

ARUBA NETWORKS, INC.

Form 10-Q

March 07, 2008

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended January 31, 2008
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission file number: 001-33347
Aruba Networks, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

02-0579097
(I.R.S. Employer
Identification Number)

1344 Crossman Ave.
Sunnyvale, California 94089-1113
(408) 227-4500

*(Address, including zip code, and telephone number,
including area code, of registrant's principal executive offices)*

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

Indicate by check mark whether the registrant 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. (Check one):

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

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

The number of shares of the registrant's common stock, par value \$0.0001, outstanding as of February 29, 2008 was 80,519,343.

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ARUBA NETWORKS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)
(unaudited)

	January 31, 2008	July 31, 2007
ASSETS		
Current assets		
Cash and cash equivalents	\$ 65,412	\$ 42,570
Short-term investments	47,879	62,430
Accounts receivable, net	25,748	23,722
Inventory	17,329	8,991
Deferred costs	2,781	3,217
Prepays and other	2,973	2,432
Total current assets	162,122	143,362
Property and equipment, net	6,380	3,709
Intangible assets, net	3,445	3,912
Deferred costs	447	722
Other assets	796	428
Total assets	\$ 173,190	\$ 152,133
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	\$ 1,732	\$ 2,201
Accrued liabilities	20,342	15,317
Income taxes payable	522	281
Deferred revenue	20,253	16,067
Total current liabilities	42,849	33,866
Deferred revenue	6,174	5,780
Other long-term liabilities	161	
Total liabilities	49,184	39,646
Commitments and contingencies (Note 10)		
Stockholders' equity		
Preferred stock: \$0.0001 par value; 10,000 shares authorized at January 31, 2008 and July 31, 2007, no shares issued and outstanding at January 31, 2008 and July 31, 2007		
Common stock: \$0.0001 par value; 350,000 shares authorized at January 31, 2008 and July 31, 2007; 80,129 and 76,927 shares issued and	8	8

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outstanding at January 31, 2008 and July 31, 2007

Additional paid-in capital	228,967	213,545
Accumulated other comprehensive income	243	29
Accumulated deficit	(105,212)	(101,095)

Total stockholders' equity	124,006	112,487
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Total liabilities and stockholders' equity	\$ 173,190	\$ 152,133
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See Notes to Consolidated Financial Statements.

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ARUBA NETWORKS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands except per share data)
(unaudited)

	Three months ended		Six months ended	
	January 31,		January 31,	
	2008	2007	2008	2007
Revenues				
Product	\$ 34,170	\$ 22,662	\$ 72,627	\$ 41,768
Professional services and support	5,548	2,656	12,822	4,777
Ratable product and related professional services and support	927	1,329	1,926	4,607
 Total revenues	 40,645	 26,647	 87,375	 51,152
 Cost of revenues				
Product	10,984	8,562	22,841	15,863
Professional services and support	1,386	1,131	4,203	2,305
Ratable product and related professional services and support	330	505	692	1,691
 Total cost of revenues	 12,700	 10,198	 27,736	 19,859
 Gross profit	 27,945	 16,449	 59,639	 31,293
 Operating expenses				
Research and development	9,086	5,771	17,386	10,862
Sales and marketing	18,826	12,146	40,525	22,954
General and administrative	4,403	3,395	8,595	6,008
 Total operating expenses	 32,315	 21,312	 66,506	 39,824
 Operating loss	 (4,370)	 (4,863)	 (6,867)	 (8,531)
 Other income (expense), net				
Interest income	1,264	197	2,620	309
Interest expense		(28)		(63)
Other income (expense), net	(144)	(2,419)	582	(3,250)
 Total other income (expense), net	 1,120	 (2,250)	 3,202	 (3,004)
 Loss before provision for income taxes	 (3,250)	 (7,113)	 (3,665)	 (11,535)
 Provision for income taxes	 228	 123	 452	 211

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Net loss	\$ (3,478)	\$ (7,236)	\$ (4,117)	\$ (11,746)
Net loss per common share, basic and diluted	\$ (0.04)	\$ (0.52)	\$ (0.05)	\$ (0.86)
Shares used in computing basic and diluted net loss per common share	77,974	13,980	77,538	13,630
Stock-based compensation expense included in above:				
Cost of revenues	\$ 153	\$ 93	\$ 303	\$ 140
Research and development	1,318	492	2,768	718
Sales and marketing	1,713	263	4,408	1,151
General and administrative	909	841	1,819	1,494

See Notes to Consolidated Financial Statements.

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ARUBA NETWORKS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six months ended	
	January 31,	
	2008	2007
<i>Cash flows from operating activities</i>		
Net loss	\$ (4,117)	\$ (11,746)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,878	842
Provision for doubtful accounts	140	91
Write downs for excess and obsolete inventory	549	809
Compensation related to stock options and share awards	9,299	3,503
Net realized loss on short term investments	2	
Non-cash interest expense		31
Accretion of purchase discounts on short-term investments	(1,481)	
Change in carrying value of preferred stock warrants	(715)	3,118
Loss on disposal of fixed assets		5
Changes in operating assets and liabilities		
Accounts receivable	(2,167)	(2,307)
Inventory	(9,605)	(6,339)
Prepays and other	(541)	(1,894)
Deferred costs	711	1,669
Other assets	(368)	(95)
Accounts payable	(677)	1,511
Deferred revenue	4,580	(435)
Other current and noncurrent liabilities	5,514	6,967
Income taxes payable	241	95
Net cash provided by (used in) operating activities	3,243	(4,175)
<i>Cash flows from investing activities</i>		
Purchases of short-term investments	(53,461)	
Proceeds from sales and maturities of short-term investments	69,704	
Purchases of property and equipment	(3,155)	(1,918)
Net cash provided by (used in) investing activities	13,088	(1,918)
<i>Cash flows from financing activities</i>		
Repayments on equipment loan obligations		(389)
Cash received under stock issuance agreement		1,787
Proceeds from issuance of redeemable convertible preferred stock, net		10,597
Proceeds from issuance of common stock	6,511	3,700
Net cash provided by financing activities	6,511	15,695

Effect of exchange rate changes on cash and cash equivalents		33
Net increase in cash and cash equivalents	22,842	9,635
Cash and cash equivalents, beginning of period	42,570	9,263
Cash and cash equivalents, end of period	\$ 65,412	\$ 18,898

See Notes to Consolidated Financial Statements.

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ARUBA NETWORKS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. The Company and its Significant Accounting Policies

The Company

Aruba Networks, Inc. (the Company) was incorporated in the state of Delaware on February 11, 2002. The Company securely delivers the enterprise network to users with user-centric networks that expand the reach of traditional port-centric networks. The products the Company licenses and sells include the ArubaOS modular operating system, optional value-added software modules, a centralized mobility management system, high-performance programmable Mobility Controllers, wired and wireless access points, wireless intrusion detection tools, spectrum analyzers, and endpoint compliance solutions. The Company has offices in North America, Europe, the Middle East and the Asia Pacific region and employs staff around the world.

Initial Public Offering

In March 2007, the Company completed its initial public offering, or IPO, of common stock in which it issued and sold 9,200,000 shares of common stock, at a public offering price of \$11.00 per share. The Company raised a total of \$101.2 million in gross proceeds from the IPO, or approximately \$91.8 million in net proceeds after deducting underwriting discounts and commissions of \$7.1 million and other offering costs of \$2.3 million. Upon the closing of the IPO, all shares of outstanding redeemable convertible preferred stock automatically converted into 49,681,883 shares of common stock. Subsequent to the IPO and the associated conversion of the Company's outstanding redeemable convertible preferred stock to common stock, warrants to purchase 677,106 shares of redeemable convertible preferred stock were converted to warrants to purchase an equivalent number of shares of the Company's common stock and the related carrying value of such warrants was reclassified to additional paid-in-capital, and the warrants are no longer subject to remeasurement.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated. The accompanying statements are unaudited and should be read in conjunction with the audited consolidated financial statements and related notes contained in the Company's Annual Report on Form 10-K filed on October 12, 2007. The July 31, 2007 consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the U.S.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles, (GAAP), pursuant to the rules and regulations of the Securities and Exchange Commission, (SEC). They do not include all of the financial information and footnotes required by GAAP for complete financial statements. The Company believes the unaudited consolidated financial statements have been prepared on the same basis as its audited financial statements as of and for the year ended July 31, 2007 and include all adjustments necessary for the fair statement of the Company's financial position as of January 31, 2008, its results of operations for the three and six months ended January 31, 2008 and 2007, and its cash flows for the six months ended January 31, 2008 and 2007. The results for the three and six months ended January 31, 2008 are not necessarily indicative of the results to be expected for any subsequent quarter or for the fiscal year ending July 31, 2008.

During the three months ended October 31, 2007, the Company determined that the fair values assigned to certain warrants to purchase preferred stock issued to non-employees were not computed correctly as of the IPO closing date when they automatically converted to warrants to purchase common stock which resulted in \$715,000 of excess warrant expense being recognized in other income (expense), net in the third fiscal quarter of 2007. During the first fiscal quarter of 2008, the Company corrected the valuation of these warrants resulting in the inclusion of other income of \$715,000 within other income (expense), net and a reduction of additional paid-in capital of \$715,000. In addition, during the three months ended October 31, 2007, the Company determined that stock-based compensation related to its employee stock purchase plan was understated by \$48,000 and \$87,000 in the third and fourth fiscal quarters of 2007, respectively. During the first fiscal quarter of 2008, the Company corrected these errors resulting in the inclusion of \$135,000 of additional stock-based compensation within the consolidated statement of operations for the three months ended October 31, 2007. The Company and its Audit Committee concluded that these errors were not material

to the third and fourth fiscal quarters of 2007, the year ended July 31, 2007 or the estimated results for the year ending July 31, 2008, and therefore, the corrections were recorded in the first fiscal quarter of 2008.

Significant Accounting Policies

Other than the adoption of the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109, (FIN 48), there have been no significant changes in the Company's accounting policies during the six months ended January 31, 2008 as compared to the significant accounting policies described in the Company's Annual Report on Form 10-K filed on October 12, 2007.

2. Net Loss Per Common Share

Basic net loss per common share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period that are not subject to vesting provisions. Diluted net loss per common share is calculated by giving effect to all

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potentially dilutive common shares, including options, common stock subject to repurchase, warrants and redeemable convertible preferred stock. The following table sets forth the computation of net loss per share:

	Three months ended		Six months ended	
	January 31,		January 31,	
	2008	2007	2008	2007
	<i>(in thousands, except per share data)</i>		<i>(in thousands, except per share data)</i>	
Net loss	\$ (3,478)	\$ (7,236)	\$ (4,117)	\$ (11,746)
Weighted-average common shares outstanding net of weighted-average common shares subject to repurchase	77,974	13,980	77,538	13,630
Basic and diluted net loss per common share	\$ (0.04)	\$ (0.52)	\$ (0.05)	\$ (0.86)

The following outstanding options, common stock subject to repurchase, restricted stock awards, redeemable convertible preferred stock and warrants to purchase shares of redeemable convertible preferred stock were excluded from the computation of diluted net loss per common share for the periods presented because including them would have had an anti-dilutive effect:

	January 31,	
	2008	2007
Options to purchase common stock	19,818,664	19,881,680
Common stock subject to repurchase	683,954	2,734,764
Restricted stock awards	700,772	
Redeemable convertible preferred stock (as converted basis)		49,681,183
Redeemable convertible preferred stock warrants (as converted basis)		677,106

3. Balance Sheet Components

The following tables provide details of selected balance sheet items:

	January	
	31, 2008	July 31, 2007
	<i>(in thousands)</i>	
Accounts Receivable, net		
Trade accounts receivable	\$ 26,281	\$ 24,229
Less: Allowance for doubtful accounts	(533)	(507)
Total	\$ 25,748	\$ 23,722

	January	
	31, 2008	July 31, 2007
	<i>(in thousands)</i>	
Inventory		
Raw materials	\$ 769	\$ 543
Work in process	266	167

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Finished goods	16,294	8,281
Total	\$ 17,329	\$ 8,991

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As of January 31, 2008	Estimated Useful Lives	Gross Value	Accumulated Amortization <i>(in thousands)</i>	Net Value
Intangible Assets, net				
Developed technology and patents	4 years	\$3,429	\$ (454)	\$2,975
Customer contracts	7 years	483	(37)	446
Support and non-compete agreements	2 to 6 years	29	(5)	24
Total		\$3,941	\$ (496)	\$3,445

During the three and six months ended January 31, 2008 the Company recorded \$234,000 and \$468,000, respectively, of amortization expense related to the intangible assets purchased in its acquisition of Network Chemistry, Inc.'s line of RFProtect and BlueScanner wireless security products on July 20, 2007. The estimated future amortization expense of intangible assets is \$468,000 for the remaining six months of fiscal 2008 and \$935,000, \$929,000, \$929,000, \$72,000 and \$141,000 for the years ending July 31, 2009, 2010, 2011, 2012 and thereafter, respectively.

	January 31, 2008	July 31, 2007
	<i>(in thousands)</i>	
Accrued Liabilities		
Compensation and benefits	\$ 8,260	\$ 7,017
Inventory	4,910	3,444
Other	7,172	4,856
Total	\$ 20,342	\$ 15,317

4. Property and Equipment, net

Property and equipment, net consists of the following:

	Estimated Useful Lives	January 31, 2008	July 31, 2007
		<i>(in thousands)</i>	
Property and Equipment, net			
Computer equipment	2 years	\$ 5,002	\$ 3,846
Computer software	2 years	3,048	1,587
Machinery and equipment	2 years	4,563	3,454
Furniture and fixtures	5 years	660	426
Leasehold improvements	2-5 years	349	232
Total property and equipment, gross		13,622	9,545
Less: Accumulated depreciation and amortization		(7,242)	(5,836)
Total property and equipment, net		\$ 6,380	\$ 3,709

5. Deferred Revenue

Deferred revenue consists of the following:

July 31,

	January 31, 2008	2007
	<i>(in thousands)</i>	
Deferred Revenue		
Product	\$ 4,571	\$ 2,587
Professional services and support	13,330	10,021
Ratable product and related services and support	2,352	3,459
 Total deferred revenue, current	 20,253	 16,067
 Professional services and support, long-term	 4,796	 3,618
Ratable product and related services and support, long-term	1,378	2,162
 Total deferred revenue, long-term	 6,174	 5,780
 Total deferred revenue	 \$ 26,427	 \$ 21,847

Deferred product revenue relates to arrangements where not all revenue recognition criteria have been met. Deferred professional services and support revenue primarily represents customer payments made in advance for support contracts. Support contracts are typically billed on an annual basis in advance and revenue is recognized ratably over the support period.

