some cases, for damages caused by us to property or persons. Large indemnity payments could harm our business, operating results and financial condition.

We rely on technology and intellectual property licensed from other parties, the failure or loss of which could increase our costs and delay or prevent the delivery of our solutions.

We utilize various types of software and other technology, as well as intellectual property rights, licensed from unaffiliated third parties in order to provide certain elements of our solutions. Any errors or defects in any third party technology could result in errors in our solutions that could harm our business. In addition, licensed technology and intellectual property rights may not continue to be available on commercially reasonable terms, or at all. While we believe that there are currently adequate replacements for the third party technology we use, any loss of the right to use any of this technology on commercially reasonable terms, or at all, could result in delays in producing or delivering our solutions until equivalent technology is identified and integrated, which delays could harm our business. In this situation we would be required to either redesign our solutions to function with software available from other parties or to develop these components ourselves, which would result in increased costs. Furthermore, we might be forced to limit the features available in our current or future solutions. If we fail to maintain or renegotiate any of these technology or intellectual property licenses, we could face significant delays and diversion of resources in attempting to develop similar or replacement technology, or to license and integrate a functional equivalent of the technology.

Some of our solutions contain "open source" software, and any failure to comply with the terms of one or more of these open source licenses could negatively affect our business.

Some of our solutions are distributed with software licensed by its authors or other third parties under so-called "open source" licenses, which may include, by way of example, the GNU General Public License, or GPL, and the Apache License. Some of these licenses contain requirements that we make available source code for modifications or derivative works we create based upon the open source software, and that we license such modifications or derivative works under the terms of a particular open source license or other license granting third parties certain rights of further use. By the terms of certain open source licenses, we could be required to release the source code of our proprietary software, and to make our proprietary software available under open source licenses, if we combine our proprietary software with open source software in a certain manner. In the event that portions of our proprietary software are determined to be subject to an open source license, we could be required to publicly release the affected portions of our source code, re-engineer all or a portion of our technologies, or otherwise be limited in the licensing of our technologies, each of which could reduce or eliminate the value of our technologies and solutions. In addition to risks related to license requirements, usage of open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or controls on the origin of the software. We have established processes to help alleviate these risks, including a review process for screening requests from our development organizations for the use of open source software, but we cannot be sure that all open source software is submitted for approval prior to use in our solutions, that our programmers have not incorporated open source software into our proprietary solutions and technologies or that they will not do so in the future. In addition, many of the risks associated with usage of open source software cannot be eliminated, and could, if not properly addressed, negatively affect our business.

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Governmental regulations affecting the export of certain of our solutions could negatively affect our business.

Our products are subject to U.S. export controls, and we incorporate encryption technology into certain of our products. These encryption products and the underlying technology may be exported outside the United States only with the required export authorizations, including by license, a license exception or other appropriate government authorizations, including the filing of an encryption registration. Governmental regulation of encryption technology and regulation of imports or exports, or our failure to obtain required import or export approval for our products, could harm our international sales and adversely affect our revenue.

Failure to comply with such regulations in the future could result in penalties, costs, and restrictions on export privileges, which could also harm our operating results.

We have experienced rapid growth in recent periods. If we fail to manage such growth and our future growth effectively, we may be unable to execute our business plan, maintain high levels of service or adequately address competitive challenges.

We have experienced significant growth in recent periods. For example, we grew from 158 employees as of December 31, 2007 to 680 as of December 31, 2013. This growth has placed, and any future growth may place, a significant strain on our management and operational infrastructure, including our hosting operations. Our success will depend, in part, on our ability to manage these changes effectively. We will need to continue to improve our operational, financial and management controls and our reporting systems and procedures. Failure to effectively manage growth could result in declines in service quality or customer satisfaction, increases in costs, difficulties in introducing new features or other operational difficulties. Any failure to effectively manage growth could adversely impact our business and reputation.

We have and may further expand through acquisitions of, or investments in, other companies, which may divert our management's attention, dilute our stockholders and consume corporate resources that otherwise would be necessary to sustain and grow our business.

We have made multiple acquisitions in 2013 and our business strategy may, from time to time, continue to include acquiring complementary products, technologies or businesses. We also may enter into relationships with other businesses in order to expand our solutions, which could involve preferred or exclusive licenses, additional channels of distribution, or investments by or between the two parties. Negotiating these transactions can be time consuming, difficult and expensive, and our ability to close these transactions may be subject to third party approvals, such as government regulation, which are beyond our control. Consequently, we can make no assurance that these transactions, once undertaken and announced, will close.

These kinds of transactions may result in unforeseen operating difficulties and expenditures. In particular, we may encounter difficulties assimilating or integrating the businesses, technologies, products, personnel or operations of acquired companies, particularly if the key personnel of the acquired business choose not to work for us, and we may have difficulty retaining the customers of any acquired business. 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. Any acquisition or investment could expose us to unknown liabilities. In addition, as of December 31, 2013, we had $86.7 million in goodwill and intangible assets recorded on our consolidated balance sheet. We may in the future need to incur charges with respect to the write-down or impairment of goodwill or intangible assets, which could adversely affect our operating results. Moreover, we cannot assure you that the anticipated benefits of any acquisition or investment would be realized or that we would not be exposed to unknown liabilities. In connection with these types of transactions, we may issue additional equity securities that would dilute our stockholders, use cash that we may need in the future to operate our business, incur debt on terms unfavorable to us or that we are unable to repay, incur large charges or substantial liabilities, encounter difficulties integrating diverse business cultures, and become subject to adverse tax consequences, substantial depreciation or deferred compensation charges. These challenges related to acquisitions or investments could adversely affect our business, operating results and financial condition.

If we are unable to attract and retain qualified employees, lose key personnel, fail to integrate replacement personnel successfully, or fail to manage our employee base effectively, we may be unable to develop new and enhanced solutions, effectively manage or expand our business, or increase our revenue.

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Our future success depends upon our ability to recruit and retain key management, technical, sales, marketing, finance, and other critical personnel. Despite the economic downturn, competition for qualified management, technical and other personnel is intense, and we may not be successful in attracting and retaining such personnel. If we fail to attract and retain qualified employees, our ability to grow our business could be harmed. Our officers and other key personnel are employees-at-will, and we cannot assure you that we will be able to retain them. Competition for people with the specific skills that we require is significant. In order to attract and retain personnel in a competitive marketplace, we believe that we must provide a competitive compensation package, including cash and equity based compensation. Volatility in our stock price may from time to time adversely affect our ability to recruit or retain employees. If we are unable to hire and retain qualified employees, or conversely, if we fail to manage employee performance or reduce staffing levels when required by market conditions, our business and operating results could be adversely affected.

In addition, hiring, training, and successfully integrating replacement personnel could be time consuming, may cause additional disruptions to our operations, and may be unsuccessful, which could negatively impact future revenue.

Changes in laws and/or regulations related to the Internet or changes in the Internet infrastructure itself may diminish the demand for our solutions, and could have a negative impact on our business.

The future success of our business depends upon the continued use of the Internet as a primary medium for commerce, communication and business applications. Federal, state or foreign government bodies or agencies have in the past adopted, and may in the future adopt, laws or regulations affecting data privacy and the use of the Internet as a commercial medium. Changes in these laws or regulations could require us to modify our solutions in order to comply with these changes. In addition, government agencies or private organizations may begin to impose taxes, fees or other charges for accessing the Internet or commerce conducted via the Internet. These laws or charges could limit the growth of Internet related commerce or communications generally, result in a decline in the use of the Internet and the viability of Internet based applications such as ours and reduce the demand for our solutions.

The legal and regulatory framework also drives demand for our solutions. Our customers are subject to laws, regulations and internal policies that mandate how they process, handle, store, use and transmit a variety of sensitive data and communications. These laws and regulations are subject to revision, change and interpretation at any time, and any such change could either help or hurt the demand for our solutions. We cannot be sure that the legal and regulatory framework in any given jurisdiction will be favorable to our business or that we will be able to sustain or grow our business if there are any adverse changes to these laws and regulations.

If we are required to collect sales and use taxes on the solutions we sell, we may be subject to liability for past sales and our future sales may decrease.

State and local taxing jurisdictions have differing rules and regulations governing sales and use taxes, and these rules and regulations are subject to varying interpretations that may change over time. In particular, the applicability of sales taxes to our subscription services in various jurisdictions is unclear. It is possible that we could face sales tax audits and that our liability for these taxes could exceed our estimates as state tax authorities could still assert that we are obligated to collect additional amounts as taxes from our customers and remit those taxes to those authorities. We could also be subject to audits with respect to state and international jurisdictions for which we have not accrued tax liabilities. A successful assertion that we should be collecting additional sales or other taxes on our services in jurisdictions where we have not historically done so and do not accrue for sales taxes could result in substantial tax liabilities for past sales, discourage customers from purchasing our application or otherwise harm our business and operating results.

Adverse conditions in the national and global economies and financial markets may adversely affect our business and financial results.

Our financial performance depends, in part, on the state of the economy, which deteriorated in the recent broad recession, and which may deteriorate in the future. Challenging economic conditions worldwide have from time to time contributed, and may continue to contribute, to slowdowns in the information technology industry, resulting in reduced demand for our solutions as a result of continued constraints on IT-related capital spending by our customers and increased price competition for our solutions. Moreover, we target some of our solutions to the financial services industry and therefore if there is consolidation in that industry, or layoffs, or lack of funding for IT purchases, our business may suffer. If unfavorable

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economic conditions continue or worsen, our business, financial condition and operating results could be materially and 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.

Natural disasters or other catastrophic events may cause damage or disruption to our operations, international commerce and the global economy, and thus could have a strong negative effect on us. We have significant operations in the Silicon Valley area of Northern California, a region known for seismic activity. A major earthquake or other natural disaster, fire, act of terrorism or other catastrophic event that results in the destruction or disruption of any of our critical business operations or information technology systems could severely affect our ability to conduct normal business operations and, as a result, our future operating results could be harmed. These negative events could make it difficult or impossible for us to deliver our services to our customers, and could decrease demand for our services. Because we do not carry earthquake insurance for direct quake related losses, and significant recovery time could be required to resume operations, our financial condition and operating results could be materially adversely affected in the event of a major earthquake or catastrophic event.

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

Sales to U.S. and foreign federal, state and local governmental agency customers have accounted for a portion of our revenue in past periods, and we may in the future increase sales to government entities. Sales into 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 we will win a sale. We have invested in the creation of a cloud offering certified under the Federal Information Security Management Act (FISMA) for government usage but we cannot be sure that we will continue to sustain or renew this certification, that the government will continue to mandate such certification or that other government agencies or entities will use this cloud offering. Government demand and payment for our solutions may be impacted by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our solutions. Government entities may have 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 results of operations. For example, if the distributor receives a significant portion of its revenue from sales to such governmental entity, the financial health of the distributor could be substantially harmed, which could negatively affect our future sales to such distributor. Governments routinely investigate and audit government contractors' administrative processes, and any unfavorable audit could result in the government refusing to continue buying our solutions, a reduction of revenue or fines or civil or criminal liability if the audit uncovers improper or illegal activities. Any such penalties could adversely impact our results of operations in a material way.

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

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

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

Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business. Further, weaknesses in our internal controls may be discovered in the future. Any failure to develop or maintain effective controls, or any difficulties encountered in their implementation or improvement, could harm our operating results or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements for prior periods. Any failure to implement and maintain effective internal controls also could adversely affect the results of periodic management evaluations and annual independent registered public accounting firm report regarding the effectiveness of our

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internal control over financial reporting that we are required to include in our Annual Report on Form 10-K we will file with the SEC under Section 404 of the Sarbanes Oxley Act. Ineffective disclosure controls and procedures and internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information, which would likely have a negative effect on the trading price of our common stock.

In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, we have expended, and anticipate that we will continue to expend, significant resources, including accounting related costs, and provide significant management oversight. Any failure to maintain the adequacy of our internal controls, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and could materially impair our ability to operate our business. In the event that we or our independent registered public accounting firm are not able to complete the work required under Section 404 of the Sarbanes-Oxley Act on a timely basis, or we are not able to demonstrate compliance with Section 404, we could be subject to late filings of our annual and quarterly reports, restatements of consolidated financial statements or other corrective disclosure, and, investors may lose confidence in our operating results and our stock price could decline. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on The NASDAQ Global Market.

We have been incurring significantly increased costs and devoting substantial management time as a result of operating as a public company.

As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. For example, we are required to comply with certain of the requirements of the Sarbanes Oxley Act and the Dodd Frank Wall Street Reform and Consumer Protection Act, as well as rules and regulations subsequently implemented by the SEC, and the NASDAQ Global Market, our stock exchange, including the establishment and maintenance of effective disclosure and financial controls and changes in corporate governance practices. We expect that compliance with these requirements will continue to increase our legal and financial compliance costs and will make some activities more time consuming and costly. In addition, we expect that our management and other personnel will need to divert attention from operational and other business matters to devote substantial time to these public company requirements.

We have incurred and expect to continue to incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 of the Sarbanes Oxley Act. In that regard, we have just implemented in the third quarter of 2013 an internal audit function, and we will need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. We cannot predict or estimate the amount of additional costs we may incur as a public company or the timing of such costs.

Risks Related to the Ownership of Our Common Stock

Our stock price has been volatile in the past and may be subject to volatility in the future.

The trading prices of our common stock has been volatile historically, and is likely to continue to be subject to wide fluctuations in response to various factors described below. These factors, as well as the volatility of our common stock, could also impact the price of our convertible notes. Factors affecting the market price of our securities include:

- variations in our revenue, billings, gross margin, operating results, free cash flow, loss per share and how these results compare to analyst expectations;
- forward looking guidance that we may provide regarding financial metrics such as billings, revenue, gross margin, operating results, free cash flow, and loss per share;
- announcements of technological innovations, new products or services, strategic alliances, acquisitions or significant agreements by us or by our competitors;
- disruptions in our cloud-based operations or services or disruptions of other prominent cloud-based operations or services;
- the economy as a whole, market conditions in our industry, and the industries of our customers;

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- trading activity by directors, executive officers and significant stockholders, or the perception in the market that the holders of a large number of shares intend to sell their shares;
- the size of our market float and significant option exercises;
- any future issuances of securities;
- sales and purchases of any common stock issued upon conversion of our convertible notes; and
- any other factors discussed herein.

In addition, the stock markets in general and the NASDAQ Global Market in particular, have experienced substantial price and volume volatility that is often seemingly unrelated to the operating results of any particular companies. Moreover, if the market for technology stocks, especially security and cloud computing-related stocks, or the stock market in general experiences uneven investor confidence, the market price of our common stock could decline for reasons unrelated to our business, operating results or financial condition. The market price for our stock might also decline in reaction to events that affect other companies within, or outside, our industry, even if these events do not directly affect us. Some companies that have experienced volatility in the trading price of their stock have been subject of securities litigation. If we are the subject of such litigation, it could result in substantial costs and a diversion of management’s attention and resources.

We have indebtedness in the form of convertible senior notes.

In December 2013, we completed an offering of $201.3 million aggregate principal amount of 1.25% convertible senior notes (the "Notes") due 2018. As a result of this convertible notes offering, we incurred $201.3 million principal amount of indebtedness, the principal amount of which we may be required to pay at maturity in 2018, or, upon the occurrence of a make-whole fundamental change (as defined in the indenture). There can be no assurance that we will be able to repay this indebtedness when due, or that we will be able to refinance this indebtedness on acceptable terms or at all. In addition, this indebtedness could, among other things:

- make it difficult for us to pay other obligations;
- make it difficult to obtain favorable terms for any necessary future financing for working capital, capital expenditures, debt service requirements or other purposes;
- require us to dedicate a substantial portion of our cash flow from operations to service the indebtedness, reducing the amount of cash flow available for other purposes; and
- limit our flexibility in planning for and reacting to changes in our business.

Conversion of our Notes may affect the price of our common stock and the value of the Notes.

The conversion of some or all of our Notes may dilute the ownership interest of existing stockholders to the extent we deliver shares of common stock upon conversion. Holders of the Notes will be able to convert them only upon the satisfaction of certain conditions prior to June 15, 2018. Upon conversion, holders of the Notes will receive cash, shares of common stock or a combination of cash and shares of common stock, at our election. Any sales in the public market of shares of common stock issued upon conversion of such Notes could adversely affect the trading price of our common stock and the value of the Notes.

Anti-takeover provisions contained in our certificate of incorporation and bylaws, as well as provisions of Delaware law, could impair a takeover attempt.

Our certificate of incorporation and bylaws contain provisions that could have the effect of rendering more difficult, delaying or preventing an acquisition of our company deemed undesirable by our board of directors. These provisions could also reduce the price that investors might be willing to pay in the future for shares of our common stock and result in the market price of our common stock being lower than it would be without these provisions. Our corporate governance documents include provisions:

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- creating a classified board of directors whose members serve staggered three-year terms;
- authorizing "blank check" preferred stock, which could be issued by our board without stockholder approval which may contain voting, liquidation, dividend and other rights which are superior to our common stock;
- limiting the liability of, and providing indemnification to, our directors and officers;
- limiting the ability of our stockholders to call and bring business before special meetings by providing that any stockholder action must be effected at a duly called meeting of the stockholders and not by a consent in writing, and providing that only our board of directors, the chairman of our board of directors, our Chief Executive Officer or President may call a special meeting of the stockholders; and
- requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors.

These provisions, alone or together, could frustrate, delay or prevent hostile takeovers and changes in control or changes in our management.

In addition, the fundamental changes provisions of our Notes may delay or prevent a change in control of our company, because those provisions allow note holders to require us to repurchase such Notes upon the occurrence of a fundamental change (as defined in the indenture for the Notes). Furthermore, the indenture for the Notes prohibits us from engaging in certain mergers or acquisitions unless, among other things, the surviving entity assumes our obligations under the Notes.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation law, which prevents some stockholders holding more than 15% of our outstanding common stock from engaging in certain business combinations merging or combining with us without approval of the holders of a substantial majority of all of our outstanding common stock.

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

We may need to raise additional funds, and 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 per share value of our common stock could decline. If we issue equity securities in any additional financing, the new securities may have rights and preferences senior to our common stock. If we engage in debt financing, we may be required to accept terms that restrict our ability to incur additional indebtedness and force us to maintain specified liquidity or other ratios. If we need additional capital and cannot raise it on acceptable terms, we may not be able to, among other things:

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

We do not anticipate paying cash dividends, and accordingly, stockholders must rely on stock appreciation for any return on their investment.

We do not anticipate paying cash dividends on our common stock in the future. As a result, only appreciation of the price of our common stock will provide a return to our stockholders. Investors seeking cash dividends should not invest in our common stock.

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The terms of our credit agreement also prohibit us from paying dividends.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters, which includes our operations and research and development facilities, is located in Sunnyvale, California, and currently consists of 74,338 square feet of space under a lease that expires in 2014, with a three-year extension option. The extension option is currently in negotiation as of the filing date of the Annual Report on Form 10-K and will include an expansion of office space.

We lease additional U.S. offices in Draper, Utah and Herndon, Virginia. We also lease offices in Toronto, Canada; Paris, France; Tokyo, Japan; Singapore; Reading and Heathrow, United Kingdom; Frankfurt, Germany; Belfast, Ireland; and Taipei, Taiwan. We believe our facilities are adequate for our current needs and for the foreseeable future.

The following is a list of our locations and the primary functions.

Location	Primary function
Sunnyvale, California, U.S.	Research and development, sales, marketing and administration
Draper, Utah, U.S.	Research and development, sales, marketing and administration
Herndon, Virginia, U.S.	Sales
Westminster, Colorado, U.S.	Research and development
Toronto, Canada	Research and development, sales, marketing and administration
Reading, United Kingdom	Research and development, sales and marketing
Heathrow, United Kingdom	Sales
Paris, France	Sales
Tokyo, Japan	Sales
Singapore	Sales
Belfast, Ireland	Research and development, sales and marketing
Taipei, Taiwan	Research and development, sales, marketing and administration
Frankfurt, Germany	Sales and marketing

We operate eight data centers at third-party facilities throughout the world: three in the United States, two in Canada, one each in the Netherlands, Germany and Ireland.

ITEM 3. LEGAL PROCEEDINGS

On December 16, 2013, Finjan, Inc. sued us and Armorize Technologies, Inc. in the United States District Court, Northern District of California for alleged patent infringement of a variety of its patents, demanding preliminary and permanent injunctive relief, and unspecified damages. We filed an answer to this complaint on February 10, 2014. An initial case management conference is scheduled for April 2014. We intend to vigorously defend this lawsuit. Based on the early stage of the claims and evaluation of the facts available at this time, the amount or range of reasonable possible losses to which the Company is exposed cannot be estimated and the ultimate resolution of this matter and the associated financial impact, if any, remains uncertain at this time. However, intellectual property litigation is subject to inherent uncertainties, and there can be no assurance that the expenses associated with defending any litigation or the resolution of this dispute would not have a material adverse impact on our results of operations or cash flows.

From time to time, we may be involved in other legal proceedings and subject to claims incident to the ordinary course of business. Although the results of legal proceedings and claims cannot be predicted with certainty, we believe we are not currently a party to any legal proceedings the outcome of which, if determined adversely to us, would individually or taken together have a material adverse effect on our business, operating results, cash flows or financial condition. Regardless of the outcome, such proceedings can have an adverse impact on us because of defense and settlement costs, diversion of resources and other factors, and there can be no assurances that favorable outcomes will be obtained.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Price of Our Common Stock

Our common stock has traded on the NASDAQ Global Market since April 20, 2012, under the symbol PFPT. Prior to this date, there was no public market for our common stock. The following table set forth, for the periods, indicated, the high and low sales price of our common shares as reported by the NASDAQ Global Market.

		High	Low
Year Ended December 31, 2013			
First Quarter	January 1, 2013 - March 31, 2013	$17.13	$12.57
Second Quarter	April 1, 2013 - June 30, 2013	$24.34	$16.63
Third Quarter	July 1, 2013 - September 30, 2013	$32.12	$23.52
Fourth Quarter	October 1, 2013 - December 31, 2013	$33.51	$26.81
Year Ended December 31, 2012			
Second Quarter	April 20, 2012 - June 30, 2012	$17.14	$12.45
Third Quarter	July 1, 2012 - September 30, 2012	$16.90	$12.44
Fourth Quarter	October 1, 2012 - December 31, 2012	$14.14	$10.05

Holders of our Common Shares

As of February 28, 2014, there were 75 stockholders of record, although we believe that there are a larger number of beneficial owners as many of our shares of our common stock are held by brokers and other institutions on behalf of stockholders.

Dividend Policy

We have never declared or paid any cash dividends on our common stock. We currently intend to retain any future earnings and do not expect to pay any cash dividends on our common stock for the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our board of directors and will be dependent on a number of factors, including our earnings, capital requirements and overall financial conditions. In addition, the terms of our equipment loan agreement with Silicon Valley Bank limit our ability to pay dividends.