Deferred ratable product and related services and support revenue consists of revenue on transactions where Vendor Specific Objective Evidence (VSOE) of fair value of support has not been established and the entire arrangement is being recognized ratably

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over the support period, which typically ranges from one year to five years. Typically, the Company's sales involve multiple elements, such as sales of products that include support, training and/or consulting services. When a sale involves multiple elements, the Company allocates the entire fee from the arrangement to each respective element based on its VSOE of fair value and recognizes revenue when each element's revenue recognition criteria are met. VSOE of fair value for each element is established based on the sales price the Company charges when the same element is sold separately. If VSOE of fair value cannot be established for the undelivered element of an agreement, when the undelivered element is support, the entire amount of revenue from the arrangement is deferred and recognized ratably over the period that the support is delivered.

6. Income Taxes

For the three and six months ended January 31, 2008 and 2007, the Company generated operating losses. Accordingly, the Company's tax provision for these periods relates primarily to franchise tax and foreign income tax.

The Company uses the asset and liability method of accounting for income taxes in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets are recognized for deductible temporary differences, along with net operating loss carryforwards, if it is more likely than not that the tax benefits will be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. To the extent deferred tax assets cannot be recognized under the preceding criteria, a valuation allowance is established.

As of the year ended July 31, 2007, the Company had \$55.5 million of federal and \$49.6 million of state net operating loss carryforwards available to reduce future taxable income which will begin to expire in 2022 and 2013 for federal and state tax purposes, respectively. The Company also had research and credit carryforwards of \$2.3 million for federal and \$2.0 million for state income tax purposes as of July 31, 2007.

Based on the available objective evidence, including the fact that the Company has generated losses since inception, management believes it is more likely than not that the deferred tax assets will not be realized. Accordingly, management has applied a full valuation allowance against its deferred tax assets.

Effective August 1, 2007, the Company adopted FIN 48. FIN 48 provides a comprehensive model for the recognition, measurement and disclosure in financial statements of uncertain income tax positions that a company has taken or expects to take on a tax return. Under FIN 48, a company can recognize the benefit of an income tax position only if it is more likely than not that the tax position will be sustained upon tax examination, based solely on the technical merits of the tax position. Otherwise, no benefit can be recognized. The tax benefits recognized are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. Additionally, companies are required to accrue interest and related penalties, if applicable, on all tax exposures for which reserves have been established consistent with jurisdictional tax laws. The cumulative effect of adopting FIN 48 is recorded as an adjustment to the opening balance of accumulated deficit on the adoption date. As a result of the implementation of FIN 48, the Company did not record any changes to the liability for unrecognized tax benefits related to tax positions taken in prior periods, and no corresponding change in accumulated deficit was recorded. Additionally, the Company did not make any reclassifications between current taxes payable and long-term taxes payable upon adoption of FIN 48.

At the adoption date of August 1, 2007, the Company had \$1.9 million of unrecognized tax benefits, none of which would affect its income tax expense if recognized to the extent that the Company continues to maintain a full valuation allowance against its deferred tax assets. There was no material change to the Company's unrecognized tax benefits at January 31, 2008.

The Company recognizes interest and penalties related to income tax matters as part of the provision for income taxes. To date, the Company has incurred no such charges.

The Company files annual income tax returns in the U.S. federal jurisdiction, various U.S. state and local jurisdictions, and in various foreign jurisdictions. The Company remains subject to tax authority review for all jurisdictions for all years.

7. Stock Benefit Plans and Common Stock

In April 2002, the Company's board of directors adopted the 2002 Stock Plan (2002 Plan). In December 2006, the Company's board of directors approved the 2007 Equity Incentive Plan (2007 Plan) and the Employee Stock Purchase Plan (ESPP). As provided by the 2007 Plan, all remaining shares reserved for issuance under the 2002 Plan were transferred to the 2007 Plan upon the closing of the IPO.

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The following table summarizes information about stock options outstanding:

	Shares		Options Outstanding		
	Available for	Number of	Weighted	Weighted	Aggregate
	Grant	Shares	Average	Average	Intrinsic
			Exercise	Fair	Value
			Price	Value	Value
			per	per	
			Share	Share	
Balance at July 31, 2007	3,358,925	21,917,611	\$ 3.66		
Shares reserved for issuance	3,846,366				
Restricted stock awards granted	(570,872)				
Restricted stock awards cancelled	55,300				
Options granted	(896,178)	896,178	15.42	\$ 6.97	
Options exercised		(2,334,927)	1.74		\$36,465,173
Options cancelled	660,198	(660,198)	4.18		
Balance at January 31, 2008	6,453,739	19,818,664	\$ 4.40		

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying stock option awards and the fair value of the Company's common stock on the date of each option exercise.

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

	Shares	Weighted
		Average
		Grant Date
		Fair Value
Balance at July 31, 2007	270,700	\$ 17.43
Awards granted	570,872	15.81
Awards vested	(85,500)	17.05
Awards cancelled	(55,300)	17.90
Balance at January 31, 2008	700,772	\$ 16.12

The estimated fair value of restricted stock awards is based on the market price of the Company's common stock on the grant date. Stock-based compensation expense recognized for restricted stock awards was \$0.6 million and \$2.1 million for the three and six months ended January 31, 2008, respectively.

Employee Stock Purchase Plan Activity

During the six months ended January 31, 2008, 262,084 shares were purchased at an average per share price of \$9.35. At January 31, 2008, there were 2,276,462 shares available to be issued under the ESPP. Compensation expense recognized in connection with the ESPP for the three and six months ended January 31, 2008 was \$0.6 million and \$1.3 million, respectively.

Fair Value Disclosures

The fair value of each option grant is estimated on the date of grant using the Black-Scholes model with the following weighted average assumptions:

Employee Stock Options

	Three months ended		Six months ended	
	January 31,		January 31,	
	2008	2007	2008	2007
Assumptions				
Risk-free interest rate	3.2%	4.6%	3.7%	4.7%
Expected term (in years)	4.3	4.3	4.3	4.3
Dividend yield				
Volatility	51%	56%	51%	56%
Weighted average fair value of options granted	\$5.72	\$2.56	\$6.97	\$2.19
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	Three and six months ended January 31, 2008
Assumptions	
Risk-free interest rate	4.1% to 5.0%
Expected term (in years)	0.5 to 2.0
Dividend yield	
Volatility	43% to 48%
Weighted average fair value of stock purchase rights granted	\$3.11 to \$7.26

The expected term of the stock-based awards represents the period of time that the Company expects such stock-based awards to be outstanding, giving consideration to the contractual term of the awards, vesting schedules and expectations of future employee behavior. The Company gave consideration to its historical exercises, the vesting term of its options, the post vesting cancellation history of its options and the options contractual terms. The contractual term of options granted from inception of the Company through August 16, 2007 was generally 10 years. On August 17, 2007, the Company's Compensation Committee revised its 2007 Plan to provide for a contractual term of seven years on all option grants on or after such date. Given the Company's limited operating history, the Company then compared this estimated term to those of comparable companies from a representative peer group selected based on industry data to determine the expected term. The computation of expected volatility was based on the historical volatility of comparable companies from a representative peer group that the Company selected based on industry data. As required by SFAS 123R, the Company made an estimate of expected forfeitures, and is recognizing stock-based compensation only for those equity awards that it expects to vest. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury Constant Maturity rate as of the date of grant.

Stock-based Expenses

Total stock-based compensation was \$4.1 million and \$9.3 million, for the three and six months ended January 31, 2008, respectively, and \$1.7 million and \$3.5 million for the three and six months ended January 31, 2007, respectively. The Company did not capitalize stock-based compensation during the three and six months ended January 31, 2008 due to the amount qualifying for capitalization being immaterial.

The Company recorded no tax benefit related to stock-based compensation during the three and six months ended January 31, 2008, since the Company currently maintains a full valuation allowance on its deferred tax assets.

Shares Subject to Repurchase

Certain common stock option holders have the right to exercise unvested options, subject to the right of the Company to repurchase unvested shares of common stock received upon exercise, in the event of a voluntary or involuntary termination of the shareholder's employment. The cash received from these exercises is initially recorded as a liability and is subsequently reclassified to common stock as the shares vest. As of January 31, 2008 and July 31, 2007, respectively, a total of 683,954 and 1,046,599, shares of common stock were subject to repurchase by the Company at the original exercise price of the related stock option. The corresponding exercise value of \$1.0 million and \$1.4 million as of January 31, 2008 and July 31, 2007, respectively, is recorded in accrued liabilities. For the six months ended January 31, 2008, the non-vested shares activity was as follows:

	Shares
Non-Vested Shares	
Non-vested as of July 31, 2007	1,046,599
Vested	(362,645)
Non-vested as of January 31, 2008	683,954

In August 2007, the Company issued 556,583 shares of common stock in connection with a cashless or net exercise of warrants to purchase 519,389 shares of common stock at exercise prices ranging from \$0.67 to \$2.13 per share.

8. Comprehensive Income (Loss)

Comprehensive income (loss) includes the following:

	Three months ended		Six months ended	
	January 31,	January 31,	January 31,	January 31,
	2008	2007	2008	2007
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Net loss	\$ (3,478)	\$ (7,236)	\$ (4,117)	\$ (11,746)
Change in unrealized gain on short-term investments	166		214	
Comprehensive loss	\$ (3,312)	\$ (7,236)	\$ (3,903)	\$ (11,746)

Table of Contents**9. Segment Information and Significant Customers**

The Company operates in one industry segment selling fixed and modular mobility controllers, wired and wireless access points, and related software and services.

FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*, establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that 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 for purposes of allocating resources and evaluating financial performance. The Company has one business activity, and there are no segment managers who are held accountable for operations, operating results and plans for products or components below the consolidated unit level. Accordingly, the Company reports as a single operating segment. The Company and its Chief Executive Officer evaluate performance based primarily on revenue in the geographic locations in which the Company operates. Revenue is attributed by geographic location based on the ship-to location of the Company's customers. The Company's assets are primarily located in the United States of America and not allocated to any specific region. Therefore, geographic information is presented only for total revenue.

The following presents total revenue by geographic region:

	Three months ended		Six months ended	
	January 31,		January 31,	
	2008	2007	2008	2007
	<i>(in thousands)</i>		<i>(in thousands)</i>	
United States	\$ 27,063	\$ 15,854	\$ 59,153	\$ 32,647
Europe, Middle East and Africa	6,686	6,377	15,171	9,677
Asia Pacific	4,446	2,440	9,113	4,745
Rest of World (including Japan)	2,450	1,976	3,938	4,083
Total	\$ 40,645	\$ 26,647	\$ 87,375	\$ 51,152

10. Commitments and Contingencies**Legal Matters**

On August 27, 2007, Symbol Technologies, Inc. and Wireless Valley Communications, Inc., both Motorola subsidiaries, filed suit against the Company in the Federal District Court of Delaware asserting infringement of U.S. Patent Nos. 7,173,922; 7,173,923; 6,625,454; and 6,973,622. The Company filed its response on October 17, 2007, denying the allegations and asserting counterclaims. The complaint seeks unspecified monetary damages and injunctive relief. Although the Company intends to vigorously defend against these claims, intellectual property litigation is expensive and time-consuming, regardless of the merits of any claim, and could divert management's attention from operating the Company's business. Because of the inherent uncertainties of litigation the outcome of this action could be unfavorable. At this time, the Company is unable to estimate the potential financial impact this action could have on the Company.

The Company could become involved in additional litigation from time to time relating to claims arising out of its ordinary course of business. Other than described above there were no claims as of January 31, 2008 that, in the opinion of management, might have a material adverse effect on the Company's financial position, results of operations or cash flows.

Lease Obligations

The Company leases office space under noncancelable operating leases with various expiration dates through August 2012. The terms of certain operating leases provide for rental payments on a graduated scale. The Company recognizes rent expense on a straight-line basis over the respective lease periods and has accrued for rent expense incurred but not paid.

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Future minimum lease payments under noncancelable operating leases are as follows:

	Operating Leases <i>(in thousands)</i>
Remaining six months of fiscal 2008 Year Ending July 31,	\$ 1,240
2009	2,202
2010	3,049
2011	1,023
2012	13
Thereafter	
Total minimum payments	\$ 7,527

Employment Agreements

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

Warranties

The Company provides for future warranty costs upon product delivery. The specific terms and conditions of those warranties vary depending upon the product sold and country in which the Company does business. In the case of hardware, the warranties are generally for 12-15 months from the date of purchase and the Company warrants that its hardware products will substantially conform to the Company's published specifications.

The Company warrants that any media on which its software products are recorded will be free from defects in materials and workmanship under normal use for a period of 90 days from the date the products are delivered to the end customer.

The warranty reserve is based on historical experience of similar products and to date, the Company has not experienced significant warranty related returns.

The warranty reserve is included as a component of accrued liabilities on the balance sheet. Changes in the warranty reserve are as follows:

	Warranty Amount <i>(in thousands)</i>
Balance as of July 31, 2007	\$ 85
Provision	43
Obligations fulfilled during period	(11)
Balance as of January 31, 2008	\$ 117

Noncancelable Purchase Commitments

The Company outsources the production of its hardware to a third-party contract manufacturer. In addition, the Company enters into various inventory related purchase commitments with this contract manufacturer and a supplier. The Company had \$11.0 million and \$8.3 million in noncancelable purchase commitments with these providers as of January 31, 2008 and July 31, 2007, respectively. The Company expects to sell all products which it has committed to purchase from these providers.

Indemnification

In its sales agreements, the Company may agree to indemnify its indirect sales channels and end-user customers for any expenses or liability resulting from claimed infringements of patents, trademarks or

copyrights of third parties. The terms of these indemnification agreements are generally perpetual any time after execution of the agreement. The maximum amount of potential future indemnification is unlimited. To date the Company has not paid any amounts to settle claims. The Company is unable to reasonably estimate the maximum amount that could be payable under these arrangements since these obligations are not capped but are conditional to the unique facts and circumstances involved. Accordingly, the Company has no liabilities recorded for these agreements as of January 31, 2008 and July 31, 2007.

Table of Contents**Contingencies**

On January 4, 2008, the Company entered into an Agreement and Plan of Reorganization (the Agreement), by and among the Company, AirWave Wireless, Inc., a Delaware corporation (AirWave) and its principal shareholders, and Aloha Acquisition Corporation, a Delaware corporation and a wholly owned subsidiary of the Company (Merger Sub). The Agreement provides that, upon the terms and subject to the conditions set forth in the Agreement, AirWave will merge with and into Merger Sub, with Merger Sub continuing as the surviving corporation and as a wholly-owned subsidiary of the Company.

Under the terms of the Agreement, the Company will acquire substantially all of the capital stock of AirWave in exchange for approximately \$37.0 million of value (subject to certain stock price-based adjustments) in shares of the Company's common stock and cash, less certain third party expenses and bonus payments and an adjustment based on the working capital of AirWave at the time of closing. Twenty percent (20%) of the cash consideration will be placed into escrow to be held as security for losses incurred by the Company in the event of certain breaches of the representations and warranties covered in the Agreement or certain other events. Subject to the reservation of amounts for unsatisfied claims made on the escrow fund, twenty-five percent (25%) of the escrow amount will be released on the first anniversary of the closing, and the remainder will be released thirty (30) days after the eighteen (18)-month anniversary of the closing.

The transaction has been approved by both companies' boards of directors and is subject to customary closing conditions. The Agreement contains certain termination rights for both the Company and AirWave. AirWave, a San Mateo, California-based company, is a leading provider of specialized tools to centrally manage large, multi-vendor wireless LAN, mesh, and WiMax networks.

11. Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under GAAP. As a result of SFAS 157 there is now a common definition of fair value to be used throughout GAAP. The FASB believes that the new standard will make the measurement of fair value more consistent and comparable and improve disclosures about those measures. The Company is required to adopt SFAS 157 effective August 1, 2008. The Company is currently evaluating the potential impact of this statement.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. If adopted, SFAS 159 would be effective August 1, 2008. The Company is currently evaluating whether to adopt this statement.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141(R)). SFAS 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, the goodwill acquired, and any noncontrolling interest in the acquiree. This statement also establishes disclosure requirements to enable the evaluation of the nature and financial effect of the business combination. The Company is required to adopt SFAS 141 (R) effective August 1, 2009. The Company is currently evaluating the potential impact of this statement.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS 160). This statement establishes accounting and reporting standards for noncontrolling interests in consolidated financial statements. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. Early adoption is prohibited. Based on the Company's current operations, it does not expect that the adoption of SFAS 160 will have a material impact on its financial position or results of operations.

12. Subsequent Events

On February 26, 2008, the Company announced a stock repurchase program for up to \$10 million worth of the Company's common stock. Purchases may be made, from time to time, in the open market and will be funded from available working capital. The number of shares to be purchased and the timing of purchases will be based on the price of the Company's common stock, general business and market conditions, and other

investment considerations. As of March 7, 2008, the approximate filing date of this report, the Company had not purchased any shares under this program.

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

In addition to historical information, this report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. When used in this report, the words may, believe, could, anticipate, would, might, plan, expect, will, intend, potential, and similar expressions or the negative of these terms are intended to identify forward-looking statements. These statements include, among other things, statements concerning our expectations:

that revenues from our indirect channels will continue to constitute a substantial majority of our future revenues and an increasingly greater proportion of our future revenues as we focus on improving the ability of our indirect channel partners to more effectively market and sell our products;

that international revenues will increase in absolute dollars and as a percentage of total revenues in future periods as we expand into international locations and introduce our products in new markets;

that, as our customer base grows, we expect the proportion of our revenues represented by support revenues to increase;

that we will hire a significant number of new employees in future periods;

that we will continue to invest significantly in our research and development efforts, which we believe are essential to maintaining our competitive position;

that research and development expenses will increase on an absolute dollar basis and as a percentage of revenue compared with the second quarter of fiscal 2008;

that we will continue to invest heavily in our sales and marketing efforts, and in particular, that we will increase the number of sales personnel worldwide, which we believe will generate future business;

that sales and marketing expenses will increase on an absolute dollar basis and as a percentage of revenue compared with the second quarter of fiscal 2008;

that we will incur significant additional accounting and legal costs related to defending ourselves against claims made by outside parties and compliance with SEC rules and regulations, in addition to other public company costs;

that general and administrative expenses will increase on an absolute dollar basis and as a percentage of revenue compared with the second quarter of fiscal 2008;

that ratable product and related professional services and support revenues will decrease in absolute dollars and as a percentage of total revenues in future periods;

that, as we expand internationally, we plan to continue to hire additional technical support personnel to support our growing international customer base;

regarding the amounts of the remaining deferred revenue associated with ratable product and professional services and support revenues that we expect to amortize over future periods;

regarding the sufficiency of our existing cash, cash equivalents, marketable securities and cash generated from operations; and

that we will have adequate resources and expertise in place to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, as well as other statements regarding our future operations, financial condition and prospects and business strategies. These forward-looking statements are subject to certain risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this report, and in particular, the risks discussed under the heading "Risk Factors" in Part II, Item 1A of this report and those discussed in other documents we file with the Securities and Exchange Commission. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements and related notes included elsewhere in this report.

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Overview

We securely deliver the enterprise network to users, wherever they work or roam, with user-centric networks that expand the reach of traditional port-centric networks. User-centric networks integrate adaptive wireless local area networks (WLANs), application continuity services, and identity-based security into a cohesive, high-performance system that can be deployed as an overlay to existing enterprise networks. Adaptive WLANs deliver high-performance, follow-me connectivity so users are always connected. Application continuity services enable follow-me applications that can be seamlessly accessed across WLANs and cellular networks. Identity-based security associates access policies with users, not ports, to enable follow-me security that is enforced regardless of access method or location. The products we license and sell include the ArubaOS operating system, optional value-added software modules, a centralized mobility management system, high-performance programmable Mobility Controllers, wired and wireless access points, wireless intrusion detection tools, spectrum analyzers, and endpoint compliance solutions.

We began commercial shipments of our products in June 2003. Since that time, our products have been sold to more than 3,750 end customers worldwide, including some of the largest and most complex global organizations. Our ability to increase our product revenues will depend significantly on continued growth in the market for enterprise mobility solutions, our ability to continue to attract new customers, our ability to compete against more established companies in the market and our ability to continue to sell into our installed base of existing customers. Our growth in support revenues is dependent upon increasing the number of products under support contracts, which is dependent on both growing our installed base of customers and renewing existing support contracts. Our future profitability and rate of growth, if any, will be directly affected by the continued acceptance of our products in the marketplace, as well as the timing and size of orders, product and channel mix, average selling prices, costs of our products and general economic conditions. Our ability to attain profitability will also be affected by our ability to effectively implement and generate incremental business from our distribution model, and by the extent to which we invest in our sales and marketing, research and development, and general and administrative resources to grow our business.

In January 2008, we entered into an agreement to acquire all of the capital stock of AirWave Wireless, Inc. in exchange for approximately \$37.0 million of value (subject to certain stock price-based adjustments) in shares of our common stock and cash. Our transaction with AirWave remains subject to customary closing conditions. AirWave, a San Mateo, California-based company, is a leading provider of specialized tools to centrally manage large, multi-vendor wireless LAN, mesh, and WiMax networks.

In March 2007, we completed our initial public offering of common stock in which we issued and sold 9,200,000 shares of our common stock at an issue price of \$11.00 per share. We raised a total of \$101.2 million in gross proceeds from the IPO, or approximately \$91.8 million in net proceeds after deducting underwriting discounts and commissions of \$7.1 million and other offering costs of \$2.3 million.

We were incorporated in Delaware in 2002 and are headquartered in Sunnyvale, California. We have offices in North America, Europe, the Middle East and Asia Pacific, and employ staff around the world.

Revenues, Cost of Revenues and Operating Expenses

Revenues

We derive our revenues from sales of our ArubaOS operating system, controllers, wired and wireless access points, application software modules, and professional services and support. Professional services revenues consist of consulting and training services. Consulting services primarily consist of installation support services. Training services are instructor led courses on the use of our products. Product support revenues typically consist of software updates, on a when and if available basis, telephone and internet access to technical support personnel and hardware support. Software updates provide customers with rights to unspecified software product upgrades and to maintenance releases and patches released during the term of the support period.

Our revenues have grown rapidly since we began commercial shipments of our products in June 2003. We only began recognizing product revenues upon delivery using the residual method for transactions in which all other revenue recognition criteria are met, in the three months ended January 31, 2006. As we have not been able to establish vendor specific objective evidence (VSOE) on our prior services and support offerings, all transactions prior to the three months ended January 31, 2006 continue to be recognized ratably over the support period. See Critical Accounting Policies Revenue Recognition.

Our revenue growth has been driven primarily by an expansion of our customer base coupled with increased purchases from existing customers. We believe the market for our products has grown due to the increased demand of business enterprises to provide secure mobility to their users.

Each quarter, our ability to meet our product revenue expectations is dependent upon (1) new orders received, shipped, and recognized in a given quarter, (2) the amount of orders booked but not shipped in the prior quarter, and (3) the amount of deferred revenue entering a given quarter. Our product deferred revenue is comprised of revenue associated with product orders that have shipped but where the terms of the agreement contain acceptance language or other terms that require that the revenue be deferred

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until all revenue recognition criteria are met, as well as those customer contracts that we entered into prior to our establishment of VSOE of fair value. Although we typically ship products shortly after the receipt of an order, which is common in our industry, our ability to meet our forecasted product revenue is dependent on our ability to convert our sales pipeline into product revenues from orders received and shipped within the fiscal quarter.

We sell our products directly through our sales force and indirectly through valued added resellers (VARs) distributors and original equipment manufacturers (OEMs). We expect revenues from indirect channels to continue to constitute a substantial majority of our future revenues and an increasingly greater proportion of our future product revenues.

We sell our products to channel partners and end customers located in the Americas, Europe, the Middle East, Africa and Asia Pacific. Shipments to our channel partners that are located in the United States are classified as U.S. revenue regardless of the location of the end customer. We continue to expand into international locations and introduce our products in new markets, and we expect international revenues to increase in absolute dollars and as a percentage of total revenues in future periods. For more information about our international revenues, see Note 9 of Notes to Consolidated Financial Statements.

In 2005, we began to sell our products to Alcatel-Lucent, one of our OEMs which, in turn, sells our products under its own brand name. Alcatel-Lucent accounted for 11.9% and 10.3% of our revenues for the three and six months ended January 31, 2008, respectively, and 16.7% and 16.2% for the three and six months ended January 31, 2007, respectively.

Cost of Revenues

Cost of product revenues consists primarily of manufacturing costs for our products, shipping and logistics costs, and expenses for inventory obsolescence and warranty obligations. We utilize third parties to manufacture our products and perform shipping logistics. We have outsourced the substantial majority of our manufacturing, repair and supply chain operations. Accordingly, the substantial majority of our cost of revenues consists of payments to Flextronics, our contract manufacturer. Flextronics manufactures our products in China and Singapore using quality assurance programs and standards that we jointly established. Manufacturing, engineering and documentation controls are conducted at our facilities in Sunnyvale, California and Bangalore, India. Cost of professional services and support revenues is primarily comprised of the personnel costs of providing technical support, including personnel costs associated with our internal support organization. In addition, we employ a third-party support vendor to complement our internal support resources, the costs of which are included within costs of professional services and support revenues.

Gross Margin

Our gross margin has been, and will continue to be, affected by a variety of factors, including:
the proportion of our products that are sold through direct versus indirect channels;

new product introductions and enhancements both by us and by our competitors;

product mix and average selling prices;

demand for our products and services;

our ability to attain volume manufacturing pricing from Flextronics and our component suppliers; and

losses associated with excess and obsolete inventory;

growth in our headcount and other related costs incurred in our customer support organization.

Due to higher discounts given to the indirect channel, our overall gross margins for indirect channel sales are typically lower than those associated with direct sales. We expect product revenues from our indirect channel to increase as a proportion of our total product revenues, which, by itself, negatively impacts our gross margins. However, over the past several quarters we have experienced a favorable change in our product mix as we sold more higher-margin products, which contributed to improved overall gross margins.

Operating Expenses

Operating expenses consist of research and development, sales and marketing, and general and administrative expenses. The largest component of our operating expenses is personnel costs. Personnel costs consist of salaries, benefits and incentive compensation for our employees, including commissions for sales personnel and stock-based compensation for all employees.

We grew from approximately 350 employees at January 31, 2007 to approximately 506 employees at January 31, 2008. We expect to continue to hire a significant number of new employees to support our growth. The timing of these additional hires could materially affect our operating expenses, both in absolute dollars and as a percentage of revenue, in any particular period.