Unregistered Sales of Equity Securities
We made no sales of unregistered securities during the three months ended December 31, 2013.
Use of Proceeds from Public Offering of Common Stock
There has been no material change in the use of proceeds from our initial public offering in April 2012.
Stock Performance Graph

The following graph shows a comparison from April 20, 2012 through December 31, 2013, of the cumulative total return for our common stock, the NASDAQ Composite Index, and the NASDAQ Computer Index. The graph assumes an investment of $100 on April 20, 2012 and reinvestment of any dividends. The comparisons in the graph below are required by the Securities and Exchange Commission and are not intended to forecast or be indicative of possible future performance of our common shares.

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	Three months ended							
	April 20, 2012	June 30, 2012	September 30, 2012	December 31, 2012	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013
Proofpoint, Inc.	100.00	120.38	105.47	87.43	119.74	172.23	228.13	235.58
NASDAQ Composite - Total Returns	100.00	98.09	104.50	101.92	110.60	115.60	128.54	142.87
NASDAQ Computer Index	100.00	96.61	102.81	95.61	98.11	100.36	111.94	128.24

The above stock Performance Graph and related information shall not be deemed "filed" with the SEC and is not to be incorporated by reference into any filing of Proofpoint, Inc. made under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following tables present selected historical financial data for our business. You should read this information together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements, related notes and other financial information included elsewhere in this Annual Report on Form 10-K. The selected consolidated financial data in this section are not intended to replace the consolidated financial statements and are qualified in their entirety by the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

We derived the consolidated statements of operations data for the years ended December 31, 2013, 2012 and 2011, and the consolidated balance sheet data as of December 31, 2013 and 2012 from our audited consolidated financial statements included elsewhere in this report. We derived the consolidated statements of operations data for the years ended December 31, 2010 and 2009 and the consolidated balance sheet data as of December 31, 2011, 2010 and 2009 from our audited financial statements not included in this report. Our historical results are not necessarily indicative of the results to be expected in the future.

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	Years Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands, except per share data)				
Consolidated Statements of Operations Data:					
Revenue:					
Subscription	$132,062	$101,470	$73,896	$57,657	$42,135
Hardware and services	5,869	4,825	7,942	7,133	6,393
Total revenue	137,931	106,295	81,838	64,790	48,528
Cost of revenue:(1)					
Subscription	35,438	28,246	24,193	24,523	19,150
Hardware and services	6,124	4,867	5,537	4,082	3,309
Total cost of revenue	41,562	33,113	29,730	28,605	22,459
Gross profit	96,369	73,182	52,108	36,185	26,069
Operating expense:(1)					
Research and development	34,449	24,827	19,779	17,583	11,831
Sales and marketing	71,781	55,239	42,676	31,161	27,883
General and administrative	19,622	12,693	9,237	7,465	5,678
Total operating expense	125,852	92,759	71,692	56,209	45,392
Operating loss	(29,483)	(19,577)	(19,584)	(20,024)	(19,323)
Interest (expense) income, net	(641)	(108)	(300)	(340)	87
Other (expense) income, net	(215)	(154)	113	(258)	(269)
Loss before benefit from (provision for) income taxes	(30,339)	(19,839)	(19,771)	(20,622)	(19,505)
Benefit from (provision for) income taxes	2,808	(521)	(370)	(243)	(233)
Net loss	$(27,531)	$(20,360)	$(20,141)	$(20,865)	$(19,738)
Net loss per share, basic and diluted	$(0.79)	$(0.85)	$(5.03)	$(5.83)	$(6.14)
Weighted average shares outstanding, basic and diluted(2)	34,874	24,056	4,005	3,575	3,212

(1) Includes stock-based compensation and amortization of intangible assets as follows:

	Years Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands)				
Stock-based compensation					
Cost of subscription revenue	$1,007	$657	$366	$357	$275
Cost of hardware and services revenue	196	70	29	17	11
Research and development	3,608	1,869	1,247	1,010	848
Sales and marketing	4,270	3,103	1,976	1,113	1,030
General and administrative	3,002	1,622	930	868	732
Amortization of intangible assets					
Cost of subscription revenue	$2,220	$2,785	$3,772	$3,745	$3,371
Research and development	47	30	1	—	—
Sales and marketing	1,743	461	769	637	408
General and administrative	34	—	—	—	—

(2) Please see Note 12, "Net Loss Per Share" of our notes to consolidated financial statements included elsewhere in this report for an explanation of the calculations of basic and diluted net loss per share of common stock.

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	As of December 31, 2013	2012	2011	2010	2009
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$251,801	$86,517	$12,714	$12,747	$11,317
Property and equipment, net	11,221	8,560	7,353	4,630	4,455
Total assets	390,559	140,441	67,952	62,352	63,722
Convertible senior notes	152,928	—	—	—	—
Debt, current and long-term	2,350	4,012	4,981	264	741
Deferred revenue, current and long-term	123,983	86,859	76,240	69,101	57,346
Convertible preferred stock	—	—	109,911	109,820	108,329
Total stockholders' equity (deficit)	77,160	33,808	(137,347)	(128,401)	(112,142)

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our "Selected Consolidated Financial Data" and our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those forward-looking statements below. Factors that could cause or contribute to those differences include, but are not limited to, those identified below and those discussed in the section entitled "Risk Factors" included elsewhere in this Annual Report on Form 10-K.
This Annual Report on Form 10-K contains “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These statements are often identified by the use of words such as “may,” “will,” “expect,” “believe,” “anticipate,” “intend,” “could,” “estimate,” or “continue,” and similar expres variations. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified herein, and those discussed in the section titled “Risk Factors”, set forth in Part I, Item 1A of this Form 10-K. Except as required by law, we disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

Proofpoint is a pioneering security-as-a-service ("SaaS") vendor that enables large and mid-sized organizations worldwide to defend, protect, archive and govern their most sensitive data. Our SaaS platform is comprised of an integrated suite of on-demand data protection solutions, including threat management, regulatory compliance, data governance, and secure communication.

We were founded in 2002 to provide a unified solution to help enterprises address their growing data security requirements. Our first solution was commercially released in 2003 to combat the burgeoning problem of spam and viruses and their impact on corporate email systems. As the threat environment has continued to evolve, we have dedicated significant resources to meet the ongoing challenges that this highly dynamic environment creates for our customers such as investing significantly to expand the breadth of our data protection platform with $7.1 million and $5.9 million spent in 2013 and 2012, respectively, on capital spending to support infrastructure expansion. These expenditures are primarily in connection with the replacement and upgrade of equipment to lower the cost of deployment as well as to improve the efficiency for our cloud-based architecture.

Since early 2013, we have launched Proofpoint Essentials, a suite of SaaS security and compliance capabilities designed to meet the needs of managed service providers and dedicated security resellers, enabling these partners to offer their customers this full suite of cloud-based solutions. We also introduced Proofpoint's Social Platform for Archiving, which provides our customers a quick path to regulatory compliance regarding their social media usage, enabling them to leverage a wide range of social media platforms such as Yammer, Chatter and Facebook while adhering to strict compliance standards. Additionally, we introduced Proofpoint Secure Share which allows enterprises to securely exchange large files with ease in a cloud-based environment.

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Our business is based on a recurring revenue model. Our customers pay a subscription fee to license the various components of our SaaS platform for a contract term that is typically one to three years. At the end of the license term, customers may renew their subscription and in each year since the launch of our first solution in 2003, we have retained over 90% of our customers. We derive this retention rate by calculating the total annually recurring subscription revenue from customers currently using our SaaS platform and dividing it by the total annually recurring subscription revenue from both these current customers as well as all business lost through non-renewal. A growing number of our customers increase their annual subscription fees after their initial purchase by broadening their use of our platform or by adding more users, and these sales have consistently represented 15% or more of our billings each year since 2008. As our business has grown, our subscription revenue has increased as a percentage of our total revenue, from 89% of total revenue in 2010 to 96% in 2013.

We market and sell our solutions to large and mid-sized customers both directly through our field and inside sales teams and indirectly through a hybrid model where our sales organization actively assists our network of distributors and resellers. We also derive a lesser portion of our total revenue from the license of our solutions to strategic partners who offer our solutions in conjunction with one or more of their own products or services.

Our solutions are designed to be implemented, configured and operated without the need for any training or professional services. For those customers that seek to develop deeper expertise in the use of our solutions or would like assistance with complex configurations or the importing of data, we offer various training and professional services. In some cases, we provide a hardware appliance to those customers that elect to host elements of our solution behind their firewall. Increasing adoption of virtualization in the data center has led to a decline in the sales of our hardware appliances and a shift towards our software-based virtual appliances, which are delivered as a download via the Internet. Our hardware and services offerings carry lower margins and are provided as a courtesy to our customers. We expect the overall proportion of revenue derived from the hardware and services offerings to generally remain below 10% of our total revenue.

Historically, the majority of our revenue is derived from our customers in the United States. We believe the markets outside of the United States offer an opportunity for growth and we intend to make additional investments in sales and marketing to expand in these markets. Revenue from customers outside of the United States grew 23% for the year ended December 31, 2013 as compared to prior year. As of December 31, 2013, we had approximately 3,100 customers around the world, including 38 of the Fortune 100. In terms of customer concentration, there was one partner that accounted for 14% of our total revenue for the year ended December 31, 2013, although the partner sold to a number of end-user customers, none which accounted for more than 10% of our total revenue. Other than the aforementioned partner above, there were no other single partners or customers that accounted for more than 10% of our total revenue in 2013.

We have not been profitable to date and will need to grow revenue at a rate faster than our investments in cost of revenue and operating expenses in order to achieve profitability, as discussed in more detail below.

Additionally, during 2013, we have completed a number of acquisitions to complement our solutions offerings. These acquisitions are described in Note 2 to our Consolidated Financial Statements included in this report.

Key Opportunities and Challenges

The majority of costs associated with generating customer agreements are incurred up front. These upfront costs include direct incremental sales commissions, which are recognized upon the billing of the contract. The costs associated with the teams tasked with closing business with new customers and additional business with our existing customers have represented more than 90% of our total sales and marketing costs since 2008. Although we expect customers to be profitable over the duration of the customer relationship, these upfront costs typically exceed related revenue during the earlier periods of a contract. As a result, while our practice of invoicing our customers for the entire amount of the contract at the start of the term provides us with a relatively immediate contribution to cash flow, the revenue is recognized ratably over the term of the contract, and hence contributions toward operating income are limited in the period where these sales and marketing costs are incurred. Accordingly, an increase in the mix of new customers as a percentage of total customers would likely negatively impact our near-term operating results. On the other hand, we expect that an increase in the mix of existing customers as a percentage of total customers would positively impact our operating results over time. As we accumulate customers that continue to renew their contracts, we anticipate that our mix of existing customers will increase, contributing to a decrease in our sales and marketing costs as a percentage of total revenue and a commensurate improvement in our operating income.

As part of maintaining our SaaS platform, we provide ongoing updates and enhancements to the platform services both in terms of the software as well as the underlying hardware and data center infrastructure. These updates and enhancements are provided to our customers at no additional charge as part of the subscription fees paid for the use of our platform. While more traditional products eventually become obsolete and require replacement, we are constantly updating and maintaining our cloud-based services and as such they operate with a continuous product life cycle. Much of this work is designed to both maintain and enhance the customers' experience over time while also lowering our costs to deliver the service, as evidenced by our improvements in gross profit over the past three years. Our SaaS platform is a shared infrastructure that is used by all of our customers. Accordingly, the costs of the platform are spread in a relatively uniform manner across the entire customer base and no specific infrastructure elements are directly attached to any particular customer. As such, in the event that a customer chooses to not renew its subscription, the underlying resources are reallocated either to new customers or to accommodate the expanding needs of our existing customers and, as a result, we do not believe that the loss of any particular customer has a meaningful impact on our gross profit as long as we continue to grow our customer base.

To date, our customers have primarily used our solutions in conjunction with email messaging content. We have developed solutions to address the new and evolving messaging solutions such as social media and file sharing applications, but these solutions are relatively nascent. If customers increase their use of these new messaging solutions in the future, we anticipate that our growth in revenue associated with email messaging solutions may slow over time. Although revenue associated with our social media and file sharing applications has not been material to date, we believe that our ability to provide security, archiving, governance and discovery for these new solutions will be viewed as valuable by our existing customers, enabling us to derive revenue from these new forms of messaging and communication.

While the majority of our current and prospective customers run their email systems on premise, we believe that there is a trend for large and mid-sized enterprises to migrate these systems to the cloud. While our current revenue derived from customers using cloud-based email systems continues to grow as a percentage of our total revenue, many of these cloud-based email solutions offer some form of threat protection and governance services, potentially mitigating the need for customers to buy these capabilities from third parties such as ourselves. We believe that we can continue to provide security, archiving, governance, and discovery solutions that are differentiated from the services offered by cloud-based email providers, and as such our platform will continue to be viewed as valuable to enterprises once they have migrated their email services to the cloud, enabling us to continue to derive revenue from this new trend toward cloud-based email deployment models.

With the majority of our business, we invoice our customers for the entire contract amount at the start of the term and these amounts are recorded as deferred revenue on our balance sheet, with the dollar weighted average duration of these contracts for any given period over the past three years typically ranging from 16 to 23 months. As a result, while our practice of invoicing customers for the entire amount of the contract at the start of the term provides us with a relatively immediate contribution to cash flow, the revenue is recognized ratably over the term of the contract, and hence contributions toward operating income are realized over an extended period. As such, our efforts to improve our profitability require us to invest far less in operating expenses than the cash flow generated by our business might otherwise allow. As we strive to invest in an effort to continue to increase the size and scale of our business, we expect that the level of investment afforded by our growth in revenue should be sufficient to fund the investments needed to drive revenue growth and broaden our product line.

Considering all of these factors, we do not expect to be profitable on a GAAP basis in the near term and in order to achieve profitability we will need to grow revenue at a rate faster than our investments in operating expenses and cost of revenue.

We intend to grow our revenue through acquiring new customers by investing in our sales and marketing activities. We believe that an increase in new customers in the near term will result in a larger base of renewal customers, which, over time we expect to be more profitable for us.

Sales and marketing is our greatest expense and hence a significant contributing factor to our operating losses. Given that our costs to acquire new revenue sources, either in the form of new customers or the sale of additional solutions to existing customers, often exceed the actual revenue recognized in the initial periods, we believe that our opportunity to improve our return on investment on sales and marketing costs relies primarily on our ongoing ability to cost-effectively renew our business with existing customers, thereby lowering our overall sales and marketing costs as a percentage of revenue as the mix of revenue derived from this more profitable renewal activity increases over time. Therefore, we anticipate that our initial significant investments in sales and marketing activities will over time generate a larger base of more profitable customers. Cost of subscription revenue is also a significant expense for us, and we expect to continue to build on the improvements over the past three years, such as in replacing third-party technology with our proprietary technology and improving the utilization of our fixed investments in equipment and infrastructure, in order to provide the opportunity for improved subscription gross margins over time. Although we plan to continue enhancing our solutions, we intend to lower our rate of investment in research and development as a percentage of revenue over time by deriving additional revenue from our existing platform of solutions rather than by adding entirely new categories of solutions. In addition, as personnel costs are one of the primary drivers of the increases in our operating expenses, we plan to reduce our historical rate of headcount growth over time.

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Key Metrics

We regularly review a number of metrics, including the following key metrics presented in the unaudited table below, to evaluate our business, measure our performance, identify trends in our business, prepare financial projections and make strategic decisions. Many of these key metrics, such as adjusted subscription gross profit, billings and adjusted EBITDA, are non-GAAP measures. This non-GAAP information is not necessarily comparable to non-GAAP information of other companies. Non-GAAP information should not be viewed as a substitute for, or superior to, net loss prepared in accordance with GAAP as a measure of our profitability or liquidity. Users of this financial information should consider the types of events and transactions for which adjustments have been made.

	Year Ended December 31,					
	2013		2012		2011	
	(in thousands)					
Total revenue	$137,931		$106,295		$81,838	
Growth	30	%	30	%	26	%
Subscription revenue	$132,062		$101,470		$73,896	
Growth	30	%	37	%	28	%
Adjusted subscription gross profit	$99,851		$76,666		$53,841	
% of subscription revenue	76	%	76	%	73	%
Billings	$160,506		$116,914		$88,977	
Growth	37	%	31	%	16	%
Adjusted EBITDA	$(4,326	)	$(4,543	)	$(7,227	)

Subscription revenue

Subscription revenue represents the recurring subscription fees paid by our customers and recognized as revenue during the period for the use of our security-as-a-service platform, typically licensed for one to three years at a time. We consider subscription revenue to be a key business metric because it reflects the recurring aspect of our business model and is the primary driver of growth for our business over time. The consistent growth in subscription revenue over the past several years has resulted from our ongoing investment in sales and marketing personnel, our efforts to expand our customer base, and our efforts to broaden the use of our platform with existing customers.

Adjusted subscription gross profit

We have included adjusted subscription gross profit, a non GAAP financial measure, in this report because it is a key measure used by our management and board of directors to understand and evaluate our operating results, core operating performance, and trends to prepare and approve our annual budget and to develop short and long-term operational plans. We have provided a reconciliation between subscription gross profit, the most directly comparable GAAP financial measure, and adjusted subscription gross profit. We believe that adjusted subscription gross profit provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

Our use of adjusted subscription gross profit has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Because of these limitations, you should consider adjusted subscription gross profit alongside other financial performance measures, including subscription gross profit and our other GAAP results.

The following unaudited table presents the reconciliation of subscription gross profit to adjusted subscription gross profit for the years ended December 31, 2013, 2012 and 2011:

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	Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
Subscription revenue	$132,062	$101,470	$73,896
Cost of subscription revenue	35,438	28,246	24,193
Subscription gross profit	96,624	73,224	49,703
Add back:			
Stock based compensation	1,007	657	366
Amortization of intangible assets	2,220	2,785	3,772
Adjusted subscription gross profit	$99,851	$76,666	$53,841

Billings

We have included billings, a non GAAP financial measure, in this report because it is a key measure used by our management and board of directors to manage our business and monitor our near term cash flows. We have provided a reconciliation between total revenue, the most directly comparable GAAP financial measure, and billings. Accordingly, we believe that billings provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

Our use of billings as a non-GAAP measure has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for revenue or an analysis of our results as reported under GAAP. Some of these limitations are:

- Billings is not a substitute for revenue, as trends in billings are not directly correlated to trends in revenue except when measured over longer periods of time;
- Billings is affected by a combination of factors including the timing of renewals, the sales of our solutions to both new and existing customers, the relative duration of contracts sold, and the relative amount of business derived from strategic partners. As each of these elements has unique characteristics in the relationship between billings and revenue, our billings activity is not closely correlated to revenue except over longer periods of time; and
- Other companies, including companies in our industry, may not use billings, may calculate billings differently, or may use other financial measures to evaluate their performance all of which reduce the usefulness of billings as a comparative measure.

The following unaudited table presents the reconciliation of total revenue to billings for the years ended December 31, 2013, 2012 and 2011:

	Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
Total revenue	$137,931	$106,295	$81,838
Deferred revenue			
Ending	123,983	86,859	76,240
Beginning	86,859	76,240	69,101
Net change	37,124	10,619	7,139
Less: deferred revenue contributed by Acquisitions	(14,549)	—	—
Billings	$160,506	$116,914	$88,977

Adjusted EBITDA

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We define adjusted EBITDA as net loss, adjusted to exclude: depreciation, amortization of intangibles, interest income (expense), net, provision for (benefit from) income taxes, stock based compensation, acquisition related expense, other income, and other expense. We believe that adjusted EBITDA is useful to investors and other users of our financial statements in evaluating our operating performance because it provides them with an additional tool to compare business performance across companies and across periods. We believe that:

- Adjusted EBITDA provides investors and other users of our financial information consistency and comparability with our past financial performance, facilitates period-to-period comparisons of operations and facilitates comparisons with our peer companies, many of which use similar non-GAAP financial measures to supplement their GAAP results; and
- It is useful to exclude certain non-cash charges, such as depreciation, amortization of intangible assets and stock based compensation and non-core operational charges, such as acquisition related expenses, from adjusted EBITDA because the amount of such expenses in any specific period may not be directly correlated to the underlying performance of our business operations and these expenses can vary significantly between periods as a result of new acquisitions, full amortization of previously acquired tangible and intangible assets or the timing of new stock based awards, as the case may be.

We use adjusted EBITDA in conjunction with traditional GAAP operating performance measures as part of our overall assessment of our performance, for planning purposes, including the preparation of our annual operating budget, to evaluate the effectiveness of our business strategies and to communicate with our board of directors concerning our financial performance.

We do not place undue reliance on adjusted EBITDA as our only measures of operating performance. Adjusted EBITDA should not be considered as a substitute for other measures of financial performance reported in accordance with GAAP. There are limitations to using non-GAAP financial measures, including that other companies may calculate these measures differently than we do, that they do not reflect our capital expenditures or future requirements for capital expenditures and that they do not reflect changes in, or cash requirements for, our working capital.

The following unaudited table presents the reconciliation of net loss to adjusted EBITDA for the years ended December 31, 2013, 2012 and 2011:

	Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
Net loss	$(27,531)	$(20,360)	$(20,141)
Depreciation	5,923	4,434	3,142
Amortization of intangible assets	4,044	3,276	4,542
Interest expense, net	641	108	300
(Benefit from) provision for income taxes	(2,808)	521	370
EBITDA	(19,731)	(12,021)	(11,787)
Stock based compensation expense	12,083	7,321	4,548
Acquisition related expense	3,107	3	125
Other income	(37)	(18)	(141)
Other expense	252	172	28
Adjusted EBITDA	$(4,326)	$(4,543)	$(7,227)

Components of Our Results of Operations

Business Combinations

In each of our acquisitions, we used the purchase method of accounting which requires us to allocate the fair value of the total consideration transferred to tangible and identifiable intangible assets acquired and liabilities assumed based on their

estimated fair values on the date of the acquisition, with the difference between the net assets acquired and the total consideration transferred recorded as goodwill. The fair values assigned, defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants, are based on significant estimates and assumptions determined by management. These estimates and assumptions are inherently uncertain and subject to refinement, as a result, during the adjustment period, which may be up to one year from the acquisition date, we may record adjustments to the assets acquired or liabilities assumed with any corresponding offset to goodwill. Upon conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our Consolidated Statements of Operations.

We used either the discounted cash flow method or the replacement cost method to assign fair values to acquired identifiable intangible assets. This method requires significant management judgment to forecast future operating results and establish residual growth rates and discount factors. These models are based on reasonable estimates and assumptions given available facts and circumstances, including industry estimates and averages, as of the acquisition dates and are consistent with the plans and estimates that we use to manage our business. If the subsequent actual results and updated projections of the underlying business activity change compared with the estimates and assumptions used to develop these values, we could experience impairment charges. In addition, we have estimated the economic lives of certain acquired assets and these lives are used to calculate depreciation and amortization expense. If our estimates of the economic lives change, depreciation or amortization expenses could be accelerated or slowed.