Research and development expenses primarily consist of personnel costs and facilities costs. We expense research and development expenses as incurred. We are devoting substantial resources to the continued development of additional functionality for existing products and the development of new products. We intend to continue to invest significantly in our research and development efforts because we believe it is essential to maintaining our competitive position. We expect research and development expenses to increase on an absolute dollar basis and as a percentage of revenue compared to the second quarter of fiscal 2008.

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Sales and marketing expenses represent the largest component of our operating expenses and primarily consist of personnel costs, sales commissions, marketing programs and facilities costs. Marketing programs are intended to generate revenue from new and existing customers and are expensed as incurred.

We plan to continue to invest heavily in sales and marketing by increasing the number of sales personnel worldwide with the intent to add new customers and increase penetration within our existing customer base, expand our domestic and international sales and marketing activities, build brand awareness and sponsor additional marketing events. We expect future sales and marketing expenses to continue to be our most significant operating expense. Generally, sales personnel are not immediately productive, and thus, the increase in sales and marketing expenses that we experience as we hire additional sales personnel is not expected to immediately result in increased revenues and reduces our operating margins until such sales personnel become productive and generate revenue. Accordingly, the timing of sales personnel hiring and the rate at which they become productive will affect our future performance. We expect sales and marketing expenses to increase on an absolute dollar basis and as a percentage of revenue compared to the second quarter of fiscal 2008.

General and administrative expenses primarily consist of personnel and facilities costs related to our executive, finance, human resource, information technology and legal organizations, and fees for professional services. Professional services consist of outside legal, audit, Sarbanes-Oxley and information technology consulting costs. We expect that we will incur significant additional accounting and legal costs related to compliance with rules and regulations implemented by the Securities and Exchange Commission and defending ourselves against claims made by outside parties, as well as additional insurance, investor relations and other costs associated with being a public company. We expect general and administrative expenses to increase on an absolute dollar basis and as a percentage of revenue, compared to the second quarter of fiscal 2008.

Stock-Based Expense

Effective August 1, 2006, we began measuring and recognizing expense for all stock-based payments at fair value, in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), *Share Based Payment*, (SFAS 123R). We recognized \$4.1 million and \$9.3 million of stock-based expense for the three and six months ended January 31, 2008, respectively, and \$1.7 million and \$3.5 million for the three and six months ended January 31, 2007, respectively.

Other Income (Expense), net

Other income (expense), net includes interest income on cash balances, interest expense and losses or gains on conversion of non-U.S. dollar transactions into U.S. dollars. Cash has historically been invested in money market funds and marketable securities. The largest component of other income (expense), net in fiscal 2007 was the adjustment to record our outstanding preferred stock warrants to fair value. Subsequent to our IPO, we are no longer required to remeasure these warrants to fair value. During the first fiscal quarter of 2008, we determined that the fair values assigned to certain warrants to purchase preferred stock issued to non employees were not computed correctly as of the IPO closing date when they automatically converted to warrants to purchase common stock which resulted in \$715,000 of excess warrant expense being recognized in other income (expense), net in the third quarter of fiscal 2007. During the first quarter of fiscal 2008, we corrected the valuation of these warrants resulting in the inclusion of other income of \$715,000 within other income (expense), net and a reduction of additional paid-in-capital of \$715,000. Management and our Audit Committee concluded that the error was not material to the third quarter of fiscal 2007, the year ended July 31, 2007 or the estimated results for the year ending July 31, 2008, and therefore, the correction was recorded in the first quarter of fiscal 2008.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). These accounting principles require us to make estimates and judgments that can affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements, as well as the reported amounts of revenues and expenses during the periods presented. We believe that the estimates and judgments upon which we rely are reasonable based upon information available to us at the time that these estimates and judgments are made. To the extent there are material differences between these estimates and actual results, our consolidated financial statements will be affected. The accounting policies that reflect our more significant estimates and judgments and which we believe are the most critical to aid in fully

understanding and evaluating our reported financial results include revenue recognition, stock-based compensation, inventory valuation, allowances for doubtful accounts and income taxes.

Revenue Recognition

Our revenues are derived primarily from two sources: (1) product revenue, including hardware and software products, and (2) related professional services and support revenue. Support typically includes software updates, on a when and if available basis, telephone and internet access to technical support personnel and hardware support. Software updates provide customers with rights to unspecified software product upgrades and to maintenance releases and patches released during the term of the support period. Revenues for support services are recognized on a straight-line basis over the service contract term, which is typically between one year and five years.

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We account for revenues in accordance with Statement of Position No. 97-2, *Software Revenue Recognition*, and all related amendments and interpretations (SOP 97-2) because our products are integrated with software that is essential to their functionality and because we provide unspecified software upgrades and enhancements related to the equipment through support agreements.

Typically, our sales involve multiple elements, such as sales of products that include support, training and/or consulting services. When a sale involves multiple elements, we allocate the entire fee from the arrangement to each respective element based on its VSOE of fair value and recognize revenue when each element's revenue recognition criteria are met. VSOE of fair value for each element is established based on the sales price we charge when the same element is sold separately. If VSOE of fair value cannot be established for the undelivered element of an agreement, when the undelivered element is support, the entire amount of revenue from the arrangement is deferred and recognized ratably over the period that the support is delivered. Prior to the second quarter of fiscal 2006, we had not been able to establish VSOE of fair value in accordance with SOP 97-2 at the outset of our arrangements. Accordingly, prior to the second quarter of 2006, we recognized revenue on our transactions' entire arrangement fees ratably over the support period, as the only undelivered element was typically support.

Beginning in the second quarter of fiscal 2006, we were able to establish VSOE of fair value at the outset of our arrangements as we established a new support and services pricing policy, with different services and support offerings than were previously sold. We also began selling support services separately from our arrangements in the form of support renewals. Accordingly, beginning in the second quarter of fiscal 2006, we began recognizing product revenues upon delivery using the residual method, for transactions where all other revenue recognition criteria were met. As we had not been able to establish VSOE on our prior services and support offerings, all transactions prior to the second quarter of fiscal 2006 continue to be recognized ratably over the support period.

We recognize revenue only when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectibility is probable. Additionally, we recognize revenue from indirect sales channels upon persuasive evidence provided by our indirect channel customers of a sale to the end customer. However, determining whether and when some of these criteria have been satisfied often involves assumptions and judgments that can have a significant impact on the timing and amount of revenue we report.

Stock-Based Compensation

Effective August 1, 2006, we adopted SFAS No. 123R using the modified prospective transition method, which requires the measurement and recognition of compensation expense beginning August 1, 2006 for all share-based payment awards made to employees and directors based on estimated fair values. This methodology requires the use of subjective assumptions in implementing SFAS 123R, including expected stock price volatility and the estimated term of each award. Under SFAS 123R, we estimate the fair value of stock options granted using the Black-Scholes option-pricing model and a single option award approach. This fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. This model also utilizes the fair value of our common stock and requires that, at the date of grant, we use the expected term of the stock-based award, the expected volatility of the price of our common stock over the expected term, risk free interest rates and expected dividend yield of our common stock to determine the estimated fair value. We determine the amount of stock-based compensation expense based on awards that we ultimately expect to vest, reduced for estimated forfeitures. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Compensation expense includes awards granted prior to, but not yet vested as of July 31, 2006, based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS 123 and compensation expense for awards granted subsequent to July 31, 2006 based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. In addition, compensation expense includes the effects of awards modified, repurchased or cancelled since the adoption of SFAS 123R. For purposes of SFAS 123R, employee stock-based compensation related to both unvested awards granted prior to August 1, 2006 and awards granted on or after August 1, 2006 are being amortized on a straight-line basis, which is consistent with the methodology used historically for pro forma purposes under SFAS 123.

The fair value of each option and employee stock purchase right was estimated on the date of grant using the Black-Scholes model with the following average assumptions:

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	Three months ended		Six months ended	
	January 31,		January 31,	
	2008	2007	2008	2007
Assumptions				
Risk-free interest rate	3.2%	4.6%	3.7%	4.7%
Expected term (in years)	4.3	4.3	4.3	4.3
Dividend yield				
Volatility	51%	56%	51%	56%
Weighted average fair value of options granted	\$5.72	\$2.56	\$6.97	\$2.19

Employee Stock Purchase Plan

	Three and six months ended
	January 31,
	2008
Assumptions	
Risk-free interest rate	4.1% to 5.0%
Expected term (in years)	0.5 to 2.0
Dividend yield	
Volatility	43% to 48%
Weighted average fair value of stock purchase rights granted	\$3.11 to \$7.26

We account for equity instruments issued in exchange for the receipt of goods or services from non-employees in accordance with the consensus reached by the EITF in Issue No. 96-18, *Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*. Costs are measured at the fair market value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. The value of equity instruments issued for consideration other than employee services is determined on the earlier of the date on which there first exists a firm commitment for performance by the provider of goods or services or on the date performance is complete, using the Black-Scholes model.

Inventory Valuation

Inventory consists of hardware and related component parts and is stated at the lower of cost or market. Cost is computed using the standard cost, which approximates actual cost, on a first-in, first-out basis. We record inventory write-downs for potentially excess inventory based on forecasted demand, economic trends and technological obsolescence of our products. If future demand or market conditions are less favorable than our projections, additional inventory write-downs could be required and would be reflected in cost of product revenues in the period the revision is made. At the point of the loss recognition, a new, lower-cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis. Inventory write-downs amounted to \$446,000 and \$549,000 in the three and six months ended January 31, 2008, respectively, and \$471,000 and \$809,000 for the three and six months ended January 31, 2007, respectively.

Allowances for Doubtful Accounts

We record a provision for doubtful accounts based on historical experience and a detailed assessment of the collectibility of our accounts receivable. In estimating the allowance for doubtful accounts, our management considers, among other factors, (1) the aging of the accounts receivable, including trends within and ratios involving the age of the accounts receivable, (2) our historical write-offs, (3) the credit-worthiness of each customer, (4) the economic conditions of the customer's industry, and (5) general economic conditions. In cases where we are aware of circumstances that may impair a specific customer's ability to meet their financial

obligations to us, we record a specific allowance against amounts due from the customer, and thereby reduce the net recognized receivable to the amount we reasonably believe will be collected. The allowance for doubtful accounts was \$533,000 and \$507,000 at January 31, 2008 and July 31, 2007, respectively.

Income Taxes

We use the asset and liability method of accounting for income taxes in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets are recognized for deductible temporary differences, along with net operating loss carryforwards, if it is more likely than not that the tax benefits will be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences, research and credit carryforwards and net operating loss carryforwards are deductible. To the extent deferred tax assets cannot be recognized under the preceding criteria, a valuation allowance is established.

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Based on the available objective evidence, including the fact that we have generated losses since inception, management believes it is more likely than not that the deferred tax assets will not be realized. Accordingly, management has applied a full valuation allowance against our deferred tax assets.

Effective August 1, 2007, we adopted FIN 48. This interpretation requires us to recognize in the consolidated financial statements only those tax positions determined to be more likely than not of being sustained. As a result of the implementation of FIN 48, we did not record any changes to the liability for unrecognized tax benefits related to tax positions taken in prior periods, and no corresponding change in accumulated deficit. Additionally, we did not make any reclassifications between current taxes payable and long-term taxes payable upon adoption of FIN 48. See Note 6 of Notes to Consolidated Financial Statements for a further discussion regarding the adoption of FIN 48.

Results of Operations

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

	Three months ended		Six months ended	
	January 31,		January 31,	
	2008	2007	2008	2007
Revenues:				
Product	84.0%	85.0%	83.1%	81.7%
Professional services and support	13.7%	10.0%	14.7%	9.3%
Ratable product and related professional services and support	2.3%	5.0%	2.2%	9.0%
Total revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenues:				
Product	27.0%	32.1%	26.2%	31.0%
Professional services and support	3.4%	4.3%	4.8%	4.5%
Ratable product and related professional services and support	0.8%	1.9%	0.8%	3.3%
Gross margin	68.8%	61.7%	68.2%	61.2%
Operating expenses:				
Research and development	22.4%	21.7%	19.9%	21.2%
Sales and marketing	46.3%	45.6%	46.4%	44.9%
General and administrative	10.9%	12.7%	9.8%	11.8%
Operating margin	(10.8%)	(18.3%)	(7.9%)	(16.7%)
Other income (expense), net	2.7%	(8.4%)	3.7%	(5.9%)
Loss before income taxes	(8.1%)	(26.7%)	(4.2%)	(22.6%)
Provision for income taxes	0.5%	0.5%	0.5%	0.4%
Net loss	(8.6%)	(27.2%)	(4.7%)	(23.0%)

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The following table presents our revenues, by revenue source, for the periods presented:

	Three months ended		Six months ended	
	January 31,	January 31,	January 31,	January 31,
	2008	2007	2008	2007
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Total revenues	\$ 40,645	\$ 26,647	\$ 87,375	\$ 51,152
Type of revenues:				
Product	34,170	22,662	72,627	41,768
Professional services and support revenues	5,548	2,656	12,822	4,777
Ratable product and related professional services and support	927	1,329	1,926	4,607
Total revenues	\$ 40,645	\$ 26,647	\$ 87,375	\$ 51,152
Revenues by geography:				
United States	27,063	15,854	59,153	32,647
Europe, the Middle East and Africa	6,686	6,377	15,171	9,677
Asia Pacific	4,446	2,440	9,113	4,745
Rest of World (including Japan)	2,450	1,976	3,938	4,083
Total revenues	\$ 40,645	\$ 26,647	\$ 87,375	\$ 51,152

For the second quarter of fiscal 2008, total revenues increased 52.5% over the second quarter of fiscal 2007 due to an increase of \$14.4 million in product and related professional services and support sales to new and existing customers as the market's acceptance of WLAN products continued to grow. For the first six months of fiscal 2008, total revenues increased 70.8% compared to the first six months of fiscal 2007, due to a \$38.9 million increase in product and related professional services and support.

The decrease in ratable product and related professional services and support revenues in the second quarter and first six months of fiscal 2008 compared to the second quarter and first six months of fiscal 2007 was due to the run-off in the amortization of deferred revenue associated with those customer contracts that we entered into prior to our establishment of VSOE of fair value. We expect ratable product and related professional services and support revenues to continue to decrease in absolute dollars and as a percentage of total revenues in future periods.

In the second quarter of fiscal 2008, we derived 78.9% of our product revenues from indirect channels, which consist of value-added resellers, OEMs and other distributors, compared to 87.8% in the second quarter of fiscal 2007. For the first six months of fiscal 2008, we derived 80.4% of our product revenues from indirect channels compared to 87.1% for the first six months of fiscal year 2007. We expect to continue to derive a substantial majority of our product revenues from indirect channels as we focus on improving the ability of our indirect channel partners to more effectively market and sell our products.

Revenues from shipments to locations outside the United States increased \$2.8 million and \$9.7 million in the second quarter and first six months of fiscal 2008, respectively, compared to the second quarter and first six months of fiscal 2007 due to an increase in demand for our products. International revenue as a percentage of total revenues was 33.4% and 40.5% for the second quarter of fiscal 2008 and 2007, and 32.3% and 36.2% for the first six months of fiscal 2008 and 2007. We continue to expand into international locations and introduce our products in new markets, and we expect international revenues to increase in absolute dollars and, despite the decrease in the second quarter of fiscal 2008, to increase as a percentage of total revenues in future periods.

Substantially all of our customers purchase support when they purchase our products. The increase in professional services and support revenues is a result of increased product and first year support sales combined with the renewal of support contracts by existing customers. As our customer base grows, we

expect the proportion of our revenues represented by support revenues to increase.

Cost of Revenues and Gross Margin

The following table presents our revenues and cost of revenues, by revenue source, for the periods presented:

	Three months ended		Six months ended	
	January 31,		January 31,	
	2008	2007	2008	2007
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Total revenues	\$ 40,645	\$ 26,647	\$ 87,375	\$ 51,152
Cost of product	10,984	8,562	22,841	15,863
Cost of professional services and support	1,386	1,131	4,203	2,305
Cost of ratable product and related professional services and support	330	505	692	1,691
Total cost of revenues	12,700	10,198	27,736	19,859
Gross profit	\$ 27,945	\$ 16,449	\$ 59,639	\$ 31,293
Gross margin	68.8%	61.7%	68.2%	61.2%

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In the second quarter of fiscal 2008, cost of revenues increased 24.5% compared to the second quarter of fiscal 2007 primarily due to a corresponding increase in our product revenues. The substantial majority of our cost of product revenues consists of payments to Flextronics, our contract manufacturer. For the second fiscal of fiscal 2008, payments to Flextronics and Flextronics-related costs constituted more than 75% of our cost of product revenues. In the first six months of fiscal 2008, cost of revenues increased 39.7% compared to the first six months of fiscal year 2007, also due to the corresponding increase in our product revenues.

Cost of professional services and support revenues increased slightly as compared to the cost of professional services and support revenues from the second quarter of fiscal 2007. However, the costs did not increase at the same rate as the increase in professional services and support revenues as we gained cost efficiencies in our support organization. During the first six months of fiscal 2008, cost of professional services and support increased \$1.9 million compared to the first six months of fiscal 2007. During the first fiscal quarter of 2008, we recognized several significant professional services deals for large installations of our product. Consequently, the costs of providing this service increased.

Cost of ratable product and related support and services slightly decreased during this period consistent with the decrease in ratable product and related professional services and support revenues.

As we expand internationally, we may incur additional costs to conform our products to comply with local laws or local product specifications. In addition, as we expand internationally, we plan to continue to hire additional technical support personnel to support our growing international customer base.

Gross margins improved by 7.1% for the second quarter of fiscal 2008 compared to the second quarter of fiscal 2007 and by 7.0% for the first six months of fiscal 2008 compared to the first six months of fiscal 2007, due to an increase in our revenues, which grew at a higher rate than the associated costs, primarily as a result of a favorable change in our product mix as we sold more higher-margin products, as well as the high growth rate and percentage of revenue derived from our support business.

Research and Development Expenses

	Three months ended		Six months ended	
	January 31,		January 31,	
	2008	2007	2008	2007
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Research and development expenses	\$9,086	\$5,771	\$17,386	\$10,862
Percent of total revenue	22.4%	21.7%	19.9%	21.2%

In the second quarter of fiscal 2008, research and development expenses increased 57.4%, compared to the second quarter of fiscal 2007, primarily due to an increase of \$2.6 million in personnel and related costs, including an increase of \$0.8 million in stock-based compensation. These increases were due to an increase in our headcount in research and development of 54 employees. We continue to hire more employees in research and development in order to develop additional functionality for existing products and develop new products in an effort to remain competitive. Outside services for engineering also increased by \$0.4 million as a result of hiring several outside agencies to perform compliance reviews on our new 802.11n access points.

In the first six months of fiscal 2008, research and development expenses increased 60.1% compared to the first six months of fiscal 2007, primarily as a result of the increase in headcount. Personnel and related expenses increased \$5.5 million, including an increase of \$2.1 million in stock-based compensation. Depreciation expense also increased \$0.4 million.

Sales and Marketing Expenses

	Three months ended		Six months ended	
	January 31,		January 31,	
	2008	2007	2008	2007
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Sales and marketing expenses	\$18,826	\$12,146	\$40,525	\$22,954
Percent of total revenue	46.3%	45.6%	46.4%	44.9%

In the second quarter of fiscal 2008, sales and marketing expenses increased 55.0% over the second quarter of fiscal 2007, due to an increase of \$5.4 million in personnel and related costs, including an increase of \$1.4 million in stock-based compensation. These increases were due to an increase in our headcount in sales

and marketing of 82 employees to support our growing business. Demonstration equipment expenses increased \$0.2 million also due to the increase in headcount as each new sales representative is provided demonstration equipment. Lastly, marketing expenses increased \$0.6 million as we spent more on lead generation, outside marketing services and other marketing programs in an effort to sell more products.

In the first six months of fiscal 2008, sales and marketing expenses increased 76.5% compared to the first six months of fiscal 2007, primarily as a result of the increase in headcount. Personnel and related expenses increased \$14.0 million, including \$2.2 million in sales commissions and \$3.3 million in stock based compensation. Recruiting fees increased \$0.2 million and demonstration equipment expense increased \$0.2 million also as a result of the increase in headcount. Lastly, marketing programs have increased \$1.7 million in an effort to increase revenue.

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	Three months ended		Six months ended	
	January 31,		January 31,	
	2008	2007	2008	2007
	<i>(in thousands)</i>		<i>(in thousands)</i>	
General and administrative expenses	\$4,403	\$3,395	\$8,595	\$6,008
Percent of total revenue	10.9%	12.7%	9.8%	11.8%

In the second quarter of fiscal 2008, general and administrative expenses increased 29.7% over the second quarter of fiscal 2007, primarily due to an increase of \$499,000 in personnel and related costs as a result of increased headcount, including \$68,000 in stock-based compensation. Professional fees associated with legal and audit services increased \$194,000 primarily due to litigation. Also, \$360,000 of the increase related to increases in outside services, facilities and depreciation expenses and business taxes.

In the first six months of fiscal 2008, general and administrative expenses increased 43.1% compared to the first six months of fiscal 2007, primarily as a result of the increase in headcount. Personnel and related expenses increased \$1.2 million, including \$0.3 million in stock based compensation. Professional fees associated with legal and audit services increased \$0.6 million primarily due to litigation and fees associated with being a public company. Also, \$0.8 million of the increase related to increases in outside services, facilities and depreciation expenses and business taxes.

Other Income (Expense), Net

Other income (expense), net consists primarily of interest income, interest expense, income (expense) for warrants issued in connection with equipment loans, and foreign currency exchange gains and losses.

	Three months ended		Six months ended	
	January 31,		January 31,	
	2008	2007	2008	2007
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Interest income	\$ 1,264	\$ 197	\$ 2,620	\$ 309
Interest expense		(28)		(63)
Other	(144)	(2,419)	582	(3,250)
Total other income (expense), net	\$ 1,120	\$ (2,250)	\$ 3,202	\$ (3,004)

Interest income increased in the second quarter and the first six months of fiscal 2008 from the second quarter and the first six months of fiscal 2007 as a result of interest income earned on our short-term investments. Our cash, cash equivalents and short-term investments balance as of January 31, 2008 was \$113.3 million compared to \$18.9 million as of January 31, 2007.

Other income (expense), net for the second quarter and first six months of fiscal 2008 decreased compared to the second quarter and first six months of fiscal 2007. During fiscal 2007, we adjusted the carrying value of our preferred stock warrants to their fair value each period resulting in warrant expense. Subsequent to the IPO and the associated conversion of our outstanding redeemable convertible preferred stock to common stock, the warrants to purchase shares of redeemable convertible preferred stock were converted to warrants to purchase an equivalent number of shares of our common stock and the warrants were no longer subject to remeasurement.

During the first fiscal quarter of 2008, we determined that the fair values assigned to certain warrants to purchase preferred stock issued to non employees were not computed correctly as of the IPO closing date when they automatically converted to warrants to purchase common stock which resulted in \$715,000 of excess warrant expense being recognized in other income (expense), net in the third quarter of fiscal 2007. During the first quarter of fiscal 2008, we corrected the valuation of these warrants resulting in the inclusion of other income of \$715,000 within other income (expense), net and a reduction of additional paid-in-capital of \$715,000. Management and our Audit Committee concluded that the error was not material to the third quarter of fiscal 2007, the year ended July 31, 2007 or the estimated results for the year ending July 31, 2008, and therefore, the correction was recorded in the first quarter of fiscal 2008.

Provision for Income Taxes

Since inception, we have incurred operating losses, and, accordingly, we have not recorded a provision for income taxes for any of the periods presented other than franchise tax and foreign provisions for income tax. As of July 31, 2007, we had net operating loss carryforwards of \$55.5 million and \$49.6 million for federal and state income tax purposes, respectively. We also had research and credit carryforwards of \$2.3 million for federal and \$2.0 million for state income tax purposes as of July 31, 2007. Realization of deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. Accordingly, the deferred

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tax assets have been fully offset by a valuation allowance. If not utilized, the federal and state net operating loss and tax credit carryforwards will expire between 2013 and 2022. Utilization of these net operating losses and credit carryforwards may be subject to an annual limitation due to provisions of the Internal Revenue Code of 1986, as amended, that are applicable if we have experienced an ownership change in the past, or if an ownership change occurs in the future. See Note 6 of Notes to Consolidated Financial Statements.

Effective August 1, 2007, we adopted FIN 48. This interpretation requires us to recognize in the consolidated financial statements only those tax positions determined to be more likely than not of being sustained. As a result of the implementation of FIN 48, we did not record any changes to the liability for unrecognized tax benefits related to tax positions taken in prior periods, and no corresponding change in accumulated deficit. Additionally, we did not make any reclassifications between current taxes payable and long-term taxes payable upon adoption of FIN 48. See Note 6 of Notes to Consolidated Financial Statements for a further discussion regarding the adoption of FIN 48.

Liquidity and Capital Resources

	January 31, 2008	July 31, 2007
	<i>(in thousands)</i>	
Working capital	\$ 119,273	\$ 109,496
Cash and cash equivalents	\$ 65,412	\$ 42,570
Short-term investments	\$ 47,879	\$ 62,430

	Six months ended January 31,	
	2008	2007
	<i>(in thousands)</i>	
Cash provided by (used in) operating activities	\$ 3,243	\$ (4,175)
Cash provided by (used in) investing activities	\$ 13,088	\$ (1,918)
Cash provided by financing activities	\$ 6,511	\$ 15,695

Since our inception in February 2002 through our IPO in March 2007, we funded our operations primarily with proceeds from issuances of redeemable convertible preferred stock, which provided us with aggregate net proceeds of \$87.8 million. We also funded purchases of equipment with various equipment loans.

In March 2007, we completed our IPO which provided us with approximately \$91.8 million in net proceeds after deducting underwriting discounts and commissions of \$7.1 million and other offering costs of \$2.3 million.

Most of our sales contracts are denominated in United States dollars, and as such, the increase in our revenues derived from international customers has not affected our cash flows from operations. As we fund our international operations, our cash and cash equivalents are affected by changes in exchange rates. To date, the foreign currency effect on our cash and cash equivalents has been immaterial.

Cash Flows from Operating Activities

Our cash flows from operating activities will continue to be affected principally by our working capital requirements and the extent to which we increase spending on personnel as our business grows. The timing of hiring sales personnel in particular affects cash flows as there is a lag between the hiring of sales personnel and the generation of revenue and cash flows from sales personnel. To a lesser extent, the start up costs associated with international expansion have also negatively affected our cash flows from operations. Our largest source of operating cash flows is cash collections from our customers. Our primary uses of cash from operating activities are for personnel related expenditures, purchases of inventory, rent payments and technology costs.

During the first six months of fiscal 2008, operating activities provided \$3.2 million of cash compared to \$4.2 million of cash used in operating activities during the first six months of fiscal 2007. The \$3.2 million of cash provided by operating activities is due to increases in deferred revenue and other current and non-current liabilities, as well as non-cash items such as stock-based compensation and depreciation. Cash provided by operating activities was offset by our net loss, and increases in accounts receivable, inventory and non-cash items such as interest accretion on our short-term investments.

Cash Flows from Investing Activities

Cash provided by investing activities was \$13.1 million in the first six months of fiscal 2008, compared to cash used of \$1.9 million in the first six months of fiscal 2007 largely due to proceeds from the sale of our short-term investments offset in part by the purchase of additional short-term investments and property and equipment. We hold the proceeds from our IPO in cash, cash equivalents and short-term investments. The purchases of property and equipment in the first six months of fiscal 2008 were due to an increase in our headcount and purchases related to the continual build out of our infrastructure to support our growth.