Revenue

We derive our revenue primarily through the license of various solutions and services on our security-as-a-service platform on a subscription basis, supplemented by the sales of training, professional services and hardware depending upon our customers' requirements.

Subscription. We license our platform and its associated solutions and services on a subscription basis. The fees are charged on a per user, per year basis. Subscriptions are typically one to three years in duration. We invoice our customers upon signing for the entire term of the contract. The invoiced amounts billed in advance are treated as deferred revenue on the balance sheet and are recognized ratably, in accordance with the appropriate revenue recognition guidelines, over the term of the contract (as more fully described above. We also derive a portion of our subscription revenue from the license of our solutions to strategic partners. We bill these strategic partners monthly. We expect our subscription revenue will continue to grow and remain above 90% of our total revenue.

Hardware and services. We provide hardware appliances as a convenience to our customers and as such it represents a small part of our business. Our solutions are designed to be implemented, configured and operated without the need for any training or professional services. For those customers that seek to develop deeper expertise in the use of our solutions or would like assistance with complex configurations or the importing of data, we offer various training and professional services. We typically invoice the customer for hardware at the time of shipment. We typically invoice customers for services at the time the order is placed and recognize this revenue ratably over the term of the contract. On occasion, customers may retain us for special projects such as archiving import and export services; these types of services are recognized upon completion of the project. We expect the overall proportion of revenue derived from hardware and service offerings to generally remain below 10% of our total revenue.

Total Cost of Revenue

Our cost of revenues consists of cost of subscription revenue and cost of hardware and services revenue. Personnel costs, which consist of salaries, benefits, bonuses, and stock based compensation, data center costs and hardware costs are the most significant components of our cost of revenues. We expect personnel costs to continue to increase in absolute dollars as we hire new employees to continue to grow our business.

Cost of Subscription Revenue. Cost of subscription revenue primarily includes personnel costs, consisting of salaries, benefits, bonuses, and stock based compensation, for employees who provide support services to our customers and operate our data centers. Other costs include fees paid to contractors who supplement our support and data center personnel; expenses related to the use of third party data centers in both the United States and internationally; depreciation of data center equipment; amortization of licensing fees and royalties paid for the use of third party technology; amortization of capitalized research and development costs; and the amortization of intangible assets related to prior acquisitions. Growth in subscription revenue generally consumes production resources, requiring us to gradually increase our cost of subscription revenue in absolute dollars as we expand our investment in data center equipment, the third-party data center space required to house this equipment, and the personnel needed to manage this higher level of activity. However, our cost of subscription revenue has declined in recent periods as a percentage of its associated revenue as we have replaced third party licensed technology with our proprietary technology, and we expect the benefit of these initiatives to continue in future periods.

Cost of Hardware and Services Revenue. Cost of hardware and services revenue includes personnel costs for employees who provide training and professional services to our customers as well as the cost of server hardware shipped to our customers that we procure from third parties and configure with our software solutions. Our cost of hardware and services as a percentage of its associated revenue has been relatively consistent from period to period in the past. With the adoption of our new accounting guidance we expect that cost of hardware and services revenue may gradually increase as a percentage of hardware and services revenue in future periods, as the remaining deferred costs are amortized over remaining contract terms.

Operating Expenses

Our operating expenses consist of research and development, sales and marketing, and general and administrative expenses. Personnel costs, which consist of salaries, benefits, bonuses, and stock based compensation, are the most significant component of our operating expenses. We expect personnel costs to continue to increase in absolute dollars as we hire new employees to continue to grow our business. Our headcount increased from 313 employees as of December 31, 2010 to 680 employees as of December 31, 2013. As a result of this growth in headcount, operating expenses have increased significantly over these periods. We expect personnel costs to continue to increase in absolute dollars as we hire new employees to continue to grow our business.

Research and Development. Research and development expenses include personnel costs, consulting services and depreciation. We believe that these investments have played an important role in broadening the capabilities of our platform over the course of our operating history, enhancing the relevance of our solutions in the market in general and helping us to retain our customers over time. We expect to continue to devote substantial resources to research and development in an effort to continuously improve our existing solutions as well as to develop new offerings. We believe that these investments are necessary to maintain and improve our competitive position, however, over the longer term, we intend to monitor these costs so as to decrease this spending as a percentage of total revenue. Our research efforts include both software developed for our internal use on behalf of our customers as well as software elements to be used by our customers in their own facilities. To date, for software developed for internal use on behalf of our customers, we have capitalized costs of approximately $0.4 million, all of which was incurred during 2011, and was fully amortized as of December 31, 2013. For the software developed for use on our customers' premises, the costs associated with the development work between technological feasibility and the general availability has not been material and as such we have not capitalized any of these development costs to date.

Sales and Marketing. Sales and marketing expenses include personnel costs, sales commissions, and other costs including travel and entertainment, marketing and promotional events, public relations and marketing activities. All of these costs are expensed as incurred, including sales commissions. These costs also include amortization of intangible assets as a result of our past acquisitions. Reflecting our continued investment in growing our sales and marketing operations, both domestically and internationally, headcount increases were reflected in higher compensation expense consistently with our revenue growth. Our sales personnel are typically not immediately productive, and therefore the increase in sales and marketing expenses we incur when we add new sales representatives is not immediately offset by increased revenue and may not result in increased revenue over the long-term if these new sales people fail to become productive. The timing of our hiring of new sales personnel and the rate at which they generate incremental revenue will affect our future financial performance. We expect that sales and marketing expenses will continue to increase in absolute dollars and be among the most significant components of our operating expenses.

General and Administrative. General and administrative expenses consist of personnel costs, consulting services, audit fees, tax services, legal expenses and other general corporate items. As a result of our operational growth, we expect our general and administrative expenses to increase in absolute dollars in future periods as we continue to expand our operations and hire additional personnel.

Total Other Income (Expense), Net

Total other income (expense), net, consists of interest income (expense), net and other income (expense), net. Interest income (expense), net, consists primarily of interest income earned on our cash, cash equivalents and short-term investments offset by the interest expense related to our convertible senior notes, our capital lease payments and borrowings under our equipment loans. Other income (expense), net, consists primarily of the net effect of foreign currency transaction gains or losses.

Benefit From (Provision For) Income Taxes

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The benefit from (provision for) income taxes is related to certain state and foreign income taxes. As we have incurred operating losses in all periods to date and recorded a full valuation allowance against our deferred tax assets, we have not historically recorded a provision for federal income taxes. Realization of any of our deferred tax assets depends upon future earnings, the timing and amount of which are uncertain. Utilization of our net operating losses may be subject to substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions.

Analyses have been conducted to determine whether an ownership change had occurred since inception. The analyses have indicated that although an ownership change occurred in a prior year, the net operating losses and research and development credits would not expire before utilization as a result of the ownership change. In the event the Company has subsequent changes in ownership, net operating losses and research and development credit carryovers could be limited and may expire unutilized as a result of the subsequent ownership change.

Results of Operations

The following table is a summary of our consolidated statements of operations.

	Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
Revenue:			
Subscription	$132,062	$101,470	$73,896
Hardware and services	5,869	4,825	7,942
Total revenue	137,931	106,295	81,838
Cost of revenue:(1)			
Subscription	35,438	28,246	24,193
Hardware and services	6,124	4,867	5,537
Total cost of revenue	41,562	33,113	29,730
Gross profit	96,369	73,182	52,108
Operating expense:(1)			
Research and development	34,449	24,827	19,779
Sales and marketing	71,781	55,239	42,676
General and administrative	19,622	12,693	9,237
Total operating expense	125,852	92,759	71,692
Operating loss	(29,483)	(19,577)	(19,584)
Interest expense, net	(641)	(108)	(300)
Other (expense) income, net	(215)	(154)	113
Loss before benefit from (provision for) income taxes	(30,339)	(19,839)	(19,771)
Benefit from (provision for) income taxes	2,808	(521)	(370)
Net loss	$(27,531)	$(20,360)	$(20,141)

The following table sets forth our consolidated results of operations for the specified periods as a percentage of our total revenue for those periods.

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	Year Ended December 31, 2013	2012	2011
Revenue:			
Subscription	96 %	95 %	90 %
Hardware and services	4	5	10
Total revenue	100	100	100
Cost of revenue:(1)			
Subscription	26	27	30
Hardware and services	4	4	6
Total cost of revenue	30	31	36
Gross profit	70	69	64
Operating expense:(1)			
Research and development	25	23	24
Sales and marketing	52	52	52
General and administrative	15	12	12
Total operating expense	92	87	88
Operating loss	(22)	(18)	(24)
Interest expense, net	—	—	—
Other income (expense), net	—	—	—
Loss before benefit from (provision for) income taxes	(22)	(18)	(24)
Benefit from (provision for) income taxes	2	(1)	(1)
Net loss	(20)%	(19)%	(25)%

(1) Includes stock-based compensation and amortization of intangible assets as follows:

	Year Ended December 31, 2013	2012	2011
	(in thousands)		
Stock-based compensation			
Cost of subscription revenue	$1,007	$657	$366
Cost of hardware and services revenue	196	70	29
Research and development	3,608	1,869	1,247
Sales and marketing	4,270	3,103	1,976
General and administrative	3,002	1,622	930
Amortization of intangible assets			
Cost of subscription revenue	$2,220	$2,785	$3,772
Research and development	47	30	1
Sales and marketing	1,743	461	769
General and administrative	34	—	—

Revenue

	Year Ended December 31, 2013	2012	Change $	%	Year Ended December 31, 2012	2011	Change $	%
	(in thousands)				(in thousands)			
Subscription	$132,062	$101,470	$30,592	30 %	$101,470	$73,896	$27,574	37 %
Hardware and services	5,869	4,825	1,044	22 %	4,825	7,942	(3,117)	(39)%
Total revenue	$137,931	$106,295	$31,636	30 %	$106,295	$81,838	$24,457	30 %

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Subscription revenue increased $30.6 million and $27.6 million, or 30% and 37%, respectively, for 2013 and 2012. These increases were primarily due to a $25.9 million and $24.3 million increase in revenue from the United States and, to a lesser extent, a $4.7 million and $3.2 million from international customers for 2013 and 2012, respectively. We increased personnel in the sales and marketing organization, which represented a 39% and 24% increase for 2013 and 2012, respectively, in the size of the team from the prior year. Along with the improving economy in the overall global landscape, these new resources directly contributed to the further growth in the sales capacity of our field sales organization and were the primary reason for the overall growth in revenue for 2013 and 2012, respectively, from the previous years. Additionally, our acquisitions in 2013 also increased revenue in 2013, including $3.0 million from Sendmail, Inc.

Hardware and services revenue increased $1.0 million, or $22%, in 2013 primarily due to higher revenue from professional services as we almost doubled our personnel in the services department from 2012 and focused on meeting customer service needs. In 2012, it decreased by $3.1 million, or 39%, primarily due to our adoption of new revenue recognition guidance (as more fully described in our Critical Accounting Policies) effective January 1, 2011 under which revenue from sales of hardware appliances began to be recognized when sold.

Cost of Revenue

	Year Ended December 31,		Change			Year Ended December 31,		Change		
	2013	2012	$	%		2012	2011	$	%	
	(in thousands)					(in thousands)				
Subscription	$35,438	$28,246	$7,192	25	%	$28,246	$24,193	$4,053	17	%
Hardware and services	6,124	4,867	1,257	26	%	4,867	5,537	(670)	(12	)%
Total cost of revenue	$41,562	$33,113	$8,449	26	%	$33,113	$29,730	$3,383	11	%

Cost of subscription revenue increased $7.2 million and $4.1 million, or 25% and 17%, for 2013 and 2012, respectively. The changes in 2013 and 2012 were primarily due to an increase in operations-related expenses of $3.3 million and $1.8 million, respectively, as a result of increased headcount, depreciation and ISP network expenses, partially offset by a net reduction in intangible amortization expense on developed technology from past acquisitions offset by the amortization expense from current year acquisitions. Customer support-related expenses increased $2.9 million and $1.5 million, respectively, primarily related to higher consulting and headcount-related costs. Increase in data center costs of $0.8 million and $0.9 million, respectively, were the result of ongoing growth in usage by new and existing customers. Other increases of $0.4 million and $0.2 million, respectively, were attributable to higher licensing fees and professional service costs in association with our growth. All these increases were partially offset by lower royalty expense of $0.3 and $0.4 million, respectively, in 2013 and 2012, driven by the replacement of third-party licensed technology, as well as improved economic terms associated with our ongoing licensing agreements.

Cost of hardware and services revenue increased $1.3 million, or 26%, in 2013 primarily due to increased professional services costs of $1.9 million from increased headcount-related and consulting costs due to the increase in revenue. The increase was partially offset by lower hardware costs of $0.7 million due to the continued impact from the adoption of new revenue recognition guidance referenced above. Cost of hardware and services revenue decreased $0.7 million, or 12%, for 2012 primarily due to the adoption of the new revenue recognition guidance referenced above. This was evidenced by the decrease in corresponding hardware and services revenue during 2012.

Operating Expenses

	Year Ended December 31,	Change	Year Ended December 31,	Change

	2013	2012	$	%	2012	2011	$	%
	(in thousands)				(in thousands)			
Research and development	$34,449	$24,827	$9,622	39 %	$24,827	$19,779	$5,048	26 %
Percent of total revenue	25 %	23 %			23 %	24 %		

Research and development expenses increased $9.6 million and $5.1 million, or 39% and 26%, for 2013 and 2012, respectively. The increases were primarily due to personnel-related costs of $7.1 million and $3.5 million for 2013 and 2012,

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respectively, from higher headcount, including those from the integration of the acquisitions in 2013. Additionally, facilities costs increased $0.4 million and $0.6 million, respectively, primarily due to higher costs from expanded operations, and corporate expenses increased $1.3 million and $0.6 million, respectively, in 2013 and 2012 from higher allocated costs from facilities, human resources and IT-support functions as we grew year-over-year, and increased consulting costs of $0.8 million in 2013 from the needs of the company as we grew rapidly in 2013.

	Year Ended December 31,		Change		Year Ended December 31,		Change	
	2013	2012	$	%	2012	2011	$	%
	(in thousands)				(in thousands)			
Sales and marketing	$71,781	$55,239	$16,542	30 %	$55,239	$42,676	$12,563	29 %
Percent of total revenue	52 %	52 %			52 %	52 %		

Sales and marketing expenses increased $16.5 million and $12.6 million, or 30% and 29%, for 2013 and 2012, respectively. The increase in headcount on a worldwide basis resulted in increased personnel-related and commissions costs of $10.9 million and $7.6 million, respectively. Travel expenses were also higher by $0.9 million and $1.1 million in 2013 and 2012, respectively. Our marketing program spending increased $0.6 million and $0.5 million in 2013 and 2012, respectively, as a result of our continued investment in lead generation programs, tradeshows and our corporate branding programs. Corporate expenses increased $2.6 million due to costs related to our acquisitions in 2013 and higher allocated costs as the company expanded, while facilities increased by $0.7 million and outside services by $0.8 million in 2013. The increases in these areas were immaterial in 2012.

	Year Ended December 31,		Change		Year Ended December 31,		Change	
	2013	2012	$	%	2012	2011	$	%
	(in thousands)				(in thousands)			
General and administrative	$19,622	$12,693	$6,929	55 %	$12,693	$9,237	$3,456	37 %
Percent of total revenue	15 %	12 %			12 %	11 %		

General and administrative expenses increased $6.9 million and $3.5 million, or 55% and 37%, for 2013 and 2012, respectively, primarily due to personnel-related costs of $3.2 million and $2.6 million for 2013 and 2012, respectively, in our continued growth as a public company, including growth to support acquisitions in 2013. Corporate expenses increased $0.7 million in 2013 due to legal, accounting and personnel-related expenses totaling $2.8 million incurred in connection with the acquisitions, partially offset by more costs being allocated to different departments of $2.1 million. Facilities increased $1.5 million in 2013 primarily due to higher depreciation expenses on more fixed assets, more spending on hardware and software costs along with related support contracts, higher facilities rent and property taxes from increased properties and general overall growth areas such as business insurance and utilities as we expanded. Professional fees increased $1.4 million and $0.8 million in 2013 and 2012, respectively, as we filled positions of need in the company through temporary and permanent staffing.

Total Interest Income (Expense), Net

	Year Ended December 31,		Change		Year Ended December 31,		Change	
	2013	2012	$	%	2012	2011	$	%
	(in thousands)				(in thousands)			
Total interest expense, net	(641)	(108)	(533)	(494)%	(108)	(300)	192	64 %

Total interest expense, net increased $0.5 million in 2013 primarily due to higher interest expense related to the issuance of the convertible senior notes in December 2013 and the associated interest expense, accretion of the debt discount and debt issuance costs. The decrease in 2012 was primarily due to an increase of interest income related to investments purchased subsequent to the IPO in April 2012 and lower interest expense as we pay down our capital equipment loans.

Total Other (Expense) Income, Net

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	Year Ended December 31,		Change		Year Ended December 31,		Change	
	2013	2012	$	%	2012	2011	$	%
	(in thousands)				(in thousands)			
Total other (expense) income, net	$(215)	$(154)	$(61)	(40)%	$(154)	$113	$(267)	(236)%

The change in total other (expense) income, net was immaterial in 2013. The change of $0.3 million for 2012 was primarily related to an increase in other expense due to loss sustained from foreign currency translation.

Benefit From (Provision For) Income Taxes

	Year Ended December 31,		Change		Year Ended December 31,		Change	
	2013	2012	$	%	2012	2011	$	$ %
	(in thousands)				(in thousands)			
Benefit from (provision for) income taxes	$2,808	$(521)	$3,329	639%	(521)	(370)	$(151)	(41)%

Total income tax expense decreased $3.3 million in 2013 as compared to 2012 primarily due to a full year tax benefit of $3.2 million related to the reversal of a significant portion of our valuation allowance on certain Canadian deferred tax assets. For 2012, total income tax expense increased $0.2 million primarily related to an increase in interest and penalties on uncertain tax positions as a result of the completion of a transfer pricing analysis.

Quarterly Results of Operations

The following table sets forth our unaudited quarterly consolidated statements of operations data for each of the eight quarters in the period ended December 31, 2013. We have prepared the quarterly data on a basis consistent with our audited annual financial statements, including, in the opinion of management, all normal recurring adjustments necessary for the fair statement of the financial information contained in these statements. The historical results are not necessarily indicative of future results and should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K.

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	Three Months Ended							
	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	Mar. 31, 2013	Dec. 31, 2012	Sept. 30, 2012	June 30, 2012	Mar. 31, 2012
	(in thousands, except per share data)							
Consolidated Statements of Operations Data:								
Revenue:								
Subscription	$39,330	$33,464	$30,816	$28,452	$27,460	$25,991	$24,750	$23,269
Hardware and services	1,507	1,039	1,011	2,312	1,189	1,093	1,193	1,350
Total revenue	40,837	34,503	31,827	30,764	28,649	27,084	25,943	24,619
Cost of revenue:(1)								
Subscription	10,396	8,937	8,276	7,829	6,832	6,967	7,236	7,211
Hardware and services	2,273	1,409	1,203	1,239	1,401	1,163	1,134	1,169
Total cost of revenue	12,669	10,346	9,479	9,068	8,233	8,130	8,370	8,380
Gross profit	28,168	24,157	22,348	21,696	20,416	18,954	17,573	16,239
Operating expense:(1)								
Research and development	10,989	8,307	7,591	7,562	6,460	6,262	6,224	5,881
Sales and marketing	21,999	17,415	16,239	16,128	15,488	14,126	13,450	12,175
General and administrative	6,185	5,758	3,777	3,902	3,822	3,141	2,964	2,766
Total operating expense	39,173	31,480	27,607	27,592	25,770	23,529	22,638	20,822
Operating loss	(11,005)	(7,323)	(5,259)	(5,896)	(5,354)	(4,575)	(5,065)	(4,583)
Interest (expense) income, net	(637)	(11)	(5)	12	2	(7)	(43)	(60)
Other (expense) income, net	(52)	352	(148)	(367)	(54)	109	(178)	(31)
Loss before (provision for) benefit from income taxes	(11,694)	(6,982)	(5,412)	(6,251)	(5,406)	(4,473)	(5,286)	(4,674)
(Provision for) benefit from income taxes	(190)	(207)	3,347	(142)	(91)	(119)	(232)	(79)
Net loss	$(11,884)	$(7,189)	$(2,065)	$(6,393)	$(5,497)	$(4,592)	$(5,518)	$(4,753)
Net loss per share, basic and diluted	$(0.33)	$(0.20)	$(0.06)	$(0.19)	$(0.17)	$(0.14)	$(0.21)	$(0.85)
Weighted average shares outstanding, basic and diluted	$35,978	$35,436	$34,625	$33,461	$32,388	$31,844	$26,195	$5,619

(1) Includes stock-based compensation expense and amortization of intangible assets as follows:

	Three Months Ended							
	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	Mar. 31, 2013	Dec. 31, 2012	Sept. 30, 2012	June 30, 2012	Mar. 31, 2012

	(in thousands)							
Stock-based compensation:								
Cost of subscription revenue	$376	$203	$196	$232	$214	$205	$109	$129
Cost of hardware and services revenue	76	45	39	36	24	20	15	11
Research and development	2,042	502	559	505	460	502	485	422
Sales and marketing	1,768	881	847	774	801	830	820	651
General and administrative	1,219	748	511	524	439	390	506	288
Total stock based compensation expenses	$5,481	$2,379	$2,152	$2,071	$1,938	$1,947	$1,935	$1,501
Amortization of intangible assets:								
Cost of subscription revenue	$913	$568	$413	$326	$333	$333	$1,019	$1,100
Research and development	23	8	8	8	7	8	7	8
Sales and marketing	1,124	321	228	70	72	72	146	171
General and administrative	11	12	11	—	—	—	—	—
Total amortization of intangible assets	$2,071	$909	$660	$404	$412	$413	$1,172	$1,279

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The following unaudited table sets forth our consolidated results of operations data as a percentage of total revenue.

	Three Months Ended							
	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	Mar. 31, 2013	Dec. 31, 2012	Sept. 30, 2012	June 30, 2012	Mar. 31, 2012
Consolidated Statements of Operations Data:								
Revenue:								
Subscription	96 %	97 %	97 %	92 %	96 %	96 %	95 %	95 %
Hardware and services	4	3	3	8	4	4	5	5
Total revenue	100	100	100	100	100	100	100	100
Cost of revenue:								
Subscription	25	26	26	25	24	26	28	29
Hardware and services	6	4	4	4	5	4	4	5
Total cost of revenue	31	30	30	29	29	30	32	34
Gross profit	69	70	70	71	71	70	68	66
Operating expense:								
Research and development	27	24	24	25	23	23	24	24
Sales and marketing	54	50	51	52	54	52	52	50
General and administrative	15	17	12	13	13	12	11	11
Total operating expense	96	91	87	90	90	87	87	85
Operating loss	(27)	(21)	(17)	(19)	(19)	(17)	(19)	(19)
Interest (expense) income, net	(2)	—	—	—	—	—	—	—
Other income (expense), net	—	1	—	(1)	—	—	(1)	—
Loss before (provision for) benefit from income taxes	(29)	(20)	(17)	(20)	(19)	(17)	(20)	(19)
(Provision for) benefit from income taxes	(1)	(1)	11	—	—	—	(1)	—
Net loss	(30)%	(21)%	(6)%	(20)%	(19)%	(17)%	(21)%	(19)%

Liquidity and Capital Resources

During our initial public offering, in April and May 2012, we raised net proceeds of $68.3 million including proceeds from the underwriters' partial exercise of their over-allotment option. Prior to that, we have historically relied principally on sales of our preferred stock to fund our operating activities. To date, we have raised $92.8 million from the sale of preferred stock.