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In January 2008, we entered into an agreement to acquire all of the capital stock of AirWave Wireless, Inc. in exchange for approximately \$37.0 million of value (subject to certain stock price-based adjustments) in shares of our common stock and cash. Our transaction with AirWave remains subject to customary closing conditions.

Cash Flows from Financing Activities

Prior to our IPO in March 2007, we had financed our operations primarily with net proceeds from private sales of redeemable convertible preferred stock totaling \$87.8 million. In March 2007, we completed our initial public offering which provided us with approximately \$91.8 million in net proceeds. In the first six months of 2008, cash provided by financing activities was derived from proceeds from the issuance of common stock in conjunction with our 2007 Equity Incentive Plan and Employee Stock Purchase Plan.

Based on our current cash, cash equivalents and short-term investments we expect that we will have sufficient resources to fund our operations for the next twelve months. However, we may need to raise additional capital or incur additional indebtedness to continue to fund our operations in the future. Our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our sales and marketing activities, the timing and extent of expansion into new territories, the timing of introductions of new products and enhancements to existing products, and the continuing market acceptance of our products. Except for the agreement we have entered into with AirWave Wireless, Inc., we have no other current agreements, commitments, plans, proposals or arrangements, written or otherwise, with respect to any material acquisitions. We may enter into these types of arrangements in the future, which could also require us to seek additional equity or debt financing. Additional funds may not be available on terms favorable to us or at all.

Other Uses of Cash

On February 26, 2008, we announced a stock repurchase program for up to \$10 million worth of our common stock. Purchases may be made, from time to time, in the open market and will be funded from available working capital. The number of shares to be purchased and the timing of purchases will be based on the price of our common stock, general business and market conditions, and other investment considerations. To the extent that we repurchase shares under this authorization, interest income may decrease as our cash, cash equivalents and short-term investments decrease.

Contractual Obligations

The following is a summary of our contractual obligations as of January 31, 2008:

	Total	Remaining six months of fiscal 2008	2009	2010	2011	2012	More than 5 years
			<i>(in thousands)</i>				
Operating leases	\$ 7,527	\$ 1,240	\$2,202	\$3,049	\$1,023	\$13	\$
Non-cancellable inventory purchase commitments (1)	11,033	11,033					
Total contractual obligations	\$18,560	\$12,273	\$2,202	\$3,049	\$1,023	\$13	\$

(1) We outsource the production of our hardware to third-party manufacturing suppliers. We

enter into various inventory related purchase agreements with these suppliers. Generally, under these agreements, 40% of the orders are cancelable by giving notice 60 days prior to the expected shipment date, and 20% of orders are cancelable by giving notice 30 days prior to the expected shipment date. Orders are not cancelable within 30 days prior to the expected shipment date.

Recent Accounting Pronouncements

See Note 11 of Notes to Consolidated Financial Statements for recent accounting pronouncements that could have an effect on us.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Risk

Most of our sales contracts are denominated in United States dollars, and therefore, our revenue is not subject to foreign currency risk. Certain of our operating expenses and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the British Pound, Euro and Japanese Yen. To date, we have not entered into any hedging contracts because expenses in foreign currencies have been insignificant to date, and exchange rate fluctuations have had little impact on our operating results and cash flows.

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Interest Rate Sensitivity

We do not use derivative financial instruments in our investment portfolio. We have an investment portfolio of fixed income securities that are classified as available-for-sale securities. These securities, like all fixed income instruments, are subject to interest rate risk and will fall in value if market interest rates increase. We attempt to limit this exposure by investing primarily in short-term securities. Due to the short duration and conservative nature of our investment portfolio, a movement of 10% by market interest rates would not have a material impact on our operating results and the total value of the portfolio over the next fiscal year.

Item 4. Controls and Procedures

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

Based on our evaluation, our chief executive officer and chief financial officer concluded that, as of January 31, 2008, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting that occurred during the second quarter of fiscal 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Internal control over financial reporting means a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

We are required to comply with Section 404 of the Sarbanes-Oxley Act of 2002 for the fiscal year ending July 31, 2008. The notification of such compliance is due no later than the time we file our annual report for the fiscal year ending July 31, 2008. We believe we will have adequate resources and expertise, both internal and external, in place to meet this requirement. However, there is no guarantee that our efforts will result in a management assurance, or an attestation by our independent registered public accounting firm, that internal controls over financial reporting were adequate in their design and/or operation.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On August 27, 2007, Symbol Technologies, Inc. and Wireless Valley Communications, Inc., both Motorola subsidiaries, filed suit against us in the Federal District Court of Delaware asserting infringement of U.S. Patent Nos. 7,173,922; 7,173,923; 6,625,454; and 6,973,622. We filed our response on October 17, 2007, denying the allegations and asserting counterclaims. The complaint seeks unspecified monetary damages and injunctive relief. Although we intend to vigorously defend against these claims, intellectual property litigation is expensive and time-consuming, regardless of the merits of any claim, and could divert our management's attention from operating our business. Because of the inherent uncertainties of litigation the outcome of this action could be unfavorable. At this time, we are unable to estimate the potential financial impact this action could have on us.

We could become involved in additional litigation from time to time relating to claims arising out of our ordinary course of business. Other than described above there were no claims as of January 31, 2008 that, in the opinion of management, might have a material adverse effect on our financial position, results of operations or cash flows.

Item 1A. Risk Factors

Risks Related to Our Business and Industry

We compete in new and rapidly evolving markets and have a limited operating history, which makes it difficult to predict our future operating results.

We were incorporated in February 2002 and began commercial shipments of our products in June 2003. As a result of our limited operating history, it is very difficult to forecast our future operating results. In addition, we operate in an industry characterized by rapid technological change. You should consider and evaluate our prospects in light of the risks and uncertainties frequently encountered by early stage companies in rapidly evolving markets characterized by rapid technological change, changing customer needs, evolving industry standards and frequent introductions of new products and services. These risks and difficulties include challenges in accurate financial planning as a result of limited historical data and the uncertainties resulting from having had a relatively limited time period in which to implement and evaluate our business strategies as compared to older companies with longer operating histories.

In addition, our products are designed to be compatible with industry standards for secure communications over wireless and wireline networks. As we encounter changing standards, customer requirements and competitive pressures, we likely will be required to reposition our product and service offerings and introduce new products and services. We may not be successful in doing so in a timely and appropriately responsive manner, or at all. Our failure to address these risks and difficulties successfully could materially harm our business and operating results.

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

Our annual and quarterly operating results have fluctuated in the past and may fluctuate significantly in the future due to a variety of factors, many of which are outside of our control.

Furthermore, our product revenues generally reflect orders shipped in the same quarter they are received, and a substantial portion of our orders are often received in the last month of each fiscal quarter, a trend that we expect will continue and may, in fact, increase. As a result, if we are unable to ship orders received in the last month of each fiscal quarter, even though we may have business indicators about customer demand during a quarter, we may experience revenue shortfalls, and such shortfalls may materially adversely affect our earnings because we may not be able to adequately and timely adjust our expense levels.

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

fluctuations in demand, sales cycles and prices for our products and services;

reductions in customers' budgets for information technology purchases and delays in their purchasing cycles;

the sale of our products in the timeframes we anticipate, including the number and size of orders in each quarter;

our ability to develop, introduce and ship in a timely manner, new products and product enhancements that meet customer requirements;

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our dependence on several large vertical markets, including the Federal vertical market, which, partially as a result of delays in the Federal budget approval process during our second fiscal quarter, contributed to a shortfall in our expected revenues for such period;

the timing of product releases or upgrades by us or by our competitors;

any significant changes in the competitive dynamics of our markets, including new entrants, or further consolidation;

our ability to control costs, including our operating expenses, and the costs of the components we purchase;

product mix and average selling prices, as well as increased discounting of products by us and our competitors;

the proportion of our products that are sold through direct versus indirect channels;

our ability to attain volume manufacturing pricing from Flextronics Sales and Marketing North Asia (L) Ltd. and our component suppliers;

growth in our headcount and other related costs incurred in our customer support organization;

the timing of revenue recognition in any given quarter as a result of revenue recognition rules;

the regulatory environment for the certification and sale of our products;

seasonal demand for our products, some of which may not be currently evident due to our revenue growth; and

general economic conditions in our domestic and international markets.

Our quarterly operating results are difficult to predict even in the near term. In one or more future quarterly periods, our operating results may fall below the expectations of securities analysts and investors. In this event, the trading price of our common stock could decline significantly.

We have a history of losses and may not achieve profitability in the future.

We have a history of losses and have not achieved profitability on a quarterly or annual basis. We experienced net losses of \$3.5 million and \$7.2 million for the three and six months ended January 31, 2008, respectively, and \$4.1 million and \$11.7 million for the three and six months ended January 31, 2007, respectively. As of January 31, 2008 our accumulated deficit was \$105.2 million. We expect to incur operating losses in the future as a result of the expenses associated with the continued development and expansion of our business, including expenditures to hire additional personnel relating to sales and marketing and technology development. If we fail to increase revenues or manage our cost structure, we may not achieve or sustain profitability in the future. As a result, our business could be harmed, and our stock price could decline.

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

The timing of our revenues is difficult to predict. Our sales efforts involve educating our customers about the use and benefits of our products, including the technical capabilities of our products and the potential cost savings achieved by organizations that utilize our products. Customers typically undertake a significant evaluation process, which frequently involves not only our products but also those of our competitors and can result in a lengthy sales cycle, which typically averages three to six months in length but can be as long as 18 months. We spend substantial time, effort and money in our sales efforts without any assurance that our efforts will produce any sales. Recently, we have experienced longer sales cycles in connection with

customers evaluating our new 802.11n solution. In addition, product purchases are frequently subject to budget constraints, multiple approvals, and unplanned administrative, processing and other delays. For example, during the second quarter of fiscal 2008, we experienced a significant decrease in revenues in our Federal vertical market which was caused in part by a delay in the approval of the Federal budget. If sales expected from a specific customer for a particular quarter are not realized in that quarter or at all, our business, operating results and financial condition could be materially adversely affected.

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

The market in which we compete is a highly competitive industry that is influenced by the following competitive factors:

comprehensiveness of the solution;

total cost of ownership;

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performance of software and hardware products;

ability to deploy easily into existing networks;

interoperability with other devices;

scalability of solution;

ability to provide secure mobile access to the network;

speed of mobile connectivity offering;

ability to allow centralized management of products; and

ability to obtain regulatory and other industry certifications.

We expect competition to intensify in the future as other companies introduce new products in the same markets we serve or intend to enter. This competition could result in increased pricing pressure, reduced profit margins, increased sales and marketing expenses and failure to increase, or the loss of, market share, any of which would likely seriously harm our business, operating results or financial condition. If we do not keep pace with product and technology advances, there could be a material adverse effect on our competitive position, revenues and prospects for growth.

A number of our current or potential competitors have longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical, sales, marketing and other resources than we do. Potential customers may prefer to purchase from their existing suppliers rather than a new supplier, regardless of product performance or features. Currently, we compete with a number of large and well established public companies, including Cisco Systems, primarily through its Wireless Networking Business Unit, and Motorola (through its subsidiary Symbol Technologies), as well as smaller private companies and new market entrants, any of which could reduce our market share, require us to lower our prices, or both.

We expect increased competition from other established and emerging companies if our market continues to develop and expand. For example, our channel partners could market products and services that compete with our products and services. In addition, some of our competitors have made acquisitions or entered into partnerships or other strategic relationships with one another to offer a more comprehensive solution than they individually had offered. We expect this trend to continue as companies attempt to strengthen or maintain their market positions in an evolving industry and as companies enter into partnerships or are acquired. Many of the companies driving this consolidation trend have significantly greater financial, technical and other resources than we do and are better positioned to acquire and offer complementary products and technologies. The companies resulting from these possible consolidations may create more compelling product offerings and be able to offer greater pricing flexibility, making it more difficult for us to compete effectively, including on the basis of price, sales and marketing programs, technology or product functionality. Continued industry consolidation may adversely impact customers' perceptions of the viability of smaller and even medium-sized technology companies and, consequently, customers' willingness to purchase from such companies. These pressures could materially adversely affect our business, operating results and financial condition.

We depend upon the development of new products and enhancements to our existing products. If we fail to predict and respond to emerging technological trends and our customers' changing needs, we may not be able to remain competitive.

We may not be able to anticipate future market needs or be able to develop new products or product enhancements to meet such needs. For example, we anticipate a need to continue to increase the mobility of our solution and certain customers have delayed, and may in the future delay, purchases of our products until either new versions of those products are available or the customer evaluations are completed. If we fail to develop new products or product enhancements, our business could be adversely affected, especially if our competitors are able to introduce solutions with such increased functionality. In addition, as new mobile applications are introduced, our success may depend on our ability to provide a solution that supports these

applications.

We are active in the research and development of new products and technologies and enhancing our current products. However, research and development in the enterprise mobility industry is complex and filled with uncertainty. If we expend a significant amount of resources on research and development and our efforts do not lead to the successful introduction of products that are competitive in the marketplace, there could be a material adverse effect on our business, operating results, financial condition and market share. In addition, it is common for research and development projects to encounter delays due to unforeseen problems, resulting in low initial volume production, fewer product features than originally considered desirable and higher production costs than initially budgeted, which may result in lost market opportunities. In addition, any new products or product enhancements that we introduce may not achieve any significant degree of market acceptance or be accepted into our sales channel by our channel partners. There could be a material adverse effect on our business, operating results, financial condition and market share due to such delays or deficiencies in the development, manufacturing and delivery of new products.

Once a product is in the marketplace, its selling price often decreases over the life of the product, especially after a new competitive product is publicly announced. To lessen the effect of price decreases, our product management team attempts to reduce

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development and manufacturing costs in order to maintain or improve our margins. However, if cost reductions do not occur in a timely manner, there could be a material adverse effect on our operating results and market share.

We manufacture our products to comply with standards established by various standards bodies, including the Institute of Electrical and Electronics Engineers, Inc. (IEEE). If we are not able to adapt to new or changing standards that are ratified by these bodies, our ability to sell our products may be adversely affected. For example, we have developed and are currently offering for sale products that comply with the draft 802.11n wireless LAN standard (11n) that IEEE has not yet ratified. If IEEE fails to ratify the 11n standard, or materially modifies the current draft of the 11n standard, we likely would have to modify our products to comply with the final 11n standard, which would require additional time and expense and could cause a disruption in our ability to market and sell the affected products.

Our business, operating results and growth rates may be adversely affected by unfavorable economic and market conditions, as well as the volatile geopolitical environment.

Our business depends on the overall demand for information technology, or IT, and on the economic health of our current and prospective customers. Our current business and operating plan assumes that economic activity in general, and IT spending in particular, will at least remain at close to current levels. However, we cannot be assured of the level of IT spending, the deterioration of which could have a material adverse effect on our results of operations and growth rates. The purchase of our products is often discretionary and may involve a significant commitment of capital and other resources. Therefore, weak economic conditions, or a reduction in IT spending, even if economic conditions improve, would likely adversely impact our business, operating results and financial condition in a number of ways, including longer sales cycles, lower prices for our products and services, and reduced unit sales. For example, the recent financial services crisis in the United States and other current negative macroeconomic indicators, such as the predictions of the possible recession in the United States or other economic downturns in global markets, could adversely affect our business. In addition, if interest rates rise, overall demand for our products and services could be further dampened and related IT spending may be reduced.

As a result of the fact that we outsource the manufacturing of our products to Flextronics, we do not have the ability to ensure quality control over the manufacturing process. Furthermore, if there are significant changes in the financial or business condition of Flextronics, our ability to supply quality products to our customers may be disrupted.

As a result of the fact that we outsource the manufacturing of our products to Flextronics, we are subject to the risk of supplier failure and customer dissatisfaction with the quality or performance of our products. Quality or performance failures of our products or changes in Flextronics' financial or business condition could disrupt our ability to supply quality products to our customers and thereby have a material adverse effect on our business, revenues and financial condition.

Our orders with Flextronics represent a relatively small percentage of the overall orders received by Flextronics from its customers. As a result, fulfilling our orders may not be considered a priority in the event Flextronics is constrained in its ability to fulfill all of its customer obligations in a timely manner. We provide demand forecasts to Flextronics. If we overestimate our requirements, Flextronics may assess charges, or we may have liabilities for excess inventory, each of which could negatively affect our gross margins. Conversely, because lead times for required materials and components vary significantly and depend on factors such as the specific supplier, contract terms and the demand for each component at a given time, if we underestimate our requirements, Flextronics may have inadequate materials and components required to produce our products. This could result in an interruption of the manufacturing of our products, delays in shipments and deferral or loss of revenue. In addition, on occasion we have underestimated our requirements, and, as a result, we have been required to pay additional fees to Flextronics in order for manufacturing to be completed and shipments to be made on a timely basis.

If Flextronics suffers an interruption in its business, or experiences delays, disruptions or quality control problems in its manufacturing operations, or we have to change or add additional contract manufacturers, our ability to ship products to our customers would be delayed, and our business, operating results and financial condition would be adversely affected.

Our contract manufacturer, Flextronics, purchases some components, subassemblies and products from a single supplier or a limited number of suppliers, and with respect to some of these suppliers, we have

entered into license agreements that allow us to use their components in our products. The loss of any of these suppliers or the termination of any of these license agreements may cause us to incur additional set-up costs, result in delays in manufacturing and delivering our products, or cause us to carry excess or obsolete inventory.

Shortages in components that we use in our products are possible, and our ability to predict the availability of such components may be limited. While components and supplies are generally available from a variety of sources, we currently depend on a single or limited number of suppliers for several components for our equipment and certain subassemblies and products. We rely on Flextronics to obtain the components, subassemblies and products necessary for the manufacture of our products, including those components, subassemblies and products that are only available from a single supplier or a limited number of suppliers.

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For example, our solution incorporates both software products and hardware products, including a series of high-performance programmable mobility controllers and a line of wired and wireless access points. The chipsets that Flextronics sources and incorporates in our hardware products are currently available only from a limited number of suppliers, with whom neither we nor Flextronics have entered into supply agreements. All of our access points incorporate components from Atheros Communications, Inc., and all of our mobility controllers incorporate components from Broadcom Corporation. We have entered into license agreements with both Atheros and Broadcom, the termination of which could have a material adverse effect on our business. Our license agreement with Atheros and Broadcom have perpetual terms in that they will automatically be renewed for successive one-year periods unless the agreement is terminated prior to the end of the then-current term. As there are no other sources for identical components, in the event that Flextronics was unable to obtain these components from Atheros or Broadcom, we would be required to redesign our hardware and software in order to incorporate components from alternative sources. All of our product revenues are dependent upon the sale of products that incorporate components from either Atheros or Broadcom.

In addition, for certain components, subassemblies and products for which there are multiple sources, we are still subject to potential price increases and limited availability due to market demand for such components, subassemblies and products. In the past, unexpected demand for communication products caused worldwide shortages of certain electronic parts. If such shortages occur in the future, our business would be adversely affected. We carry very little inventory of our product components, and we and Flextronics rely on our suppliers to deliver necessary components in a timely manner. We and Flextronics rely on purchase orders rather than long-term contracts with these suppliers. As a result, even if available, we or Flextronics may not be able to secure sufficient components at reasonable prices or of acceptable quality to build products in a timely manner and, therefore, may not be able to meet customer demands for our products, which would have a material adverse effect on our business, operating results and financial condition.

We sell a majority of our products through VARs, distributors and OEMs. If the third-party distribution sources on which we rely do not perform their services adequately or efficiently or if they exit the industry, and we are not able to quickly find adequate replacements, there could be a material adverse effect on our revenues.

Our future success is highly dependent upon establishing and maintaining successful relationships with a variety of VARs, distributors and OEMs, which we refer to as our indirect channel. The percentage of our total revenues derived from sales through our indirect channel were 78.9% and 80.4% for the three and six months ended January 31, 2008, respectively, and 87.8% and 87.1% for the three and six months ended January 31, 2007, respectively. Although indirect channel sales decreased in our fiscal second quarter of 2008, we expect that over time, indirect channel sales will increase as a percentage of our total revenues.

Accordingly, our revenues depend in large part on the effective performance of these channel partners, including our largest channel partner, Alcatel-Lucent. Alcatel-Lucent accounted for 11.9% and 10.3% of our total revenues for the three and six months ended January 31, 2008, respectively, and 16.7% and 16.2% for the three and six months ended January 31, 2007, respectively. Our OEM supply agreement with Alcatel-Lucent provides that Alcatel-Lucent shall use reasonable commercial efforts to sell our products on a perpetual basis unless the agreement is otherwise terminated by either party. In addition, this OEM supply agreement restricts our ability to enter into channel partner relationships with other specified VARs, distributors and OEMs without obtaining Alcatel-Lucent's consent. Finally, the OEM supply agreement contains a most-favored nations clause, pursuant to which we agreed to lower the price at which we sell products to Alcatel-Lucent in the event that we agree to sell the same or similar products at a lower price to a similar customer on the same or similar terms and conditions. However, the specific terms of this most-favored nations clause are narrow and specific, and we have not to date incurred any obligations related to this term in the OEM supply agreement.

Some of our third-party distribution sources may have insufficient financial resources and may not be able to withstand changes in worldwide business conditions, including economic downturns, or abide by our inventory and credit requirements. If the third-party distribution sources on which we rely do not perform their services adequately or efficiently, or if they exit the industry and we are not able to quickly find adequate replacements, there could be a material adverse effect on our revenues and market share. By relying on these indirect channels, we may have less contact with the end users of our products, thereby making it more

difficult for us to establish brand awareness, ensure proper delivery and installation of our products, service ongoing customer requirements and respond to evolving customer needs. In addition, our channel partners may receive pricing terms that allow for volume discounts off of list prices for the products they purchase from us, which reduce our margins to the extent revenues from such channel partners increase as a proportion of our overall revenues.

Recruiting and retaining qualified channel partners and training them in our technology and product offerings requires significant time and resources. In order to develop and expand our distribution channel, we must continue to scale and improve our processes and procedures that support our channel partners, including investment in systems and training, and those processes and procedures may become increasingly complex and difficult to manage. We have no minimum purchase commitments with any of our VARs, distributors or OEMs, and our contracts with these channel partners do not prohibit them from offering products or services that compete with ours or from terminating our contract on short notice. Our competitors may be effective in providing incentives to existing and potential channel partners to favor their products or to prevent or reduce sales of our products. Our channel partners may choose not to focus primarily on the sale of our products or offer our products at all. Our failure to establish and maintain successful relationships with third-party distribution sources would likely materially adversely affect our business, operating results and financial condition.

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

We derive a significant portion of our revenues from customers outside the United States. We have sales and technical support personnel in numerous countries worldwide. In addition, a portion of our engineering efforts are currently handled by personnel located in India, and we expect to expand our offshore development efforts and general and administrative functions within India and possibly in other countries. We expect to continue to add personnel in additional countries. Our international operations subject us to a variety of risks, including:

the difficulty of managing and staffing international offices and the increased travel, infrastructure and legal compliance costs associated with multiple international locations;

difficulties in enforcing contracts and collecting accounts receivable, and longer payment cycles, especially in emerging markets;

the need to localize our products for international customers;

tariffs and trade barriers, export regulations and other regulatory or contractual limitations on our ability to sell or develop our products in certain foreign markets;

increased exposure to foreign currency exchange rate risk; and

reduced protection for intellectual property rights in some countries.

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

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

We depend on our ability to protect our proprietary technology. We protect our proprietary information and technology through licensing agreements, third-party nondisclosure agreements and other contractual provisions, as well as through patent, trademark, copyright and trade secret laws in the United States and similar laws in other countries. There can be no assurance that these protections will be available in all cases or will be adequate to prevent our competitors from copying, reverse engineering or otherwise obtaining and using our technology, proprietary rights or products. For example, the laws of certain countries in which our products are manufactured or licensed do not protect our proprietary rights to the same extent as the laws of the United States. In addition, third parties may seek to challenge, invalidate or circumvent our patents, trademarks, copyrights and trade secrets, or applications for any of the foregoing. There can be no assurance that our competitors will not independently develop technologies that are substantially equivalent or superior to our technology or design around our proprietary rights. In each case, our ability to compete could be significantly impaired. To prevent substantial unauthorized use of our intellectual property rights, it may be necessary to prosecute actions for infringement and/or misappropriation of our proprietary rights against third parties. Any such action could result in significant costs and diversion of our resources and management's attention, and there can be no assurance that we will be successful in such action. Furthermore, many of our current and potential competitors have the ability to dedicate substantially greater resources to enforce their intellectual property rights than we do. Accordingly, despite our efforts, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property.

We are currently subject to a lawsuit involving intellectual property claims brought by Symbol Technologies, Inc. and Wireless Valley Communications, Inc., both Motorola subsidiaries, which could cause us to incur significant additional costs or prevent us from selling our products which could adversely affect our results of operations and financial condition.

On August 27, 2007, Symbol Technologies, Inc. and Wireless Valley Communications, Inc., both Motorola subsidiaries, filed suit against us in the Federal District Court of Delaware alleging patent infringement. Although we intend to vigorously defend against these claims, intellectual property litigation is

expensive and time-consuming, regardless of the merits of any claim, and could divert our management's attention from operating our business. Our legal costs may increase as the case develops and we near a trial date. The results of, and costs associated with, complex litigation matters are difficult to predict, and the uncertainty associated with a substantial unresolved lawsuit could harm our business, financial condition and reputation. Negative developments with respect to this lawsuit could cause our stock price to decline, and could have an adverse and possibly material effect on our business and results of operations.

Claims by others that we infringe their proprietary technology could harm our business.

Third parties have asserted and may in the future assert claims of infringement of intellectual property rights against us or against our customers or channel partners for which we may be liable. Due to the rapid pace of technological change in our industry, much of

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our business and many of our products rely on proprietary technologies of third parties, and we may not be able to obtain, or continue to obtain, licenses from such third parties on reasonable terms. As our business expands and the number of products and competitors in our market increases and overlaps occur, we expect that infringement claims may increase in number and significance. Intellectual property lawsuits are subject to inherent uncertainties due to the complexity of the technical issues involved, and we cannot be certain that we will be successful in defending ourselves against intellectual property claims. Furthermore, a successful claimant could secure a judgment that requires us to pay substantial damages or prevents us from distributing certain products or performing certain services. In addition, we might be required to seek a license for the use of such intellectual property, which may not be available on commercially acceptable terms or at all. Alternatively, we may be required to develop non-infringing technology, which could require significant effort and expense and may ultimately not be successful. Any claims or proceedings against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time, result in the diversion of significant operational resources, or require us to enter into royalty or licensing agreements.

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

We recently acquired Network Chemistry, Inc.'s line of RFProtect and BlueScanner wireless security products. We are currently integrating the newly acquired products into our secure mobility solutions, as well as providing products and continuing support to existing Network Chemistry customers and partners. This is our first acquisition, and, as a result, our ability as an organization to complete and integrate acquisitions is unproven. We also recently announced that we entered into an agreement to acquire all of the capital stock of AirWave Wireless, Inc. Our transaction with AirWave remains subject to customary closing conditions. In the future we may acquire other businesses, products or technologies. However, we may not be able to find suitable acquisition candidates, and we may not be able to complete acquisitions on favorable terms, if at all. If we do complete acquisitions, we may not ultimately strengthen our competitive position or achieve our goals, or such acquisitions may be viewed negatively by customers, financial markets or investors. In addition, any acquisitions that we make could lead to difficulties in integrating personnel and operations from the acquired businesses and in retaining and motivating key personnel from these businesses. Acquisitions may disrupt our ongoing operations, divert management from day-to-day responsibilities, increase our expenses and adversely impact our business, operating results and financial condition. Future acquisitions may reduce our cash available for operations and other uses and could result in an increase in amortization expense related to identifiable assets acquired, potentially dilutive issuances of equity securities or the incurrence of debt, which could harm our business, operating results and financial condition.