In December 2013, we issued total aggregate principle amount of $201.3 million of 1.25% convertible senior notes (the "Notes") for net proceeds of $195.4 million after $5.8 million of discount and issuance costs. The Notes bear interest at 1.25% per year, and are payable in arrears every June 15 and December 15, beginning on June 15, 2014. They mature on December 15, 2018 and will be subject to redemption, conversion or repurchase based on certain terms and conditions prior to the maturity date, with the conversion rate subject to change depending on various factors. The Notes are initially convertible into 25.6271 shares of our stock per $1,000 principle amount of notes which equates to approximately 5.2 million shares of common stock, or a conversion price of $39.02 per share of common stock. The conversion rate at the time of redemption, conversion or repurchase will be dependent on certain factors as stated in the Offering Memorandum of the Notes. We intend to use the proceeds from the Notes for working capital and general corporate purposes, including the funding of future potential acquisitions, although none has been identified as of the filing of this Annual Report on Form 10-K.

We have also utilized equipment lines to fund capital purchases. Most recently, we entered into an equipment loan agreement with Silicon Valley Bank in April 2011 for an aggregate loan principal amount of $6.0 million. Interest on the advances is equal to the prime rate plus 0.50%. As of December 31, 2013, the interest rate on the outstanding advances was 4.50%. We had the ability to draw down on this equipment line through April 19, 2012 and each drawn amount is due 48 months after funding. Borrowings outstanding under the equipment loan at December 31, 2013 were $2.3 million. Equipment financed under this loan arrangement is collateralized by the respective assets underlying the loan. The terms of the loan restrict our ability to pay dividends. The loan includes a covenant that requires us to maintain cash and cash equivalents plus net accounts receivables of at least two times the amount of all outstanding indebtedness. As of December 31, 2013, as a result of

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the issuance of the Notes, we were not in compliance with the covenant which Silicon Valley Bank waived. Subsequently, we amended the loan agreement with Silicon Valley Bank to exclude the impact of the Notes on the covenant.

We plan to grow our customer base by continuing to emphasize investments in sales and marketing to add new customers, expand our customers' use of our platform, and maintain high renewal rates. We also expect to incur additional cost of subscription revenue in accordance with the resulting growth in our customer base. We believe that the combination of our ongoing improvements in gross margins, the benefits of lower sales and marketing costs associated with our renewal activity, and the fact that our contracts are structured to bill our customers in advance should enable us to improve our cash flow from operations as we grow. Based on our current level of operations and anticipated growth, both of which are expected to be consistent with recent quarters, we believe that our existing sources of liquidity will be sufficient to fund our operations for at least the next 12 months. Our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our sales and marketing activities, and the timing and extent of spending to support product development efforts and expansion into new territories, and the timing of introductions of new features and enhancements to our solutions. To the extent that existing cash and cash equivalents and cash from operations are insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financing. We have invested, and plan to continue investing in acquiring complementary business, applications and technologies, and may continue to make such investments in the future, any of which could also require us to seek equity or debt financing in addition to our Notes. Additional funds may not be available on terms favorable to us or at all.

Cash Flows

The following table sets forth a summary of our consolidated cash flows for the periods indicated:

	Years Ended December 31,		
	2013	2012	2011
	(in thousands)		
Net cash provided by (used in) operating activities	$12,624	$6,836	$(168)
Net cash used in investing activities	(9,968)	(50,735)	(7,353)
Net cash provided by financing activities	201,876	73,386	5,201

Net Cash Flows Provided by (Used in) Operating Activities

Our net loss and cash flows from operating activities are significantly influenced by our investments in headcount and data center operations to support anticipated growth. Our cash flows are also influenced by cash payments from customers. We invoice customers for the entire contract amount at the start of the term, and as such our cash flow from operations is also affected by the length of a customer contract.

We generated $12.6 million of cash in operating activities in 2013. The generation of cash was the result of a net loss of $27.5 million, offset by non-cash expenditures of $19.7 million, which included depreciation, amortization, provision for allowance of bad debt, stock-based compensation expense, deferred income taxes and the accretion of the debt discount and amortization of debt issuance costs related to the Notes. These non-cash expenditures increased due to capital expenditure, headcount growth and the issuance of the Notes primarily related to continued investment in our business. Cash used in operations was further offset by an increase in deferred revenue of $22.6 million due to sales growth and the acquisitions. The remaining use of funds was due to the net change in working capital items, most notably an increase in accounts receivable of $4.5 million due to strong sales growth, an increase of $0.3 million in noncurrent assets, primarily related to the debt issuance costs on the Notes, and an increase in accounts payable and accrued liabilities of $0.9 million and $1.9 million, respectively, related to timing of compensation and employee stock purchase plan contribution.

We generated $6.8 million of cash in operating activities in 2012. The generation of cash was the result of a net loss of $20.4 million, offset by non-cash expenditures of $15.6 million, which primarily included depreciation, amortization, provision for allowance of bad debt and stock-based compensation expense. These non-cash expenditures increased due to capital expenditure and headcount growth, primarily related to continued investment in our business. Cash used in operations was further offset by an increase in deferred revenue of $10.6 million due to sales growth and a decrease in deferred product costs of $1.3 million. The remaining use of funds was due to the net change in working capital items, most notably an increase in accounts receivable of $2.4 million due to strong sales growth, an increase of $0.9 million in prepaid expenses and other current assets, and an increase in accrued liabilities of $3.5 million related to timing of compensation, employee stock purchase plan contribution and increase in tax liability.

We used $0.2 million of cash in operating activities in 2011. This use of cash was the result of a net loss of $20.1 million, offset by non-cash expenditures of $12.4 million, which included depreciation, amortization and stock-based compensation expense. These non-cash expenditures increased due to capital expenditure and headcount growth, primarily related to continued investment in our business. Cash used in operations was further offset by an increase in deferred revenue of $7.1 million due to sales growth and a decrease in deferred product costs of $2.8 million. The remaining use of funds was due to the net change in working capital items, most notably an increase in accounts receivable of $2.7 million due to strong sales efforts during the last quarter of the fiscal year, an increase of $0.8 million in prepaid expenses and other current assets, and an increase in accrued liabilities of $0.7 million related to timing of compensation and capital expenditures.

Net Cash Flows Provided by (Used in) Investing Activities

Our primary investing activities consisted of acquisitions of businesses, capital expenditures in support of expanding our infrastructure and workforce and the purchase and sale of short-term investments. As our business grows, we expect our capital expenditures and our investment activity to continue to increase. We may also target other companies for acquisition, however, there are none currently pending.

We used $10.0 million of cash in investing activities during 2013. This was primarily due to the five acquisitions totaling $41.0 million and purchases of short-term investments of $20.4 million. In addition, we used $7.7 million to purchase equipment for infrastructure expansion and daily operations. These uses of cash were partially offset by net proceeds of $59.0 million from the sales and maturities of short-term investments.

We used $50.7 million of cash in investing activities during 2012. This was primarily due to purchases of short-term investments of $60.1 million with proceeds generated from our initial public offering, offset by net proceeds of $15.3 million from sales and maturities of short-term investments. In addition, we used $5.9 million to purchase equipment for infrastructure expansion. These expenditures were primarily for replacement and upgrade of equipment to lower the cost of deployment as well as to improve the efficiency for our cloud based architecture.

We used $7.4 million of cash in investing activities during 2011. This was primarily from the net purchase of $2.3 million in short-term investments. In addition, we used $4.9 million to purchase equipment for infrastructure expansion. These expenditures were primarily for replacement and upgrade of equipment to lower the cost of deployment as well as to improve the efficiency for our cloud-based architecture.

Net Cash Flows Provided by (Used in) Financing Activities

Cash provided by financing activities in 2013 was $201.9 million. This was primarily related to proceeds of $195.6 million from the issuance of the Notes in December 2013 which were net of payments totaling $5.6 million in discount and issuance costs on the Notes. Additionally, contributions included $16.4 million of proceeds from the exercise of stock options, partially offset by $10.0 million in payments of our equipment financing loans and debt assumed from the acquisitions.

Cash provided by financing activities in 2012 was $73.4 million. This was primarily related to proceeds from our initial public offering, net of offering costs, of $68.3 million. Contributions also included $6.1 million of proceeds from the exercise of stock options, partially offset by $1.0 million in repayments under our equipment financing loans.

Cash provided by financing activities in 2011 was $5.2 million. This consisted of $1.2 million of proceeds from the exercise of stock options and borrowings under our new equipment line of $4.9 million during this period, partially offset by repayments under our equipment financing loans of $0.2 million and $0.7 million in earn-out payments.

Contractual Obligations and Commitments

Our principal commitments consist of obligations under our outstanding leases for our office space and third-party data centers as well as equipment leases and loans for certain computer and office equipment. The following table summarizes our contractual obligations as of December 31, 2013 (in thousands):

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	Payment Due By Period			
	Total (7)	Less Than 1 Year	1-3 Years	3-5 Years
Convertible senior notes(1)	$201,250	$—	$—	$201,250
Interest payments(2)	12,611	2,653	5,031	4,927
Debt obligations(3)	2,326	1,642	684	—
Interest expense payments(4)	80	72	8	—
Capital and operating lease obligations(5)	3,729	1,562	1,668	499
Purchase obligations(6)	3,678	3,061	617	—
Total	$223,674	$8,990	$8,008	$206,676

(1) Represents the 1.25% convertible senior notes issued in December 2013. See Note 8, "Convertible Senior Notes" for further information.

(2) Represents interest payments on the 1.25% senior convertible notes issued in December 2013.

(3) Represents our outstanding debt under our equipment loan.

(4) Represents interest payments on our outstanding debt under our equipment loan, including the loan and equipment agreement commencing April 2011.

(5) Consists of capital leases and contractual obligations under operating leases for office space.

(6) Consists of purchase obligations for servers and similar equipment to support our third-party data centers.

(7) As we are unable to reasonably predict the timing of settlement of liabilities related to unrecognized tax benefits, net, the table does not include $0.7 million of such non-current liabilities included in deferred and other tax liabilities recorded on our Consolidated Balance Sheets as of December 31, 2013.

We have recorded a liability for sales and use taxes. A variety of factors could affect the liability, which factors include recovery of amounts from customers and any changes in relevant statutes in the various states in which we have done business. To the extent that the actual amount of our liabilities for sales and use taxes materially differs from the amount we have recorded on our consolidated balance sheet, our future results of operations and cash flows could be negatively affected.

As of December 31, 2013, the amount of cash and cash equivalents held by our foreign subsidiaries was $21.3 million, including intercompany receivable balances. If these funds were needed for our operations in the United States, we would be required to withhold foreign taxes on the funds repatriated of approximately $0.8 million. We have only provided $0.2 million for these taxes in accordance with ASC 740-30-25, as it is our intention that the majority of these funds are indefinitely reinvested outside the United States and our current plans do not demonstrate a need to repatriate these funds to our United States operations.

Under the indemnification provisions of our standard customer agreements, we agree to indemnify, defend and hold harmless our customers against, among other things, infringement of any patents, trademarks or copyrights under any country's laws or the misappropriation of any trade secrets arising from the customer's legal use of our solutions. Certain indemnification provisions potentially expose us to losses in excess of the aggregate amount paid to us by the customer under the applicable customer agreement. No material claims have been made against us pursuant to these indemnification provisions to date.

Off-Balance Sheet Arrangements

During the periods presented, we did not have, nor do we currently have, any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. We are therefore not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in those types of relationships.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have operations both within the United States and internationally, and we are exposed to market risks in the ordinary course of our business. These risks primarily include interest rate, foreign exchange and inflation risks, as well as risks relating to changes in the general economic conditions in the countries where we conduct business. To reduce certain of these risks, we monitor the financial condition of our large clients and limit credit exposure by collecting in advance and setting credit limits as we deem appropriate. In addition, our investment strategy has been to invest in financial instruments that are highly liquid and readily convertible into cash with maturity dates within three months from the date of purchase. To date, we

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have not used derivative instruments to mitigate the impact of our market risk exposures. We have also not used, nor do we intend to use, derivatives for trading or speculative purposes.

Interest Rate Risk

We are exposed to market risk related to changes in interest rates. Our investments are considered cash equivalents and primarily consist of money market funds, corporate debt securities and a certificate of deposit. As of December 31, 2013, we had cash, cash equivalents, and short-term investments of $251.8 million. The carrying amount of our cash equivalents and short-term investments reasonably approximates fair value, due to the short maturities of these investments. The primary objectives of our investment activities are the preservation of capital, the fulfillment of liquidity needs and the fiduciary control of cash and investments. We do not enter into investments for trading or speculative purposes. Our investments are exposed to market risk due to a fluctuation in interest rates, which may affect our interest income and the fair market value of our investments. Due to the short-term nature of our investment portfolio, we believe only dramatic fluctuations in interest rates would have a material effect on our investments. As such we do not expect our operating results or cash flows to be materially affected by a sudden change in market interest rates.

As of December 31, 2013, we had an outstanding balance of $201.3 million aggregate principle amount of the Notes, which has a fixed interest rate of 1.25%, and other outstanding borrowings with principal amounts of $2.3 million, which has a fixed interest rate of 4.5%. We carry these instruments at face value, less relative fair value of conversion option allocated to equity and unamortized discounts, on our Consolidated Balance Sheets. Since these instruments bear interest at fixed rates, we have no financial statement risk associated with changes in interest rates. However, the fair value of these instruments fluctuates as interest rate changes and, in the case of the Notes, when the market price of our common stock fluctuates.

Foreign Currency Risk

Our sales to international customers are generally U.S. dollar-denominated. As a result, there are no significant foreign currency gains or losses related to these transactions. The functional currency for our wholly owned foreign subsidiaries is the U.S. dollar. Accordingly, the subsidiaries remeasure monetary assets and liabilities at period-end exchange rates, while nonmonetary items are remeasured at historical rates. Income and expense accounts are remeasured at the average exchange rates in effect during the year. Remeasurement adjustments are recognized in the Consolidated Statements of Operations as foreign currency transaction gains or losses in the year of occurrence. Aggregate foreign currency transaction gain (losses) included in determining net loss were $(0.2) million for both 2013 and 2012, and less than $0.1 million for 2011. Transaction gains and losses are included in other income (expense), net.

As our international operations grow, our risks associated with fluctuation in currency rates will become greater, and we will continue to reassess our approach to managing this risk. In addition, currency fluctuations or a weakening U.S. dollar can increase the costs of our international expansion. To date, we have not entered into any foreign currency hedging contracts, since exchange rate fluctuations have not had a material impact on our operating results and cash flows. Based on our current international structure, we do not plan on engaging in hedging activities in the near future.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. Nonetheless, if our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

Critical Accounting Policies

Our management's discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with GAAP. GAAP requires us to make certain estimates and judgments that can affect the reported amounts of assets and liabilities as of the dates of the consolidated financial statements, the disclosure of contingencies as of the dates of the consolidated financial statements, and the reported amounts of revenue and expenses during the periods presented. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. If actual results or events differ materially from those contemplated by us in making these estimates, our reported financial condition and results of operations for future periods could be materially affected. See "Risk Factors" for certain matters that may affect our future financial condition or results of operations. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if the changes in estimate that are reasonably likely to occur could materially impact the financial statements. Our management has discussed the development, selection and disclosure of these estimates with the audit committee of our board of directors.

Our significant accounting policies, including those considered to be critical accounting policies, are summarized in “Note 1 - The Company and Summary of Significant Accounting Policies” to the accompanying Consolidated Financial Statements in this report. The following critical accounting policies reflect significant judgments and estimates used in the preparation of our consolidated financial statements:

- Revenue recognition and deferred revenue;
- Stock-based compensation;
- Allowance for doubtful accounts;
- Business combinations;
- Goodwill and intangible assets - impairment assessments
- Impairment of long lived assets; and
- Income taxes.

Revenue Recognition and Deferred Revenue

We derive our revenue primarily from two sources: (1) subscription revenue for rights related to the use of our security-as-a-service platform and (2) hardware, training, and professional services revenue provided to customers related to their use of our platform. Subscription revenue is derived from a subscription-based enterprise licensing model with contract terms typically ranging from one to three years, and consists of (i) subscription fees from the licensing of our security-as-a-service platform, (ii) subscription fees for access to the on-demand elements of our platform and (iii) subscription fees for the right to access our customer support services.

We apply the provision of Accounting Standard Codification (ASC) 985-605, "Software Revenue Recognition," and related interpretations, to all transactions involving the licensing of software, as well as related support, training, and other professional services. ASC 985-605 requires revenue earned on software arrangements involving multiple elements such as software license, support, training, and other professional services to be allocated to each element based on the relative fair values of these elements. The fair value of an element must be based on vendor-specific objective evidence (VSOE) of fair value. VSOE of fair value of each element is based on the price charged when the element is sold separately. Revenue is recognized when all of the following criteria are met as set forth in ASC 985-605:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred;
- The fee is fixed or determinable; and

• Collectability is probable.

We have analyzed all of the elements included in our multiple element arrangements and have determined that we do not have sufficient VSOE of fair value to allocate revenue to our subscription and software license agreements, support, training, and professional services. We defer all revenue under the arrangement until the commencement of the subscription services and any associated professional services. Once the subscription services and the associated professional services have commenced, the entire fee from the arrangement is recognized ratably over the remaining period of the arrangement. If the professional services are essential to the functionality of the subscription, then the revenue recognition does not commence until such services are completed.

Our hosted on-demand service agreements do not provide customers with the right to take possession of the software supporting the hosted service. We recognize revenue from our on-demand services in accordance with ASC 605-20, and as such recognize revenue when the following criteria are met:

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- Persuasive evidence of an arrangement exists;
- Delivery of our obligations to our customers has occurred;
- Collection of the fees is probable; and
- The amount of fees to be paid by the customer is fixed or determinable.

In October 2009, the Financial Accounting Standards Board (FASB) amended the accounting guidance for multiple element arrangements (ASU 2009-13) to:

- Provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the arrangement consideration should be allocated among its elements;
- Require an entity to allocate revenue in an arrangement that has separate units of accounting using best estimated selling price (BESP) of deliverables if a vendor does not have VSOE of fair value or third-party evidence of selling price (TPE); and
- Eliminate the use of the residual method and require an entity to allocate revenue using the relating selling price method to the separate unit of accounting.

Concurrently, the FASB amended the accounting guidance for revenue recognition (ASU 2009-14) to exclude hardware appliances containing software components and hardware components that function together to deliver the hardware appliance's essential functionality from the scope of the software revenue recognition guidance of ASC 985-605.
Prior to the adoption of ASU 2009-14, revenue derived from hardware appliance sales were recognized based on the software revenue recognition guidance. We could not establish VSOE of fair value for the undelivered elements in the arrangement, and therefore the entire fee from the arrangement was recognized ratably over the contractual term of the agreement. In addition, we were unable to establish VSOE of fair value of our hosted on-demand service agreements, and therefore the entire fee for the agreement was recognized ratably over the contractual term of the agreement.

As a result of the adoption of this new accounting guidance, revenue derived from our subscription services and hardware appliance sales are no longer subject to industry-specific software revenue recognition guidance. For all arrangements within the scope of the new guidance, including our hosted on-demand services, we evaluate each element in a multiple element arrangement to determine whether it represents a separate unit of accounting. An element constitutes a separate unit of accounting when the delivered item has standalone value and delivery of the undelivered element is probable and within our control. Revenue derived from the licensing of the security-as-a-service platform continues to be accounted for in accordance with the industry specific revenue recognition guidance.

When we are unable to establish the selling price of our non-software deliverables using VSOE or TPE, we use BESP in our allocation of arrangement consideration. The objective of BESP is to determine the price at which we would transact a sale if the product or service were sold on a stand-alone basis. We determine BESP for an individual element within a multiple element revenue arrangement using the same methods utilized to determine the selling price of an element sold on a standalone basis. We estimate the selling price for our subscription solutions by considering internal factors such as historical pricing practices and we estimate the selling price of our hardware and services using a combination of our historical costs paired with external measurements regarding the pricing of similar products and services in similar industries. As there is a significant amount of judgment when determining BESP, we regularly review all of our assumptions and inputs around BESP and maintain internal controls over the establishment and updates of these estimates.

Hardware appliance revenue is recognized upon shipment. Subscription and support revenue are recognized over the contract period commencing on the start date of the contract. Professional services and training, when sold with hardware appliances or subscription and support services, are accounted for separately when those services have standalone value. In determining whether professional services and training services can be accounted for separately from subscription and support services, we consider the following factors: availability of the services from other vendors, the nature of the services, and the dependence of the subscription services on the customer's decision to buy the professional services. If professional services and training do not qualify for separate accounting, we recognize the professional services and training ratably over the contract term of the subscription services.

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Delivery generally occurs when the hardware appliance is delivered to a common carrier freight on board shipping point by us or the hosted service has been activated and communicated to the customer accordingly. Our fees are typically considered to be fixed or determinable at the inception of an arrangement and are negotiated at the outset of an arrangement, generally based on specific products and quantities to be delivered. In the event payment terms are provided that differ significantly from our standard business practices, the fees are deemed to not be fixed or determinable and revenue is recognized as the fees become paid.

We assess collectability based on a number of factors, including credit worthiness of the customer and past transaction history of the customer. Through December 31, 2013, we have not experienced any significant credit losses.

Stock-Based Compensation

Effective January 1, 2006, we adopted ASC 718, which requires non-public companies that used the minimum value method under ASC 718 for either recognition or pro forma disclosures to apply ASC 718 using the prospective-transition method. In accordance with ASC 718, we recognize the compensation cost of employee stock-based awards granted subsequent to December 31, 2005 in the Consolidated Statements of Operations using the straight-line method over the vesting period of the award.

The following table set for the stock-based compensation expense included in the related consolidated financial statement line items:

	Years Ended December 31,		
	2013	2012	2011
	(in thousands)		
Cost of subscription revenue	$1,007	$657	$366
Cost of hardware and services revenue	196	70	29
Research and development	3,608	1,869	1,247
Sales and marketing	4,270	3,103	1,976
General and administrative	3,002	1,622	930

We estimated the fair value of each option granted using the Black-Scholes option pricing model using the following assumptions for the periods presented in the table below:

	Year Ended December 31,		
	2013	2012	2011
Expected life (in years)	5.31 - 6.08	5.50 - 6.08	5.85 - 6.08
Volatility	57% - 61%	59% - 60%	59% - 61%
Risk-free interest rate	0.9% - 1.8%	0.9% - 1.2%	1.2% - 2.5%
Estimated dividend yield	0	0	0

As of each stock option grant date, we considered the fair value of the underlying common stock, determined as described below, in order to establish the options exercise price.

As our common stock has been publicly traded less than two years, and therefore a lack of company-specific historical and implied volatility data, we have determined the share price volatility for options granted based on an analysis of reported data for a peer group of companies that granted options with substantially similar terms. We analyzed a population of possible comparable companies and selected those for our peer group that we considered to be the most comparable to us in terms of industry business model, revenue, growth and gross profit margins. The expected volatility of options granted has been determined using an average of the historical volatility measures of this peer group of companies for a period equal to the expected life of the option. We intend to continue to consistently apply this process using the same or similar entities until a sufficient amount of historical information regarding the volatility of our own share price becomes available, or unless circumstances change such that the identified entities are no longer similar to us. In this latter case, more suitable entities whose share prices are publicly available would be utilized in the calculation.

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The expected life of options granted has been determined utilizing the "simplified" method as permitted by the SEC. The risk-free interest rate is based on a daily treasury yield curve rate whose term is consistent with the expected life of the stock options. We have not, historically, paid and, in the future, do not anticipate paying cash dividends on our shares of common stock and therefore, the expected dividend yield is assumed to be zero.

In addition, ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. We apply an estimated forfeiture rate based on our historical forfeiture experience.

Prior to our IPO, we have historically granted stock options at exercise prices no less than the fair market value as determined by our board of directors, who used a number of factors, with input from management and a third-party valuation firm.

For our valuations, we calculated the enterprise value by applying both the market approach and the income approach. In the market approach, the valuations and outcomes of comparable peer companies in the public market were reviewed. The income approach consisted of a discounted cash flow analysis. The methodology we used derived equity values utilizing a probability-weighted expected return method. Under this approach, the value of our common stock was estimated based upon an analysis of values for our common stock assuming the following various possible future events for the company, including initial public offering, strategic merger or sale, remaining a private company, and dissolution of the business with no resulting value to common stockholders.

Allowance for Doubtful Accounts

We assess collectability based on a number of factors, including credit worthiness of the customer along with past transaction history; in addition, we perform periodic evaluations of our customers' financial condition. Credit losses historically have not been material, which is directly attributable to our subscription-based services model, enabling us to immediately discontinue the availability of the services in question in the event of non-payment. Through December 31, 2013, we have not experienced any significant credit losses.

Business Combinations

We apply the provisions of ASC 805, Business Combinations, in the accounting for our acquisitions. It requires us to recognize the assets acquired and the liabilities assumed at their acquisition date fair values separately from goodwill. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While we use our best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our consolidated statements of operations.

Accounting for business combinations requires our management to make significant estimates and assumptions, especially at the acquisition date including our estimates for intangible assets, contractual obligations assumed, restructuring liabilities, pre-acquisition contingencies and contingent consideration, where applicable. Although we believe the assumptions and estimates we have made in the past have been reasonable and appropriate, they are based in part on historical experience and information obtained from the management of the acquired companies and are inherently uncertain.

Examples of critical estimates in valuing certain of the intangible assets we have acquired include but are not limited to:

- future expected cash flows from our revenue streams;
- the acquired company’s brand and competitive position, as well as assumptions about the period of time the acquired brand will continue to be used in the combined company’s product portfolio; and
- discount rates.

Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates or actual results.

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For a given acquisition, we may identify certain pre-acquisition contingencies as of the acquisition date and may extend our review and evaluation of these pre-acquisition contingencies throughout the measurement period in order to obtain sufficient information to assess whether we include these contingencies as a part of the fair value estimates of assets acquired and liabilities assumed and, if so, to determine their estimated amounts.

If we cannot reasonably determine the fair value of a pre-acquisition contingency (non-income tax related) by the end of the measurement period, which is generally the case given the nature of such matters, we will recognize an asset or a liability for such pre-acquisition contingency if: (i) it is probable that an asset existed or a liability had been incurred at the acquisition date and (ii) the amount of the asset or liability can be reasonably estimated. Subsequent to the measurement period, changes in our estimates of such contingencies will affect earnings and could have a material effect on our results of operations and financial position.

In addition, uncertain tax positions and tax related valuation allowances assumed in connection with a business combination are initially estimated as of the acquisition date. We reevaluate these items quarterly based upon facts and circumstances that existed as of the acquisition date with any adjustments to our preliminary estimates being recorded to goodwill if identified within the measurement period. Subsequent to the measurement period or our final determination of the tax allowance's or contingency's estimated value, whichever comes first, changes to these uncertain tax positions and tax related valuation allowances will affect our provision for income taxes in our Consolidated Statements of Operations and could have a material impact on our results of operations and financial position.

Goodwill, Intangible Assets and Other Long-Lived Assets - Impairment Assessments

We review goodwill for impairment annually and whenever events or changes in circumstances indicate its carrying value may not be recoverable in accordance with ASC 350, Intangibles—Goodwill and Other. For the purposes of impairment testing, we have determined that we have one reporting unit. We perform the two-step impairment test, whereby we compare the fair value of each reporting unit to its carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not considered impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then we would record an impairment loss equal to the difference. No impairment has been noted to date.

We periodically review the carrying amounts of intangible assets and other long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. We measure the recoverability of these assets by comparing the carrying amount of such assets (or asset group) to the future undiscounted cashflow we expect the assets (or asset group) to generate. If we consider any of these assets to be impaired, the impairment to be recognized equals the amount by which the carrying value of the assets exceeds its fair value. We make judgments about the recoverability of purchased intangible assets whenever events or changes in circumstances indicate that an impairment may exist.

Each period we evaluate the estimated remaining useful lives of intangible assets and other long-lived assets to assess whether a revision to the remaining periods of amortization is required. Assumptions and estimates about remaining useful lives of our intangible and other long-lived assets are subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends and internal factors such as changes in our business strategy. Although we believe the historical assumptions and estimates we have made are reasonable and appropriate, different assumptions and estimates could materially impact our reported financial results. We did not recognize any intangible asset impairment charges to date.

Income Taxes

We account for income taxes in accordance with authoritative guidance, which requires the use of the asset and liability method. Under this method, deferred income tax assets and liabilities are determined based on the difference between the consolidated financial statement carrying amounts and the tax basis of assets and liabilities and are measured using the enacted tax rates expected to apply to taxable income in the years in which differences are expected to be reversed. We record net deferred tax assets to the extent we believe these assets will more likely than not be realized. In making such determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations.

We have elected to use the "with and without" approach as described in ASC 740-20, Intraperiod Tax Allocation, in determining the order in which tax attributes are utilized. As a result, we will only recognize a tax benefit from stock-based

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awards in additional paid-in capital if an incremental tax benefit is realized after all other tax attributes currently available to us have been utilized. In addition, we have elected to account for the impact of stock-based awards on other tax attributes, such as the research tax credit, through the Consolidated Statements of Operations.

Recent Accounting Pronouncements

In July 2013, the FASB issued ASU 2013-11, "Income Taxes", a new accounting standard update on the financial statement presentation of unrecognized tax benefits. The new guidance provides that a liability related to an unrecognized tax benefit would be presented as a reduction of a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. The new guidance becomes effective for the Company on January 1, 2014 and it should be applied prospectively to unrecognized tax benefits that exist at the effective date with retrospective application permitted. The Company is currently assessing the impact of this new guidance but does not believe it will have a material impact.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information in response to this item is included in our consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP, appearing on Item 15 of this Annual Report on Form 10-K, and in Item 7 under the heading Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Regulations under the Securities Exchange Act of 1934, or the Exchange Act, require public companies, including us, to maintain “disclosure controls and procedures,” which are defined in Rule 13a-15(e) and Rule 15d-15(e) to mean a company’s controls and other procedures that are designed to ensure that information required to be disclosed 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 in our reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2013. Based on their evaluation, as of December 31, 2013, our Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) and Rule 15d-15(f). Our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework (1992) issued by the

Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under the framework in Internal Control - Integrated Framework (1992), our management concluded that our internal control over financial reporting was effective as of December 31, 2013.

We acquired Armorize Technologies, Inc. and Sendmail, Inc. in September 2013 and October 2013, respectively. We have excluded these entities, which were business combinations, from our evaluation of internal control over financial reporting as of December 31, 2013. These two companies are wholly-owned subsidiaries whose combined total assets and total revenue represented 2% and 3%, respectively, of the related consolidated financial statements as of and for the year ended December 31, 2013.

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The effectiveness of our internal control over financial reporting as of December 31, 2013, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in Item 15(a) of this Annual Report on Form 10-K.

Changes in Internal Controls

There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2013 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements will not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk. Our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives and are effective at the reasonable assurance level. However, our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. 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, 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 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.

ITEM 9B. OTHER INFORMATION

Not applicable.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item will be set forth in the definitive Proxy Statement for our 2014 Annual Meeting of Stockholders (the "Proxy Statement") and is incorporated into this report by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be set forth in the Proxy Statement and is incorporated into this report by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item will be set forth in the Proxy Statement and is incorporated into this report by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item will be set forth in the Proxy Statement and is incorporated into this report by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item will be set forth in the Proxy Statement and is incorporated into this report by reference.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)

(1) Financial Statements

The list of consolidated financial statements and schedules set forth in the accompanying Index to the Consolidated Financial Statements at page F-1 of this annual report is incorporated herein by reference. Such consolidated financial statements and schedules are filed as part of this annual report.

(2) Financial Statement Schedules

The schedule required by this item is included in Note 4 to the Consolidated Financial Statements. All other financial statement schedules are not required or are inapplicable and therefore have been omitted.

(b)

(3) Exhibits

The exhibits listed on the accompanying Index to Exhibits in Item 15(b) below are filed or incorporated by reference as part of this annual report on Form 10-K. See Exhibit Index immediately following the Signature Pages.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Proofpoint, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of comprehensive loss, of changes in convertible preferred stock and stockholders' equity (deficit) and of cash flows present fairly, in all material respects, the financial position of Proofpoint, Inc. and its subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our audits (which was an integrated audit in 2013). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 (iii) 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.

As described in Management's Annual Report on Internal Control over Financial Reporting, management has excluded Armorize Technologies, Inc. and Sendmail, Inc. from its assessment of internal control over financial reporting as of December 31, 2013 because they were acquired by the Company in purchase business combinations during 2013. We have also excluded Armorize Technologies, Inc. and Sendmail, Inc. from our audit of internal control over financial reporting. Armorize Technologies, Inc. and Sendmail, Inc. are wholly-owned subsidiaries whose combined total assets and total revenues represent 2% and 3%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2013.

/s/ PricewaterhouseCoopers LLP

San Jose, California
March 14, 2014

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Proofpoint, Inc.
Consolidated Balance Sheets
(in thousands, except per share amounts)

	At December 31, 2013	2012
Assets		
Current assets		
Cash and cash equivalents	$243,786	$39,254
Short-term investments	8,015	47,263
Accounts receivable, net of allowance for doubtful accounts of $276 and $187 at December 31, 2013 and 2012, respectively	26,221	18,115
Inventory	860	567
Deferred product costs, current	1,004	1,184
Prepaid expenses and other current assets	7,963	3,491
Total current assets	287,849	109,874
Property and equipment, net	11,221	8,560
Deferred product costs, noncurrent	357	326
Goodwill	63,764	18,557
Intangible assets, net	22,976	2,913
Other noncurrent assets	4,392	211
Total assets	$390,559	$140,441
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$7,281	$2,496
Accrued liabilities	19,260	12,078
Notes payable and lease obligations, current	1,655	1,658
Deferred rent, current	297	462
Deferred revenue, current	89,450	62,642
Total current liabilities	117,943	79,336
Convertible senior notes	152,928	—
Notes payable and lease obligations, noncurrent	695	2,354
Other long-term liabilities, noncurrent	7,300	726
Deferred revenue, noncurrent	34,533	24,217
Total liabilities	313,399	106,633
Commitments and contingencies (Note 7)		
Stockholders' equity		
Preferred stock, $0.0001 par value; 5,000 shares authorized; no shares issued and outstanding at December 31, 2013 and 2012	—	—
Common stock, $0.0001 par value—200,000 shares authorized at December 31, 2013 and 2012; 36,140 and 33,044 shares outstanding at December 31, 2013 and 2012, respectively	4	3
Additional paid-in capital	287,165	216,280
Accumulated other comprehensive income	—	3
Accumulated deficit	(210,009)	(182,478)
Total stockholders' equity	77,160	33,808
Total liabilities and stockholders' equity	$390,559	$140,441

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

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Proofpoint, Inc.
Consolidated Statements of Operations
(in thousands, except per share amounts)

	Year Ended December 31,		
	2013	2012	2011
Revenue:			
Subscription	$132,062	$101,470	$73,896
Hardware and services	5,869	4,825	7,942
Total revenue	137,931	106,295	81,838
Cost of revenue:(1)(2)			
Subscription	35,438	28,246	24,193
Hardware and services	6,124	4,867	5,537
Total cost of revenue	41,562	33,113	29,730
Gross profit	96,369	73,182	52,108
Operating expense:(1)(2)			
Research and development	34,449	24,827	19,779
Sales and marketing	71,781	55,239	42,676
General and administrative	19,622	12,693	9,237
Total operating expense	125,852	92,759	71,692
Operating loss	(29,483)	(19,577)	(19,584)
Interest expense, net	(641)	(108)	(300)
Other (expense) income, net	(215)	(154)	113
Loss before benefit from (provision for) income taxes	(30,339)	(19,839)	(19,771)
Benefit from (provision for) income taxes	2,808	(521)	(370)
Net loss	$(27,531)	$(20,360)	$(20,141)
Net loss per share, basic and diluted	$(0.79)	$(0.85)	$(5.03)
Weighted average shares outstanding, basic and diluted	34,874	24,056	4,005

(1) Includes stock-based compensation expense as follows:			
Cost of subscription revenue	$1,007	$657	$366
Cost of hardware and services revenue	196	70	29
Research and development	3,608	1,869	1,247
Sales and marketing	4,270	3,103	1,976
General and administrative	3,002	1,622	930
(2) Includes intangible amortization expense as follows:			
Cost of subscription revenue	$2,220	$2,785	$3,772
Research and development	47	30	1
Sales and marketing	1,743	461	769
General and administrative	34	—	—

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

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Proofpoint, Inc.
Consolidated Statements of Comprehensive Loss
(In thousands)

	Year Ended December 31,		
	2013	2012	2011
Net loss	$(27,531)	$(20,360)	$(20,141)
Other comprehensive income (loss), net of tax:			
Unrealized (losses) gains on investments, net	(3)	6	(3)
Comprehensive loss	$(27,534)	$(20,354)	$(20,144)

See accompanying Notes to the Consolidated Financial Statements.

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Proofpoint, Inc.
Consolidated Statements of Changes in Convertible Preferred Stock and Stockholders' Equity (Deficit)
(in thousands)

	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' (Deficit) Equity
	Shares	Amount	Shares	Amount				
Balances at December 31, 2010	38,893	$109,820	3,829	$1	$13,575	$ —	$ (141,977)	$ (128,401)
Net loss	—	—	—	—	—	—	(20,141)	(20,141)
Unrealized loss on short-term investments	—	—	—	—	—	(3)	—	(3)
Issuance of Series B preferred stock upon net exercise of warrants	49	91	—	—	—	—	—	—
Issuance of common stock as part of the consideration for acquisitions	—	—	677	—	5,406	—	—	5,406
Fair value of vested restricted stock units assumed in connection with acquisition	—	—	—	—	58	—	—	58
Stock-based compensation expense	—	—	—	—	4,548	—	—	4,548
Stock options exercised	—	—	456	—	1,178	—	—	1,178
Repurchase of stock options	—	—	(1)	—	(4)	—	—	(4)
Vesting of early exercise options	—	—		—	12	—	—	12
Balances at December 31, 2011	38,942	109,911	4,961	1	24,773	(3)	(162,118)	(137,347)
Net loss	—	—	—	—	—	—	(20,360)	(20,360)
Unrealized gain on short-term investments	—	—	—	—	—	6	—	6
Issuance of common stock in April 2012 initial public offering at $13.00 per share, net of issuance costs of $7,879	—	—	5,860	1	68,294	—	—	68,295
Conversion of preferred stock into shares of common stock	(38,942)	(109,911)	19,567	1	109,910	—	—	109,911
Stock-based compensation expense	—	—	—	—	7,321	—	—	7,321
Stock options exercised	—	—	2,543	—	4,946	—	—	4,946

Issuance of common stock in connection with vested restricted stock units assumed with acquisition	—	—	21	—	—	—	—	—
Restricted stock withholding taxes net-settlement	—	—	(7)	—	(83)	—	—	(83)
Issuance of common stock under employee stock purchase plan	—	—	99	—	1,093	—	—	1,093
Vesting of early exercise options	—	—	—	—	26	—	—	26
Balances at December 31, 2012	—	—	33,044	3	216,280	3	(182,478)	33,808
Net loss	—	—	—	—	—	—	(27,531)	(27,531)
Unrealized loss on short-term investments	—	—	—	—	—	(3)	—	(3)
Equity component of the convertible senior notes, net	—	—	—	—	43,293	—	—	43,293
Stock-based compensation expense	—	—	—	—	11,231	—	—	11,231
Stock options exercised	—	—	2,879	1	13,509	—	—	13,510
Issuance of common stock under employee stock purchase plan	—	—	217	—	2,839	—	—	2,839
Vesting of early exercise options	—	—	—	—	13	—	—	13
Balances at December 31, 2013	—	$—	36,140	$4	$287,165	$ —	$ (210,009)	$ 77,160

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

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Proofpoint, Inc.
Consolidated Statements of Cash Flows
(in thousands)

	Year Ended December 31, 2013	2012	2011
Cash flows from operating activities			
Net loss	$(27,531)	$(20,360)	$(20,141)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities			
Depreciation and amortization	9,967	7,710	7,684
Loss on disposal of property and equipment	2	—	—
Accretion of discounts on investments	575	520	—
Provision for allowance for doubtful accounts	40	54	8
Stock-based compensation	12,083	7,321	4,548
Deferred income taxes	(3,458)	—	—
Change in fair value of warrant liability	—	—	(66)
Change in fair value of contingent earn-outs	9	—	208
Amortization of debt issuance costs and accretion of debt discount	489	—	—
Changes in assets and liabilities, net of effect of acquisitions:			
Accounts receivable	(4,500)	(2,380)	(2,702)
Inventory	(223)	162	(144)
Deferred products costs	149	1,280	2,779
Prepaid expenses and other current assets	388	(934)	(778)
Noncurrent assets	(316)	97	168
Accounts payable	931	(683)	300
Accrued liabilities	1,883	3,485	722
Earn-out payment	(1)	—	(285)
Deferred rent	(438)	(55)	447
Deferred revenue	22,575	10,619	7,084
Net cash provided by (used in) operating activities	12,624	6,836	(168)
Cash flows from investing activities			
Proceeds from sales and maturities of short-term investments	59,046	15,264	2,791
Purchase of short-term investments	(20,376)	(60,095)	(5,080)
Purchase of property and equipment, net	(7,666)	(5,904)	(4,930)
Acquisitions of business, net of cash acquired	(40,972)	—	(134)
Net cash used in investing activities	(9,968)	(50,735)	(7,353)
Cash flows from financing activities			
Proceeds from issuance of common stock, net of repurchases	16,367	6,060	1,199
Proceeds from initial public offering, net of offering costs	—	68,295	—
Proceeds from issuance of convertible senior notes, net of discount and issuance costs	195,641	—	—
Proceeds from equipment financing loans	—	—	4,925
Repayments of notes payable and loans	(10,033)	(969)	(208)
Payment of contingent earn-outs	(99)	—	(715)
Net cash provided by financing activities	201,876	73,386	5,201
Net increase (decrease) in cash and cash equivalents	204,532	29,487	(2,320)
Cash and cash equivalents			
Beginning of period	39,254	9,767	12,087

End of period	$243,786	$39,254	$9,767
Supplemental disclosures of cash flow information			
Cash paid for interest	$148	$49	$97
Cash paid for taxes	385	370	210
Supplemental disclosure of noncash investing and financing activities			
Common stock issued in connection with acquisition	$—	$—	$5,406
Fair value of vested restricted stock units assumed in connection with acquisition	—	—	58
Issuance of Series B preferred stock upon net exercise of warrants	—	—	91
Unpaid deferred offering costs	195	—	967
Unpaid purchases of property and equipment	1,039	659	931

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

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Proofpoint, Inc.
Notes to Consolidated Financial Statements
(dollars and share amounts in thousands, except per share amounts)

1. The Company and Summary of Significant Accounting Policies

The Company

Proofpoint, Inc. (the "Company") was incorporated in Delaware in June 2002 and is headquartered in California.

Proofpoint is a pioneering security-as-a-service vendor that enables large and mid-sized organizations worldwide to defend, protect, archive and govern their most sensitive data. The Company's security-as-a-service platform is comprised of a number of data protection solutions, including threat protection, regulatory compliance, archiving and governance, and secure communication.

Reverse Stock Split

On March 30, 2012, the Company's Board of Directors approved a 1-for-2 reverse stock split of the Company's common stock. The reverse stock split became effective on April 2, 2012. Upon the effectiveness of the reverse stock split, (i) every two shares of outstanding common stock was decreased to one share of common stock, (ii) the number of shares of common stock into which each outstanding option to purchase common stock is exercisable was proportionally decreased on a 1-for-2 basis, (iii) the exercise price of each outstanding option to purchase common stock was proportionately increased on a 1-for-2 basis, and (iv) the conversion ratio for each share of preferred stock outstanding was proportionately reduced on a 1-for-2 basis. All of the share numbers, share prices, and exercise prices have been retrospectively adjusted to reflect the reverse stock split.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

In 2013 and 2011, the Company made a number of acquisitions which are more fully described in Note 2, "Acquisitions". The Consolidated Financial Statements include the results of operations from these business combinations from their date of acquisition.

Use of Estimates

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates and such difference may be material to the financial statements.

Foreign Currency Remeasurement and Transactions

The Company's sales to international customers are generally U.S. dollar-denominated. As a result, there are no significant foreign currency gains or losses related to these transactions. The functional currency for the Company's wholly-owned foreign subsidiaries is the U.S. dollar. Accordingly, the subsidiaries remeasure monetary assets and liabilities at period-end exchange rates, while nonmonetary items are remeasured at historical rates. Income and expense accounts are remeasured at the average exchange rates in effect during the year. Remeasurement adjustments are recognized in the Consolidated Statements of Operations as transaction gains or losses within other income (expense), net, in the period of occurrence. Aggregate transaction gain (losses) included in determining net loss were

$(180), $(157) and $8 for the years ended December 31, 2013, 2012 and 2011, respectively.