If we lose members of our senior management or are unable to recruit and retain key employees on a cost-effective basis, we may not be able to successfully grow our business.

Our success is substantially dependent upon the performance of our senior management. All of our executive officers are at-will employees, and we do not maintain any key-man life insurance policies. The loss of the services of any members of our management team may significantly delay or prevent the achievement of our product development and other business objectives and could harm our business. Our success also is substantially dependent upon our ability to attract additional personnel for all areas of our organization, particularly in our sales, research and development, and customer service departments. For example, unless and until we hire a Vice President of Worldwide Sales, our Chief Executive Officer will fill this role in addition to his other responsibilities. Experienced management and technical, sales, marketing and support personnel in the IT industry are in high demand, and competition for their talents is intense. We may not be successful in attracting and retaining such personnel on a timely basis, on competitive terms, or at all. The loss of, or the inability to recruit, such employees could have a material adverse effect on our business.

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

We have expanded our operations significantly since inception and anticipate that further significant expansion will be required. We intend to increase our market penetration and extend our geographic reach by expanding our network of channel partners by adding additional sales personnel who will be dedicated to supporting this growing channel footprint. We also plan to increase offshore operations by establishing additional offshore capabilities for certain engineering and general and administrative functions. This future growth, if it occurs, will place significant demands on our management, infrastructure and other resources. To

manage any future growth, we will need to hire, integrate and retain highly skilled and motivated employees. If we do not effectively manage our growth, our business, operating results and financial condition could be adversely affected.

To accommodate the growth of our business, we began an implementation of a new ERP system in July 2007. Accordingly, we may experience problems commonly experienced by other companies in connection with such implementations, including but not limited to, potential bugs in the system, component or supply delays, training requirements and other integration challenges and delays. Any difficulties we might experience in connection with our new ERP system could have a material adverse effect on our financial reporting system and internal controls.

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

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

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

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

Our products are highly technical and may contain undetected hardware errors or software bugs, which could cause harm to our reputation and adversely affect our business.

Our products are highly technical and complex and, when deployed, are critical to the operation of many networks. Our products have contained and may contain undetected errors, bugs or security vulnerabilities. Some errors in our products may only be discovered after a product has been installed and used by customers. For example, a software bug was identified in January 2007 that affected certain versions of the Aruba Mobility Controller, in response to which we alerted our customers and released a patch to address the issue. Any errors, bugs, defects or security vulnerabilities discovered in our products after commercial release could result in loss of revenues or delay in revenue recognition, loss of customers, damage to our brand and reputation, and increased service and warranty cost, any of which could adversely affect our business, operating results and financial condition. In addition, we could face claims for product liability, tort or breach of warranty, including claims relating to changes to our products made by our channel partners. Our contracts with customers contain provisions relating to warranty disclaimers and liability limitations, which may not be upheld. Defending a lawsuit, regardless of its merit, is costly and may divert management's attention and adversely affect the market's perception of us and our products. In addition, if our business liability insurance coverage proves inadequate or future coverage is unavailable on acceptable terms or at all, our business, operating results and financial condition could be adversely impacted.

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

We incorporate open source software into our products. Although we monitor our use of open source closely, the terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that such licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to commercialize our products. In such event, we could be required to seek licenses from third parties in order to continue offering our products, to re-engineer our products or to discontinue the sale of our products in the event re-engineering cannot be accomplished on a timely basis, any of which could adversely affect our business, operating results and financial condition.

We rely on the availability of third-party licenses.

Many of our products are designed to include software or other intellectual property licensed from third parties. It may be necessary in the future to seek or renew licenses relating to various aspects of these

products. There can be no assurance that the necessary licenses would be available on acceptable terms, if at all. The inability to obtain certain licenses or other rights or to obtain such licenses or rights on favorable terms, or the need to engage in litigation regarding these matters, could have a material adverse effect on our business, operating results, and financial condition. Moreover, the inclusion in our products of software or other intellectual property licensed from third parties on a nonexclusive basis could limit our ability to protect our proprietary rights in our products.

Enterprises may have slow WAN connections between some of their locations that may cause our products to become less effective.

Our Mobility Controllers and Mobility Management System were initially designed to function at LAN-like speeds in an office building or campus environment. In order to function appropriately, our Mobility Controllers synchronize with each other over network links. The ability of our products to synchronize may be limited by slow or congested data-links, including DSL and dial-up. Our failure to provide such additional functionality could adversely affect our business, operating results and financial condition.

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

Radio emissions are subject to regulation in the United States and in other countries in which we do business. In the United States, various federal agencies including the Center for Devices and Radiological Health of the Food and Drug Administration, the Federal Communications Commission, the Occupational Safety and Health Administration and various state agencies have promulgated regulations that concern the use of radio/electromagnetic emissions standards. Member countries of the European Union, or the EU, have enacted similar standards concerning electrical safety and electromagnetic compatibility and emissions standards.

If any of our products becomes subject to new regulations or if any of our products becomes specifically regulated by additional government entities, compliance with such regulations could become more burdensome, and there could be a material adverse effect on our business and our results of operations.

In addition, our wireless communication products operate through the transmission of radio signals. Currently, operation of these products in specified frequency bands does not require licensing by regulatory authorities. Regulatory changes restricting the use of frequency bands or allocating available frequencies could become more burdensome and could have a material adverse effect on our business, results of operations and future sales.

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

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

In January 2003, the EU issued two directives relating to chemical substances in electronic products. The Waste Electrical and Electronic Equipment Directive requires producers of electrical goods to pay for specified collection, recycling, treatment and disposal of past and future covered products. EU governments were required to enact and implement legislation that complies with this directive by August 13, 2004 (such legislation together with the directive, the WEEE Legislation), and certain producers are financially responsible under the WEEE Legislation beginning in August 2005. The EU has issued another directive that requires electrical and electronic equipment placed on the EU market after July 1, 2006 to be free of lead, mercury, cadmium, hexavalent chromium (above a threshold limit) and brominated flame retardants. EU governments were required to enact and implement legislation that complies with this directive by August 13, 2004 (such legislation together with this directive, the RoHS Legislation). If we do not comply with these directives or related legislation, we may suffer a loss of revenues, be unable to sell our products in certain markets and/or countries, be subject to penalties and enforced fees and/or suffer a competitive disadvantage. Similar legislation could be enacted in other jurisdictions, including in the United States. Costs to comply with the WEEE Legislation, RoHS Legislation and/or similar future legislation, if applicable, could include costs associated with modifying our products, recycling and other waste processing costs, legal and regulatory costs and insurance costs. We have recorded and may also be required to record additional expenses for costs associated with compliance with these regulations. We cannot assure you that the costs to comply with these new laws, or with current and future environmental and worker health and safety laws will not have a material adverse effect on our results of operation, expenses and financial condition.

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

Because we incorporate encryption technology into our products, our products are subject to U.S. export controls and may be exported outside the United States only with the required level of export license or through an export license exception. In addition, various countries regulate the import of certain encryption technology and have enacted laws that could limit our ability to distribute our products or could limit our

customers' ability to implement our products in those countries. Changes in our products or changes in export and import regulations may create delays in the introduction of our products in international markets, prevent our customers with international operations from deploying our products throughout their global systems or, in some cases, prevent the export or import of our products to certain countries altogether. Any change in export or import regulations or related legislation, shift in approach to the enforcement or scope of existing regulations, or change in the countries, persons or technologies targeted by such regulations, could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential customers with international operations.

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

Our corporate headquarters are located in the San Francisco Bay Area, a region known for seismic activity. A significant natural disaster, such as an earthquake, fire or a flood, occurring at our headquarters or in China, where our contract manufacturer, Flextronics, is located, could have a material adverse impact on our business, operating results and financial condition. In addition, our servers are vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems. In addition, acts of terrorism could cause disruptions in our or our customers' businesses or the economy as a whole. To the extent that such disruptions result in delays or cancellations of customer orders, or the deployment of our products, our business, operating results and financial condition would be adversely affected.

Risks Related to Ownership of our Common Stock

Our stock price may be volatile.

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

variations in our operating results;

announcements of technological innovations, new products or product enhancements, strategic alliances or significant agreements by us or by our competitors;

the gain or loss of significant customers;

recruitment or departure of key personnel;

changes in estimates of our operating results or changes in recommendations by any securities analysts who follow our common stock;

significant sales, or announcement of significant sales, of our common stock by us or our stockholders; and

adoption or modification of regulations, policies, procedures or programs applicable to our business.

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

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

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

Insiders have substantial control over us and will be able to influence corporate matters.

As of January 31, 2008, our directors and executive officers and their affiliates beneficially owned, in the aggregate, approximately 37.5% of our outstanding common stock. As a result, these stockholders will be able to exercise significant influence over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership could limit your ability to influence corporate matters and may have the effect of delaying or preventing a third party from acquiring control over us.

We may choose to raise additional capital, which may not be available, which would adversely affect our ability to operate our business.

We expect that the net proceeds from our initial public offering, together with our existing cash balances, will be sufficient to meet our working capital and capital expenditure needs for the foreseeable future. If we choose to raise additional funds, due to unforeseen circumstances or material expenditures, we cannot be certain that we will be able to obtain additional financing on favorable terms, if at all, and any additional financings could result in additional dilution to our existing stockholders.

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

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

our board of directors has the right to elect directors to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;

our stockholders may not act by written consent or call special stockholders meetings; as a result, a holder, or holders, controlling a majority of our capital stock would not be able to take certain actions other than at annual stockholders meetings or special stockholders meetings called by the board of directors, the chairman of the board, the chief executive officer or the president;

our certificate of incorporation prohibits cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;

stockholders must provide advance notice to nominate individuals for election to the board of directors or to propose matters that can be acted upon at a stockholders meeting, which may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror's own slate of directors or otherwise attempting to obtain control of our company; and

our board of directors may issue, without stockholder approval, shares of undesignated preferred stock; the ability to issue undesignated preferred stock makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to acquire us.

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

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

We have incurred and will continue to incur significant increased costs as a result of operating as a public company, and our management will be required to devote substantial time to new compliance initiatives.

The Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the Securities and Exchange Commission and the Nasdaq Stock Market, have imposed various new requirements on public companies, including requiring changes in corporate governance practices. Our management and other personnel will need to devote a substantial amount of time to these new compliance initiatives. Moreover, these rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly. For example, we expect these new rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantial costs to maintain the same or similar coverage. These rules and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers.

In addition, the Sarbanes-Oxley Act requires, among other things, that we assess the effectiveness of our internal control over financial reporting annually and disclosure controls and procedures quarterly. In particular, for the fiscal year ending on July 31, 2008, we must perform system and process evaluation and testing of our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Our testing, or the subsequent testing by our independent registered public accounting firm that must be performed for the fiscal year ending on July 31, 2008, may reveal deficiencies in our internal control over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant

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management time on compliance related issues. We will evaluate the need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identifies deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline, and we could be subject to sanctions or investigations by the Nasdaq Stock Market, the Securities and Exchange Commission or other regulatory authorities, which would require additional financial and management resources.

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

None.

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

On March 26, 2007, our registration statement (No. 333-139419) on Form S-1 was declared effective for our initial public offering, pursuant to which we registered the offering and sale of an aggregate of 9,200,000 shares of common stock, including the underwriters' over-allotment option, at a public offering price of \$11.00 per share. As a result of the offering, we received net proceeds of approximately \$91.8 million, after deducting underwriting discounts and commissions of \$7.1 million and additional offering-related expenses of approximately \$2.3 million.

There has been no material change in the planned use of proceeds from our initial public offering from that described in the final prospectus filed with the SEC pursuant to Rule 424(b).

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

Our annual meeting of stockholders was held on December 18, 2007. The results of the voting on the matters submitted to the stockholders were as follows:

1. To elect eight directors to hold office until the 2008 annual meeting of stockholders or until their respective successors have been duly elected and qualified.

Name	Votes For	Withheld
Dominic P. Orr	70,318,395	117,714
Keerti Melkote	70,419,387	16,722
Bernard Guidon	70,410,635	25,474
Emmanuel Hernandez	70,418,299	17,810
Michael R. Kourey	70,418,265	17,844
Douglas Leone	70,402,264	33,845
Shirish Sathaye	70,401,050	35,059
Daniel Warmenhoven	70,418,203	17,906

2. To ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending July 31, 2008.

Votes for:	70,405,648
Votes against:	27,410
Abstentions:	3,050
Broker non-votes:	

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit No.	Description
10.1	Standard Office Lease dated as of November 30, 2007, by and between Arden Realty Limited Partnership, as landlord, and Aruba Networks, Inc., as tenant, for the premises located at 1344 Crossman Ave., Suite 100, Sunnyvale, California (<i>incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 6, 2007 (Commission File No. 001-33347)</i>)
10.2	Agreement and Plan of Reorganization, dated as of January 4, 2008, by and among Aruba Networks, Inc., Aloha Acquisition Corporation, AirWave Wireless, Inc. and certain other parties named therein (<i>incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on January 9, 2008 (Commission File No. 001-33347)</i>)
31.1	Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

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

Dated: March 7, 2008

ARUBA NETWORKS, INC.

By: /s/ Dominic P. Orr
Dominic P. Orr
President, Chief Executive Officer
and
Chairman of the Board of Directors
(Principal Executive Officer)

Dated: March 7, 2008

ARUBA NETWORKS, INC.

By: /s/ Steffan Tomlinson
Steffan Tomlinson
Chief Financial Officer
(Principal Financial Officer)

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