Cash, Cash Equivalents and Short-term Investments

The Company considers all highly liquid instruments purchased with an original maturity date of 90 days or less from the date of purchase to be cash equivalents. Cash equivalents consist of money market funds and certain types of commercial paper. Cash and cash equivalents were $243,786 and $39,254 at December 31, 2013 and 2012, respectively. Short-term investments consist of readily marketable securities with maturity dates within three months from the date of purchase and include certain types of commercial paper, corporate bonds, debt securities and certificates of deposit. Short-term investments were $8,015 and $47,263 at December 31, 2013 and 2012, respectively, and all were classified as available-for-sale and were carried at fair value, with unrealized gains and losses reported as a component of accumulated other comprehensive income (loss). Realized gains and losses are included in other (expense) income, net. Fair value is estimated based on available market information. The cost of securities sold is based on the specific identification method.

Inventories

Inventories are stated at lower of cost or market value, with costs computed on a first-in, first-out basis. Cost is determined using standard costs which approximate actual costs. The Company periodically reviews its inventories for excess and obsolete items and adjusts carrying costs to estimated net realizable values when they are determined to be less than cost.

Inventories held at December 31, 2013 and 2012 consist primarily of finished goods.

Revenue Recognition

The Company derives its revenue primarily from two sources: (1) subscription revenue for rights related to the use of the security-as-a-service platform and (2) hardware, training and professional services revenue provided to customers related to their use of the platform. Subscription revenue is derived from a subscription based enterprise licensing model with contract terms typically ranging from one to three years, and consists of (i) subscription fees from the licensing of the security-as-a-service platform, (ii) subscription fees for access to the on-demand elements of the platform and (iii) subscription fees for the right to access the Company's customer support services.

The Company applies the provision of ASC 985-605, "Software Revenue Recognition" and related interpretations, to all transactions involving the licensing of software, as well as related support, training, and other professional services. ASC 985-605 requires revenue earned on software arrangements involving multiple elements such as software license, support, training and other professional services to be allocated to each element based on the relative fair values of these elements. The fair value of an element must be based on vendor specific objective evidence ("VSOE") of fair value. VSOE of fair value of each element is based on the price charged when the element is sold separately. Revenue is recognized when all of the following criteria are met as set forth in ASC 985-605:

- Persuasive evidence of an arrangement exists,
- Delivery has occurred,
- The fee is fixed or determinable, and
- Collectability is probable.

The Company has analyzed all of the elements included in its multiple element arrangements and has determined that it does not have sufficient VSOE of fair value to allocate revenue to its subscription and software license agreements, support, training, and professional services. The Company defers all revenue under the software arrangement until the commencement of the subscription services and any associated professional services. Once the subscription services and the associated professional services have commenced, the entire fee from the arrangement is recognized ratably over the remaining period of the arrangement. If the professional services are essential to the functionality of the subscription, then the revenue recognition does not commence until such services are completed.

In the Consolidated Statements of Operations, revenue is categorized as "subscription" and "hardware and services." Although the Company is unable to separate its multiple elements under the applicable revenue recognition guidance since it does not have sufficient VSOE of fair value for revenue recognition purposes, the Company has used a systematic and rational estimate to classify revenue between subscription and hardware and services. For presentation purposes only, the Company allocates revenue to hardware and services based upon management's best estimate of fair value of such deliverables using a cost plus model. The remaining consideration of the arrangement is then allocated to subscription revenue. Management believes that this methodology provides a reasonable basis to allocate revenue between "subscription" and "hardware and services" for presentation purposes.

The hosted on-demand service agreements do not provide customers with the right to take possession of the software supporting the hosted service. The Company recognizes revenue from its hosted on-demand services in accordance with ASC 605-20, and as such recognizes revenue when the following criteria are met:

- Persuasive evidence of an arrangement exists,
- Delivery of the Company’s obligations to its customers has occurred,
- Collection of the fees is probable, and
- The amount of fees to be paid by the customer is fixed or determinable.

In October 2009, the FASB amended the accounting guidance for multiple element arrangements (“ASU 2009-13”) to:

- Provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the arrangement consideration should be allocated among its elements;
- Require an entity to allocate revenue in an arrangement that has separate units of accounting using best estimated selling price (“BESP”) of deliverables if a vendor does not have VSOE of fair value or third-party evidence of selling price (“TPE”), and
- Eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method to the separate unit of accounting.

Concurrently, the FASB amended the accounting guidance for revenue recognition (“ASU 2009-14”) to exclude hardware appliances containing software components and hardware components that function together to deliver the hardware appliance’s essential functionality from the scope of the software revenue recognition guidance of ASC 985-605.

The Company elected to adopt this new guidance in the first quarter of fiscal 2011 for new and materially modified revenue arrangements originating after January 1, 2011.

For all arrangements within the scope of these new accounting pronouncements, including the Company’s hosted on-demand services, the Company evaluates each element in a multiple element arrangement to determine whether it represents a separate unit of accounting. An element constitutes a separate unit of accounting when the delivered item has standalone value and delivery of the undelivered element is probable and within the Company’s control. Revenue derived from the licensing of the security-as-a-service platform continues to be accounted for in accordance with the industry specific revenue recognition guidance.

Hardware appliance revenue is recognized upon shipment. Subscription and support revenue are recognized over the contract period commencing on the start date of the contract. Professional services and training, when sold with hardware appliances or subscription and support services, are accounted for separately when those services have standalone value. In determining whether professional services and training services can be accounted for separately from subscription and support services, the Company considers the following factors: availability of the services from other vendors, the nature of the services, and the dependence of the subscription services on the customer’s decision to buy the professional services. If professional services and training do not qualify for separate accounting, the Company recognizes the professional services and training ratably over the contract term of the subscription services.

Delivery generally occurs when the hardware appliance is delivered to a common carrier freight on board shipping point by the Company or the hosted service has been activated and communicated to the customer accordingly. The Company’s fees are typically considered to be fixed or determinable at the inception of an arrangement and are negotiated at the outset of an arrangement, generally based on specific products and quantities to be delivered. In the event payment terms are provided that differ significantly from the Company's standard business practices, the fees are deemed to not be fixed or determinable and revenue is recognized as the fees become paid.

The Company assesses collectability based on a number of factors, including credit worthiness of the customer and past transaction history of the customer. Through December 31, 2013, the Company has not experienced significant credit losses.

Deferred Revenue

Deferred revenue primarily consists of billings or payments received in advance of revenue recognition from the sale of the Company’s subscription fees, training and professional services. Once the revenue recognition criteria are met, this revenue is recognized ratably over the term of the associated contract.

Deferred Product Costs

Deferred product costs are the incremental costs that are directly associated with each noncancellable customer contract or hosting agreement and primarily consist of cost of appliances and royalty payments made to third parties, from whom the Company has obtained licenses to integrate certain software into its products. The costs are deferred and amortized over the noncancellable term of the related customer contract or hosting agreement, which typically range from 12 to 36 months.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful life of the related asset. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the lease term or the estimated useful life of the asset or improvement. Cost of maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred. When property and equipment are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the balance sheet and the resulting gain or loss is included in other (expense) income, net.

Impairment of Intangible Assets and Other Long-Lived Assets

In accordance with ASC 360, "Property, Plant, and Equipment," the Company evaluates long-lived assets, such as property and equipment, including intangible assets other than goodwill, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of these assets is measured by comparison of the carrying amount of such assets (or asset group) to the future undiscounted cash flows the assets (or asset group) is expected to generate. If the assets are 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 assets. The Company also evaluates the estimated remaining useful lives of intangible assets and other long-lived assets to assess whether a revision to the remaining periods of amortization is required. No assets were determined to be impaired to date.

Advertising and Promotion Costs

Expenses related to advertising and promotion of solutions is charged to sales and marketing expense as incurred. The Company did not incur any significant advertising and promotion expenses during the years ended December 31, 2013, 2012 and 2011.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price of the acquired enterprise over the fair value of identifiable assets acquired and liabilities assumed. The Company applies ASC 350, "Intangibles—Goodwill and Other" and performs an annual goodwill impairment test during the fourth quarter of the Company's fiscal year and more frequently if an event or circumstances indicates that an impairment may have occurred. For the purposes of impairment testing, the Company has determined that it has one reporting unit. The Company performs a two-step impairment test of goodwill whereby the fair value of the reporting unit is compared to its carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not considered impaired and further testing is not required. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then the Company must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then an impairment loss equal to the difference is recorded. The identification and measurement of goodwill impairment involves the estimation of the fair value of the Company. The estimate of fair value of the Company, based on the best information available as of the date of the assessment, is subjective and requires judgment, including management assumptions about expected future revenue forecasts and discount rates, changes in the overall economy, trends in the stock price and other factors. No impairment was identified by the Company as of December 31, 2013.

Intangible assets consist of developed technology, vendor relationships and customer relationships. The values assigned to intangibles are based on estimates and judgments regarding expectations for success and life cycle of solutions and technologies acquired.

Intangible assets are amortized on a straight-line basis over their estimated lives, which approximate the pattern in which the economic benefits of the intangible assets are consumed, as follows (in years):

	Low	High
Patents	4	5
Developed technology	3	7
Customer relationships	2	4
Non-compete agreements	2	4
Tradenames and trademarks	1	5

Warranty

The Company provides limited warranties on all sales and provides for the estimated cost of the warranties at the date of sale, to the extent not already provided by its own vendors. The estimated cost of warranties has not been material to date.

Income Taxes

The Company accounts for income taxes in accordance with authoritative guidance, which requires use of the asset and liability method. Under this method, deferred income tax assets and liabilities are determined based on the difference between the Consolidated Financial Statements carrying amounts and the tax basis of assets and liabilities and are measured using the enacted tax rates expected to apply to taxable income in the years in which the differences are expected to be reversed.

The Company records net deferred tax assets to the extent the Company believes these assets will more likely than not be realized. In making such determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations.

The Company has elected to use the "with and without" approach as described in ASC 740-20, "Intraperiod Tax Allocation" in determining the order in which tax attributes are utilized. As a result, the Company will only recognize a tax benefit from stock-based awards in additional paid-in capital if an incremental tax benefit is realized after all other tax attributes currently available to the Company have been utilized. In addition, the Company has elected to account for the impact of stock-based awards on other tax attributes, such as the research tax credit, through the Consolidated Statements of Operations.

The Company recognizes interest and penalties related to uncertain tax positions within the income tax expense line in the Consolidated Statements of Operations. Accrued interest and penalties are included within the related tax liability line in the Consolidated Balance Sheets.

Employee Benefit Plans

The Company sponsors a 401(k) defined contribution plan covering all employees. The Company may make discretionary contributions to the 401(k). To date, no contributions have been made by the Company.

Stock-Based Compensation

The Company accounts for stock-based compensation under ASC 718, "Compensation—Stock Compensation" using the prospective transition method prescribed for private companies. Using the prospective transition method, compensation expense recognized includes the compensation cost for all share-based payment awards granted to employees subsequent to December 31, 2005, based on the grant-date fair value estimated in accordance with the provisions of ASC 718. The Company uses the Black-Scholes option pricing model to determine the fair value of stock options. Stock compensation expense is recognized on a straight-line basis over the requisite service period of the award, which generally equals the vesting period. Under ASC 718, the Company is required to estimate potential forfeitures of stock grants and adjust compensation cost recorded accordingly. The estimate of forfeitures is computed based on historical data of employee turnover and is adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from the prior estimates. Changes in estimated forfeitures are recognized in the period of change and will impact the amount of stock compensation expenses to be recognized in future periods.

Stock-based compensation expense recognized is shown in the operating activities section of the Consolidated Statements of Cash Flows. In addition, ASC 718 requires the cash flows resulting from the tax benefits due to tax deductions on stock option exercises in excess of the stock-based compensation expense recognized (excess tax benefits) to be classified in the financing activities section of the Consolidated Statements of Cash Flows. During the years ended December 31, 2013, 2012 and 2011, the Company did not recognize any excess tax benefits.

The Company accounts for stock options issued to non-employees in accordance with the provisions of ASC 505-50 using a fair-value approach. The measurement of stock-based compensation for non-employees is subject to periodic adjustments as the options vest, and the expense is recognized over the period over which services are received. Stock-based compensation expense for non-employees has not been material for all periods presented.

Comprehensive Income (Loss)
Comprehensive income (loss) includes all changes in equity that are not the result of transactions with stockholders. The Company’s comprehensive income (loss) consists of its net loss and changes in unrealized gains (losses) from its available-for-sale investments. Total comprehensive loss has been presented in the Consolidated Statements of Comprehensive Loss. During the year ended December 31, 2013, the Company adopted ASU 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," which requires filers to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net loss. The Company had no significant reclassifications out of accumulated other comprehensive income into net loss for the years ended December 31, 2013, 2012 and 2011.
Recent Accounting Policies
In July 2013, the FASB issued ASU 2013-11, "Income Taxes", a new accounting standard update on the financial statement presentation of unrecognized tax benefits. The new guidance provides that a liability related to an unrecognized tax benefit would be presented as a reduction of a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. The new guidance becomes effective for the Company on January 1, 2014 and it should be applied prospectively to unrecognized tax benefits that exist at the effective date with retrospective application permitted. The Company is currently assessing the impact of this new guidance but does not believe it will

have a material impact.

2. Acquisitions

In 2013, the Company entered into agreements to acquire five companies (collectively, the "Acquisitions"). Additionally, there were two other acquisitions in 2011 by the Company. Each acquisition was accounted for under the purchase method of accounting in which the tangible and identifiable intangible assets and liabilities of each acquired company were recorded at their respective fair values as of each acquisition date, including an amount for goodwill representing the difference between the respective acquisition consideration and fair values of identifiable net assets. The Company believes the combined entities will achieve savings in corporate overhead costs and opportunities for growth through expanded geographic and customer segment diversity with the ability to leverage additional products and capabilities. These factors, among others, contributed to a purchase price in excess of the estimated fair value of each acquired company's net identifiable assets acquired and, as a result, goodwill was recorded in connection with each acquisition. Goodwill is not deductible for tax purposes.

(dollars and share amounts in thousands, except per share amounts)

Sendmail, Inc.

On October 1, 2013 (the "Sendmail Acquisition Date"), pursuant to the terms of an Agreement and Plan of Merger, a wholly-owned subsidiary of the Company merged with and into Sendmail, Inc. ("Sendmail"), with Sendmail surviving as a wholly-owned subsidiary of the Company. Formerly based in Emeryville, California, Sendmail is a leading provider of messaging infrastructure solutions to enterprises whose solutions ensure global email connectivity, routing and message delivery between people, systems and applications located on-premise, in-cloud or on mobile devices. The acquisition of Sendmail allows the Company access to its Sentrion Email Platform business, customers, core engineering and professional teams which have demonstrated a sustained level of expertise in messaging infrastructure.

During the quarter ended December 31, 2013, the Company completed the valuation of the estimated fair values of the acquired tangible and identifiable intangible assets and liabilities assumed at the Sendmail Acquisition Date, and the results of operations and the fair values of the acquired assets and liabilities assumed have been included in the Consolidated Financial Statements since the Sendmail Acquisition Date. The Company recorded $2,975 in revenue from Sendmail for the year ended December 31, 2013.

At the Sendmail Acquisition Date, the Company paid $12,463 in cash consideration, net of cash acquired of $1,117. Of the cash consideration paid, $3,422 was held in escrow to secure indemnification obligations, which has not been released as of the filing date of this Annual Report on Form 10-K. As part of the acquisition, the Company assumed and paid off $7,933 in long-term debt on the Sendmail Acquisition Date. The Company incurred $1,877 in acquisition-related costs which were recorded in operating expenses for the year ended December 31, 2013.

Fair value of acquired assets and liabilities assumed

The following table summarizes the fair values of tangible assets acquired, liabilities assumed, intangible assets and goodwill:

	Estimated Fair Value in USD	Estimated Useful Life (in years)
Tangible assets acquired	$ 5,202	N/A
Liabilities assumed	(5,398)	N/A
Deferred revenue assumed	(14,549)	N/A
Long-term debt assumed	(7,933)	N/A
Trade name	400	5
Customer relationships	8,000	3
Patents	300	5

Core/developed technology	3,000	3
Goodwill	24,558	Indefinite
	$ 13,580	

Armorize Technologies, Inc.

On September 5, 2013 (the "Armorize Acquisition Date"), pursuant to the terms of an Agreement and Plan of Merger, a wholly-owned subsidiary of the Company merged with and into Armorize Technologies, Inc. ("Armorize"), with Armorize surviving as a wholly-owned subsidiary of the Company. Based in Taiwan, Armorize develops and markets leading cloud-based

(dollars and share amounts in thousands, except per share amounts)

SaaS anti-malware products and will add real-time dynamic detection of next generation threats and malware to the Company's existing capabilities.

During the quarter ended September 30, 2013, the Company completed the valuation of the estimated fair values of the acquired tangible and identifiable intangible assets and liabilities assumed at the Armorize Acquisition Date, and the results of operations and the fair values of the acquired assets and liabilities assumed have been included in the Consolidated Financial Statements since the Armorize Acquisition Date. The Company recorded $781 in revenue from Armorize for the year ended December 31, 2013.

At the Armorize Acquisition Date, the Company paid $24,215 in cash consideration, net of cash acquired of $1,746. Of the cash consideration paid, $3,750 was held in escrow to secure indemnification obligations, which has not been released as of the filing date of this Annual Report on Form 10-K. The Company incurred $747 in acquisition-related costs which were recorded in operating expenses for the year ended December 31, 2013.

Fair value of acquired assets and liabilities assumed

The following table summarizes the fair values of tangible assets acquired, liabilities assumed, intangible assets and goodwill:

	Estimated Fair Value in USD	Estimated Useful Life (in years)
Tangible assets acquired	$2,754	N/A
Liabilities assumed	(1,256)	N/A
Customer relationships	1,300	2
Non-compete agreements	500	3
Core/developed technology	3,850	5
Goodwill	18,813	Indefinite
	$25,961	

Abaca Technology Corporation

On July 19, 2013 (the "Abaca Technology Acquisition Date"), pursuant to the terms of an Agreement and Plan of Merger, a wholly-owned subsidiary of the Company merged with and into Abaca Technology Corporation ("Abaca Technology"), with Abaca Technology surviving as a wholly-owned subsidiary of the Company. Abaca Technology specializes in email filtering and protection algorithms and their cloud-based, in-memory threat scoring technologies are expected to complement the Company's continued investment in anti-spam and threat detection capabilities.

During the quarter ended September 30, 2013, the Company completed the valuation of the estimated fair values of the acquired tangible and identifiable intangible assets and liabilities at the Abaca Technology Acquisition Date, and the results of operations and the fair values of the acquired assets and liabilities assumed have been included in the Consolidated Financial Statements since the Abaca Technology Acquisition Date. The Company recorded $311 in revenue from Abaca Technology for the year ended December 31, 2013.

At the Abaca Technology Acquisition Date, the Company paid $23 in cash consideration, net of cash acquired of $3. The purchase consideration included an additional amount of $1,520 which was held back to secure contingent liabilities related to indemnification obligations. The initial fair values of the contingent liabilities of $1,397 were recorded in other long-term liabilities in the Consolidated Balance Sheets. The indemnification obligations have not been released as of the filing date of this Annual Report on Form 10-K. The Company incurred $218 in acquisition-related costs which were recorded in operating expenses for the year ended December 31, 2013.

Fair value of acquired assets and liabilities assumed

Proofpoint, Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars and share amounts in thousands, except per share amounts)

The following table summarizes the fair values of tangible assets acquired, liabilities assumed, intangible assets and goodwill:

	Estimated Fair Value in USD	Estimated Useful Life (in years)
Tangible assets acquired	$ 311	N/A
Liabilities assumed	(975)	N/A
Customer relationships	40	3
Core/developed technology	1,770	5
Goodwill	277	Indefinite
	$ 1,423	

eDynamics, LLC

On July 10, 2013 (the "eDynamics Acquisition Date"), pursuant to the terms of an Asset Purchase Agreement. the Company purchased substantially all of the business intellectual property and assumed certain liabilities of eDynamics, LLC ("eDynamics"). eDynamics is a social media archiving company and is expected to be an integral part of the Company's broader effort in rolling out a comprehensive social media archiving platform for customers.

During the quarter ended September 30, 2013, the Company completed the valuation of the estimated fair values of the acquired tangible and identifiable intangible assets and liabilities assumed at the eDynamics Acquisition Date, and the results of operations and the fair values of the acquired assets and liabilities assumed have been included in the Consolidated Financial Statements since the eDynamics Acquisition Date. Revenue from eDynamics was immaterial for the year ended December 31, 2013.

At the eDynamics Acquisition Date, the Company paid $500 in cash consideration. The Company also agreed to pay earn-out consideration ("Acquisition-related contingent earn-out liability") of up to $600 through April 2014, such liability being contingent upon the achievement of specified product development milestones. The initial fair value of the contingent earn-out liability of $586 was recorded as part of the purchase consideration. The purchase consideration also included an additional amount of $100, which was held back to secure any claims that may arise in the 12-month period after the eDynamics Acquisition Date. The initial fair value of such amount withheld of $72 as well as the Acquisition-related contingent earn-out liability were recorded in accrued liabilities on the Consolidated Balance Sheets. The Company paid $100 of the contingent earn-out liability during the year ended December 31, 2013. The Company incurred $6 in acquisition-related costs which were recorded in operating expenses for the year ended December 31, 2013.

Fair value of acquired assets and liabilities assumed

The following table summarizes the fair values of tangible assets acquired, liabilities assumed, intangible assets and goodwill:

	Estimated Fair Value in USD	Estimated Useful Life (in years)
Customer relationships	$ 243	3.5
Non-compete agreements	75	2
Core/developed technology	733	3.5

Goodwill	107	Indefinite
	$ 1,158	

Mail Distiller Limited

On April 5, 2013 (the "Mail Distiller Acquisition Date"), pursuant to the terms of a share transfer agreement, the Company purchased all of the outstanding share capital of Mail Distiller Limited, a Northern Ireland Company ("Mail

(dollars and share amounts in thousands, except per share amounts)

Distiller"). Mail Distiller is a European-based provider of the SaaS email security solutions. Mail Distiller allowed the Company to create the Proofpoint Essentials product line, a suite of SaaS security and compliance solutions specifically designed for distribution across managed service providers and dedicated security resellers.

During the quarter ended June 30, 2013, the Company completed the valuation of the estimated fair values of the acquired tangible and identifiable intangible assets and liabilities assumed at the Mail Distiller Acquisition Date, and the results of operations and the fair values of the acquired assets and liabilities assumed have been included in the Consolidated Financial Statements since the Mail Distiller Acquisition Date. The Company recognized $216 in revenue from Mail Distiller for the year ended December 31, 2013.

At the Mail Distiller Acquisition Date, the Company paid $3,771 in cash consideration, net of cash acquired of $60. The purchase consideration included an additional amount of $669 held back to secure indemnification obligations, which was recorded in accrued liabilities on the Consolidated Balance Sheets. The indemnification obligations have not been released as of the filing date of this Annual Report on Form 10-K. The Company incurred $258 in acquisition-related costs which were recorded in operating expenses for the year ended December 31, 2013.

Fair value of acquired assets and liabilities assumed

The following table summarizes the fair values of tangible assets acquired, liabilities assumed, intangible assets and goodwill:

	Estimated Fair Value in USD	Estimated Useful Life (in years)
Tangible assets acquired	$204	N/A
Liabilities assumed	(1,052)	N/A
Trade name	7	1
Customer relationships	1,291	2
Non-compete agreements	123	2
Core/developed technology	2,475	7
Goodwill	1,452	Indefinite
	$4,500	

NextPage, Inc.

On December 23, 2011, the Company acquired NextPage, Inc. ("NextPage"), a Delaware corporation, for a combination of common stock, restricted stock units and cash for a value totaling $5,465. NextPage contributed to the Company's file archiving and governance capabilities and was incorporated into its Enterprise Governance solution.

Spam and Open Relay Blocking System (“SORBS”)
On June 30, 2011, the Company completed an asset purchase from GFI Software Ltd., a British Virgin Islands corporation (the "SORBS Agreement"). Under the terms of the SORBS agreement, the Company paid cash considerations of $200 for intellectual property and fixed assets
Pro Forma Financial Information

The following unaudited pro forma financial information presents the combined results of operations for the years ended December 31, 2013 and 2012 as if all the Acquisitions completed during 2013 had been completed on January 1, 2012, with adjustments to give effect to pro forma events that are directly attributable to the Acquisitions such as amortization expense from revenue, acquired intangible assets and acquisition-related transaction costs. The unaudited pro forma results do not reflect any operating efficiencies or potential cost savings which may result from the consolidation of the operations of the Company and Acquisitions. Accordingly, these unaudited pro formas results are presented for informational purposes only and are not necessarily indicative of what the actual results of operations of the combined company would have been if the Acquisitions had occurred at the beginning of the period presented, nor are they indicative of future results of operations:

(dollars and share amounts in thousands, except per share amounts)

	Twelve Months Ended December 31,	
	2013	2012
Total revenue	$165,787	$150,934
Net loss	(37,000)	(28,229)
Basic and diluted net loss per share	$(1.06)	$(1.17)

The unaudited pro forma financial information includes non-recurring acquisition-related transaction costs of $3,107 for the year ended December 31, 2012.

3. Concentration of Risks

Financial instruments that potentially subject the Company to credit risk consist principally of cash, cash equivalents, short-term investments and accounts receivable.

The Company limits its concentration of risk in cash equivalents and short-term investments by diversifying its investments among a variety of industries and issuers and by limiting the average maturity to one year or less. The Company's professional portfolio managers adhere to this investment policy as approved by the Company's Board of Directors.

The Company's investment policy is to invest only in fixed income investments denominated and payable in U.S. dollars. Investment in obligations of the U.S. government and its agencies, money market instruments, commercial paper, certificates of deposit, bankers' acceptances, corporate bonds of U.S. companies, municipal securities and asset backed securities are allowed. The Company does not invest in auction rate securities, futures contracts, or hedging instruments.

The Company's accounts receivables are derived from revenue earned from customers primarily located in the United States of America. The Company performs periodic evaluations of its customers' financial condition and generally does not require its customers to provide collateral or other security to support accounts receivable, and maintains an allowance for doubtful accounts. Credit losses historically have not been significant.

During the years ended December 31, 2013 and 2012, one customer accounted for 14% of total revenue. No single customer accounted for more than 10% of total revenue in the year ended December 31, 2011.

At December 31, 2013, there were no customers that accounted for more than 10% of total accounts receivable. At December 31, 2012, one customer accounted for 10% of total accounts receivable.

At December 31, 2013 and 2012, one vendor accounted for 16% and 22%, respectively, of total accounts payable. No other vendors accounted for more than 10% of total accounts payable.

4. Balance Sheet Components

Allowance for doubtful accounts activity and balances are presented below:

	Balance at Beginning of Period	Additions to Costs and Expenses	Write Offs	Balance at End of Period
Year ended December 31, 2011	$257	$8	$(32)	$233
Year ended December 31, 2012	233	54	(100)	187
Year ended December 31, 2013	$187	$91	$(2)	$276

Additions during the year ended December 31, 2013 includes allowance for doubtful accounts activity from the Acquisitions.

(dollars and share amounts in thousands, except per share amounts)

Property and equipment at December 31, 2013 and 2012, consist of the following:

	Useful Life (in years)	December 31, 2013	2012
Computer equipment	2 to 3	$31,305	$22,204
Software	2	1,782	1,712
Furniture	5	76	76
Office equipment	2 to 5	397	347
Leasehold improvements	5 years or shorter of the lease term	1,298	1,217
Other	2	59	54
Construction in progress		339	1,158
		35,256	26,768
Less: Accumulated depreciation and amortization		(24,035)	(18,208)
		$11,221	$8,560

Property and equipment acquired under capital leases:

	December 31, 2013	2012
Computer equipment	$346	$341
Less: Accumulated depreciation	(317)	(269)
	$29	$72

Depreciation expense for the years ended December 31, 2013, 2012 and 2011, was approximately $5,923, $4,434, and $3,142, respectively. This included depreciation expense for assets under capital leases of $48, $42 and $151 for the years ended December 31, 2013, 2012 and 2011, respectively.

The Company capitalized software development costs of $400 for the year ended December 31, 2011. Amortization of capitalized software development costs was approximately $159, $200 and $41 for the years ended December 31, 2013, 2012 and 2011, respectively. Capitalized software development costs were fully amortized as of December 31, 2013.

Accrued liabilities at December 31, 2013 and 2012 consisted of the following:

	December 31, 2013	2012
Accrued compensation	$8,886	$7,125
Customer deposits	2,098	102
Accrued royalties	766	262
Other	7,510	4,589
	$19,260	$12,078

5. Goodwill and Intangible Assets

The goodwill activity and balances are presented below:

(dollars and share amounts in thousands, except per share amounts)

	December 31,	
	2013	2012
Opening balance	$18,557	$18,557
Add: Goodwill from acquisitions	45,207	—
Closing balance	$63,764	$18,557

The goodwill balance as of December 31, 2013 was the result of the acquisitions of Fortiva, Sigaba, EDN, SORBS, NextPage and the Acquisitions completed during the year ended December 31, 2013 (see Note 2, "Acquisitions").

Intangible Assets

Intangible assets excluding goodwill, consisted of the following:

	December 31, 2013			December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technology	$29,468	$(17,383)	$12,085	$17,641	$(15,163)	$2,478
Customer relationships	13,282	(3,726)	9,556	2,408	(2,109)	299
Non-compete	804	(170)	634	106	(27)	79
Trademark and patents	806	(105)	701	98	(41)	57
	$44,360	$(21,384)	$22,976	$20,253	$(17,340)	$2,913

Amortization expense of intangibles totaled $4,044, $3,276 and $4,542 during the years ended December 31, 2013, 2012 and 2011, respectively.

Future estimated amortization costs of intangible assets as of December 31, 2013 are presented below:

Year Ended December 31,	
2014	$7,858
2015	7,100
2016	4,767
2017	1,622
2018	1,175
Thereafter	454
	$22,976

6. Fair Value Measurements and Investments

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date. A hierarchy for inputs used in measuring fair value has been defined to minimize the use of unobservable inputs by requiring the use of observable market data when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on active market data. Unobservable inputs are inputs that reflect the Company’s assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances.

The fair value hierarchy prioritizes the inputs into three broad levels:

• Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities. The Company's Level 1 assets generally consist of money market funds.

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- Level 2: Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets; 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 asset or liability.

The Company’s Level 2 assets and liabilities generally consist of corporate bonds and agency debt securities, commercial paper, certificates of deposit and convertible senior notes.

- Level 3: Unobservable inputs to the valuation methodology that are supported by little or no market activity and that are significant to the measurement of the fair value of the assets or liabilities. Level 3 assets and liabilities include those whose fair value measurements are determined using pricing models, discounted cash flow methodologies or similar valuation techniques, as well as significant management judgment or estimation.

In connection with the acquisition of eDynamics, a liability was recognized on the eDynamics Acquisition Date for the estimate of the fair value of the Company's contingent earn-out payments related to eDynamics. The Company determined the fair value of the Acquisition-related contingent earn-out liability based on the probability-based attainment of product development milestones. Any changes to the variables and assumptions could significantly impact the estimated fair values recorded for the liability, resulting in significant charges to the Consolidated Statements of Operations. The fair value measurements are based on significant inputs not observable in the market and thus represent Level 3 measurements, which reflect the Company's own assumptions concerning achievement of the product development milestones of eDynamics, in measuring the fair value of the Acquisition-related contingent earn-out liability.

The following tables summarize, for each category of assets or liabilities carried at fair value, the respective fair value as of December 31, 2013 and 2012 and the classification by level of input within the fair value hierarchy:

	Balance as of December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets				
Cash equivalents:				
Money market funds	$215,094	$215,094	$—	$—
Short-term investments:				
Corporate debt securities	6,015	—	6,015	—
Certificates of deposit	2,000	—	2,000	—
Total financial assets	$223,109	$215,094	$8,015	$—
Liabilities				
Acquisition-related contingent earn-out liability	$495	$—	$—	$495

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	Balance as of December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets				
Cash equivalents:				
Money market funds	$26,485	$26,485	$—	$—
Commercial paper	1,020	1,020	—	—
Short-term investments:				
Corporate debt securities	29,267	—	29,267	—
Commercial paper	15,988	—	15,988	—
Certificates of deposit	2,008	—	2,008	—
Total financial assets	$74,768	$27,505	$47,263	$—

Based on quoted market prices as of December 31, 2013, the fair value of the Notes was approximately $216,306, determined using Level 2 inputs as they are not actively traded in markets.

The following table represents a reconciliation of the Acquisition-related contingent earn-out liability measured at fair value on a recurring basis, using significant unobservable inputs (Level 3) for the year ended December 31, 2013:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Balance at December 31, 2012	$—
Additions during the period	586
Payments during the period	(100)
Adjustments to fair value during the period recorded in General and Administrative expenses	9
Balance at December 31, 2013	$495

The carrying amounts of the Company's cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to their short maturities. Based on borrowing rates that are available to the Company for loans with similar terms and consideration of the Company's credit risk, the carrying value of the notes payable approximates their fair values using Level 2 inputs.

Investments

The cost and fair value of the Company’s cash and available-for-sale investments as of December 31, 2013 and 2012 were as follows:

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	December 31, 2013			
	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash and cash equivalents:				
Cash	$28,692	$—	$—	$28,692
Money market funds	215,094	—	—	215,094
Total	$243,786	$—	$—	$243,786
Short-term investments:				
Corporate debt securities	$6,015	$—	$—	$6,015
Certificates of deposit	2,000	—	—	2,000
Total	$8,015	$—	$—	$8,015

	December 31, 2012			
	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash and cash equivalents:				
Cash	$11,749	$—	$—	$11,749
Money market funds	26,485	—	—	26,485
Commercial paper	1,020	—	—	1,020
Total	$39,254	$—	$—	$39,254
Short-term investments:				
Corporate debt securities	$29,266	$4	$(3)	$29,267
Commercial paper	15,987	1	—	15,988
Certificate of deposit	2,007	1	—	2,008
Total	$47,260	$6	$(3)	$47,263

As of December 31, 2013 and 2012, all investments mature in less than one year. Estimated fair values for marketable securities are based on quoted market prices for the same or similar instruments.

7. Commitments and Contingencies

Operating Leases

The Company leases certain of its facilities under noncancellable operating leases with various expiration dates through January 2019.

Rent expense was $1,774, $1,520 and $1,471 for the years ended December 31, 2013, 2012 and 2011, respectively.

Capital Leases

In July 2012, the Company entered into two lease agreements to lease certain office equipment with expiration dates in July and October 2015. The leases bear an annual interest rate of 4.50% and are secured by fixed assets used in the Company's office locations.
At December 31, 2013, future annual minimum lease payments under noncancellable operating and capital leases were as follows:

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(dollars and share amounts in thousands, except per share amounts)

	Capital Leases	Operating Leases
2014	$18	$4,605
2015	11	1,382
2016	—	893
2017	—	310
2018	—	181
Thereafter	—	8
Total minimum lease payments	29	$7,379
Less: Amount representing interest	(1)	
Present value of capital lease obligations	28	
Less: Current portion	(18)	
Long-term portion of capital lease obligations	$10	

Contingencies

Under the indemnification provisions of the Company's customer agreements, the Company agrees to indemnify and defend and hold harmless its customers against, among other things, infringement of any patent, trademark or copyright under any country's laws or the misappropriation of any trade secret arising from the customers' legal use of the Company's solutions. The exposure to the Company under these indemnification provisions is generally limited to the total amount paid by the customers under the applicable customer agreement. However, certain indemnification provisions potentially expose the Company to losses in excess of the aggregate amount paid to the Company by the customer under the applicable customer agreement. To date, there have been no claims against the Company or its customers pursuant to these indemnification provisions.

Legal Contingencies

From time to time, the Company may be involved in legal proceedings and subject to claims incident to the ordinary course of business. On December 16, 2013, Finjan, Inc. sued the Company and Armorize in the United States District Court, Northern District of California for alleged patent infringement of a variety of its patents, demanding preliminary and permanent injunctive relief, and unspecified damages. The Company filed an answer to the complaint on February 10, 2014. An initial case management conference is scheduled for April 2014. The Company intends to vigorously defend the lawsuit. Based on the early stage of the claims and evaluation of the facts available at this time, the amount or range of reasonable possible losses to which the Company is exposed cannot be estimated and the ultimate resolution of this matter and the associated financial impact, if any, remains uncertain at this time. However, intellectual property litigation is subject to inherent uncertainties, and there can be no assurance that the expenses associated with defending any litigation or the resolution of this dispute would not have a material adverse impact on the Company's results of operations or cash flows. Regardless of the outcome, such proceedings and claims can have an adverse impact on the Company because of defense and settlement costs, diversion of resources and other factors, and there can be no assurances that favorable outcomes will be obtained.

8. Convertible Senior Notes

On December 11, 2013, the Company issued $175,000 principal amount of 1.25% Convertible Senior Notes (the "Notes") due 2018 in a private offering to qualified institutional buyers ("Holders") pursuant to Rule 144A under the Securities Act of 1944 (the "Exchange Act"), as amended. The initial Holders of the Notes also had an option to purchase an additional$26,250 in principal amount which was exercised in full. The net proceeds after underwriter discount and issuance costs of $5,803 from the Notes offering were approximately $195,446. The Company intends to use the net proceeds for working capital and general corporate purposes, which may include funding the Company's operations, capital expenditures, potential acquisitions of businesses, products or technologies believed to be of strategic importance. The Notes bear interest at 1.25% per year, payable semi-annually in arrears every June 15 and December 15, beginning on June 15, 2014.

The Notes are unsecured and rank senior in right of payment to any indebtedness expressly subordinated in right of payment to the Notes. They rank equally with the Company's other existing and future unsecured indebtedness that is not

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subordinated and are structurally subordinated to any current or future secured indebtedness to the extent of the value of the assets securing the indebtedness and other liabilities of the Company's subsidiaries.

The initial conversion rate is 25.6271 shares of the Company's common stock per $1 principal amount of notes which equates to 5,158 shares of common stock, or a conversion price equivalent of $39.02 per share of common stock. Throughout the term of the Notes, the conversion rate may be adjusted upon the occurrence of certain events. The Notes mature on December 15, 2018, unless repurchased, redeemed or converted in accordance with their terms prior to such date.

At the Company's option, on or after December 20, 2016, the Company will be able redeem all or a portion of the Notes at 100% of the principal amount, plus any accrued and unpaid interest, under certain conditions. The Company may redeem the Notes in shares of the Company's common stock, cash, or some combination of each.

Prior to June 15, 2018, the Notes will be convertible at the option of the Holders only upon the satisfaction of certain conditions and during certain periods if any of the the following events occur:

- during the calendar quarter commencing after March 31, 2014, if the last reported sale price of the Company's common stock is greater than or equal to 130% of the applicable conversion price on each such trading day for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the last trading day of the preceding calendar quarter;
- during the 5 business day period after any 5 consecutive trading day period in which the trading price, as defined, per $1 principal amount of Notes for each trading day of such measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the applicable conversion rate on each such trading day;
- upon a notice of redemption by the Company; or
- upon the occurrence of specified corporate transactions.

Subsequent to June 15, 2018, Holders may convert their Notes at the applicable conversion rate at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date.

Holders of the Notes also have the right to require the Company to repurchase all or a portion of the Notes at 100% of the principal amount, plus accrued and unpaid special interest, if any, upon the occurrence of certain fundamental changes to the Company.

In accordance with the authoritative accounting guidance, the Company allocated the total amount of the Notes into liability and equity components. The carrying value of the liability component at issuance was calculated as the present value of its cash flows using a discount rate of 6.5% based on the a blended rate between the yield rate for a Moody's B1-rating and the average debt rate for comparable convertible transactions from similar companies. The difference between the Notes principal and the carrying value of the liability component, representing the value of conversion premium assigned to the equity component, was recorded as an increase to additional paid in capital and as a debt discount on the issuance date. The equity component is being accreted using the effective interest rate method over the period from the issuance date through December 15, 2018 as a non-cash charge to interest expense. The amount recorded to additional paid in capital is not remeasured as long as it continues to meet the conditions for equity classification. Upon issuance of the Notes, the Company recorded $156,672 as debt and $44,578 as additional paid in capital within stockholders' equity.

Additionally, the underwriters' discount and issuance costs were bifurcated into debt issuance costs (attributable to the liability component) and equity issuance costs (attributable to the equity component) based on their relative fair values. The debt issuance costs were capitalized and recorded as deferred offering costs in other noncurrent assets and are being amortized to interest expense using the effective interest rate method from the issuance date through December 15, 2018. The equity issuance costs were recorded as a decrease to additional paid-in capital at the issuance date.

At December 31, 2013, the net carrying amount of the liability component of the Notes consists of:

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Liability component:	
Principal	$201,250
Less: debt discount, net of amortization	(48,322)
Net carrying amount	$152,928
Equity component (1)	$43,293

(1) Recorded in the Consolidated Balance Sheets as additional paid-in capital, net of the $1,285 issuance costs in equity

For the year ended December 31, 2013, the Company incurred the interest expense related to the Notes:

1.25% coupon	$138
Amortization of debt discount	486
Amortization of debt issuance costs	3
	$627

9. Debt

Equipment Financing Loans

The Company entered into a new equipment loan agreement with Silicon Valley Bank in April 2011 for an aggregate loan principal amount of $6,000. Interest on the advances is equal to prime rate plus 0.50%. As of December 31, 2013, the interest on the outstanding advances was 4.50%. The Company had the ability to draw down on this equipment line through April 19, 2012. Each drawn amount is due 48 months after funding. Borrowings outstanding under the equipment loan at December 31, 2013 were $2,326. Equipment financed under this loan arrangement is collateralized by the respective assets underlying the loan. The terms of the loan restrict the Company's ability to pay dividends. The loan includes a covenant that requires the Company to maintain cash and cash equivalents plus net accounts receivable of at least two times the amount of all outstanding indebtedness. As of December 31, 2013, as a result of the issuance of the Notes, the Company was not in compliance with the covenant which Silicon Valley Bank waived. Subsequently, the Company has amended the loan agreement with Silicon Valley Bank to exclude the impact of the Notes on the covenant.

Interest expense for equipment financing loans for the years ended December 31, 2013, 2012 and 2011 was $140, $211 and $54, respectively.
At December 31, 2013, the remaining repayment commitments related to the equipment loans are as follows:

2014	$1,642
2015	684
	$2,326

10. Common Stock

Initial Public Offering
In April 2012, the Company completed its initial public offering of its common stock to the public ("IPO") whereby 5,859 shares of common stock sold by the Company (inclusive of 729 shares of common stock from the partial exercise of the overallotment option granted to the underwriters) and 1,370 shares of common stock sold by the selling shareholders (inclusive of 171 shares of common stock from the partial exercise of the overallotment option granted to the underwriters). The public offering price of the shares sold in the offering was $13.00 per share. The Company did

not receive any proceeds from the sales of shares by the selling stockholders. The total gross proceeds from the offering to the Company were $76,200. After deducting underwriters’ discounts and commissions and offering expenses, the aggregate net proceeds received by the Company totaled approximately $68,300. Immediately prior to the closing of the IPO, all shares of the Company’s outstanding redeemable convertible preferred stock automatically converted into 19,567 shares of common stock. As a result, following the IPO, the Company has two classes of authorized stock: common stock and preferred stock.

As of December 31, 2013, the Company is authorized to issue two classes of stock totaling 205,000 shares, of which 5,000 are designated as preferred stock and 200,000 are designated common stock, each with a par value of $0.0001 per share.

On March 30, 2012, the Company's Board of Directors approved a 1-for-2 reverse stock split of the Company's common stock. The reverse stock split became effective on April 2, 2012. All of the share numbers, share prices, and exercise prices have been retrospectively adjusted to reflect the reverse stock split.

The following table presents the shares authorized and issued and outstanding as of the dates presented:

	As of December 31, 2013		As of December 31, 2012	
	Shares		Shares	
	Authorized	Outstanding	Authorized	Outstanding
Common stock	200,000	36,140	200,000	33,044
Undesignated preferred stock	5,000	—	5,000	—
	205,000	36,140	205,000	33,044

Number of shares of common stock reserved for future issuance was as follows:

	Year Ended December 31,	
	2013	2012
Options available for future grant under the stock plans	4,584	4,611
Options outstanding under stock plans	7,223	9,636
Shares available for future issuance under ESPP	759	646
Common stock issuable upon exercise of warrant and settlement of outstanding restricted stock units	1,216	3
Common stock issuable upon conversion of the convertible senior notes	5,158	—
Total shares reserved	18,940	14,896

11. Stock Option Plans

Stock-Based Compensation Plans

On March 30, 2012, the Board of Directors and the Company’s stockholders approved the 2012 Equity Incentive Plan (the "2012 Plan"), which became effective in April 2012. The Company has two equity incentive plans: the Company’s 2002 stock option plan (the “2002 Plan”) and the 2012 Plan. Upon the IPO, all shares that were reserved under the 2002 Plan but not issued, and shares issued but subsequently returned to the plan through forfeitures, cancellations and repurchases became part of the 2012 Plan and no further shares will be granted pursuant to the 2002 Plan. All outstanding stock awards under the 2002 and 2012 Plans will continue to be governed by their existing terms. Under the 2012 Plan, the Company has the ability to issue incentive stock options (“ISOs”), nonstatutory stock options (“NSOs”), restricted stock awards, stock bonus awards, stock appreciation rights ("SARs"), restricted stock units (“RSUs”), and performance shares. The 2012 Plan also allows direct issuance of common stock to employees, outside directors and consultants at prices equal to the fair market value at the date of grant of options or issuance of common stock. Additionally, the 2012 Plan provides for the grant of performance cash awards to employees, directors and consultants. The Company has the right to repurchase any unvested shares (at the option exercise price) of common stock issued directly or under option exercises. The right of repurchase generally expires over the vesting period.

(dollars and share amounts in thousands, except per share amounts)

Under the 2002 and 2012 Plans, the term of an option grant shall not exceed ten years from the date of its grant and options generally vest over a three to four-year period, with vesting on a monthly or annual interval. Under the 2012 Plan, 20,316 shares of common stock are reserved for issuance to eligible participants. As of December 31, 2013, 4,584 shares were available for future grant. Restricted stock awards generally vest over a four-year period with 25% vesting at the end of one year and the remaining vest quarterly thereafter. The number of shares available for grant and issuance under the 2012 Plan will be increased automatically on each January 1 of 2013 through 2016 by an amount equal to 5% of the Company's shares outstanding on the immediately preceding December 31, but not to exceed 3,724 shares, unless the Board of Directors, in its discretion, determines to make a smaller increase.

Stock Options

The fair value of options granted is estimated on the grant date using the Black-Scholes option valuation model. This valuation model for stock-based compensation expense requires the Company to make assumptions and judgments about the variables used in the calculation, including the expected term (weighted-average period of time that the options granted are expected to be outstanding), the volatility of the common stock price, an assumed risk-free interest rate and the estimated forfeitures of unvested stock options. To the extent actual forfeitures differ from the estimates, the difference will be recorded as a cumulative adjustment in the period estimates are revised. No compensation cost is recorded for options that do not vest and the compensation cost from vested options, whether forfeited or not, is not reversed.

Prior to the Company's IPO, the Board of Directors, in good faith, determined the fair market values of the Company's common stock, based on the best information available to the Board and the Company's management at the time of grant. The Company performed its analysis in accordance with applicable elements of the practice aid issued by the American Institute of Certified Public Accountants entitled Valuation of Privately Held Company Equity Securities Issued as Compensation. The procedures performed to determine the fair value of the Company's common stock were based on a probability weighted expected return method to estimate the aggregate equity value of the Company.

The weighted average fair value of stock options granted to employees during the years ended December 31, 2013, 2012 and 2011, was $9.50, $5.65 and $6.33, respectively. The fair values were estimated on the grant dates using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Year Ended December 31,		
	2013	2012	2011
Expected life (in years)	5.31 - 6.08	5.50 - 6.08	5.85 - 6.08
Volatility	57% - 61%	59% - 60%	59% - 61%
Risk-free interest rate	0.9% - 1.8%	0.9% - 1.2%	1.2% - 2.5%
Dividend yield	—%	—%	—%

The estimate for expected life of options granted reflects the midpoint of the vesting term and the contractual life computed utilizing the simplified method as allowed by the SEC staff. The Company does not have significant historical share option exercise experience and hence considers the expected term assumption calculated using the simplified method to be reasonable. Since the Company's stock has been publicly traded for a limited time, the stock volatility assumptions represent an estimate of the historical volatilities of the common stock of a group of publicly-traded peer companies that operate in a similar industry. The estimate was determined based on the average historical volatilities of these peer companies. The risk-free interest rate used was the Federal Reserve Bank's constant maturities interest rate commensurate with the expected life of the options in effect at the time of the grant. The expected dividend yield was zero, as the Company does not anticipate paying a dividend within the relevant time frame. Expected forfeitures are estimated based on the Company's historical experience.

The Company realized no income tax benefit from stock option exercises in each of the periods presented due to recurring losses and valuation allowances.

Stock option activity under the Plan is as follows:

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	Shares subject to Options Outstanding			
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Balance at December 31, 2010	9,711	$3.15	6.18	$21,619
Options granted	2,533	6.33		
Options exercised	(456)	2.63		
Options forfeited and canceled	(1,083)	4.16		
Balance at December 31, 2011	10,705	3.83	6.77	44,466
Options granted	2,243	10.29		
Options exercised	(2,543)	1.95		
Options forfeited and canceled	(769)	6.26		
Balance at December 31, 2012	9,636	5.63	7.33	64,719
Options granted	1,618	17.46		
Options exercised	(2,879)	4.69		
Options forfeited and canceled	(1,152)	8.65		
Balance at December 31, 2013	7,223	$8.17	6.82	$180,543
Exercisable, December 31, 2013	4,000	$4.76	5.61	$113,648
Vested and expected to vest, December 31, 2013	6,750	$7.77	6.70	$171,429

The total intrinsic value of options exercised was $45,454, $18,950 and $1,505, for the years ended December 31, 2013, 2012 and 2011, respectively. Total cash proceeds from such option exercises were $13,509, $4,966 and $1,198 for the years ended December 31, 2013, 2012 and 2011, respectively.

The fair value of option grants that vested was $8,206, $5,736 and $4,015 during the years ended December 31, 2013, 2012 and 2011, respectively.

As of December 31, 2013, the Company had unamortized stock-based compensation expense of $15,680 related to stock options, that will be recognized net of forfeitures over the average remaining vesting term of the options of 2.35 years.

Restricted Stock Units

A summary of the status of RSUs awarded and unvested under the stock option plans as of December 31, 2013 is presented below:

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	RSUs Outstanding	
	Number of Shares	Granted Fair Value Per Unit
Awarded and unvested at December 31, 2010	—	$—
Awards assumed	23	7.98
Awards vested	(15)	7.98
Awards forfeited	—	—
Awarded and unvested at December 31, 2011	8	7.98
Awards granted	—	—
Awards vested	(6)	7.98
Awards forfeited	(1)	7.98
Awarded and unvested at December 31, 2012	1	7.98
Awards granted	1,236	28.94
Awards vested	(1)	24.15
Awards forfeited	(22)	24.61
Awarded and unvested at December 31, 2013	1,214	$29.57

As of December 31, 2013, there was $25,627 of unamortized stock-based compensation expense related to unvested RSUs, which are expected to be recognized over a weighted average period of 3.71 years.

Employee Stock Purchase Plan

On March 30, 2012, the Board of Directors and the Company's stockholders approved the 2012 Employee Stock Purchase Plan (the "ESPP"), which became effective in April 2012. A total of 745 shares of the Company's common stock was initially reserved for future issuance under the ESPP. The number of shares reserved for issuance under the ESPP will increase automatically on January 1 of each of the first eight years commencing with 2013 by the number of shares equal to 1% of the Company's shares outstanding on the immediately preceding December 31, but not to exceed 1,490 shares, unless the Board of Directors, in its discretion, determines to make a smaller increase. As of December 31, 2013, there were 759 shares of the Company's common stock available for future issuance under the ESPP.

The fair value of the option component of the ESPP shares was estimated at the grant date using the Black-Scholes option pricing model with the following weighted average assumptions:

	Year ended December 31,	
	2013	2012*
Expected life (in years)	0.50 - 0.54	0.50 - 0.53
Volatility	38% - 40%	46% - 51%
Risk-free interest rate	0.08%	0.13% - 0.15%
Dividend yield	—%	—%

* Employee participation in the ESPP did not begin until the second quarter of 2012.

As of December 31, 2013, the Company expects to recognize $497 of the total unamortized compensation cost related to employee purchases under the ESPP over a weighted average period of 0.37 years.

12. Net Loss per Share

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Basic net loss per share of common stock is calculated by dividing the net loss by the weighted average number of shares of common stock outstanding for the period. The weighted average number of shares of common stock used to calculate our basic net loss per share of common stock excludes those shares subject to repurchase related to stock options that were exercised prior to vesting as these shares are not deemed to be issued for accounting purposes until they vest. Diluted net loss per share of common stock is computed by dividing the net loss using the weighted average number of shares of common stock, excluding common stock subject to repurchase, and, if dilutive, potential shares of common stock outstanding during the period. Basic and diluted net loss per common share was the same for all periods presented as the impact of all potentially dilutive securities outstanding was anti-dilutive.

The following table presents the calculation of basic and diluted net loss per share:

	Years Ended December 31,		
	2013	2012	2011
Numerator:			
Net loss	$(27,531)	$(20,360)	$(20,141)
Denominator:			
Weighted average number of common shares used in computing basic and diluted net loss per share	34,874	24,056	4,005
Net loss per common share			
Basic and diluted net loss per share	$(0.79)	$(0.85)	$(5.03)

The following table presents the potentially dilutive common shares outstanding that were excluded from the computation of diluted net loss per share of common stock for the periods presented because including them would have been anti-dilutive:

	Years Ended December 31,		
	2013	2012	2011
Convertible preferred stock	—	—	39,134
Stock options to purchase common stock	7,223	9,636	10,705
Employee stock purchase plan	89	133	—
Common stock subject to repurchase	1	4	6
Common stock warrants	2	2	2
Restricted stock units	1,214	1	—
Convertible senior notes	5,158	—	—
Total	13,687	9,776	49,847

13. Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting supported and defined by the components of an enterprise about which separate financial information is available, provided and is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is its Chief Executive Officer. The Company's Chief Executive Officer reviews financial information presented on a consolidated basis and as a result, the Company concluded that there is only one operating and reportable segment.

The following set forth total revenue by solutions offered by the Company and geographic area. Revenue by geographic area is based upon the billing address of the customer:

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	Year Ended December 31,		
	2013	2012	2011
Total revenue by solution:			
Privacy, Protection and Security	$101,083	$78,979	$65,882
Archiving and Governance	36,848	27,316	15,956
Total revenue	137,931	106,295	81,838

	Year Ended December 31,		
	2013	2012	2011
Total revenue by geographic area:			
United States	$113,819	$86,661	$65,044
Rest of world	24,112	19,634	16,794
Total revenue	$137,931	$106,295	$81,838

The following sets forth long-lived assets by geographic area:

	Year Ended December 31,	
	2013	2012
Long-lived assets:		
United States	$9,425	$6,857
Rest of world	1,796	1,703
Total long-lived assets	$11,221	$8,560

14. Income Taxes

The Company accounts for income taxes in accordance with authoritative guidance, which requires the use of the asset and liability method. Under this method, deferred income tax assets and liabilities are determined based on the difference between the Consolidated Financial Statements carrying amounts and the tax basis of assets and liabilities and are measured using the enacted tax rates expected to apply to taxable income in the years in which the differences are expected to be reversed.

The domestic and foreign components of loss before benefit from (provision for) income taxes were as follows for the years ended December 31, 2013, 2012 and 2011:

	Year Ended December 31,		
	2013	2012	2011
Domestic	$(34,284)	$(23,506)	$(17,566)
Foreign	3,945	3,667	(2,205)
Loss before benefit from (provision for) income taxes	$(30,339)	$(19,839)	$(19,771)

The benefit from (provision for) income taxes is comprised of:

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Proofpoint, Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars and share amounts in thousands, except per share amounts)

	Year Ended December 31,		
	2013	2012	2011
Current tax expense:			
Federal	$—	$—	$—
State	70	30	52
Foreign	641	491	318
Total current	711	521	370
Deferred tax expense:			
Federal	—	—	—
State	—	—	—
Foreign	(3,519)	—	—
Total deferred	(3,519)	—	—
(Benefit from) provision for income taxes	$(2,808)	$521	$370

The reconciliation of income tax expense at the statutory federal income tax rate of 34% to the income tax provision included in the accompanying Statements of Operations for the years ended December 31, 2013, 2012 and 2011 is as follows:

	Year Ended December 31,		
	2013	2012	2011
Tax at federal statutory rate	$(10,315)	$(6,745)	$(6,722)
Foreign income tax rate differential	(232)	(262)	219
State, net of federal benefit	(1,130)	(822)	(821)
Stock compensation charges	636	1,256	1,091
SubPart F and other permanent items	1,583	1,204	849
Provision to return & other	937	1,074	850
Research and development credits	(2,112)	(1,061)	(1,427)
Uncertain tax positions	617	301	1,004
Valuation allowance	7,208	5,576	5,327
(Benefit from) provision for income taxes	$(2,808)	$521	$370

Deferred tax assets and liabilities reflect the net tax effects of net operating loss and tax credit carryovers and the temporary differences between the carrying amount of assets and liabilities for financial reporting and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets were as follows for the years ended December 31, 2013 and 2012:

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Proofpoint, Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars and share amounts in thousands, except per share amounts)

	Year Ended December 31, 2013	2012
Deferred tax assets:		
Net operating loss carryforwards	$60,280	$44,045
Tax credit carryforwards	8,228	6,639
Research expenditures	3,314	4,567
Deferred revenue	13,292	7,726
Stock compensation	3,696	2,294
Fixed assets	1,262	926
Accruals and other	7,250	3,487
Total deferred tax assets	97,322	69,684
Deferred tax liabilities:		
Intangible assets and other	(7,769)	(990)
Interest expense on the Notes	(16,090)	—
Valuation allowance	(71,052)	(68,694)
Net deferred tax assets	$2,411	$—
Current deferred income tax assets (included in other current assets)	$4,166	$137
Non-current deferred income tax liabilities (included in long-term liabilities)	$1,755	$137

The Company records net deferred tax assets to the extent that Company believes these assets will more likely than not be realized. In making such determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations.

Realization of deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. The valuation allowance increased by approximately $2,400, $3,700 and $6,400 during the years ended December 31, 2013, 2012 and 2011, respectively. The total valuation allowance increase of $2,400 for the year ended December 31, 2013 included a reduction of $4,300 resulting from a change in management's assertion about the realization of the Company's Canada deferred tax assets, a reduction of $16,200 related to the Notes and an increase of $12,300 related to the Company's acquisitions of Sendmail, Abaca and Mail Distiller.

As of December 31, 2013 and 2012, the Company had net operating loss carry-forwards for federal income tax purposes of $187,700 and $120,100, respectively. The amount of federal net-operating loss carry-forwards at December 31, 2013 and 2012 for which a benefit will be recorded in APIC when realized is approximately $34,500 and $7,500, respectively. The federal net operating losses will begin to expire in 2018. As of December 31, 2013 and 2012, the Company had federal research credit carry-forwards of $4,200 and $3,200 respectively. The federal research and development credits will begin to expire in 2022.

As of December 31, 2013 and 2012, the Company had net operating loss carry-forwards for state income tax purposes of approximately $146,400 and $92,400, respectively. The amount of state net-operating loss carry-forwards at December 31, 2013 and 2012 for which a benefit will be recorded in APIC when realized is approximately $11,700 and $4,100, respectively. The state net operating losses will expire between 2014 and 2032. As of December 31, 2013 and 2012, the Company had research and development credit carry-forwards for state income tax purpose of $5,900 and $4,700, respectively. The state research and development credits have no expiration period.

As of December 31, 2013 and 2012, the Company had net operating losses carry-forwards in its non-U.S. locations of approximately $3,900 and $4,700, respectively. In addition, as of December 31, 2013 and 2012, the Company had research and development credit carry-forwards in its non-U.S. locations of approximately $2,700 and $2,400, respectively. The non-U.S. research and development credits will begin to expire in 2025.

(dollars and share amounts in thousands, except per share amounts)

Utilization of the federal and state net operating losses may be subject to substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Analyses have been conducted to determine whether an ownership change had occurred since inception. The analyses have indicated that although an ownership change occurred in a prior year, the net operating losses and research and development credits would not expire before utilization as a result of the ownership change. In the event the Company has subsequent changes in ownership, net operating losses and research and development credit carryovers could be limited and may expire unutilized as a result of the subsequent ownership change.

The Company recognizes interest and penalties related to uncertain tax positions within the income tax expense line in the Consolidated Statements of Operations. Accrued interest and penalties are included within the related tax liability line in the Consolidated Balance Sheets. During the year ended December 31, 2013, the Company accrued interest and penalties of $8 as a component of income tax expense related to tax contingencies and has $233 of interest and penalties recorded as a long-term income tax liability as of December 31, 2013. During the year ended December 31, 2012, the Company accrued interest and penalties of $178 as a component of income tax expense related to tax contingencies and had $183 of interest and penalties recorded as a long-term income tax liability.

As of December 31, 2013, the Company had recorded unrecognized tax benefits of $1,541 that if recognized, would benefit the Company's effective tax rate. As of December 31, 2012, the Company had recorded unrecognized tax benefits of $255 that if recognized, would benefit the Company's effective tax rate.

The Company does not anticipate that the amount of unrecognized tax benefits relating to tax positions existing at December 31, 2013 will significantly increase or decrease within the next twelve months.

Because of net operating loss and credit carry-forwards, all of the Company's tax years dating to inception in 2002 remain open to tax examination in all major tax jurisdictions. The Company is not currently under audit in any material jurisdictions.

The aggregate changes in the balance of gross unrecognized tax benefits were as follows:

Ending balance as of December 31, 2010	$1,464	
Increase in balances related to tax positions taken during the current period	651	
Increase in balances related to tax positions taken during the prior period	411	
Ending balance as of December 31, 2011	2,526	
Increase in balances related to tax positions taken during the current period	357	
Decrease in balances related to tax positions taken during the prior period	(135	)
Decrease in balances related to statute expirations during the current period	(8	)
Ending balance as of December 31, 2012	2,740	
Increase in balances related to tax positions taken during the current period	618	
Increase in balances related to tax positions taken during the prior period	517	
Decrease in balances related to tax positions taken during the prior period	(40	)
Decrease in balances related to statute expirations during the current period	(12	)
Ending balance as of December 31, 2013	$3,823	

As of December 31, 2013, $240 of foreign withholding taxes associated with the repatriation of earning of foreign subsidiaries had been provided on $4,800 of undistributed earnings for certain foreign subsidiaries. The Company intends to reinvest the remainder of its undistributed earnings indefinitely outside the United States. As of December 31, 2013, the Company estimated that no material additional U.S. income taxes would have to be provided if all of the undistributed earnings of the foreign subsidiaries were repatriated back to the United States as substantially all earnings from its foreign subsidiaries are previously taxed income. As of December 31, 2013, the Company estimated that approximately $570 of additional foreign withholding tax would have to be provided if all of the undistributed earnings of the Company's foreign subsidiaries were repatriated back to the United States.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 14, 2014.

PROOFPOINT INC.
By: /s/ GARY STEELE
Gary Steele
Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Gary Steele and Paul Auvil, and each of them, as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming that all said attorneys-in-fact and agents, or any of them or their or his or her substitute or substitutes, may lawfully 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 in the capacities and on the date indicated:

Name	Title	Date
/s/ GARY STEELE Gary Steele	Chief Executive Officer (principal executive officer)	March 14, 2014
/s/ PAUL AUVIL Paul Auvil	Chief Financial Officer (principal financial and accounting officer)	March 14, 2014
/s/ ANTHONY BETTENCOURT Anthony Bettencourt	Director	March 14, 2014
/s/ SYDNEY CAREY Sydney Carey	Director	March 14, 2014
/s/ DANA EVAN Dana Evan	Director	March 14, 2014
/s/ JONATHAN FEIBER Jonathan Feiber	Director	March 14, 2014
/s/ DOUGLAS GARN Douglas Garn	Director	March 14, 2014
/s/ ERIC HAHN Eric Hahn	Director	March 14, 2014
/s/ KEVIN HARVEY Kevin Harvey	Director	March 14, 2014
/s/ PHILIP KOEN Philip Koen	Director	March 14, 2014

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EXHIBIT INDEX

Exhibit Number		Exhibit Title	Incorporated by Reference Form	File No.	Filing Date	Exhibit No.	Filed Herewith
2.01		Agreement and Plan of Merger for Armorize Technologies, Inc.	10-Q	001-35506	November 12, 2013	2.1	
2.02		Agreement and Plan of Merger for Sendmail, Inc.					X
3.01		Amended and Restated Certificate of Incorporation of the Registrant.	S-1A	333-178479	April 9, 2012	3.02	
3.02		Amended and Restated Bylaws of the Registrant.	S-1A	333-178479	April 9, 2012	3.04	
4.01		Form of Registrant's common stock certificate.	S-1A	333-178479	April 9, 2012	4.01	
4.02		Fourth Amended and Restated Investors' Rights Agreement by and among the Registrant and the investors named therein of the Registrant dated February 19, 2008.	S-1	333-178479	December 14, 2011	4.02	
4.03		Indenture between Proofpoint, Inc. and Wells Fargo Bank, National Association, dated as of December 11, 2013 including the form of 1.25% Convertible Senior Notes due 2018 therein.	8-K	131-271285	December 11, 2013	4.03	
10.01		Form of Indemnity Agreement.	S-1A	333-178479	April 9, 2012	10.01	
10.02	†	2002 Stock Option/Stock Issuance Plan and form of option grant.	S-1A	333-178479	April 9, 2012	10.02	
10.03	†	2012 Equity Incentive Plan and form of grant agreements.	S-1A	333-178479	April 9, 2012	10.03	
10.04	†	2012 Employee Stock Purchase Plan.	S-1A	333-178479	April 9, 2012	10.04	
10.05		Lease Agreement between Registrant and Hines VAF No Cal Properties, L.P., dated as of March 28, 2011, as amended July 28, 2011.	S-1	333-178479	December 14, 2011	10.05	
10.06		Loan and Security Agreement, dated as of April 19, 2011, as amended May 19, 2011, between the Registrant and Silicon Valley Bank.	S-1	333-178479	December 14, 2011	10.06	
10.07		Third Amendment to Loan and Security Agreement, dated February 27, 2014, between the Registrant and Silicon Valley Bank					X
10.08	†	Offer Letter to Gary Steele from the Registrant, dated November 17, 2002.	S-1	333-178479	December 14, 2011	10.07	
10.09	†	Offer letter to Paul Auvil from the Registrant, dated March 9, 2007.	S-1A	333-178479	January 25, 2012	10.08	
10.10	†	Offer Letter to David Knight from the Registrant, dated March 14, 2011.	S-1A	333-178479	January 25, 2012	10.11	
10.11	†	Offer Letter to Tracey Newell from the Registrant, dated August 16, 2013.					X
21.01		Subsidiaries of Registrant.					X
23.01		Consent of PricewaterhouseCoopers LLP, independent registered public accounting firm.					X
31.01		Certification of Chief Executive Officer Pursuant to Rule 13-a-14 of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X

31.02		Certification of Chief Financial Officer Pursuant to Rule 13-a-14 of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X
32.01	*	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
32.02	*	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
101.INS	*	XBRL Instance Document	X
101.SCH	*	XBRL Taxonomy Extension Schema Document	X
101.CAL	*	XBRL Taxonomy Extension Calculation Linkbase Document	X
101.DEF	*	XBRL Taxonomy Extension Definition Linkbase Document	X
101.LAB	*	XBRL Taxonomy Extension Label Linkbase Document	X
101.PRE	*	XBRL Taxonomy Extension Presentation Linkbase Document	X

† Indicates a management contract or compensatory plan.
*These exhibits are furnished with this Annual Report on Form 10-K and are not deemed filed with the Securities and Exchange Commission and are not incorporated by reference in any filing of Proofpoint, Inc. under the Securities Act of 1933 or the Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in such filings.